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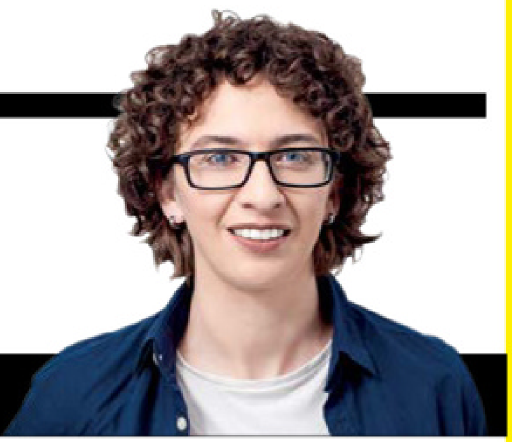
from the editor



ANNELI GROENEWALD

I am going to stick my neck out and say it: It's a disgrace that government has to police South Africans to pay each other a decent wage. Coming into effect on 1 January, the national minimum wage (NMW) for workers in most sectors is R20 per hour, or R3 500 per month depending on the amount of hours worked. For farmworkers the hourly rate is R18, and for domestic workers R15.

But in March, government had to put out a statement on what it called "the growing practice of deliberately dodging labour laws, especially the NMW Act".

It said that the department of labour was "in the process of naming and shaming employers who fail to comply by publishing them on the department's website".

According to the post on government's website "about three months into the enactment of the NMW Act, the amended Basic Conditions of Employment Act (BCEA) and Unemployment Insurance Act (UI Act) caseload at the Commission for Conciliation Mediation and Arbitration (CCMA) has risen by 8%".

It said that, according to Wilbur van Niekerk, CCMA legal researcher: office of the director, the NMW Act alone accounted for 262 referrals since the beginning of 2019.

Counter-arguments to annual increases in the minimum wage, and against the implementation of the NMW, are well-known. The minimum wage could, for example, have negative unexpected consequences. When labour becomes too expensive, employers will have no choice but to lay off employees, the argument goes. Of course, this argument does carry weight.

It could be especially difficult for entrepreneurs running small- and medium-sized enterprises to absorb increases in their wage bill. Even more so in a sluggish economy where consumers are struggling to make ends meet. (Of course, when companies and individuals pay a decent living wage to those who work for them, it enables them to spend money on the very basics like food and clothing.)

But what about the most poorly paid (and probably most poorly protected) on the list? Domestic workers, at R15 per hour, earn R120 per day, and I would guess between 10% and 30% of that income has to go towards taxi fares. Let's say 20% of X's salary goes towards taxi fares, and let's say she works 20 days per month. This means she has to survive on R1 920 per month. Could you?

Quite frankly, a law should not be necessary to enforce a living wage. ■

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EDITORIAL & SALES

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By Johan Fourie

SOCIAL ISSUES

How celebrities can save your life

A recent study has shown that when celebrities endorsed a measles vaccination campaign in Indonesia, it actually made people immunise their children more.

Measles killed 72 children and adults in Europe in 2018. According to the World Health Organization (WHO), the total number of people infected with the virus in 2018 was the highest this decade: three times the total reported in 2017 and 15 times the record-low number of people affected in 2016.

This has happened despite a higher average number of immunisations across Europe. According to WHO and UNICEF estimates, the number of children in the region who received a second dose of measles-containing vaccines has risen from 73% in 2009 to 90% by 2018. So how is it possible that more immunisation could still result in the rapid escalation of measles cases? The answer lies in the distribution of immunisations. Whereas there are many communities that immunise fully, several pockets of Europe don't. It is in these small pockets that measles outbreaks occur. One of those is Italy, where anti-vaccine groups allied with populist politicians last year abolished a law that made vaccines compulsory, only for it to be repealed a short time later after measles cases soared.

The threat of measles is now so severe that the WHO for the first time ever listed vaccine hesitancy as one of the top 10 global threats of 2019. One may wonder why it is possible for one of the richest regions of the world to still suffer the consequences of a disease that is entirely preventable. There are many reasons why anti-vaxxers, as they have come to be known, choose not to vaccinate their children.

On the surface, it may seem like irrational support for pseudo-science, but ultimately the motives are political, economic or religious. But in poor societies, it is often simply a lack of information. And so an obvious question is what to do in a society where vaccination rates are low because people simply don't know about the social benefits of immunisation.

Celebrity Twitter. A new NBER working paper reports the results of a large study that tested whether celebrity Twitter endorsements of an immunisation campaign in Indonesia had any effects on Twitter users. Indonesia is the ideal country to study this: it has both a large, unimmunised population, and it is one of the largest users of Twitter. The results, in short, are profound: celebrity endorsements matter, both in how quickly information spreads and whether it actually affects behaviour. Celebrities' Twitter endorsements of a vaccination campaign actually made people immunise their children more.

