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A GUIDE FOR THE **ENTREPRENEURS** OUR ECONOMY NEEDS

from the editor

JANA JACOBS

Many kids born in the late 1980s will probably have had to endure some form of entrepreneurship day during their primary school career. It usually involved a parent staying up for all hours of the night to bake fudge, make crafts or the like, and package the products so that their child could sell them at school the next day, only for the kid to go home with the day's takings.

On these days, it became clear I wasn't blessed with an entrepreneurial spirit, but there were those kids that just had it. Not only could they sell ice to Eskimos, they'd invent something superior to ice and hustle without needing to rope in a parent, other than for logistical support – say, helping them get their stock to and from school. South Africa certainly doesn't have a shortage of those kids; many of whom have gone on to create successful businesses of varying sizes, across a range of industries.

The entrepreneurial guide in this issue takes a look at the environment SA entrepreneurs in particular find themselves in, what is required to build successful businesses and why small, medium and micro enterprises (SMMEs) are integral to our economy.

In an interview I conducted with Raizcorp founder and CEO Allon Raiz for this issue, one of the most interesting concerns he addressed were his "two really big soapbox topics", one of which is the term SMME.

For Raiz, this "is the beginning of the problem". He explained that a small or micro business has very different issues to a medium-sized business. "They are three different experiences of the journey and a single policy cannot deal with all three… We have got to change our thinking around this term SMME."

Soapbox or not, that there needs to be a rethink around policy is evident in the statistics that show this sector is not, among other things, reaching the growth goals initially targeted in the National Development Plan (see p.35).

In an economy that needs all the help it can get, something as basic as recognising that all businesses can't be painted with the same policy brush, could be a valuable start.

In the meantime, here's to those innovative kids who keep kicking on.

As another entrepreneur summarised: "I believe the only way SA will restructure its unemployment rate is by seriously encouraging young entrepreneurs to accept that it's perfectly acceptable to start a micro business. Look at us, I started to feed myself, now we feed 40 families." ■

Be sure to get a copy of our next edition, which will include a bagged* finweek *Property Guide.

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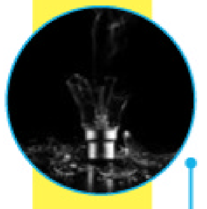

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By Johan Fourie

ECONOMY

How naps can boost economic growth

A team of economists recently conducted a real-life sleeping experiment to determine how sleep affects productivity, among other things. It turns out the term 'power nap' is so named for a good reason.

I've always been an early riser. It's 04:36 as I write this, but then, I was also in bed quite early, getting my usual six to seven hours of sleep.

This isn't uncommon for South Africans. According to Sleep Cycle, an app that tracks sleep patterns, we're the first to go to sleep every night – at 22:46 on average. But we're also early risers – at 06:08 – second after Guatemalans. (Apparently the Dutch have the best sleep quality, Iranians the worst, while Greeks, Italians and Spaniards snore the most!)

While these numbers suggest the average South African gets about seven hours of sleep nightly, the sample is, of course, unlikely to be representative. Yet, even seven hours is at the lower end of what's required.

Most studies agree that between seven and nine hours of sleep is necessary for adults to function optimally. Kids need more; from nine hours as teenagers to 14 hours as babies. Lack of sleep could have serious health consequences; it's been linked to obesity, heart disease, diabetes and high blood pressure. In the US, 6 000 car deaths occur annually due to sleep-deprived drivers.

> One way to improve the health of workers – and simultaneously boost productivity – is to offer them a space to nap.

It's especially those living in cities that are likely to suffer most, where noise, heat and pollution contribute to sleep deprivation. Even more so for the poorest, who often don't have access to the modern amenities that can reduce these physical discomforts.

That's why scientists find alarmingly low quantities of sleep among low-income workers in a city like Chennai in India, for example: just 5.6 hours per night, with 95% of adults sleeping less than seven hours on average. Most strikingly, sleep is highly fragmented, with 32 awakenings in a typical night, of which nine are longer than five minutes.

Some economists, seeing how sleeping improves behaviour in laboratory experiments, have claimed that adding just an additional half-hour of sleep daily could have substantial economic benefits – from boosting productivity at work to improving cognition in school. The question is whether this works in practice.

A team of economists from Harvard, MIT and the University of Pennsylvania wanted to find out. They recruited 452 low-income adults in Chennai and divided them into three groups: The first received night sleep treatments "that offered participants information about their sleep, verbal and/or financial encouragement to increase sleep and items to improve their home sleep environments". The second group's participants had daily half-hour afternoon naps in a quiet space in the office. The third was the control group, told to go about their lives as usual.

The researchers followed the recruits for a month, measuring the quantity and quality of their sleep and other outcomes, like work productivity. (The recruits were all employed as data transcribers, a job which one could imagine would be affected by sleep deprivation.) The results have been published as an NBER Working Paper.

The first intervention did what it was supposed to: It increased the amount of night sleep per recruit by an average of 27 minutes. "This increase in time asleep was entirely driven," the authors note, "by greater time spent in bed – on average 38 additional minutes per night – rather than improved sleep efficiency or gains in other measures of sleep quality."

But to their surprise, the additional half-hour had no effect on productivity. Not only did the workers not gain from the additional sleep, but they actually worked fewer minutes and earned less. Furthermore: "We also do not detect any impacts on the other outcomes, including psychological wellbeing, physical health, and time, risk, and social preferences. Nor do we find effects on a standard test of attention designed by sleep researchers to detect sleep deprivation."

Why is this? One reason, they suggest, is that although the quantity of sleep increased, the quality didn't. "Given their current sleeping conditions, the short- and medium-run marginal benefits of sleep are low. In contrast, the opportunity costs are high: It takes 86 more minutes in bed to produce an hour of sleep."

What about the office naps? Eighty percent of the second group's recruits fell asleep during their allotted nap time, yielding an additional 13 minutes of sleep. Because it was in a dedicated quiet space in the office, the quality was also much higher than night sleep.

And this mattered: In contrast to additional night sleep, office naps "increased work productivity by 2.3%, boosted a measure of attention, and raised an index of psychological wellbeing. Naps also increased patience as measured both by reduced present bias in a real-effort task and resulted in 14% higher deposits in a savings account."

Economists have long advocated sleep as an important tool of economic development. But, aside from lab experiments, we've lacked evidence to back these claims. Now we know, thanks to this novel real-world experiment, that high sleep quality, instead of just quantity, may be essential to unlocking the benefits of sleep.

What about policy? It's clear that the poorest people in cities struggle to sleep well. Improved housing that reduces noise, heat and pollution of slums and townships seems like an obvious first step. But we don't always have to wait for the policymakers. One way to improve the health of workers – and simultaneously boost productivity – is to offer them a space to nap, even if only for a half-hour. Maybe it's time for your office to build that calm and quiet sleeping pod, away from the daily rush. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Shutterstock


THE FUTURE IS HERE
It's been said that the best way to predict the future is to create it. The CTICC offers the ideal platform to do just that. Every aspect of the centre's offering has been considered – from the more than 140 000m² of flexible space across two state-of-the-art buildings to world-class technology, delicious cuisine, and service-driven staff. Turn your knowledge and vision into potential with events that shape your future at the CTICC.
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By Jaco Visser

LOCAL GOVERNMENT

Action needed against municipalities

South Africa's rural areas are buckling – and some have already fallen over – as corrupt officials suck the life out of municipal service delivery. This needs to stop.

A text message from a family member moments before I started writing this column gave me a glimmer of hope that maybe the rot in our municipalities will begin to be addressed.

Apparently the Hawks (the police's Directorate for Priority Crime Investigation) is swooping down on the Kai !Garib municipality's head office in Keimoes in the Northern Cape to make arrests for tender fraud. Earlier in February, the Hawks also arrested Buti Piet Molupi, the municipal manager of the Nala municipality (Bothaville) in the Free State for alleged irregularities surrounding the appointment of a security company, according to news reports.

These are welcome actions by the police as many citizens living under the burden of inefficient and self-serving municipal councils are suffering a lack of basic service delivery, including the supply of water, refuse removal and sanitation.

These police actions are also necessary to address the rot at the bottom. With the Zondo Commission of Inquiry probing the free-for-all graft that went unchecked for years during President Jacob Zuma's administration, criminal action now needs to be taken at the lowest level of government too, namely the municipalities.

It stands to reason that graft at the level of municipalities disproportionately impacts South Africans. This is especially true for the poorest of the poor who cannot afford to partake in the parallel economy – where those with the means can buy from private companies those basic services denied to them by their local municipal councils.

Graft in municipalities has a feedback mechanism that strengthens a vicious and criminal loop of events. Where infrastructure in smaller towns fail – such as potholed roads, leaking water pipes and undermaintained electricity networks – businesses tend to get out. And it is not only businesses, but also professionals such as doctors, lawyers and accountants.

This flight of professionals and large businesses erodes the municipality's property tax base and, in many instances, leaves it with a larger proportion of indigent households. As the businesses leave, unemployment escalates and the inability to pay for municipal services increases.

Couple this increase in joblessness to the perceived – and most of the time the actual – criminal activity of those elected to serve the people in the local government, and it is a tinder box for protests.

This is evidenced by the number of service delivery protests across the country. In 2018, these protests totalled 237 and in 2019 they stood at 218, according to Municipal IQ – a consultancy collecting intelligence on local government affairs and finances. Suffice to say that before 2018, the highest annual recording of protests was in 2014 at 191. It is noteworthy that a large shift in protests happened in 2009 – the advent of Zuma's presidency – when protests jumped above 100 per year for the first time: from 27 in 2008 to 107 in 2009.

The effect of persistent service delivery protests on a local community mainly entails the destruction of infrastructure. Municipal councils can ill-afford new builds, not to mention replace destroyed infrastructure. Subsequently, service delivery falls back further and community despair increases. It's an unbreakable loop.

To clear out the rot and break the vicious cycle of impunity at local level, the top echelons of this country must flex their muscles. In President Cyril Ramaphosa's recent State of the Nation address the words "local government" featured once. Only once.

To clear out the rot and break the vicious cycle of impunity at local level, the top echelons of this country must flex their muscles.

This is not enough and it's not fair to those people living in our beautiful country's most rural parts, far from the potential that large urban centres, such as Johannesburg, holds. Thus, we need action from the top.

Firstly, the Presidency should set up commissions of inquiry – with the National Prosecuting Authority (NPA) in close attendance – in each province. Such commissions, led by retired judges, should invite residents and businesspeople to testify as to what they've seen and experienced in their local communities.

Secondly, the police should set up – either within the Hawks or separately – a unit of investigators (based in Pretoria and at arms' length from the to-be-investigated municipalities) that are only focused on the probing of municipal councillors and officials.

Thirdly, the NPA should work at lightning speed to bring accused municipal councillors and officials to the stand. The immediacy of such action will serve an important moral and psychological imperative: Suffering residents will witness that corruption and maladministration don't pay.

And finally, someone needs to investigate the administrations of provincial political heads responsible for local government – whether it is the province-based commissions of inquiry or a separate legal structure. The buck stops with them. And they have allowed this rot to continue for too long, whether it was due to party loyalty between the members of the executive council and the mayors of the province or any other reasons.

The social contract between the state and the individual is not only relevant at national level. It is also a contract between a local government and an individual residing there. Where individuals – especially large numbers of them – view the contract as broken, it spells trouble for municipalities.

Ask those towns that are already burning. ■

editorial@finweek.co.za

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in brief

"DEMOCRACY HAS BEEN SERVED."

– **Ayanda Kota, chairman of the Unemployed People's Movement (UPM),** said in a statement following the Makhanda (formerly Grahamstown) High Court ruling that ordered the Makana municipality to be dissolved and placed under administration for violating its constitutional mandate by failing to provide basic services to the community. The application was brought by the UPM and other civil society organisations against the municipality, which intends to appeal the ruling.

Jan Oberholzer
Chief operating officer of Eskom

"WE DON'T HAVE RELIABILITY AND PREDICTABILITY IN OUR SYSTEM YET."

– **Jan Oberholzer, chief operating officer of Eskom,** spoke to *finweek* (see cover story on p.26) about how Eskom is prioritising the maintenance of power stations to try and stabilise energy supply. One of the immediate issues is the process of "wheeling" power across the grid, which enables companies to sell the excess power they generate – a mechanism Eskom has been unenthusiastic about in the past.

"The reason I'm wearing these sunglasses is that there is something wrong with my eyes. When there is too much light, they get affected."

– **Former president Jacob Zuma** to his supporters upon landing at OR Tambo International Airport from Cuba, where he said he'd been receiving medical treatment, reported EWN. He said, "I've taken the decision that my health is very important and that the doctors must examine it", and as a result, couldn't attend his corruption case in the Pietermaritzburg High Court.

Photo: Gallo/Getty Images

THE GOOD

The South African Reserve Bank (SARB) is proceeding with the sale of its stake in African Bank. The central bank has started the process to appoint an adviser to manage the sale of its 50% holding in the small commercial lender, African Bank said in a statement. The central bank acquired its stake in African Bank when the latter came out of curatorship, injecting around R5bn. "The SARB anticipates that the disposal process will be completed within 18 to 24 months after the identification of a suitable buyer," the statement said.

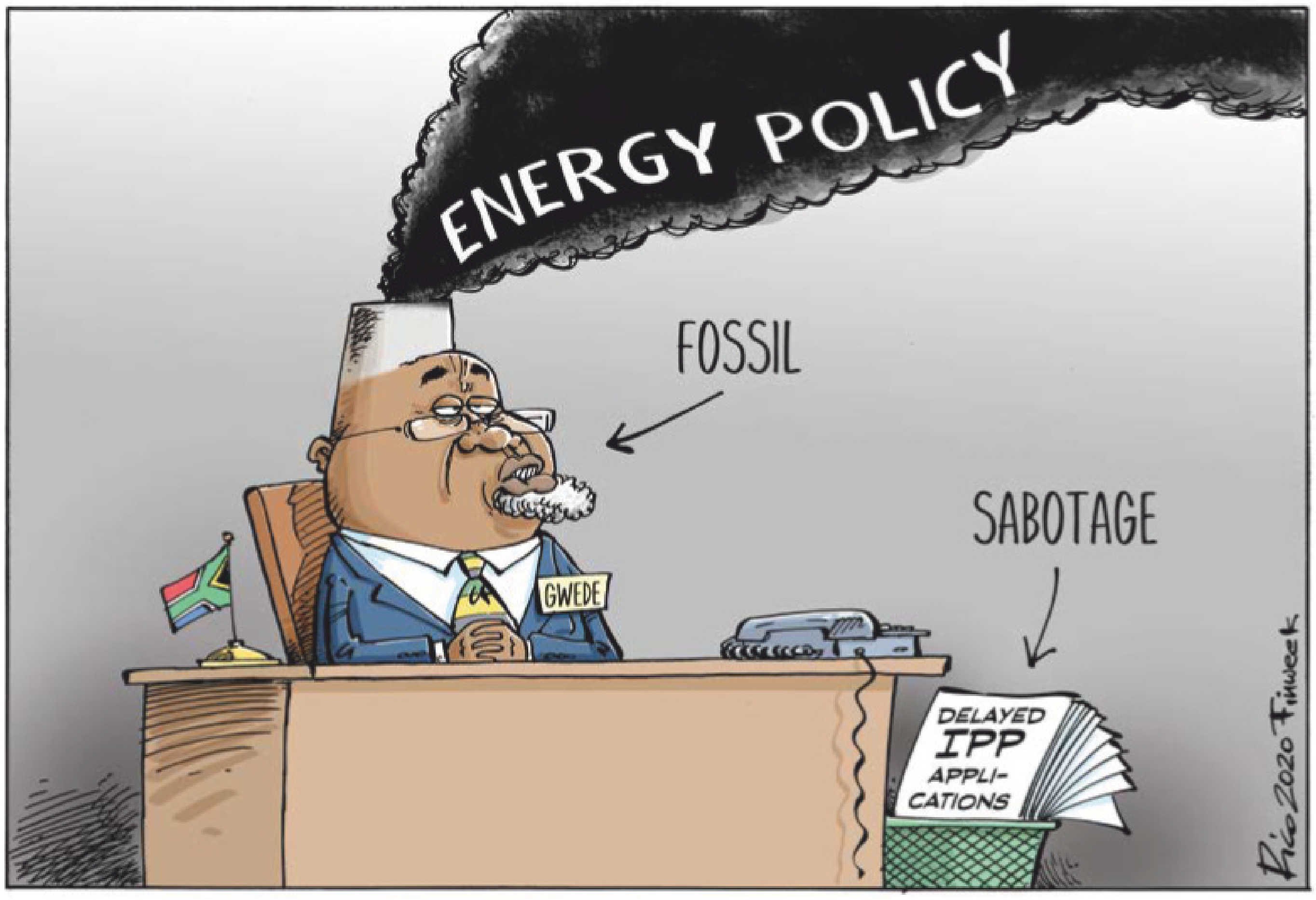
THE BAD

In a televised interview with the SABC, former president FW de Klerk said that apartheid was not a crime against humanity, sparking angry reaction across the country. After much public outcry, the FW de Klerk Foundation agreed in a statement that apartheid was indeed a crime against humanity, as defined by the International Criminal Court, and De Klerk apologised for "quibbling" over the severity of apartheid's human rights violations. De Klerk's words have mostly fallen on unsympathetic ears, with former president Thabo Mbeki sending him the UN Convention declaration that apartheid was a crime against humanity, reported iol.co.za.

THE UGLY

Prime Minister Thomas Thabane of Lesotho left the country in mid-February, skipping a court appearance at which he was expected to be charged with murdering his estranged wife, Lipolelo Thabane, reported Reuters. Thabane travelled to South Africa for what aides said was a medical appointment. His wife was shot dead in June 2017, two days before he took office for a second stint as prime minister. The couple were undergoing divorce proceedings. The news outlet reported the Lesotho police as saying that Thabane's present wife, Maesaiah Thabane (42), who married the prime minister only two months after Lipolelo was killed, has already been charged with ordering the murder and is out on bail. Lesotho's high court is due to rule on whether the prime minister can claim immunity from the murder charge.

DOUBLE TAKE BY RICO



JSE SLAUGHTERED

4.28%

The JSE bled 4.28% of its value on 24 February when local assets were caught in the middle of a global sell-off as the spread of the coronavirus, or COVID-19, intensified, reported *Business Day*. The slump was reportedly the biggest decline since 1 December 2008, when it fell 4.55% during the global financial crisis. "We are seeing another sell-off in 2020, which just tells you that there is a lot of nervousness in the market," FNB wealth and investments portfolio manager Edgar Mafoko told the publication.

SASOL BLEEDS

74%

Sasol reported a 74% drop in headline earnings per share to R5.94 in its financial results for the six months ended December 2019. Earnings decreased by 72% to R4.5bn compared with the prior period. According to Sasol, the 72% drop resulted from a 9% decrease in the rand price of a barrel of Brent crude oil, softer global chemical prices and refining margins, lower productivity at their mining operations and a negative contribution from their Lake Charles chemical project in Louisiana in the US. This $12.8bn project is now 99% finished, Sasol said.

CORONAVIRUS HALTS FLIGHTS

200 000

Airlines around the world have cancelled more than 200 000 flights, mostly within China, as the Chinese government steps up measures to curb the spread of the coronavirus or COVID-19. CNBC reported that the airlines, including the three US carriers that serve China — Delta, United and American — have halted service to the mainland and Hong Kong because of the virus. In February alone, the number of flights that were scheduled to fly to, from and within China were down 80% from a year ago, according to aviation consulting firm Cirium.

JUNK IT WILL PROBABLY BE

14

Out of 19 economists surveyed by Bloomberg in February, 14 expect Moody's Investors Service to downgrade SA to junk status this year, with nine saying it will happen in the first half of 2020. The forecasts come after the ratings agency cut the outlook on the nation's assessment to negative in November and said it would look to the 26 February budget (also see p.32) for a feasible strategy to contain rising debt. Moody's chopped its 2020 GDP growth forecast for SA to 0.7% from a forecast of 1.5% set in September 2019.

By Glenneis Kriel

Canned wines take off in the SA market

The release of premium-quality canned wines promises to breathe new life into sluggish domestic wine sales.

The grapes used to produce Uncanny's Chenin Blanc are sourced from the Swartland in the Western Cape.


Uncanny's Merlot is made from Stellenbosch grapes.


Uncanny wines contain no added sulphur.

While wine has been canned since the 1930s, this form of packaging never really took off because of the inferior quality of canned wine in comparison to bottled.

The category has, however, enjoyed a revival since 2014, thanks to the development of new technologies to improve canned wine quality in combination with millennials' eagerness to experiment with new products. In the US particularly, the category has grown by double digits each year for the past five years, topping R1.2bn in 2019, according to Nielsen.

Arnold Vlok and Ruan Viljoen knew it would only be a matter of time before the trend blew over to South Africa, so the friends registered Uncanny in 2018 and started working on making their own canned wine brand.

"Our goal was to create the first Wine and Spirits Board certified canned wine in SA, which we released in October last year," says Vlok.

Millennials were the initial target, as they are the biggest international driver of sales in this category, but he has since been surprised by the good reception from more seasoned drinkers – young and old.

"People thought the established market would not be open to this trend, due to the preconceived notion that canned wines could not taste as good as bottled wine. We have addressed this issue by creating a premium wine product that is making even some of the most hardened wine critics come back for more," Vlok says.

But the range also has various other alluring attributes. It's ideal for picnics and summer concerts, matching it perfectly to the SA outdoor lifestyle. It also appeals to the more health- and environmentally-conscious consumer: No added sulphur makes it vegan-friendly, while the cans are more environmentally-friendly than bottles. Furthermore, the cans are also easier and lighter to transport, which cuts down on carbon emissions.


Arnold Vlok
Co-founder of Uncanny


Ruan Viljoen
Co-founder of Uncanny

Early days

Viljoen, who is from a corporate background, and Vlok, a geneticist who also works on developing additives for the wine, beer and cider industries, started the company with private funding. It began as a family-and-friends effort, with anybody with relevant skills contributing.

"As a company, we identified the quality of the wine offering, followed by the branding and digital marketing as our biggest priorities to start with. The wine grapes are sourced from regions perfectly suited to the respective cultivars, Chenin Blanc from the iconic Swartland and Merlot from Stellenbosch," Vlok says.

Top vintners have also been commissioned to make the wine. "We have a solid relationship with the farms and winemakers to ensure a consistent supply of excellent quality wine," he says.

The range started out with a red and white wine: No Sulphur Added Merlot and No Sulphur Added Chenin Blanc. The plan for the coming season is to expand the range with a Premium Dry Pinotage Rosé, since the demand for Rosé is growing faster than for most other wine categories.

"We also want to represent the cultivars SA is best known for, Pinotage and Chenin Blanc," says Vlok.

Initially, most of the sales took place on digital platforms such as Takealot, Yuppiechef and Norman Goodfellows, as well as several retail outlets in the Cape such as Liquor City Claremont, Bar Keeper, and some Spar supermarkets.

"It is far too early to draw any conclusions about sales patterns, but, as expected, the sales have been seasonal, with the Chenin Blanc enjoying preference in summer," says Vlok.

Quite a few other players have since launched canned wines. Vlok, however, is not too worried about this as the market is still small, making bigger volumes beneficial to the market.

Uncanny also has some distinct advantages, according to him. It was the first company to enter the market, the wine is of exceptional quality and the added benefits of the wine being naturally preserved and vegan-friendly make it appealing. ■

editorial@finweek.co.za

Photos: Supplied

By Jaco Visser

ECONOMY

SA trade with UK post-Brexit

After leaving the European Union, the UK government aims for merchant relations with the Southern African Customs Union and Mozambique to be business as usual.

As South Africa's trade surplus in merchandise goods jumped to R24.7bn in 2019 from the revised R15.23bn for 2018, exporters to the UK can look forward to the minimum non-trade barriers in especially food shipments.

This follows the signing of a trade agreement between the UK and member states of the Southern African Customs Union (Sacu) – which includes SA, Namibia, Botswana, Eswatini and Lesotho – and Mozambique late last year. The trade agreement follows on the UK's decision to leave the EU and thus necessitated a novel agreement to replace the current Economic Partnership Agreement (EPA) between the EU and Southern African Development Community (SADC).

"The agreement aims to replicate the effects of the current EU-Southern African Development Community EPA," Nigel Casey, British High Commissioner to SA, said in a response to emailed questions.

"Once ratified by all state [parties], it will come into force at the end of December 2020 (when the current transition period comes to an end)."

SA exports to the UK are heavily skewed towards non-manufactured goods (see graph).

"In both directions, SA and the UK export a wide range of quality products to each other, notably things you can drink and drive," said Casey.

Metals and gemstones accounted for more than half of exports to the UK last year, according to trade data from Sars. Vehicle shipments accounted for almost a quarter of goods destined for the UK and fruit, nuts and wine together constituted 13.4%, or R9.1bn, of all exports.

As the government's haphazard handling of the foot-and-mouth disease outbreak continues unabated, local livestock farmers won't be counting on exporting meat or other animal-related products (such as hides and skins) to the UK soon. Neighbours Botswana and Namibia, on the other hand (and even with their endemic FMD zones, but which are far better controlled than in SA), will continue to cash in on red meat exports to the UK.

"The UK also accounted for 24% of total exports of beef from Botswana, and 19% of beef exports from Namibia," said Casey. "Signatories have agreed to work together in order to keep SPS [sanitary and phytosanitary] measures to the minimum necessary consistent with WTO [World Trade Organization] provisions and to strengthen regional cooperation in this field."

In return, during 2018 the UK exported £409m worth of machinery and mechanical appliances, motor vehicles accounting for £335m and beverages, especially whiskey, worth £136m to Sacu and Mozambique, said Casey.

Another large component of trade – the trade in services – is almost as big as the shipment of goods. Sacu and Mozambique imported £2.7bn of services from and exported £1.3bn to the UK, compared with goods exports of £3.5bn to and goods imports of £2.2bn from the UK, according to Casey.

If you look at the whole of Africa, trade between the UK and the continent edged 7.5% higher in 2018 to £36bn in both directions, according to him.

The easy movement of people across borders is an important prerequisite of increased trade. South Africans visiting the UK, however, need visas, which is not the case for Namibian passport holders.

"We introduced the requirement here due to concerns about document security," said Casey. "I can assure you that no-one would be more delighted than me if and when we were able to conclude that it is no longer necessary to ask our South African friends to apply for a visa to visit the UK."

He said over 90 000 South Africans visit the UK every year. A large enough number to underline the importance of the UK as a trading partner of SA. ■

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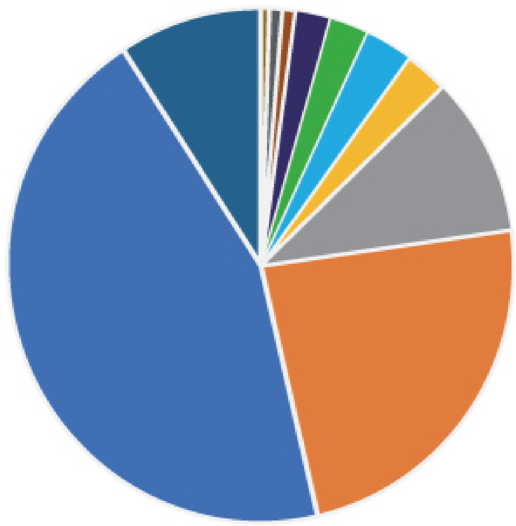
WHAT DO WE EXPORT TO THE UK? (TOP 10 EXPORT PRODUCTS)



- Cellphones, electrical equipment and machinery: 0.7%
- Sugars and sugar confectionary: 0.8%
- Fruit juices and prepared vegetables, fruits and nuts: 0.9%
- Aluminium and articles thereof: 2.2%
- Beverages, spirits and vinegar: 2.6%
- Ores: 2.8%
- Catalytic converters, computers and mechanical appliances: 2.9%
- Fruit and nuts: 9.9%
- Vehicles and accessories: 23.6%
- Gold, platinum, diamonds, jewellery and precious metals: 44.5%
- Other: 9.1%

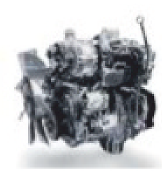
SOURCE: Sars trade statistics for 2019 (may be revised during the year)

HOW MUCH OF SA'S EXPORTS GO TO THE UK?

20% Wine

16% Fruit and nuts

18% Platinum



7% Motor cars

SOURCE: British High Commission in SA

Photos: Shutterstock

By David McKay

MINING

Sibanye-Stillwater eyes rare metals as gold, platinum boom

The miner plans to use the cash windfall to consider merger and acquisition opportunities.

Keep an eye on Neal Froneman, CEO of Sibanye-Stillwater, because despite a pledge to reinstate the dividend during the firm's current financial year, he also believes the firm has the kind of access to capital markets to bring about a new chapter of merger and acquisition growth.

Asked how he intends to achieve the balance, Froneman told *finweek*: "We've never had the ability to access the debt markets before like we do today. We've got a credit rating we've never had before and better access to the bond markets."

What's uppermost in his mind is adding battery or "high-tech metals" to the gold and platinum group metal (PGM) portfolio that's currently generating cash flow hand over fist. According to a recent report by Goldman Sachs, cash flow on spot prices for the firm's metals will see Sibanye-Stillwater sit with net cash by year-end. Gross debt was $1bn as of 31 December, a reduction from $1.8bn a year earlier.

This cash flow is being powered largely by PGM price improvements, which have continued this year after setting record levels in 2019. Astonishingly, though, Froneman speaks of the need to "become relevant" to the market in general, as if the firm's exposure to PGMs wasn't doing this already.

"The next step is to double the size of the company by market cap or we're not relevant. We want to add the coppers of this world; the nickels, the lithiums and the graphites," he says.

"We don't want to become a Rio Tinto. We can't compete with them in bulk commodities or the range and scale of production it has, but our model is based on precious metals and what's complementary in the high-tech metal space which feeds into the global carpool."

Froneman has also zeroed in on silver. He cites a letter, written to him by "a high-ranking investor" and shareholder who congratulated Sibanye-Stillwater on its transition into PGMs, but who also said silver was lacking from the portfolio. "We take that seriously," Froneman told analysts and media at the release of the company's financial results.

Asked later about his comments, he told *finweek*: "It's a precious metal we don't have, and we think it's very complementary."

Merger and acquisition activity apart, analysts at Goldman Sachs think Sibanye-Stillwater continues to be undervalued on its current metrics, notwithstanding the fact that its share price has scaled new all-time highs this year.

Said the bank: "Relative to its PGM peers, Sibanye is undervalued. The company trades on a 12-month forward EV:EBITDA [enterprise value to pre-tax earnings] multiple of 3 times on consensus versus SA PGM peers at an average of 6.8 times. We believe this discount is unwarranted, even taking into account the gold operations."

The key to Sibanye-Stillwater's immediate outlook, however, is firmly hitched to the palladium and rhodium prices. Palladium is 150% higher in the last three years while rhodium is at $13 100 per ounce at the time of writing compared with $700 an ounce in 2016. The price improvements are powered by carmakers who use the metals in auto catalysts, required in order to minimise noxious car emissions.

Emissions standards are ever-increasing, but a shakeup in South Africa's PGM sector over the last decade has meant production can't keep up. Platinum can be substituted for either of palladium and rhodium but it requires a technological cost (and time) that Goldman Sachs thinks carmakers are reticent to take on at the moment.

Froneman disagrees: "I'm going to be controversial here, but I think substitution is closer than we think. Platinum is turning now. We went through $1 000/oz and we have seen the market tightening."

It's a moot point. "Substitution of palladium with platinum in gasoline vehicles is becoming increasingly likely and we do see platinum prices improving, but we don't think substitution is quite there yet," says Chris Griffith, outgoing CEO of Anglo American Platinum.

"We think automakers might take another year to 18 months before moving on that." ■

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Neal Froneman
CEO of Sibanye-Stillwater

"We've never had the ability to access the debt markets before like we do today. We've got a credit rating we've never had before and better access to the bond markets."

Photo: Gallo/Getty Images

By David McKay

MINING

Cash bonanza has investors wondering about dividends

The producers of a range of metals are sitting on cash piles. Will they adjust their dividend payouts soon?

Cash generation has been so good in the mining industry over the past two years that analysts are asking whether the companies earning the cash ought to return more of it to shareholders; the money belongs to its investors, after all.

For mining companies, however, the "should we, shouldn't we" dividend question is a dilemma. Often, company boards sanction payouts as a fixed proportion of earnings. Bowing to shareholder pressure requires a special dividend, or a payout policy adjustment. Such bold decisions may border on the irresponsible if the money can be used better internally by replenishing resources, for instance.

"It's a balance, that's what we're striving for," said Stephen Pearce, chief financial officer of Anglo American, when asked about the firm's payout at the annual financial results presentation in February. At $1.08 per share, Anglo's total dividend for 2019 was a whisper above the $1 per share it announced for 2018. From a dividend yield perspective, Goldman Sachs thought it was a shade disappointing.

"Stephen's a typical Aussie," said Mark Cutifani, who is also Australian and the group's long-standing CEO. "He's got chips on both shoulders," he quipped. The audience, consisting of analysts, broke into measured mirth: It's not a new joke, but the message was also a sober one; don't expect a repeat of the $1bn share buyback announced at the group's interim stage, Cutifani was saying.

That's because Anglo heads into peak funding for its 60% share of the $5bn to $5.3bn Quellaveco copper project in Peru next year. Net debt as of end-2019 had already crept up slightly, and so it can't leave itself stranded, having also undertaken the £400m takeover of Sirius Minerals, a fertiliser minerals development company.

Pegging out tomorrow's minerals is the lifeblood of a company, even if they don't get immediate credit for it.

Kelvin Dushnisky, CEO of AngloGold Ashanti, said in an interview with *finweek* that it was crucial the company developed new reserves. The investment market has long stopped factoring in the value of reserves in the ground in a company's share price, but it will also penalise a company that doesn't have them, he said.

Asked if AngloGold Ashanti might build on its dividend payment for 2019, he said: "We would like to steadily increase the dividend but nothing changes from our strategy, which is to chip away at the balance sheet and use the proceeds from cash flow to reinvest in our business."

There's good reason for this in the gold sector especially. "2019 was the first year the gold industry didn't grow gold production; we were peak gold," Mark Bristow, CEO of Barrick Gold – the world's largest miner of the metal – told *finweek*. The world's annual gold production is due to fall 30% in 10 years, even if all the new projects currently on the drawing board are developed.

But the mining sector is all too aware of its recent past, in which it wasted money on big-bang projects. Instead of earning market share as intended, the projects flooded the market with metal, killed demand and lowered prices, and left the sector heavily indebted, for which shareholders paid the price.

But as Anglo's Pearce observed, it's all about the balance. Said Bristow, "We need to win back generalist fund managers." This requires rebuilding the sector's relevance by providing proper returns. Barrick Gold wants to compete for investment dollars with Rio Tinto and BHP, the giant diversified mining firms, which means hogging the world's best gold reserves.

"We would like to pay extraordinary dividends if they are appropriate," said Neal Froneman, CEO of Sibanye-Stillwater, when asked by an analyst end-February how far the company was prepared to go when it reinstated payouts after nearly two years of merger and acquisition activity which stopped them.

"We have discussed it at a board level, but we've not made any decision," he said. "We would consider it [a special dividend] from the gold division because if you want to be a dividend-leading company, as Sibanye-Stillwater does, you have to do more than paying ordinary dividends." ■

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Mark Cutifani
CEO of Anglo American

Kelvin Dushnisky
CEO of AngloGold Ashanti

Photos: Gallo/Getty Images

market place

FUND IN FOCUS: OLD MUTUAL GOLD FUND

By Timothy Rangongo

Insurance for uncertain times

The fund aims to offer returns from investment in the shares of gold miners.

FUND INFORMATION:

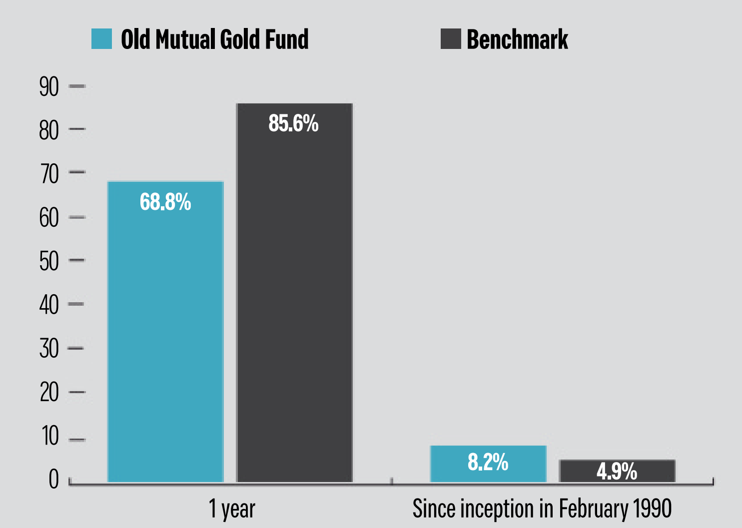
Benchmark:	FTSE/JSE Gold Mining Index (70%) and FTSE Gold Mines Index Series (30%)
Fund manager:	Meryl Pick
Fund classification:	Worldwide – Equity – Unclassified
Total investment charge:	1.95%
Fund size:	R578m
Minimum lump sum/subsequent investment:	R10 000/R500
Contact details:	0860 234 234/unittrusts@oldmutual.com

TOP 10 HOLDINGS AS AT 31 DECEMBER 2019:

1	AngloGold Ashanti	34%
2	Gold Fields	13.7%
3	Sibanye-Stillwater	10.6%
4	Barrick Gold	6.3%
5	Newmont Goldcorp	4%
6	Harmony Gold	4%
7	Newcrest Mining	3.6%
8	Northern Star Resources	2.1%
9	Kirkland Lake Gold	1.7%
10	Centaminc	1.4%
	TOTAL	**81.4%**

PERFORMANCE (ANNUALISED AFTER FEES)

As at 31 December 2019:



Fund manager insights:

The Old Mutual Gold Fund has an investment mandate to invest in gold and other precious metals that show above-average prospects for growth.

"Gold as an asset class has great diversification benefits as it tends to perform differently from everything else in the market," says Meryl Pick, the fund's manager. "It is often referred to as portfolio insurance as it performs well during times of market panic."

The fund is best suited for investors that seek capital growth over the long term, who have a view of gold and other precious metals and can tolerate stock market and sector volatility.

Geopolitical uncertainty arising from events such as the global angst over the intensifying trade dispute between the US and China, an attack on Saudi Arabian crude oil production facilities, protracted Brexit negotiations and growing antagonism between the US and Iran catapulted the gold price to climb 19% over 2019, closing 2019 at $1 519.50 per ounce, as investors sought safety.

The fund underperformed its benchmark by 16.8 percentage points for the 12 months to 31 December 2019, despite the gold price increase. Pick says that "the gold fund has a composite benchmark with the J150 (FTSE/JSE Gold Mining Index) contributing 70% and the FTSE global gold mines index 30%. The J150 returned some 87% over the last 12 months while the global gold mines index has returned 36% in rand terms."

Managing the fund in a rising gold price environment is a challenge "as it tends to attract more flows, the underlying shares becoming more expensive. Hence there is more money to invest and yet fewer attractive opportunities," she says.

AngloGold Ashanti, the fund's largest holding at 34%, recently sold its last remaining SA assets to Harmony Gold (the fund's sixth-largest holding at 4%), as it intends to focus on more profitable mines in Ghana, Australia and the Americas.

The fund refrained from making any changes to its AngloGold position because "the next catalyst would be an offshore listing and recognition that AngloGold is no longer exposed to SA", according to Pick.

Looking forward, gold has been rallying owing to concerns about the coronavirus, among other things. "Speculative positions suggest that there is short-term risk to the downside. Longer term, growing tolerance for inflation in the US should provide an underpin for the gold price as its role as an inflation hedge comes back into focus," says Pick on the outlook for the metal, thus far.

Why *finweek* would consider adding it:

The fund does not have South African and offshore exposure limits; it offers exposure to gold as an asset class and is therefore appropriate as a small position in a larger diversified portfolio to protect against market shocks and geopolitical risks. ■

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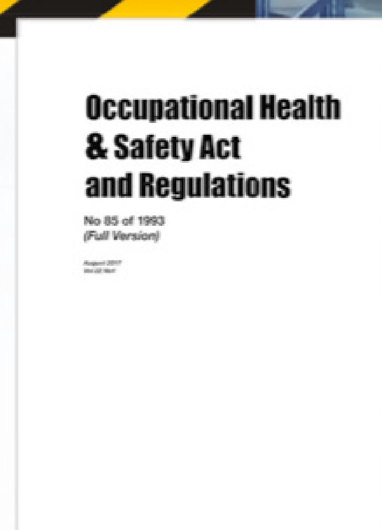

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SIBANYE-STILLWATER

BUY SELL WAIT

By Simon Brown

How to time your buy-in

I always want to hold single-commodity stocks when both the commodity and the stock are booming and we're seeing that in spades here. Gold is at decade highs, while palladium continues to hold above $2 000/oz, and rhodium just flies.

Sibanye-Stillwater's* financial results for the six months ended 31 December 2019 were excellent and debt has been slashed. Couple these two factors with a wage deal that should mean no work stoppages, and you can expect a lot more profit. Furthermore, the company has stated that it will pay a dividend for the year ending in June and that the dividend will not be removed to fund deals.

This is all great, but the price has flown since I got in at under 4 000c/share – just ahead of the trading update and half-year results. You can jump in at the current price, or you could wait for the price to get back to the 15-day moving average as a great entry. Those who are very conservative could wait for the price testing the 30-day moving average. This may end up a higher price but will be on a pullback in the longer uptrend and offer a "safer" entry. ■

The writer owns shares in Sibanye-Stillwater.

Sibanye-Stillwater's Driefontein gold mine near Carletonville in Gauteng.

Last trade ideas

SELL **Sasol**
20 February issue

BUY **Telkom**
6 February issue

BUY **Metrofile**
16 January issue

BUY **Rolfes**
21 November issue

NEPI ROCKCASTLE

BUY SELL CAUTION

By Moxima Gama

Achieving its targets

Nepi Rockcastle is a commercial property investor and developer which owns malls in nine countries in central Eastern Europe and is one of the largest listed property stocks on the JSE, with a market cap of close to R71bn.

Last year Nepi embarked on a process of disposing of its Romanian office portfolio with the aim of bumping up its distribution growth to 6.5% for the year ended in December. The group had previously targeted a 6% growth in distribution per share.

Nepi reported results for the year ended in December 2019 that showed that the group had achieved its target, despite the competitive market. Its loan-to-value ratio was comfortably below 35% and was well within the 60% unsecured debt covenant.

How to trade it:

Nepi has been trading in a huge sideways band between 14 455c/share and 11 500c/share for the past eight months. A narrow band between 12 755c/share and 12 000c/share has developed between the larger one, which means Nepi is trading on the bearish end of its medium-term range band. Breaching the 11 500c/share support mark could trigger selling towards next support at 9 690c/share.

Nepi would have to trade above 14 455c/share to escape its current bearish consolidation. Such a move would prompt the ascending phase of a bottoming-up pattern towards 17 100c/share – and then to the all-time high at 22 000c/share in the long term. ■

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Nepi Rockcastle's City Park mall in Constanta, Romania.

Nepi Rockcastle is one of the largest listed property stocks on the JSE, with a market capitalisation of close to R71bn.

Last trade ideas

BUY **Mediclinic**
20 February issue

SELL **Investec Property Fund**
6 February issue

BUY **British American Tobacco**
16 January issue

SELL **Mr Price**
21 November issue

Photos: Gallo/Getty Images | nepirockcastle.com

By Moxima Gama

SASOL

Further downside?

Sasol's troubles at its Lake Charles chemicals project in Louisiana in the US have burdened the company's share price, which sunk to its lowest level in almost 15 years on the day it released its financial results for the six months ending 31 December. Revenue declined 3.6% to R99.1bn and profits slumped 71.6% to R4.5bn.

52-week range:	R193.99 - R489.50
Price/earnings ratio:	15.45
1-year total return:	-51.55%
Market capitalisation:	R127.93bn
Earnings per share:	R13.23
Dividend yield:	-
Average volume over 30 days:	2 142 680

SOURCE: IRESS

SASOL

SOURCE: MetaStock Pro (Reuters)

Outlook: Sasol's share price found firm support above 34 655c/share (dated back to 2015), which it eventually breached in August 2019 and confirmed a bearish head-and-shoulders pattern (refer to red arrows on graph). The share price attempted to recover in the form of a bull channel after holding at 23 390c/share in August 2019. After failing to retest key support (which is now the resistance) at 34 655c/share, the share capitulated again.

On the charts: The five-month bull channel is a confirmed rising flag, which is a bearish continuation pattern. The lower slope of the pattern was infiltrated in January and support at 23 390c/share was breached. Further downside is on the cards.

Go short/stay short: The three-week relative strength index is currently oversold and may trigger a near-term recovery towards 23 390c/share or the lower slope of the channel. A reversal below 23 390c/share or failure to trade through the lower slope could attract new sellers, and support at 19 300c/share could give in. The head-and-shoulders pattern target is situated at 14 015c/share – and Sasol could fulfil that objective on continued downside.

Go long: Sasol would have to trade towards 46 100c/share to resume its previous bull trend. A recovery above 34 655c/share would be a bullish sign. Earlier entry levels would only be established after the current pullback. ■

IMPERIAL LOGISTICS

Long-term bull trend may be under threat

Imperial Logistics, one of the largest local companies in its sector, reported a 1% increase in turnover from its continuing operations for the six months through 31 December. At the same time, its profit from these operations jumped 10% to R783m – if you strip out the now unbundled Motus' contribution in the reporting period a year ago. Since the start of this year, the share price had tumbled by almost 20% at the time of going to print.

52-week range:	R45.36 - R72.18
Price/earnings ratio:	-
1-year total return:	-33.11%
Market capitalisation:	R9.46bn
Loss per share:	R2.33
Dividend yield:	5.87%
Average volume over 30 days:	732 430

SOURCE: IRESS

IMPERIAL

SOURCE: MetaStock Pro (Reuters)

Outlook: Though Imperial is still trading in its primary bull trend, its current correction bear trend persists. New acquisitions, restructuring and cost-cutting measures have been set to boost the group's performance, despite the current weak economic conditions. However, on the charts, investor sentiment still seems hesitant with a bearish bias.

On the charts: Imperial has been correcting within its long-term bull trend since 2018. After recently failing to trade beyond 6 195c/share, Imperial's share price may be headed to the major support trendline of its bull trend. It may bounce there as it has done before. However, continued resistance encountered at 6 195c/share could threaten the continuation of the primary bull trend.

Go short/stay short: The three-week relative strength index is currently oversold and may attract near-term buying. However, failure to trade above 6 195c/share could see Imperial return to its major support trendline and possibly breach it. A negative breakout of the primary bull trend would be confirmed below 3 155c/share and downside through 2 175c/share could ensue.

Go long: Imperial would retain its primary bull trend above 6 195c/share – thus triggering a buy signal. Investors could increase positions above 7 560c/share, as a 100% retracement to the all-time high at 9 355c/share could then follow. ■

editorial@finweek.co.za

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

By Simon Brown

FINANCIAL RATIOS

How to gauge if a company is broke

There's a range of calculations that can show investors whether a company's financial house is in order or not.

A company going broke or into business rescue is something we're seeing more with listed shares. As investors we naturally want to avoid holding shares of companies that hit business rescue because shareholders can expect very little from it, if anything.

The cause of bankruptcy is not just debt, but extends to the liquidity and solvency of a business. A company like Tongaat Hulett is technically bankrupt with its negative net asset value of around R4bn. Simply put: Tongaat's liabilities exceed its assets by R4bn. But the business rescue practitioners are unlikely to be summoned, whereas other companies in a similar position could find themselves faced with a business rescue process.

What sets Tongaat Hulett apart is its ability to trade itself out of trouble. There are a few simple options companies in this position can consider.

Firstly, they could sell some of their assets. In mid-February Tongaat issued a cautionary announcement stating that it's looking to sell its starch business. With a R300m profit for this unit for the six months through the end of September 2019, the sale would go a long way to plugging that R4bn hole.

Ascendis Health is another example; it's looking to sell its Remedica business unit in Cyprus to shore up its balance sheet. The difference being that starch is not really a core business to Tongaat, while Remedica is a gem that Ascendis plans (and needs) to sell.

A second option for companies teetering on bankruptcy is talking to lenders and bankers to revise the terms of their loans, particularly extending the duration and/or temporarily halting repayments. This works, but boils down to just kicking the can down the road. Lenders don't consider this a long-term solution, so it's just a temporary fix while management tries to sell assets – as is the case with Ascendis.

The big issue at play is this: Can the company carry on trading and paying its staff and suppliers while it remains under this pressure? If they can, then they stand a good chance of surviving. But if they can't, then it's the business rescue practitioner for them.

Investors can keep an eye on all the details explored above, but you can also consult some key liquidity ratios that can help you get ahead of the crisis or understand just how bad it is.

Some of the ratios I like are the solvency ratio – which includes short- and long-term financial obligations – and the current and quick ratios, which focus on a company's short-term debt obligations and current assets. (Remember that "current" means assets or liabilities that are convertible into cash within 12 months).

The solvency ratio takes the company's after-tax operating income and divides it into its total debt obligations to determine the company's ability to meet its debt obligations. A result of more than 20% is good, but total debt obligations are not always a fair reflection, as some of that debt may be a way off from being called or paid.

The current ratio divides current assets by current liabilities to determine the company's ability to meet its short-term obligations. The concern here is how liquid these current assets are. Sure, they're easy to convert into cash, but at what price? So, when considering a company's current assets, I like to use its cash on hand.

We can also look at the quick ratio (also known as the acid test) – a company's quick assets divided by its current liabilities. Quick assets are current assets less inventories. Inventories are current, but they're needed to operate the business, so they're not able to be sold down aggressively.

Because we're using current liabilities due within a year, we want the ratio to be higher than 100%. Anything below that level means the company could be caught short paying this year's debt obligations.

Used collectively, these ratios will all help you gauge if a company is about to call business rescue experts or not. ■

editorial@finweek.co.za

Photo: Shutterstock

The big issue at play is this: Can the company carry on trading and paying its staff and suppliers while it remains under this pressure?

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.

TRUWORTHS

Retailers are for the brave

Truworths' results for the first six months to 26 December 2019 were basically flat, with sales up 1.3%, headline earnings per share (HEPS) 0.6% higher and the dividend unchanged. However, considering the consumer environment, these are decent enough numbers from a solid operation and with a historic price-to-earnings ratio (P/E) of 8.5, a dividend yield of 7.5% and the share price almost 50% lower over the last three years, it may pose an opportunity. Make no mistake that buying SA retail shares right now is for the brave. As always, however, if it works, the brave do very well. Yes, we've seen local retail stocks being slaughtered, but I would remind readers that Massmart, while down over 40% in the last year, is almost 20% higher over the last six months. At some point cheap is so cheap that buyers can't resist.

TONGAAT HULETT

Small lifeline through sale

Tongaat Hulett and Balwin Properties announced a sale of land to Balwin for R167m. This is one of the last prime pieces of land in Umhlanga and is good news for both companies, albeit for different reasons. Balwin gets a prime piece of land (but development will take some time), and Tongaat gets a nice cash injection just as it needs this. But Tongaat has larger issues and now also has a less attractive land portfolio around the Umhlanga Ridge.

Photo: Gallo/Getty Images

GOLD FIELDS

Chilean hopes high for miner

Gold Fields raised R3.7bn for their Chilean Salares Norte gold mine project. Thanks to the current high gold price feeding through to the Gold Fields share price, they did the placement at share price levels from 2012 (aside from current levels of over R100) of R90.20. The initial life of mine is 11.5 years but can potentially be extended. What is, however, very intriguing is the all-in sustaining cost of $552/oz over the life of the mine. This would make it one of the cheapest gold producers in the world. Of course, they need to get the mine online and that always takes time and comes with risks of delays and cost overruns. However, it offers a very attractive asset when it starts producing.

Gold Fields raised

R3.7bn

for their Chilean Salares Norte gold mine project.

CITY LODGE

Sluggish occupancy hits profit

City Lodge's* results for the six months ending December were nasty. HEPS was 67% lower, and even when the impact of IFRS 16 (regarding leases) is removed, HEPS was still 32% lower as overall occupancies dropped to 54% from 58%. For a highly leveraged business such as this one, a marked drop in occupancies hits profits very hard. Even local occupancies declined from 61% to 57%, with the sweet spot for the group being the mid- to high 60s and the low 70s. At these levels they pump out profits. Management did state that the first seven weeks of the second half of their 2020 fiscal year have seen occupancies no longer falling. The only speck of good news was that the interim dividend was higher than the previous year's final payout. But with a struggling economy occupancy levels are not going back to the mid-60s, never mind approaching 70%. So, while the stock is very cheap, it is not an attractive buy even at these low levels.

PEMBURY LIFESTYLE

Shareholder quarrel drags on

I wrote about the Pembury issue in the previous (20 February) edition of *finweek* and it now rolls on. The majority shareholders – the founding McLachlan family, which includes the fired CEO Andrew McLachlan – have demanded a special shareholders meeting. With a little over 54% of the shares in issue they will get the meeting and can also fire the current board, replacing it with their own friendly one. Large founder stakes in a listed business are often viewed as positive – and correctly so as they have real skin in the game. But it can also turn very sour when they flex their voting power, even as it seems to be against the interests of the business and other shareholders.

BOWLER METCALF

Heaps of cash and solid profits

After a slight wobble and the final exit from the drinks business, Bowler Metcalf produced strong results for the six months through the end of December, with revenue 11% higher, HEPS up 19% and the dividend increasing by 13%. The share continues to trade just above its net asset value of 663c, with more than half of it consisting of cash on hand. With a dividend yield of over 5% and a historic P/E of around 7 times, the valuation is very attractive even after industrial action in the previous year skimmed profits. That said, it is a tough space they operate in and management has proved itself very capable of navigating tough trading conditions, as seen in the latest set of results.

GRAND PARADE

Stick to what you know

In late February, Grand Parade Investments announced that it will be selling its entire stake in the Burger King franchise for around R670m – this after pouring about R1bn into the business. Add to this the sale of the Spur shares and those of the ice cream and donut operations, and there's not really anything left from the misadventure in quick service restaurants (QSRs) except for a hole in the bank balance. Grand Parade used to be a great little operator with casino assets that received solid cash dividends and served shareholders well. Now it is left with little and is another lesson that illustrates why management should stick to what it knows. Sure, one could argue that the economy punished their hopes for QSRs, but it still falls on management to have recognised and managed that risk. In short, they instead failed on all levels, leaving shareholders carrying the painful losses.

SA RESERVE BANK

Might African Bank bring new competition?

News that the SA Reserve Bank (SARB) is looking to exit its 50% stake in African Bank is noteworthy. After African Bank collapsed in 2014, the SARB and local commercial banks stepped in to take over the business. By selling its 50% stake, the SARB has an opportunity to bring a new majority shareholder into our banking space. The other 50% is held by FirstRand, Standard Bank, Absa, Nedbank, Capitec*, Investec and the Government Employees Pension Fund (GEPF) and I suspect that aside from the GEPF, the others would also want to exit a competitor. I have no idea of the value, but I am curious to see who'll pop up as potential bidders. African Rainbow Capital was an obvious fit, but they already have Tyme Bank and that counts them out. In any case, Tyme has a different, no-branch strategy (by using Pick n Pay outlets) which is at odds with the African Bank strategy that includes branches. We will wait and see, but this will be a slow process, potentially taking two years to complete.

None of these stats are earth-shattering, but they show resilience in the face of hardship.

REINET INVESTMENTS

Transforming away from tobacco

Reinet Investments increased its holding in the UK's Pension Insurance Corporation such that it is now probably worth as much as its British American Tobacco holding. Pension Insurance Corporation is a capital-intensive business, but a great asset, and, finally, Reinet is ridding itself of the story that it was just a fee-intensive holding for British American Tobacco.

ITALTILE

New bedrooms, bathrooms in tough economy

Italtile is another listed company managing to produce profits in tough times. Both revenue and HEPS increased a very modest 1% and the dividend rose 5%. None of these stats are earth-shattering, but they show resilience in the face of hardship. I remember being told years ago that in good times people upgrade their homes. But in tough times they'll just upgrade the bathrooms or maybe the bedrooms. This plays directly into the Italtile business of selling tiles and other home improvement products. That said, the stock is probably fairly priced on a forward P/E of just over 12 times and a dividend yield of about 3%. In boon times the valuation would be cheap, but it's now about right given the current economic climate. ■

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The writer owns shares in Capitec and City Lodge.

Photo: italtile.co.za

By Schalk Louw

FINANCIAL SERVICES

Banking on beliefs

Many believe that negativity about South Africa's banking sector originated locally. Schalk Louw strongly disagrees.

In their book, *The Enigma of Reason*, Hugo Mercier and Dan Sperber write: "Two major features of the production of reasons: it is biased – people overwhelmingly find reasons that support their previous beliefs; and it is lazy – people do not carefully scrutinize their own reasons. Combined, these two traits spell disaster for the lone reasoner. As she reasons, she finds more and more arguments for her views, most of them judged to be good enough. These reasons increase her confidence and lead her to extreme positions." In short, it basically means that our ability to argue is limited to our own beliefs.

Mercier and Sperber were referring to beliefs such as the belief that a bull becomes infuriated by the colour red, or that ostriches bury their heads in the sand at the first sign of impending danger. But the actual truth is that bulls are dichromats, which is a fancy term for a living organism for whom the colour red doesn't really stand out as bright in any way; while ostriches, well, we all know don't really bury their heads in the sand. For some reason, however, we seem to believe that they do.

A belief that I must deal with on a regular basis is the belief that local banks have completely lost their sparkle in recent years, mainly due to the South African macro-economic environment, and the country's political environment.

Make no mistake, I'm not burying my head in the sand by arguing that these factors didn't play a role, but what really makes me see red is the belief that negativity in the banking sector started locally, and this is being exploited by "SA bears" as one of the main reasons why South Africans should seek salvation offshore. The main reason for this poor performance shouldn't be searched for locally but should rather be investigated as part of an international trend.

When we take a look at the MSCI World Banks Index, which consists of all listed banks in 23 developed countries, you will see that no different to SA banks since early 2018, they underperformed sharply against the MSCI World Index (i.e. all shares) – to such an extent that international investment companies already highlighted this underperformance as a possible overreaction and an investment opportunity for value seekers.

You will see that there was a significant increase in pressure on world banks following the start of the US' increase of the Federal Reserve's (Fed's) interest rate, which also placed pressure on the sector in general. There was also a slight improvement in mid-2019 when the Fed rate was lowered, but that was short-lived.

International investors clearly feel that these rates won't stay low for much longer, which in turn will have a negative effect on US banks (which makes up 46% of the MSCI World Banks Index).

When we look at local bank shares (FTSE/JSE SA Bank Index) and place them relative to the FTSE/JSE All Share Index, it becomes clear that the picture has looked similar since the beginning of 2018. The big difference is that the local repo rate is now trading lower than at the beginning of 2018, which makes the fact that we are being swept along by these international tides somewhat unfair.

KEY INDICATORS – SA'S FOUR LARGE BANKS

	Current average	Five-year average
Price-to-earnings	9.21	10.60
Price-to-book	1.51	1.79
Return on equity	17.05%	17.3%
Dividend yield	6.37%	5.3%

SOURCE: PSG Old Oak and Thomson Reuters

At this point, I just want to reiterate the fact that I am aware of the reasons why we have been suffering on both a local economic and investment level. From an investment opportunity perspective, however, the figures are starting to look very interesting. Capitec has continued to be a fantastic case these last two decades, so we will be excluding it from this illustration. Let's look at a few key indicators on the remaining four large banks in SA, namely Absa, FirstRand, Nedbank and Standard Bank.

The growth rate of banks is slightly lower than the five-year average, which is a clear indicator of the difficult environment (discussed earlier) we find ourselves in. Both the price-to-earnings ratio and price-to-book ratio are trading lower than their five-year averages, and at a dividend yield of 6.4%, I'm starting to wonder whether we should invest in our local banks rather than just save our money in them.

There is still a lot of uncertainty surrounding us and we are definitely finding ourselves in high-risk territory. But given the choice to buy shares that are trading at historically higher levels versus those that are trading at historically lower levels during high-risk periods, I would without a doubt choose the latter. ■

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GRAPH 1: MSCI WORLD BANKS INDEX RELATIVE TO MSCI WORLD INDEX

SOURCE: PSG Wealth Old Oak and Schalk Louw

GRAPH 2: FTSE/JSE SA BANKS INDEX RELATIVE TO FTSE/JSE ALL SHARE INDEX

SOURCE: PSG Wealth Old Oak and Schalk Louw

By Peet Serfontein

OFFSHORE

Will Urban Outfitters' gradual price action continue?

This multinational lifestyle retailer headquartered in the US remains a performer compared with its competitors.

The Urban Outfitters brand is aimed at young adults, and it has a product range that includes women's and men's clothing, shoes, beauty and wellness products, accoutrements, active wear and outfits, household articles, as well as music, especially vinyl records and cassettes.

Many of the goods are designed and manufactured through several private labels by the company's wholesale department. The goods are available in countries such as the US, Sweden, the UK, Spain, Denmark, France, Germany, Ireland, Belgium, Canada, Italy, the Netherlands, Israel, and the United Arab Emirates.

Believe it or not, but the company was established in 1970 as a project for an entrepreneurial class at the University of Pennsylvania. From there, the company grew and was later renamed Urban Outfitters. This once again shows where a "cursory project" can end up if there is enough enthusiasm.

While many companies in the specialist retail sector are suffering, there are signs of slight growth in the next quarter. Remember that Urban Outfitters recently delivered positive, but mixed results. Based on the company's forecast over recent quarters, the comment that bets can be made on both sides (bull and bear) is reasonable and justified.

The recent results indicate that sales reached a new record of $1.17bn and increased by 3.6% in the three months ending 31 January. This is still lower growth than in previous years, but it's growth nevertheless. Despite this reality, the company broke its sales record in the fourth quarter. An unforeseen point that recently made the share price drop, was that wholesale sales fell short. These sales were in fact 10% lower.

Urban Outfitters remains a fantastic share to trade long and short. As mentioned, growth is slightly positive and this is why we must see if the record sales can continue. In addition, earnings will therefore also have to improve.

The valuation of the share is attractive for the specialist trader, but cheap can always become cheaper. So we must be aware of price action. Urban Outfitters is listed on the US stock exchange and its code is URBN.

What are the share's prospects?

Online purchases are killing companies that still have brick-and-mortar shops and have missed the digital party boat. In my opinion, online purchases are still the way of doing business in future. Remember that Urban Outfitters does in fact have a strong online presence. The current trading report indicates that retail trade is definitely not dead. The question here is whether growth can be sustained, especially because shopping centres are busy "dying" as more and more people make use of online shopping.

It therefore seems that there are going to be several expansions based on the trading update. The earnings per share have generally dropped over recent years. Nevertheless, the share remains competitive in its sector.

What does the share look like, technically?

Included here is the share's price graph on a monthly basis, so it's a long-term depiction of the price. Please note that it's a logarithmic scale.

The price has moved in a well-defined upward channel (the black parallel lines) since 2006. So we can conclude that the price has an underlying bull trend.

The upward channel leaves very little room for upward price action, as the price is currently trading close to the bottom end of the channel. Investors could therefore start thinking of investing in the share.

The price is also close to a very strong resistance level in the region of $29. Should the price break through this resistance level, investors could become more aggressively involved in the share. The upward potential of the share could well be towards the upside of the channel in the region of $55 per share. Investors will have to be patient as this is a long-term investment.

Should the share break below the $21 level, you should reconsider buying, because then the share will also break out close to the bottom of the channel. Rather regard this level as a stop-loss to protect capital. ■

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Photo: Shutterstock

SOURCE: TradingView

52-week range:	$19.63 - $34.52
Price/earnings ratio:	11.84
1-year total return:	-12.75%
Market capitalisation:	$2.68bn
Earnings per share:	$2.31
Dividend yield:	-
Average volume over 30 days:	1 444 857

SOURCE: IRESS

By Lucas de Lange

EQUITY MARKETS

Bear punishes the JSE

... but gold and PGM shares continue to please investors.

With three-quarters of the 100 biggest shares on the JSE, as measured by market cap, lying below their 200-day exponential moving averages (EMAs), there can be no doubt that the bourse is experiencing a tough time. It's mainly certain large commodity shares – with the platinum groups and some gold shares in the forefront – that are still making the general index look reasonable.

The extent of the pain being experienced is evident from the fact that stalwarts such as Tiger Brands, Sasol, Sappi, Redefine, Hyprop and Woolworths are lying far below their 200-day EMAs. Commentators point out that there are many bargains to be had in the market, but that buyers are showing a lack of interest, especially because of the flood of negative news about the economy, Eskom's power outages, future property rights and uncertainty about government policy.

In contrast to this, there are strong bull markets in platinum group metals (PGMs) and gold. The dollar price of the latter has increased by some 38%, while the JSE's gold-share index has climbed by about 273% since the current run began in August 2018. This means that it has passed the peaks of the two previous bull markets, in 2011 and 2016. It reflects the enthusiasm for sectors where money can still be made, although the dollar price of the metal is still well below the all-time high of $1 886.50/ounce reached in 2011.

It is interesting that investors are looking at silver, a precious metal that could still experience a run. In the past, silver has shown a tendency to increase more than gold. In SA, silver can only be accessed through exchange-traded funds (ETFs).

The question is how sustainable the current bull market in precious metal companies' shares will be. It will be wise to remember how unpredictable gold shares can be. For example, in 2016 the index dropped by no less than 60% in five months. With platinum shares, we are faced with a different situation. Although they have had a strong run, they are supported by shortages of palladium and rhodium, while it's believed that the price of platinum will increasingly benefit from the replacement of the previous two, which are becoming too expensive. According to reports, the manufacturers of catalytic convertors for vehicle exhaust systems are, however, reticent to do so as they do not have faith in SA as a supplier.

Judging by recent comments and analyses, especially after the release of Anglo American Platinum's brilliant results, there is general consensus that the prospects for platinum group metals remain positive. This is probably best expressed by Neal Froneman, CEO of Sibanye-Stillwater – the biggest producer of PGMs in the world, which also saw a major improvement in its results for the year to 31 December 2019. He is so positive about the prospect of sustained high prices that the enormous cash flow currently experienced should enable the group to declare a dividend for the first half of 2020. This is made possible by the rapid reduction in the group's debt owing to the high prices attained by PGMs.

Brait is the weakest share; its price dropped by 96% since reaching a high in 2016. Sasol's appearance as the fourth weakest share reflects investors' disappointment in this icon of the JSE. This goes hand in hand with the overspending and problems experienced at the Lake Charles chemicals project in the US. But there is hope that when all seven units at Lake Charles come onstream in the foreseeable future, this will translate into positive news.

Among the few shares that have broken through, AECI and Coronation are the most interesting. The former has declined to close to its rising 200-day EMA, which should serve as support and is regarded by some analysts as a buying area. With Coronation it seems as if its 200-day EMA wants to revert upward, which is often a sign of sustained buying pressure. ■

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WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
BRAIT	-55
PPC	-47.7
TELKOM	-45.6
SASOL	-30.1
SAPPI	-29
KAP	-28.3
TSOGO SUN	-27.7
TIGER BRANDS	-24.7
SUPER GROUP	-22.8
REDEFINE	-22.2
WOOLWORTHS	-20.7
HYPROP	-20.6
BARLOWORLD	-20.4
SHOPRITE	-19.4
HAMMERSON	-18.9
ASSORE	-18.7
DISCOVERY	-17.8
INVESTEC PROPERTY	-16.9
REUNERT	-15.9
VUKILE	-15.9
NEDBANK	-15.8
MULTICHOICE GROUP	-15.2
OLD MUTUAL	-14.7
JSE	-14.6
GROWTHPOINT	-14.3
OCEANA	-13.6
TFG	-13.2
TRUWORTHS	-13.1
LIBSTAR	-12.9
AVI	-12.5
DISTELL	-11.8
MASSMART	-11.5
SOUTH32	-10.9
PEPKOR HOLDINGS	-10.9
SPAR	-10.9
AB-INBEV	-10.8
EPP	-10.7
FORTRESS A	-10.7
PICK N PAY	-9.4
PSG	-9.4
RMI HOLDINGS	-9.4
EXXARO	-9.3
ABSA GROUP	-9.1
DIS-CHEM	-9
STANDARD BANK	-8.7
MR PRICE	-8.4
KUMBA IRON ORE	-8.1
BIDVEST	-7.8
EQUITES	-7.3
EMIRA	-7
GLENCORE	-6.6
SANLAM	-6.4
ITALTILE	-6.2
PSG KONSULT	-6.2
ASPEN	-5.9
LIBERTY HOLDINGS	-5.7

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
FIRSTRAND	-5.7
VIVO	-5.5
MTN GROUP	-5.4
RESILIENT	-5.2
SANTAM	-5.2
MAS	-4.1
REMGRO	-3.9
RMB HOLDINGS	-2.9
RCL	-1.9
BIDCORP	-1.9
NETCARE	-1.3
RICHEMONT	-1
BHP	-0.8
VODACOM	-0.7
NEPI ROCKCASTLE	-0.7
NASPERS	-0.1

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EMA
SIBANYE-STILLWATER	63.13
IMPLATS	51.93
NORTHAM	51.05
GOLD FIELDS	40.59
ROYAL BAFOKENG PLAT	40.05
HARMONY GOLD	36.9
AMPLATS	31.3
ANGLOGOLD ASHANTI	23.27
SIRIUS	22.97
REINET	22.8
QUILTER	19.8
BAT	12.2
ANGLO AMERICAN	10.09
MEDICLINIC	9.71
ASTRAL	8.05
TRANSACTION CAPITAL	6.19
PIONEER FOODS	6.11
CLICKS	5.89
MONDI	5.65
CAPITEC	4.57
CAPCO	3.9
AFRICAN RAINBOW MINERALS	3.79
INVESTEC PLC	3.52
MOTUS	2.91
AECI	1.84
CORONATION	1.57
LIFE HEALTHCARE	0.78
MOMENTUM METROP	0.76

BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY EMA
AECI	1.84
CORONATION	1.57
LIFE HEALTHCARE	0.78
MOMENTUM METROP	0.76

*Based on the 100 largest market caps.

By Simon Brown

INTEREST RATES

Global inflation remains stubbornly low as asset prices buck the trend

Has the Reserve Bank's inflation target subtly shifted recently? Simon Brown takes a closer look at the workings and effects of inflation and interest rates.

In December inflation clocked in at 4.5% – right on the number that Reserve Bank governor Lesetja Kganyago keeps referring to.

How does inflation work?

If prices increase, it is either because of increasing demand or decreasing supply. More money chases fewer products and pushes prices higher. Policy can fix this by increasing interest rates. This reduces the economy's money supply as consumers pay more to service their debt.

The inverse of inflation is falling prices (deflation). This may be due to lower demand or an oversupply of goods and services. Here, the lowering of interest rates puts money back into the pockets of individuals. They have more spending power, which slows or stops falling prices and deflation.

We're seeing record low interest rates worldwide, yet inflation remains low. Following the 2008 to 2009 global financial crisis, the concern was for high or even rampant inflation, but this has not happened as global inflation remains very low. This is due to surplus money going into stock markets – mostly in the US – pushing the valuations of shares higher. So, we are seeing inflation, but in asset prices rather than consumer goods.

So, interest rates are the most useful tools for inflation targeting. They're not perfect and often referred to as blunt instruments in the fight against inflation. They work, but are not absolute.

Of course, we must also consider expectations from consumers. If an economy experiences deflation, why would you buy a product or service today when it'll be cheaper in a month or a year? In short, you'd wait. This reduces the demand for goods and services and sees prices falling even further.

We've seen this in Japan in the last few decades where very low inflation, or even deflation, has seen consumers not spending in expectation of lower prices in the future. The result is a huge savings rate but also an economy that just can't get inflation going.

Inversely, high inflation means that prices are rising and so you're spending your money now because it will buy less in the next month or year.

I remember when inflation was in the mid-teens in the 1980s and 1990s – the inflation of the 1980s was a global issue. Consumers did not save because they spent their money as they got it, knowing that prices would be higher in a month or a year.

Consumers' expectations of inflation are important and the response to these is an important part of the process that Kganyago is using effectively.

South Africa's inflation target is between 3% and 6%. Kganyago, however, has changed things by always referring to 4.5% rather than the range. He is focusing consumers' minds on 4.5% rather than the upper 6%; in other words, he is lowering inflation expectations.

The Reserve Bank is also slowly dropping interest rates as inflation slows. So, lower rates mean more disposable income to spend which keeps inflation around that 4.5% level.

It's a balancing act, but the central bank is doing it perfectly with low inflation and lowered inflation expectations.

Assuming we're in for lower inflation for longer, what's key for traders and investors? The answer is expected market returns: If inflation is 4.5%, a market return of 12.5% relates to a real return of 8%; simultaneously a market return of 12.5% with inflation at 8.5% means a real return of only 4%. Thus, broadly expect lower market returns over the long term. ■

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Photo: Shutterstock

Consumers' expectations of inflation are important and the response to these is an important part of the process that Kganyago is using effectively.

MAINTENANCE POWERED UP AS ESKOM TRIES TO STABILISE POWER CUTS

The power utility has prioritised power stations supplying almost a fifth of SA's electricity for maintenance. It needs to do more to ensure predictable outages going forward.

By Mariam Isa

Photo:

Jan Oberholzer
Chief operating officer of Eskom

Roger Baxter
CEO of the Minerals Council

Load-shedding will remain a permanent feature of the South African landscape for at least 18 months as Eskom tackles the debilitating results of more than a decade of neglect and deferred maintenance, which has left its fleet of coal-fired plants increasingly prone to unexpected breakdowns.

Plans which are being finalised by the utility suggest that around 25 000MW of power can be reliably provided during that period – well below the current demand of about 29 000MW, which normally rises to above 30 000MW in the winter.

Eskom's chief operating officer, Jan Oberholzer, said in an interview with *finweek* that he believed this would be the likely outcome of increasing planned maintenance to above 6 000MW per day from below 5 000MW previously, in order to take units offline for proper overhauls and mid-life refurbishments.

This leaves a big power supply gap for the economy, which government is hoping to quickly address, mainly through a range of measures to unlock generation from the private sector – which it has been campaigning for over many months.

Minerals Council CEO Roger Baxter says that mining companies could easily generate 1 500MW from renewables, but this would take between nine and 36 months to get up and running.

Oberholzer says that the risk of load-shedding will diminish over the maintenance period, because the strategy is to focus on repairing units which will deliver maximum benefits in terms of generation capacity and longevity.

The three power stations that will be prioritised are Kendal, Duvha and Tutuka, which together will provide around 10 000MW of power, he said. "There will be a specific and deliberate focus on

Photos: Gallo/Getty Images

those power stations – that's where we want to get predictability and reliability," he said.

Eskom had prepared a detailed plan for the entire maintenance period, identifying what units at which plants would be taken out, when they would be fixed, and how long the process for each would take, according to him. This was presented to the first meeting of an Eskom task team on 20 February headed by Deputy President David Mabuza.

"As we finalise the complete plan, we will sit with the various industry groups saying this is the way we see things going forward. We will share that with them in order for them to make plans on their side," he said.

Business executives from the mining and manufacturing sectors have been lobbying for a predictable load-shedding schedule, in part because the constant switching off and on of heavy machinery is damaging.

"One of the first things that has to happen is for Eskom to restore its credibility in terms of whether there will be load-shedding or not. So whatever schedules they issue must be schedules that can be relied on," said Business Unity chief executive Sipho Pityana. "Otherwise people will plan for a worst-case scenario and that's not very helpful."

Oberholzer said that the aim was to provide schedules for load-shedding a month ahead, but recent unplanned outages had shown it was impossible to guarantee such plans. "I think it will be important to say this is based on what we know. We don't have reliability and predictability in our system yet," he said.

"We will make sure we update and communicate on an ongoing basis. If based on the inputs from business we can change our maintenance programme to suit them, if it is possible, we will look at that definitely," he said.

Some analysts say that Eskom could examine the agreements it has with the group of Intensive Energy Users, which take about 35% of its power and are

ESKOM'S GENERATION PERFORMANCE FOR THE FIRST NINE MONTHS OF 2020 FISCAL YEAR

68%
Availability vs. 71.5% target for third quarter of fiscal year

471
Unplanned trips vs. 420 target for third quarter of fiscal year

4 197MW
Partial load losses vs. 3 500MW target for current fiscal year

21%
Unplanned load losses vs. 18.5% target for third quarter of 2020

9.3%
Planned maintenance vs. 8.5% target for third quarter of 2020

R2.51bn
Open cycle gas turbines cost vs. budget of R6.975bn

SOURCE: Eskom presentation dated 31 January 2020

contracted to curtail their consumption by up to 20% during entire periods of load-shedding.

One of the ways in which Eskom intends to quickly increase its capacity is through converting its diesel-fired open cycle gas turbines (OCGT's) to run on gas, which will make them less expensive to operate and will also significantly boost their capacity from 2 409MW at present.

The units being worked on will have to be taken out of the system, but the task could be completed within three to six months.

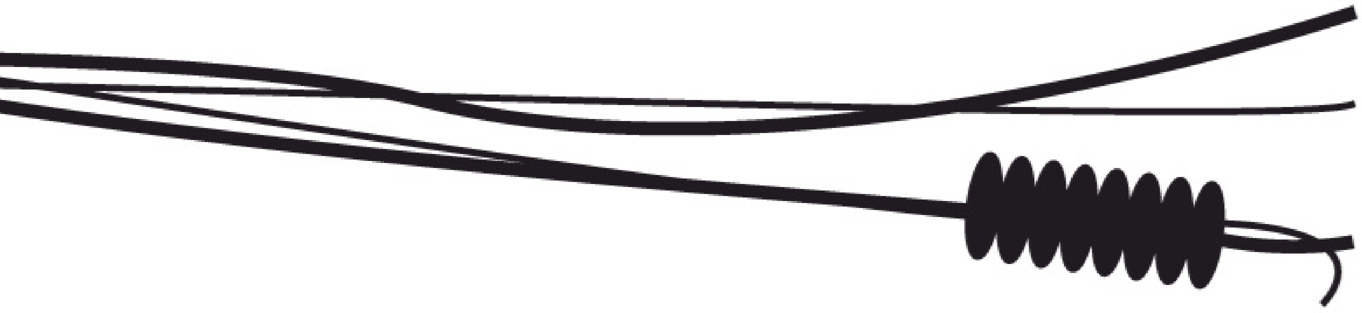
Another immediate issue is the process of "wheeling" power across the grid, which enables companies generating power they don't need to sell to other companies further away – a mechanism which Eskom has not been enthusiastic about in the past.

Oberholzer said he was in favour of the idea, which already happens on a limited basis, but the implications had to be examined. "There's a lot of work which we need to do, but for me the big issue remains that if there is capacity available, we have to use it," he said.

The costs of Eskom's maintenance drive are also being finalised. Oberholzer said he expected them to push up the maintenance spending by a cumulative R20bn over the coming five years. This is an amount which the utility should be able to fund through its own cost-cutting plan, which it estimates will save R33bn over the next five years.

"As far as possible we want to generate the funds out of the business itself. But the challenges in fixing the operations are not only limited to generation – transmission and distribution need fixing as well," he said. The cost of this work was not included in the R20bn, he said.

Last year, Eskom spent about R8bn on maintenance. Oberholzer said the additional spending would not be evenly spread over the five-year period as the utility first needs to get all its preparations done, including ordering spare parts. ■



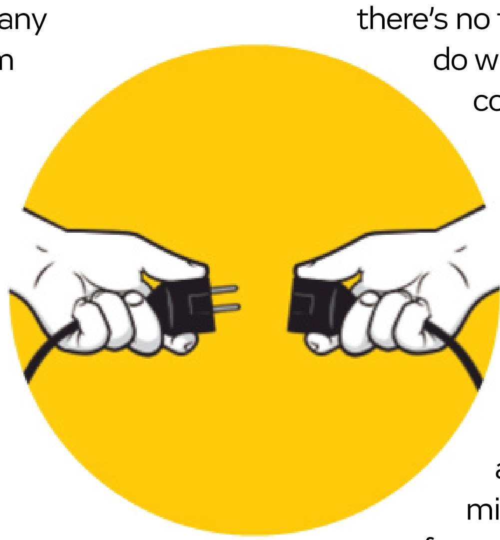
When to shed or not

Eskom's control room, where the power grid is balanced, operates in stressful conditions to keep the system from total collapse.

In a large semi-circular room with a high ceiling, several people sit separately at long, curved desks gazing at rows of computers blinking intricate patterns of numbers, graphs and tables. A display of screens of different sizes covers the entire wall in front of them, with a huge map of South Africa taking pride of place in the centre.

It looks a bit like a dealing room, but it's too quiet and too spacious. It is similar to an air traffic control tower because of the constant vigilance required by its occupants and the enormous pressure on them when unexpected things happen.

This is the control centre for Eskom's system operator (SO), the division which monitors and manages the country's power system, in a grid covering an area roughly the size of France, Germany and Switzerland. Its team of 70 highly trained engineers, technicians and operators are responsible for balancing the supply and demand for electricity, which fluctuates every second. They also decide when load-shedding, or manual rotational power cuts, are needed to prevent a national blackout — a scenario that is very unlikely in SA given all the manual and automatic emergency measures which have been put in place over the years.



There is a standby national control centre in eMalahleni, housed in a bunker, which can, if needed, seamlessly take over the management of the system, and is regularly tested in simulation exercises. Normally it helps manage Eskom's transmission network.

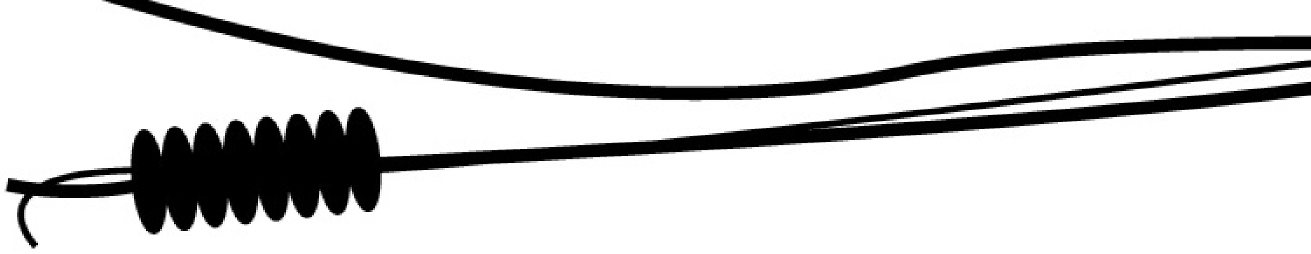
Decisions on load-shedding are unpopular and harmful to the economy, but are never subject to political interference, says Bernard Magoro, Eskom's general manager and system operator. The political insistence to keep the lights on was one of the reasons why Eskom's power plants were so poorly maintained over the past decade. The condition the power plants are now in makes balancing the system more challenging, as it has increased the frequency of trips and breakdowns and is forcing the utility's new leadership to take large chunks of generating capacity out for proper maintenance and overhauls.

"We can engage and explain. But if there's no time, we have the right to do what has to be done and communicate later to save the system from total collapse," Magoro says.

The control centre team keeps a close eye on what is happening and what might happen, and constantly works out the best response to any of the scenarios which might play out. With input from 130 back-office technicians, engineers, scientists, economists and mathematicians, it prepares demand forecasts minute by minute for a full three days ahead, and hourly forecasts for a week, a month and three months ahead. The predictions are continuously updated, and when the system is tight the day's first report is presented at 05:00 to Eskom's top executives, who are either physically or telephonically in attendance.

"We can engage and explain. But if there's no time, we have the right to do what has to be done and communicate later to save the system from total collapse."

Photo: Shutterstock



At the end of the day, South Africa's load-shedding system functions as it should, protecting the country from the devastating fallout of a national blackout.

The pressure can be intense, and it takes 10 to 15 years before a controller can sit in the shift operator's seat. Some of them leave after a couple of years but those who last for five years normally stay for life as their work is seen as the pinnacle of power system engineering. They are committed and when things are challenging, some have come in on their days off asking what they can do to help. "We value experience above all," Magoro says. "There may be split seconds to make a decision and it must be right."

Everything hinges on a four-digit number displayed on one of the screens on the high front wall of the centre — the power system frequency, measured in Hertz, which provides a measure of the balance between power generation and consumption. The power system frequency must be kept between 50.15Hz and 49.85Hz or the system will start to take strain. If the number of unplanned outages and breakdowns threatens to push demand above supply, or encroach on the operating reserve, which is kept as a strict safety buffer, there are several options available.

These include operating emergency open cycle gas turbines (OCGT) which run on expensive diesel, and pumped water storage schemes available to generate additional power. Both have been utilised heavily in the past year, which is not ideal as they have drawbacks and are intended only as back-up. Power to some smelters can also be cut in line with contracted agreements.

But if it still looks like demand will exceed supply, load-shedding is implemented, and large industrial customers in the country must incrementally curtail their own demand, again in accordance with their special contracts with Eskom. Neighbouring countries that buy power from Eskom through "non-firm" contracts are immediately disconnected, while those with firm contracts are subject to load curtailment like large industrial customers.

There are eight planned stages of controlled, manual load-shedding, which would in total remove 8 000MW of power from the system — about a sixth of Eskom's installed generating capacity. In the unlikely event that demand would have to be reduced even further, the systems operator will instruct what load needs to be interrupted to keep the system safe. Seven stages of automatic load-shedding relays would kick in immediately.

In October 2018, Belgium was forced to update an emergency load-shedding plan when six out of seven of its nuclear reactors were closed for repairs – three unexpectedly – cutting

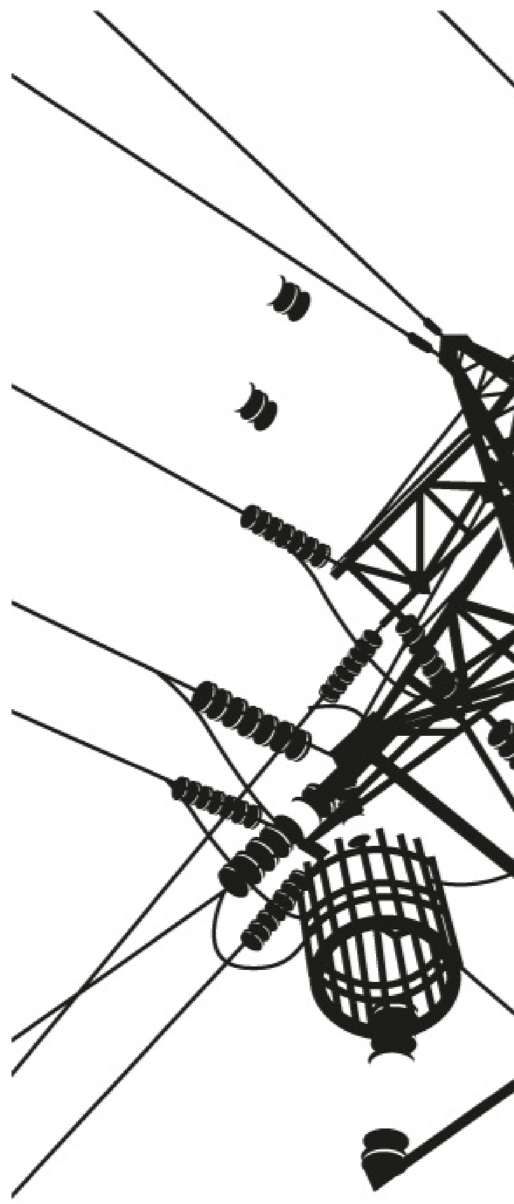
40%

of the country's power supply.

Not all countries are as prepared as SA. The nationwide blackouts that hit Venezuela and Argentina last year, affecting tens of millions of people, are examples of how seriously things can go wrong when the power system is disrupted.

Developed countries are also vulnerable. In October 2018, Belgium was forced to update an emergency load-shedding plan when six out of seven of its nuclear reactors were closed for repairs — three unexpectedly — cutting 40% of the country's power supply. Motorway lights were turned off, industrial production was suspended, and people were urged to reduce their consumption of power.

At the end of the day, SA's load-shedding system functions as it should, protecting the country from the devastating fallout of a national blackout. ■



Cutting emissions at power stations a tenuous tightrope

SA's power utility must address the levels of noxious gas emissions. But it can ill-afford to do so.

Measures to cut dangerous levels of air pollution will get little attention in Eskom's drive to catch up on long overdue maintenance, as the cash-strapped utility grapples with more than R450bn of debt and operational issues that have made it impossible for the utility to meet the economy's needs.

But Eskom itself has admitted that people are dying from emissions of particulate matter, sulphur dioxide and nitrogen dioxide, at its coal-fired plants, and estimated late in 2018 that these caused about 330 deaths a year, with an annual health cost from mortalities of R17.6bn.

Independent studies indicate that the number of deaths is much higher.

Robyn Hugo, an attorney at the Centre for Environmental Rights in SA, says that most of Eskom's plants do not comply with South Africa's own emission limits, which are weaker than standards set in both China and India, the world's biggest coal consumers.

The pollution does not just hurt communities living near the utility's plants in Mpumalanga – cities like Johannesburg and Pretoria are also affected. Eskom's environment manager, Deidre Herbst, said in a recent interview that 8m South Africans were affected by the utility's emissions.

Eskom's general manager for risk and sustainability, Andrew Etzinger, says that R67bn will be spent on reducing emissions over the next 10 years, with measures focused on its higher-emitting and newer power stations.

This figure does not include the installation of flue gas desulphurisation (FGD) technology to remove one of the more dangerous gases from the combustion of coal, at any of its plants. Eskom agreed to do this at Medupi as a condition for a loan from the World Bank, but Etzinger says that the installation had been delayed, and was likely to only happen in 2030.

Eskom's chief operating officer, Jan Oberholzer, says that the utility was taking units offline for repairs to address the problems at Kendal, a plant which began spewing its highest particulate emissions in two decades after it was damaged during a strike in 2018. On 24 February the department of environment, forestry and fisheries approved Eskom's plans for the construction of an ash disposal facility at Kendal after ordering it to shut down some units in December.

Oberholzer says he was unsure whether investing in FGD equipment at Medupi would be the best way to spend on anti-pollution equipment, as it would not add power to the system. If the money could be spent elsewhere to improve emissions and yield more generation capacity, that might be a better option, he says.

Eskom applied last year for postponement of stricter limits on its emissions due to take effect in April this year, after getting a five-year reprieve in 2014. Herbst has said that compliance would cost the utility R300bn – a figure which environmental activists say is inflated – and take two decades to install all the abatement technology which would be required at power stations that will still be operational after 2030.

She warned that if Eskom were to comply, it might have to take 10 000MW offline, almost a quarter of its nominal installed generation capacity. ■

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Robyn Hugo
Attorney at the Centre for Environmental Rights in SA

Photo: www.cer.org.za

> Eskom's plants do not comply with South Africa's own emission limits, which are weaker than standards set in both China and India, the world's biggest coal consumers.

MBOWENI PUTS SA'S ECONO

Finance minister Tito Mboweni announced R2bn in income tax relief to South Africans and plans t

Finance minister Tito Mboweni has abandoned any attempt to hang on to South Africa's last investment-grade credit rating, with a budget that bluntly acknowledged debt will not stabilise over the next few years and unexpectedly eased the tax burden on individuals in a desperate attempt to resuscitate the flagging economy.

The decision not to raise taxes to help curb ballooning public sector debt and to narrow widening budget deficits — as had been expected — is likely to prompt Moody's Investors Service to downgrade its investment-grade credit rating for SA, triggering large capital outflows which will raise borrowing costs in the country.

S&P and Fitch, the other rating agencies which have already slapped "junk" status on SA's sovereign debt, are also likely to downgrade their ratings again.

Treasury has clearly decided to risk taking the knock and riding out the volatility, which it believes will be short term.

"It will be foolhardy to increase taxes in this economic situation," Mboweni said in a media briefing ahead of his Budget speech in Parliament. "In a difficult situation like this, it would be preferable to have far deeper tax cuts."

But his goal of bringing debt back to sustainable levels in the next few years now hangs on a substantial reduction in the bloated public sector wage bill — an outcome which is far from certain, as labour unions have stubbornly resisted any attempt to accept salary increases below the rate of inflation for many years.

National Treasury says it intends to cut the wage bill for 1.2m public servants, which accounts for 35% of its spending, by a cumulative R160.2bn over the coming three years, making it the bulk of spending cuts pencilled in for this period. It calculates that the changes will amount to a one percentage point contraction in public service compensation over that period, in inflation-adjusted terms.

Treasury also wants to renegotiate the current three-year public sector wage agreement dating back to 2018, on the grounds that it's unaffordable.

"The process is going very well," Mboweni said. "Naturally there will be agreement and disagreement, but eventually I think the government and public sector will find each other. For the credibility of our fiscal stance, that R160bn has to be found – we are all in this together." He said he had full political support from Cabinet.

Tito Mboweni
Minister of finance

> "It will be foolhardy to increase taxes in this economic situation. In a difficult situation like this, it would be preferable to have far deeper tax cuts."

But both the Congress of South African Trade Unions and the Public Servants Association rejected the request to renegotiate the previous wage agreement outright when it was presented to them on the eve of the Budget, threatening to collapse the public service and saying it amounted to "a declaration of war".

Deputy finance minister David Masondo said at the briefing that the reaction was unfair to the country, as the size of the wage bill prevents the government from employing more workers and providing proper service. Credit rating downgrades would affect government, companies and individuals, he warned.

Treasury made clear that spending restraint and structural reforms to the economy — particularly to generate more electricity — were urgently needed to boost economic growth, which is increasingly at risk from the global fallout of the spreading coronavirus.

Growth forecasts were slashed to an estimated 0.3% in 2019 and 0.9% in 2020 — both of which are in line with independent estimates, although many analysts believe growth could be lower this year because of power shortages.

The biggest Budget shock, albeit a positive one for South Africans, is Treasury's decision to scrap planned tax hikes of R10bn this year, particularly as further increases on top of those had been expected to help narrow the budget deficit.

Instead, Treasury provided relief for individuals by raising personal income tax brackets above inflation, providing a reduction of R2bn which was offset by increases for the normal range of existing indirect taxes, including the fuel levy and taxes on alcohol and cigarettes.

It pointed out in the Budget review that growth in wages, consumption and business profitability had stagnated in recent years, lowering tax receipts from individuals, companies, and value-added tax. Revenue for the 2019-2020 financial year, which ends on 29 February, was now R63.3bn lower than last year's estimate.

"In this context, substantial tax increases are unlikely to be effective. SA already has a relatively

Photos: Gallo/Getty Images

MY FIRST, MOODY'S SECOND

o slash R160bn off the state's wage bill over three years.

By Mariam Isa

high tax-to-GDP ratio compared with other countries at a similar level of development. New tax increases at this time could harm the economy's ability to recover."

To boost investment, production and competitiveness, government wanted to lower the existing corporate tax rate of 28%, which had remained at 28% for more than a decade, Treasury said. Recently, three of SA's main trade partners — India, the UK and the US — had all lowered their corporate income tax rates below that level, it added.

The sting in the tail to this news was an announcement that there will be a review of a wide range of tax incentives for both companies and individuals, which Treasury said could "compromise the principles of a good tax system" by creating "complexity and inequities between individuals, sectors and activities".

Treasury's unexpected decision to cut rather than raise taxes may help SA avoid slipping into a recession this year, a scenario which economists believed was possible if taxes were higher and load-shedding continues as Eskom carries out intensive maintenance to fix its neglected power plants (see cover story on p.26).

But SA's unravelling finances must be brought into order, and quickly (see table 2). Debt service costs are the fastest-growing area of government spending and now absorb 15.2% of revenue, compared with 9.8% a decade ago.

The budget deficit is expected to have widened to 6.3% of GDP in the 2019-2020 financial year and peak at 6.8% in the 2020-2021 financial year (see table 1). These forecasts are above the estimates given in the October medium-term budget policy statement, which shocked financial markets and analysts.

But again, Mboweni was upbeat, saying the rating agencies will react to how they read Treasury's stance, and would take cognisance of its determination to reduce the budget deficit in the next few years.

"I don't think that they will rerate us on the basis of the fiscal stance. They might give us a bit of a *klap* but I don't think they will do anything untoward," he said.

Moody's is due to update its credit rating for SA on 27 March, and if it chooses not to downgrade

Zingiswa Losi
President of the Congress of South African Trade Unions

Debt service costs are the fastest-growing area of government spending and now absorb

15.2%

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The **budget deficit** is expected to have widened to

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of GDP

TABLE 1: CONSOLIDATED GOVERNMENT FISCAL FRAMEWORK

R bn/percentage of GDP	2019/20 Revised estimate	2020/21	2021/22	2022/23
		Medium-term estimates		
Revenue	1 517 *29.4%*	1 583.9 *29.2%*	1 682.8 *29.2%*	1 791.3 *29.2%*
Expenditure	1 843.5 *35.7%*	1 954.4 *36%*	2 040.3 *35.4%*	2 141 *34.9%*
Budget balance	-326.6 *-6.3%*	-370.5 *-6.8%*	-357.5 *-6.2%*	-349.7 *-5.7%*

SOURCE: National Treasury

TABLE 2: PROJECTED STATE DEBT AND DEBT SERVICE COSTS

R bn/percentage of GDP	2019/20	2020/21	2021/22	2022/23
Gross loan debt	3 176.1 *61.6%*	3 561.7 *65.6%*	3 978.1 *69.1%*	4 383.6 *71.6%*
Debt service costs	205 *4%*	229.3 *4.2%*	258.5 *4.5%*	290.1 *4.7%*

SOURCE: National Treasury

the country then, it will take the step at its review in November. Opinion is divided on how severely domestic markets will react to a downgrade, as the event is seen to have been factored into government bond prices.

Nonetheless, SA will fall out of the World Government Bond Index, which means that passive investors will be forced to sell their holdings of SA government bonds, which could amount to between $9bn and $13.5bn, according to Old Mutual economist Johan Els. The big question is how much will be bought by other investors who hold "junk"-rated bonds.

Support to ailing state-owned enterprises was identified in the Budget as one of the main risks to its forecasts, with Treasury pointing out that they have accumulated R759.9bn of debt — of which 62% is guaranteed by the government. ■

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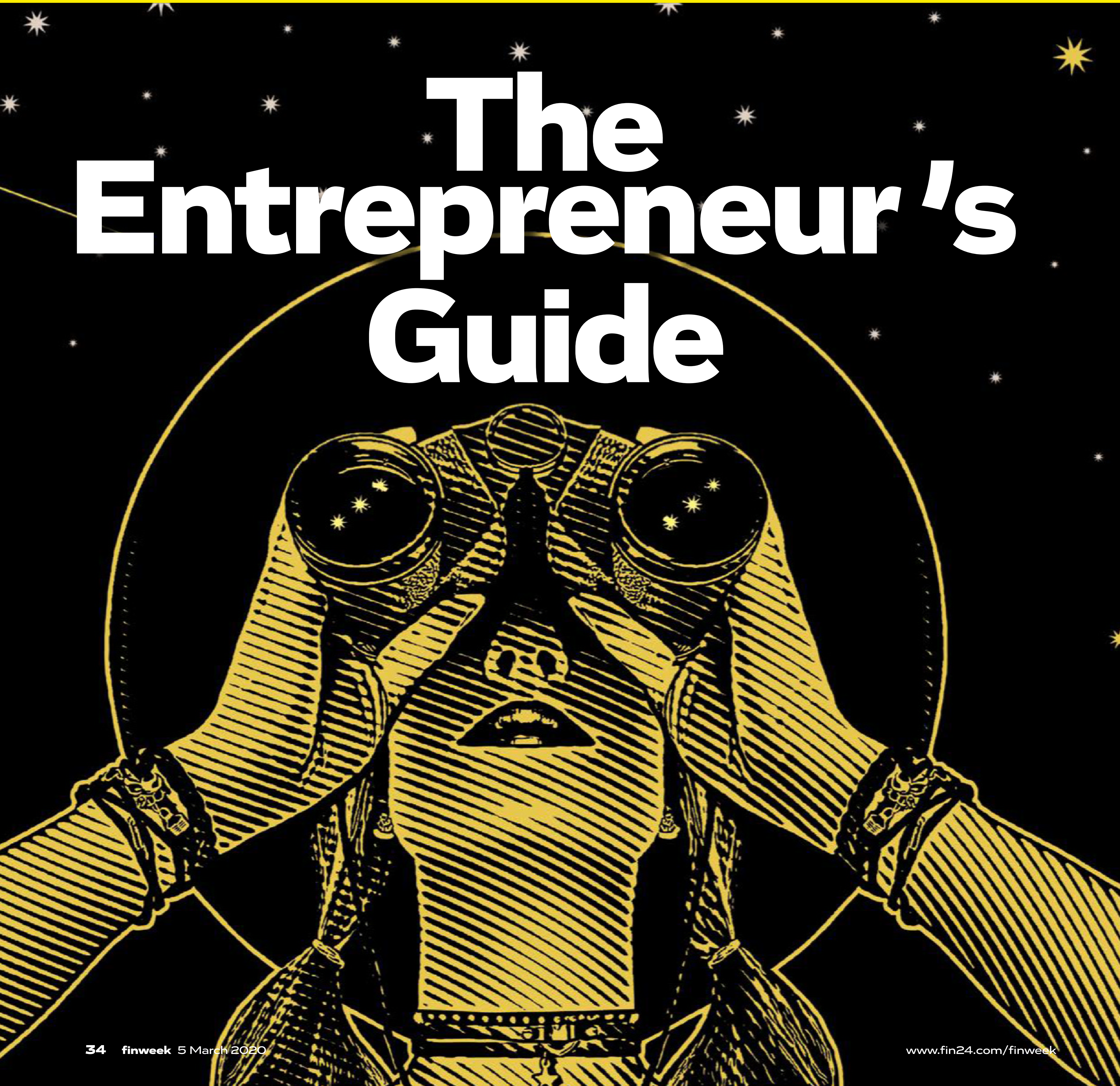
Mariam Isa is a freelance journalist who came to SA in 2000 as chief financial correspondent for Reuters news agency after working in the Middle East, the UK and Sweden, covering topics ranging from war to oil, as well as politics and economics. She joined *Business Day* as economics editor in 2007 and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

on the money

The Entrepreneur's Guide



By Glenneis Kriel

Analysing the state of SMMEs in a stagnant economy

Despite being the main job creators in other countries, smaller businesses in South Africa account for less than 30% of the formal job market.

Relatively little credible data is available about small, micro and medium enterprises (SMMEs) in South Africa, and the available stats look dismal. A 2018 study by the Small Business Institute (SBI) showed that the number of micro firms in SA increased from 169 986 in 2011 to 176 333 in 2016, whereas the number of small firms increased from 63 864 to 68 494 and medium firms from 15 257 to 17 397.

SMMEs, in effect, are not growing fast enough to meet the National Development Plan (NDP) targets, which envisioned that the segment would contribute up to 80% of GDP growth and generate 90% of an estimated 11m new jobs by 2030.

"The segment would have to grow at a rate of at least 20% a year to achieve the NDP goals," says John Dludlu, CEO of the SBI.

The odds of success are also low. According to the Global Entrepreneurship Monitor, SA has one of the highest business start-up failure rates in the world. The Enterprise Observatory of SA estimates that 31 companies with a taxable income under R10m shut their doors each week and former minister of trade and industry, Rob Davies, claimed that over 70% of businesses failed in less than two years.

Whereas SMMEs account for 98% of the formal economy across all sectors in SA, the segment only accounts for 28% of formal jobs. Medium firms, according to the SBI study, account for 12%, whereas small firms account for 11% and micro firms for 5%.

A thousand large employers, including the government, state-owned companies and civil services, in contrast, contribute 56% of these jobs.

The number of employees in micro firms increased by 4% from 658 333 in 2011 to 685 264 in 2016, whereas those in small firms increased by 8% from 1 434 918 to 1 549 411. Those in medium-sized firms increased by 14% from 1 426 006 to 1 628 429, and employees at large firms increased by 15% from 8 453 986 to 9 702 416.

The number of formal, employing SMMEs is also much smaller than initially anticipated, totalling roughly 250 000 firms.

"The stats show that SA is an outlier in both the developed and developing world, where the general trend is for SMEs to contribute between 60% and 70% of jobs," says Dludlu.

The situation looks better when informal employment is also considered. Ernest Boateng, CEO of the SA Institute for Entrepreneurship, estimates the sector's contribution to employment to be between 55% and 60%: "People tend to overlook the importance of the informal job market, but it actually has a huge potential to alleviate poverty."

Obstacles to growth

There are various reasons why SMMEs are struggling to fulfil their potential. Dludlu identifies red tape and late payments as the biggest constraints.

The Burden of Government Regulations ranking measurements in the 2015 Global Competitiveness Index placed SA 117th out of 144 countries. Dludlu says SBI research shows that a small business owner on average spends up to nine working days a month dealing with red tape. For businesses with a turnover of R5m, that equates to 4% of revenue and up to 8% for those with lower sales.

Also, it takes up to 40 days to register a business, compared with a week in Turkey, 18 days in Brazil, 13 in Malaysia and three in Estonia. Besides this, only 7% of SA's municipalities are well-functioning, which can put all kinds of burdens on small businesses ranging from infrastructure to service delivery (also see p.6).

"Red tape strangles growth and competitiveness. The compliance burden not only relates to the volume of regulatory requirements and poor administration, but extends to the frequency of regulatory change," Dludlu says.

John Dludlu
CEO of the Small Business Institute

"The stats show that SA is an outlier in both the developed and developing world, where the general trend is for SMEs to contribute between 60% and 70% of jobs."

Ernest Boateng
CEO of the South African Institute for Entrepreneurship

Photos: Gallo/Getty Images | Glenneis Kriel | Supplied

"People tend to overlook the importance of the informal job market, but it actually has a huge potential to alleviate poverty."

As far as payments are concerned, he proposes that government and big businesses pay SMME suppliers within seven to 30 days after the submission of an invoice. Payment terms should also become more transparent and invoicing easier.

Boateng identifies entrepreneurial skills as the biggest constraint: "The success of a business is dependent on the entrepreneurial, business and technical skills of an entrepreneur as well as the ecosystem in which he or she operates, relating to factors that are out of the entrepreneur's control, such as financing, legislation, economic growth, support and so forth."

The ecosystem will have an impact on the success of a business, but a true entrepreneur will always find a way to overcome these obstacles, no matter the circumstances, according to Boateng. He says that people tend to overemphasise the importance of technical and business skills, but the truth is that these can be brought in once a business is operational. True entrepreneurial skills, however, are difficult to come by.

Boateng explains that people are either socially prepared to become an entrepreneur, for example when they come from a family or community of entrepreneurs; or born of necessity, when the person has no choice but to make the business work.

"The number of entrepreneurs coming from MBA and other schools or tertiary business programmes are, however, very few, which shows that there is something wrong with the way in which entrepreneurs are trained. There needs to be less theory and more practice," Boateng says.

Growth opportunities

Dludlu identifies manufacturing, tourism, services and agriculture as the industries representing the biggest opportunities for SMME growth and job creation, especially if government created special economic zones to stimulate economic activity.

"Support for medium-sized enterprises is vitally important, given their better-than-average potential for job creation. Evidence suggests that large enterprises might have reached their peak of job creation, especially in this tough economic environment," Dludlu says.

Boateng says that each industry has its gaps, and the trick for an entrepreneur is to find something that he or she is passionate about within those gaps. "You will lose steam if you merely start something to make money."

The biggest potential, according to Boateng, lies in solutions that address future needs. Agriculture and the environment are at the top of this list, as they speak to the very essence of human existence, by relating to food production as well as resource management.

Technology also presents good opportunities. "Many tech start-ups fail because they are not making a meaningful contribution. The innovations we need are things that help to improve societies, for example through better educational or health solutions, renewable energies solutions or solutions that reduce wastage," Boateng says.

Entrepreneurs should also take note of how the business environment is changing. Boateng explains that competition used to be one of the main concerns during the 19th to 20th century, but today the in-thing is collaboration: "The result is an increasing number of businesses joining forces to complement or strengthen each other's position."

While large corporates also have the benefits of economies of scale, smaller businesses can adapt more quickly to change and have a closer relationship with their customers – something that is becoming more and more important.

Entrepreneurs are also becoming more environmentally and socially conscious. "Social entrepreneurs do not see money as the main driver for starting a business. Entrepreneurs, instead, are finding fulfilment in being in charge of their own time and doing the things they like. Employees are also no longer just seen as people who work for them, but as part of a team that helps to take the business higher," Boateng says. ■

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By Jana Jacobs

Blood, sweat and tears

What does it take to be a true entrepreneur and build a successful business? *finweek* gathered some entrepreneurial advice from those in the know.

It's one thing to come up with an idea, but to start an entrepreneurial journey is a process that needs to be considered from a variety of angles. And not everyone who has an idea turns it into a business success.

In fact, according to the statistics, 96% of small businesses fail, founder and CEO of business incubator Raizcorp, Allon Raiz, told *finweek*.

"By the way, the 96% failure rate is not a South African phenomenon. It's a global one and mostly because the [entrepreneur's] approach to [starting] it is unmeasured," he explains.

So, how then should an aspiring entrepreneur approach a potential venture?

For Raiz, the important questions should focus on the human being. Are they really entrepreneurial? "Ask yourself if you are prepared for the sacrifice that this journey brings. Despite all the glamour, it's incredibly sacrificial in terms of your health, your family, your friends, your self-esteem. It feels like a war. Are you prepared to go to war?"

If the answer is yes, the next step is determining whether you have a compelling economic right to exist. Raiz explains that a business really has to have something "honestly, honestly unique" to sell – and the entrepreneur must have the ability and desire to sell it. And, of course, you need to determine whether there is a market that would buy it, and if there is, whether you would be able to sell it at a profit (also see box alongside).

It's only then that you should think about your "financial runway", and this is where Raiz has seen many entrepreneurs getting it wrong.

"They run these beautiful Excel spreadsheets that say they will break even at month 7 but, in reality, it's month 17 and at that point they have run out of cash... They need to make sure they have a sober understanding of where the breakeven is and have double the amount of cash that they think that they need."

Dov Girnun, founder and CEO of Merchant Capital, which provides working capital to businesses, says that while there are several mistakes entrepreneurs make, one is trying to expand internationally when it's too early.

"Make sure that the business is humming on the home front and that you have exhausted the high-growth impact. If you do it sooner than that you are just going to have a dilution of focus."

The power of perseverance

When Raizcorp considers funding an entrepreneur, roughly 80% of the decision is based on the entrepreneur and the team and about 20% is based on the business, explains Raiz.

"Our big focus is on that ability to stand up again and again; to persevere. There is an inordinate amount of testing around the individual. Business plans all look exactly the same, and there's always a beautiful J-Curve, yet 96% of small businesses fail. Banks require these documents, but they are not really a great predictor of success. The better predictor of success is the individual that's driving that business."

Girnun agrees that resilience and innovation are among the important "subjective" criteria Merchant Capital looks at when considering funding a business.

Take the tougher economic environment that many retailers are facing, for instance. "Reinventing how you deal with customers, be that through discounts, loyalty programmes – whatever is relevant for your sector – those are the businesses that succeed. As clichéd as it sounds: often opportunity is found in the pain," explains Girnun. "Those that are being innovative and front-footed and really think about how they can take advantage of the chaos are the guys that are actually succeeding."

Dov Girnun, founder and CEO of Merchant Capital offers some key tips for aspiring entrepreneurs.

1. Find a product that people want to buy: It's normally the simple things that people overlook or underestimate. Also consider how you can then replicate the product.
2. You don't always have to invent something new: Very often people find an opportunity in something that's been done globally, or you can find something that is being done in SA but isn't being done very well.
3. Establish a complementary founding team: Be deliberate about who your founding team is; make sure that there is a situation where you add to each other's value. You don't want to start with three accountants, or three lawyers, or three tech engineers. Try and make sure that the weaknesses of some of the founders are the strengths of some of the others.

Allon Raiz
Founder and CEO of business incubator Raizcorp

"They run these beautiful Excel spreadsheets that say they will break even at month 7 but, in reality, it's month 17 and at that point they have run out of cash..."

Photos: Supplied

Q&A:

3 SUCCESS STORIES:

In 2016, *finweek* interviewed several entrepreneurs that had embarked on their business journeys. We spoke to three of them to find out where their brands are today.

BUSINESS:
FREEDOM OF MOVEMENT
ENTREPRENEUR:
Léan Boezaart, co-founder
ESTABLISHED: 2013

This lifestyle brand has opened seven more retail stores since 2016 (bringing the total to ten) and recently launched a shoe in collaboration with Springbok rugby captain Siya Kolisi (FOMxKolisi Vellies), with the goal being to build rugby fields in underprivileged communities. They've also expanded their initial product offering to a range of lifestyle products that includes sunglasses, timepieces, and footwear – with big plans to continue scaling and growing the business locally and internationally in 2020.

Is there anything you would have done differently along the way?

I think the quick answer to this in any entrepreneurial journey will always be yes. I do, however, think that it is crucial to learn quickly, adapt efficiently and to keep thinking and moving forward as decisively as possible.

Advice for aspiring entrepreneurs.

All you really need to do is start. You don't have to have it all figured out. Phil Knight didn't build Nike on a piece of paper or an Excel spreadsheet; he started by selling shoes out of the boot of his car. What you do need is a 'one-liner' that defines your purpose, brand identity and vision. The rest, if you give yourself the opportunity to start and to get stuck in, can be chopped or changed or multiplied throughout the journey.

BUSINESS: UCOOK
ENTREPRENEUR:
David Torr, CEO
ESTABLISHED: 2015

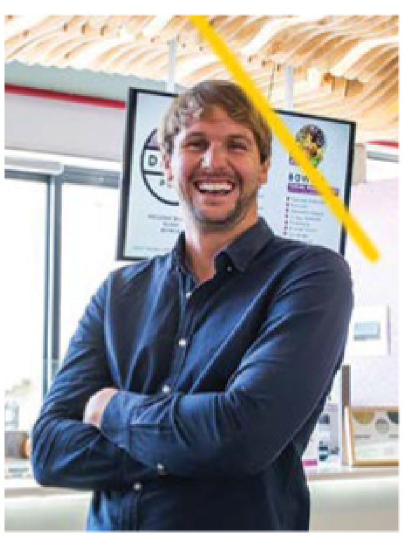
After officially launching in 2015, UCOOK currently delivers around 140 000 meals across the country. The business plans to transition beyond its dinner kit niche, into frozen meals, wine, baby food, and a mobile app, all to launch over the course of 2020.

Is there anything you would have done differently along the way?

Build a tangible understanding of the business' vision with your employee base right off the bat.

Advice for aspiring entrepreneurs.

Be optimistic when others are burdened; be cautious and always pre-emptive; never rest on your laurels – your product is never good enough and can always improve. When you are starting out, follow the path of least resistance.



BUSINESS: MY PLACE GROUP
ENTREPRENEUR: Kyle Dods
ESTABLISHED: 2015

Since 2016, the MY PLACE GROUP has expanded its food stall brands from Sovlaking Delicious and the Mussel Monger & Oyster Bar to a third, Dashi Poké, spreading their risk across three unique gourmet fast food brands. They opened their fifth branch in January this year.

Is there anything you would have done differently along the way?

I don't think so, every step has been a huge learning curve, prepping us for future endeavours and challenges and sharpening our senses to be more aware of potential pitfalls.

Advice for aspiring entrepreneurs.

Never give up. We've managed to bounce back from some ludicrously difficult times when most people would have simply thrown in the towel, purely by adapting to the challenge and then persevering through the wave. Secondly, start small: Amazing businesses are built on solid foundations. Starting small lays strong foundations and allows you to take more calculated risks. ■

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By Timothy Rangongo

Marketing and growing a new business

How can entrepreneurs get customers to recognise their brands and upscale a venture once it is settled?

The creative team behind Nando's investigates what people use different social media platforms for.

Photo: Nando's

Small business and social media marketing

Social media has allowed companies to leapfrog traditional media and forge relationships with customers. With an already large and growing flock to these digital platforms, marketers and businesses are milking widespread use by connecting with target audiences directly.

Developing the social media brand

Develop a brand from day one. Be clear on what it is that sets you apart from the crowd and make sure you tell the world about it through clear, consistent marketing. Don't leave branding and marketing for later, explains Bernard Jansen, marketing consultant at Firejuice. Learn to attract customers to you via social media marketing and build a distinctive brand, according to him.

Personalisation

One brand that has inarguably harnessed the free marketing tool that is social media, is Nando's. The fast food chain has mastered what Charné O'Haughey, social specialist at Reprise Digital SA, refers to as "personalising segmentation". She says that while a business or brand has a main identity, a key aspect that could be leveraged off is the ability to personalise ads to reach different target segments, which Nando's does.

"Social platforms offer advanced targeting options, including customisation of audiences, and on various platforms we can include more than one primary copy, headline copy, description copy, and customisable placements," she says.

Navigating various social media channels

Nando's has done a lot of testing over the years as each of their social media channels (Twitter, Facebook, LinkedIn and Instagram) has morphed to find their niche. The fundamental question the brand's social media marketing team ask themselves is what people are using each platform for and how they can best position Nando's in a way that adds to what content people are consuming, rather than being intrusive, according to the company's social media marketing team.

Nando's selects different channels according to the message it wants to convey and depending on who the audience is, according to the team. Each platform serves a different purpose, so creating communication that fits the environment is an important marketing discipline, not only in the digital space, they say.

The joys and pitfalls of social media marketing

The biggest difference between social media channels and the more traditional media is the ability to allow brands to be in step with market sentiment. The reputation of Nando's – for instance of being a brand that's in tune with social and political affairs – really ignited when social media took off, the company's media team explains.

Referring to their witty clap backs, the team says that, "While there is a perception that we commentate often, the reality is we spend most of our time listening, waiting for the right opportunity to reflect what people are thinking, feeling and believing."

However, they warn that "social media serves as a platform to mobilise negativity and abusive behaviour, which is a major pitfall. Just because you can express your views, doesn't always mean you should."

Traditional versus social media marketing

Traditional channels, especially TV and radio, are still South Africa's primary reach mediums. Community and African language radio stations, for example, are bigger than they've ever been in terms of their listenership, according to Nando's.

Niche print publications have a very targeted audience, for example. Nando's has a high degree of urbanisation in major

metros, and they say that billboards play an important role in generating awareness.

As affordable internet access continues to spread across SA, however, the online space will become a bigger part of marketers' consideration.

Scaling a small business

Scaling is a term that is normally used interchangeably with growth and associated with size, explains Dr Jabulile Msimango-Galawe, who lectures in decision science and entrepreneurship at the Wits Business School. Scaling up, however, is slightly different from growth, and the key word there is profitability: You can grow in revenue but not grow in profitability, which is not a value-add to the business, she says.

The economic concept of economies of scale suggests that there are savings on the production of a product – due to the larger number that is produced – which can either be passed on to the consumer or used to increase profit, adds Dr Jonathan Marks, senior lecturer at the University of Pretoria's Gordon Institute of Business Science.

Upscaling successfully

An example of a business that upscaled successfully is Brik Café, nestled inside Workshop 17's co-working spaces in Rosebank. It increased its meal offering with the introduction of dinners. This was not the first time the eatery's owner, Sasha Simpson, had to make the difficult decision about which direction her business should take. Simpson was running a small catering business before being approached by Workshop 17 when it set up shop in SA around March last year to run a café on their premises.

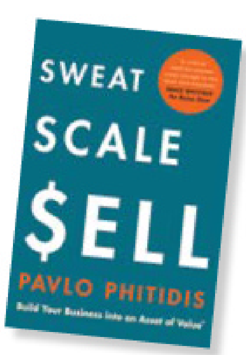
There are some considerations that entrepreneurs, such as Simpson, should bear in mind before upscaling their business, says Allon Raiz, founder and CEO of business incubator Raizcorp.

The starting point is to determine whether you are a growth entrepreneur or a lifestyle entrepreneur, according to him.

"Entrepreneurship has been so glamorised in the market, with so many sexy scale stories, that often it seems as if there is a sort of pressure to scale – which might be incongruent with who the entrepreneur is as an individual," Raiz says.

An entrepreneur should first ask themselves whether they want to scale, he says. "Because from what I've seen, you start to scale but you [the entrepreneur] don't want it; it's not who they are and that's more problematic in the long term."

The entrepreneur should exercise caution to not lose what makes the business special or novel in the process of scaling, Pavlo Phitidis, SME investor and author of books covering new businesses, warns in his new book *Sweat, Scale, $ell*. Echoing Raiz's sentiments, he argues that a business should never lose its positioning – which he describes as something that gives the business a distinct advantage over competitors – as it's the foundation on which a business is built.



Phitidis reiterates that every investment, decision and action must be in the service of the business' positioning in order to deepen an owner's speciality in the market, so as not to betray the ethos of the business during an up- or downscaling.

In the case of Brik Café, for example, pro-active cooking is that distinct advantage that cements its positioning. The catering company Simpson previously ran was committed to eco-conscious cooking. This can be quite an expensive exercise and easy to forgo by adopting a mass production approach to preparing food in order to meet the demands of the newly expanded business, according to her. Simpson, however, did not relent and still employs the same ethos of working with local suppliers, supporting small businesses and ultimately giving thought to every ingredient that enters the kitchen. ■

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Tips to scale a growing business

Dr Jabulile Msimango-Galawe, lecturer in decision science and entrepreneurship at the Wits Business School, shares ways in which a business could successfully scale.

- Be proactive and have a clear sales target plan.
- Manage your overheads through budgets and forecasts.
- Don't react to an increase in sales, be proactive and rather plan for it.
- Know the risks that come with growth – what are the unique vulnerabilities of your business?
- Manage the gap between the growth rates of costs, revenue and profit.
- Don't allow the sales growth rate to sabotage service delivery and learn to say "no" when necessary.
- Outsource functions where possible while you allow your systems to fully ramp up.

Tips to scale a slow-growing business

Dr Jonathan Marks, senior lecturer at the University of Pretoria's Gordon Institute of Business Science, provides tips for scaling a business that is either growing slowly or not at all.

- A business that is not growing must first contend with understanding what in the business design is holding back natural organic growth.
- Factors that retard natural growth usually fall into two parts: the "front stage", or what the customer experiences, and the "back stage", what the company does to deliver value to the customer.
- Look at current markets and decide if they are profitable; consider the cost base and whether it is optimal to position the company for growth.
- Examine production capability and capacity, and look at marketing activities, especially the product-service mix.

Photos: Supplied | Gordon Institute of Business Science


MIW/92172/E

By Jaco Visser

Ensuring your new business' fina

A new business needs to tread carefully when it comes to managing its finance matters and labour relations.

Many a new venture – from starting an electrical business to selling flowers or cutting hair – has to undertake the fine balancing act of allocating cash. This may range from paying suppliers, remunerating employees or coughing up for bank interest. Add to that the necessity to take out insurance on valuable assets and the potential loss of income – especially in a one-person enterprise – and it may seem daunting to a new business entrant. Employing people, in addition, may also be overwhelming (see box on p.45).

Starting up and getting cash to roll out your new business will most likely not be supported by the traditional banks.

"Banks are less enthusiastic about funding new, unproven concepts and ventures or speculative transactions – unless there are compelling reasons that can be substantiated by the applicant," says Alan Shannon, Nedbank Business Bank's executive for professional and small business banking. In these instances, a new entrant might wish to look at financing options from family and friends (which can impact these relationships), crowd funding, private investors (such as venture capital funds or angel investors) and government agencies such as the Small Enterprise Finance Agency or even the Industrial Development Corporation, according to Shannon.

Bongiwe Gangeni
Deputy chief executive of retail and business banking at Absa

Alan Shannon
Nedbank Business Bank's executive for professional and small business banking

Where a bank does support a new business, they will first get to know the business and receive a strong undertaking of its ability to repay any loan, says Deenash Pillay, head of small enterprises at Standard Bank. As it is in the best interest of the bank too, a bank will ensure that they don't over-indebt businesses by extending loans they can't afford, he says.

And it is not only traditional funding means – such as an overdraft or business term loan – that are available to start-ups. "We have also adopted innovative lending practices for entrepreneurs who have contracts or offtake agreements in place," says Bongiwe Gangeni, deputy chief executive of retail and business banking at Absa.

In order to avoid future financial stress due to unforeseen circumstances – such as a delivery vehicle collision or a fire ripping through your warehouse and even an attack on a business' computer network – the new owners should consult with a broker to get sufficient insurance for all the venture's assets.

And it is not only short-term insurance that should be considered. What will happen to the new business and its staff when the owner and founder dies? The longevity of the new endeavour should be ensured – after consulting with a professional financial adviser – through a life insurance policy. ■

Is a business plan necessary?

A traditional first step for a new venture to lure funding is to compile a business plan.

"A business plan is critical, but even more important are the contents of the business plan," says Bongiwe Gangeni, deputy chief executive of retail and business banking at Absa. A complete business plan will include a CV of the business owners and key personnel in order to give the bank an understanding of their capabilities, she says.

The plan also needs to set out a full description of the business, for example what it will sell; who the target market is; what the competitors look like; what the new business' competitive advantage will be; what the cash flow will look like and whether there is any research data that supports the new business, she says.

"A well-considered and articulated business plan will improve their ability to access funds," says Gangeni. "It is advisable to seek expert help in compiling and writing the business plan, as it will help tell the story in an authoritative way." ■

Tips on cash flow

Cash flow is the most important consideration – possibly after sales – that a new businessperson should keep in mind. Without cash, it will be difficult to pay suppliers and the staff that are needed to keep the venture going forward and generating sales.

"All the activities in a business revolve around cash flow," says Deenash Pillay, head of small enterprises at Standard Bank. "Reviewing your key financial data regularly and keeping track of money going out and coming in, is the best thing you can do for your business to maintain control of your cash flow and finances."

He advises new business entrants to avoid common pitfalls like going into an excess position on their business current account, by planning and making certain they have funds to maintain stock levels and cover fixed expenses like rent. They should ask their business bankers which payment solutions they offer in order to boost the inflow of money, according to him. And managing your cash flow properly could unlock funding opportunities in future.

"Your bank monitors the activity and conduct on your account; honouring your payment obligations on time and managing your cash levels goes a long way to improve your chances of getting a loan for your business," Pillay says. ■

ncial health

Dancing around the labour red tape

Starting fresh to sell a product or service is exhilarating. Employing staff to support these sales and other administrative functions might not be. However, this need not be the case.

"Knowing which sector (if any) the business falls under is an important first step," says Nicolene Schoeman-Louw, managing director at SchoemanLaw Inc. "Engaging employees with written contracts go a long way to clarify expectations on both sides."

The recording of acceptable behaviour standards in human resource policies are also vital, she says. In addition, registration with the department of labour and ensuring that their compliance measures – such as correctly displaying notices, implementing first aid kits and payment of workmen's compensation – are met, is important, according to her.

Any new business entrant must bear in mind that labour law is highly regulated in South Africa. There are three main statutes that are worth noting at the outset, says Dhevarsha Ramjettan, partner, and Shane Johnson, professional support lawyer, at Webber Wentzel:

- **The Labour Relations Act** is the main statute that regulates employment relations. It governs collective bargaining, dispute resolution and dismissal of employees.
- **The Basic Conditions of Employment Act** sets the minimum standards of employment for employees by regulating aspects such as working hours, leave and remuneration.
- **The Employment Equity Act** seeks to promote equal opportunity and fair treatment through the prohibition of unfair discrimination against all employees. It also seeks to achieve equitable representation of black people, women and persons with disabilities in the workplace. ■

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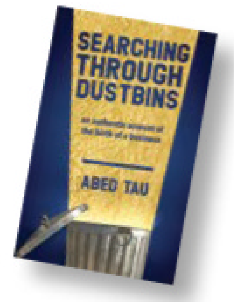
Photos: Supplied

Have some fun with our entrepreneur-themed quiz and you could win a copy of *Searching through dustbins: An authentic account of the birth of a business* by Abed Tau. Complete the quiz on fin24.com/finweek, accessible from 9 March.



1. Who is the CEO of local fintech company Yoco?
2. Jeff Bezos, a US internet entrepreneur, is best known for founding which multinational technology company?
   - Google
   - Amazon
   - Microsoft
3. What is the name of chef Sasha Simpson's café and restaurant located at Workshop 17's co-working spaces in Rosebank, Johannesburg?
4. **True or False?** Dr Theo Mothoa-Frendo, profiled by *finweek* in 2019 (bit.ly/AfricanDermal), is the founder of African Dermal Science.
5. What does SMME stand for?
6. **True or False?** South Africa has a ministry of small business and development.
7. **True or False?** South African company, The Duchess, profiled by *finweek* this year (bit.ly/TheDuchessGin), produced the world's first non-alcoholic gin and tonic.
8. Discovery Limited was founded in 1992 by:
   - Laurie Dippenaar
   - Jannie Mouton
   - Adrian Gore
9. **True or False?** South Africa's Small Business Act was signed into law to provide for the establishment of the National Small Business Council and to provide guidelines for organs of state in order to promote small business in SA.
10. Which hotel group was founded by South African accountant and business magnate Sol Kerzner?

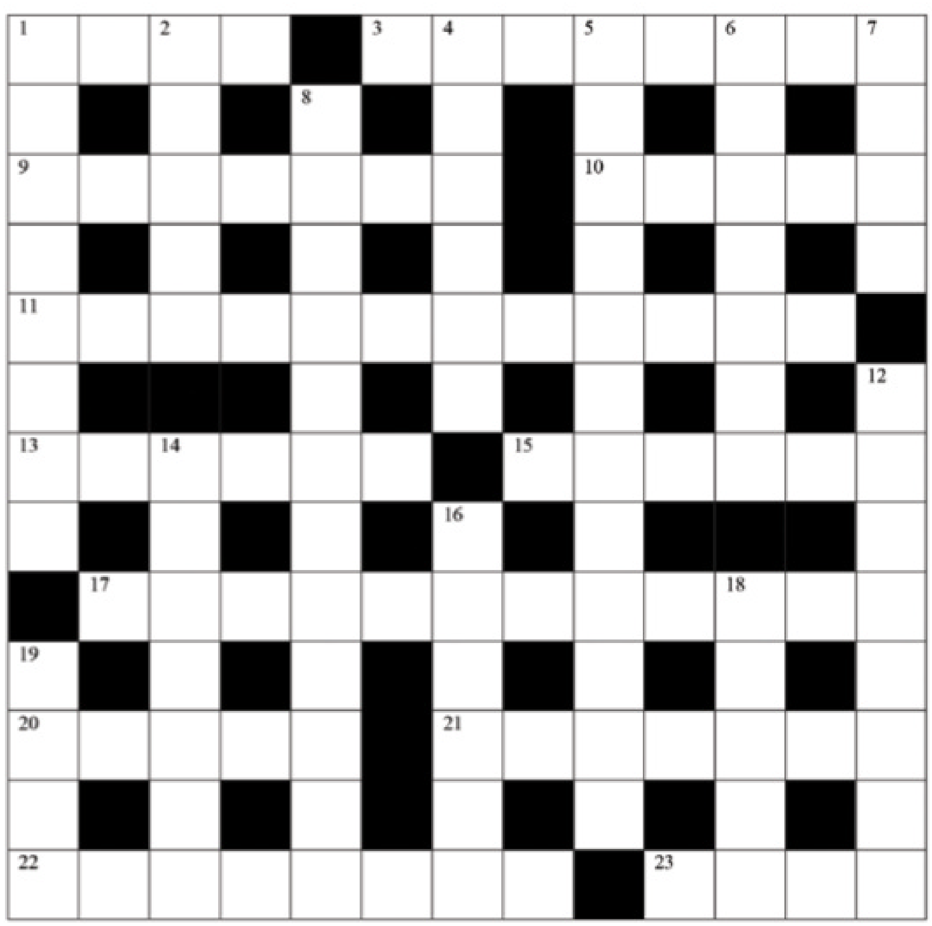
CRYPTIC CROSSWORD NO 749JD

ACROSS

1 Decided halfway back it's cooled considerably (4)
3 Baby on the ball? (8)
9 Impression first gained is professional (7)
10 Striker adamant to the end (5)
11 Contractor in a bidding process (6,6)
13 Putting a stop to selling after five (6)
15 Free toilets entered from the front (6)
17 Complaint concerning church vessel (12)
20 "Home from the sea" – a sailor poem (5)
21 Down-and-out writer featured in the papers (7)
22 Measures time in lock up the creek (2,6)
23 Favourite is out of action, by the sound of it (4)

DOWN

1 Owing gratitude indeed drawing in baronet (8)
2 Some women find men nuisances and a source of dissatisfaction (5)
4 Correct errors on keyboard (6)
5 Animal grazing on ground cover (7,5)
6 Oils spilt around terrace causing shambles (7)
7 Turning out railway schedule (4)
8 Girl in favour of change of set to wood in its natural state (6,6)
12 Constituent relating badly (8)
14 So admen are creative geniuses! (7)
16 Previously familiar with (4,2)
18 Spring nymph appears following eclipse of the moon (5)
19 It's clear writer's a hack (4)



Solution to Crossword NO 748JD

ACROSS: 4 Pencils; 8 Exotic; 9 Parlour; 10 Totter; 11 Peahen; 12 South Sea; 18 Fish cake; 20 Signet; 21 Masons; 22 Singing; 23 Modern; 24 Bizarre

DOWN: 1 Leftist; 2 Sort out; 3 Hi-tech; 5 Exam pass; 6 Collar; 7 Laurel; 13 Softener; 14 Baronet; 15 Seasons; 16 Bikini; 17 Enigma; 19 Head-on

On margin

Fake it till you make it

Today's isiZulu word is *indlulamithi*. *In*(*dlula*) (pass/surpass). *Imithi* (trees).

As such, *indlulamithi* is "taller than trees" – a giraffe. I think whomever named giraffes was just mean. I have seen many giraffes and they were not taller than trees. This situation must make *izindlulamithi* (plural) feel like imposters. That's why they look so miserable. I honestly have never seen a happy giraffe. Have you? No, of course not. They are suicidal.

Can you imagine going through life unable to live up to your name and the whole world can see this. I feel bad for *izindlulamithi*.

That and those weird horns of theirs. Shame, man.

Izindlulamithi aside, Imposter Syndrome is real and can cause you much anxiety. However, I always wonder if our politicians, government officials and civil servants suffer from such. So many of them don't live up to their job titles, but they look like they sleep just fine at night. It's 40 winks for Ali Baba kaYou-know-who and the 40 thieves.

If we could all have the confidence of those in government and politics, we would defeat our self-doubt and conquer the world. But Imposter Syndrome doesn't work like that – just ask any *indlulamithi* you encounter. Once Imposter Syndrome sets in, it is extremely difficult to beat.

There are things that can be done to defeat Imposter Syndrome, and, in the case of giraffes, I recommend a new name – *lingananemithi* (same size/height as trees). This name change would go a long way towards changing this animal's disposition.

I think the world could do with happy giraffes. In fact, they look like they should be happy. They deserve to be happy. I can just see happy giraffes, tossing and catching frisbees. They would let monkeys and baboons ride them as they trot through the forest, laughing. We really need to make this name change happen.

– *Melusi's #everydayzulu* by Melusi Tshabalala

"First item on today's agenda: trying to remember why we are having this meeting in the first place."

Verbatim

Bob Kostic @causticbob
Scientists warn that once computers become intelligent, they will surpass mankind and render us obsolete, in a Terminator-type situation. Fortunately, thanks to the internet, once computers become as intelligent as us, they'll just spend all day watching cat videos on YouTube.

Don Feelzerian @DonFeelzerian
Why does traffic look like this at 2pm, where are you guys going?

Tom Eaton @TomEatonSA
I see there's been a major outbreak of Stockholm Syndrome at OR Tambo International.

Elizabeth Windsor @Queen_UK
Boris Johnson on the phone. Says IKEA has delivered his new cabinet but there appears to be a wheel missing.

Suntosh Pillay @suntoshpillay
South Africans only burn down universities, not bottle stores or taverns. We prefer our degrees burnt and our beers cold.

Zamandlovu Ndlovu @Ms_ZamaNdlovu
Who goes to Chicken Licken and doesn't buy hot wings? Why did you go? What did you seek to achieve?

The Motley Fool @themotleyfool
Be careful of salespeople dressed as financial professionals.

Swedish Canary @SwedishCanary
If you listen very carefully, you can hear Monday sharpening its claws.

"A friendship founded on business is better than a business founded on friendship..."

– John D. Rockefeller, American business magnate (1839-1937)