The threat of measles is now so severe that the World Health Organization for the first time ever listed vaccine hesitancy as one of the top 10 global threats of 2019.

Here's how the test was done. The authors recruited 46 high-profile celebrities, with a combined total of more than 7.8m followers, who agreed to open their Twitter accounts to the researchers to randomly send a series of tweets with the campaign hashtag #AyoImunisasi ('Let's Immunise'). The authors then tested whether tweets by these celebrities are more likely to be retweeted and liked, and reach a wider audience. "'We find using this design that when an individual observes a given message through a retweet, and that message was randomized to be composed by a celebrity as compared to an ordinary individual, there is a 70% increase in the number of likes and retweets, compared to similar messages when the celebrity's involvement was masked."

The authors can also study whether multiple messages from different celebrities have a larger effect. It does: "While going from one to two messages increases the probability of retweeting two-fold, and going from one to three increases the probability by 2.5-fold, the effect flattens out after that."

The more interesting question is, of course, whether retweets have any real-world outcomes. To study this, the authors conducted the study during two phases (July to August 2015, and November to February 2016). They then did a phone survey with Twitter users, asking them general knowledge questions and questions about vaccination. If the latter was different for those exposed to the Twitter campaign but not the former, then the effect of the Twitter campaign could be interpreted as causal.

When 15 tweets or retweets shows up in a respondent's Twitter feed for one month, there is a 20% increase in their probability of knowing the hashtag #AyoImunisasi. A one standard deviation increase to the campaign also caused a 12% increase in knowing that vaccinations are produced locally, an important piece of information in Indonesia because domestically produced vaccines are known to be halaal. This matters, because it also affects their behaviour – and the behaviour of their closest relatives. "We find consistent evidence that in each type of network – neighbours, relatives, and friends – of those exposed to the campaign, those exposed to the Twitter campaign were more likely to report that their network members actually immunized their children."

We may scoff at the attention celebrities get on social media (and the lengths they go to to get it), but as this research shows, their influence can have real-world consequences. Sharing information about the benefits of vaccines can save lives. Now to get Bonang and other South African celebs to take note… #LetsImmunise. ■

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Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Shutterstock

in brief

>> **Trend:** New keyless technology opens doors *p.8*
>> **Mining:** South32 lets go of coal, but not SA *p.10*

"THIS COMMISSION IS NOT THE APPROPRIATE FORUM FOR MY POLITICAL DETRACTORS TO AIR THEIR VIEWS OF MY PERFORMANCE IN GOVERNMENT. IT IS OF NO ASSISTANCE TO THE COMMISSION."

Pravin Gordhan

Minister of public enterprises Pravin Gordhan in an affidavit filed with the state-capture commission. The affidavit was made public on 13 March as the bitter battle between Gordhan and axed Sars commissioner Tom Moyane continues. As reported by *Business Day*, Gordhan filed the affidavit in response to Moyane's application to have him cross-examined before the commission. Gordhan described it as "a poorly disguised attempt to use the commission as a political platform by Mr Moyane, through his legal representatives".

"WE SOLD WHAT WE COULD NOT DELIVER."

-**Acting chair of the Strategic Fuel Fund (SFF), Neville Mompati,** as quoted in *Business Day*, commenting before Parliament's portfolio committee on energy on the 10m barrels of strategic fuel stock that was sold off under former minister of energy Tina Joemat-Pettersson. Mompati was explaining that while 10m barrels were sold, it now appeared that 1.2m of these barrels could not be pumped out of the tanks – effectively meaning government would need to buy 1.2m more barrels to deliver on the sale.

"WE ANTICIPATE HEIGHTENED VOLATILITY IN BOEING SHARES..."

-**Morgan Stanley analyst Rajeev Lalwani** in a note to clients. "Though it is early to draw conclusions, there may be concerns of disruption around safety, production, groundings, and/or costs, all of which should be manageable longer term," he added. Boeing's share price fell by more than 5% on 11 March after an Ethiopian Airlines flight using a Boeing 737 MAX 8 crashed on 10 March – just five months after another 737 MAX 8 crashed in Indonesia. Roughly two-thirds of the 737 MAX 8 aircraft in the world have been pulled from use by airlines and aviation regulators since the second crash.

"The thing about this drama is that it is both chronic and acute."

-**Tim Bale, professor of politics at Queen Mary University of London,** commenting in an article in *The New York Times*, after Britain's parliament on 12 March for the second time rejected Prime Minister Theresa May's plan to quit the European Union. With the 29 March deadline, when it has to withdraw from the EU, looming large, the country still appears no closer to a workable solution for its divorce from the trading block.

Gallo/Getty Images

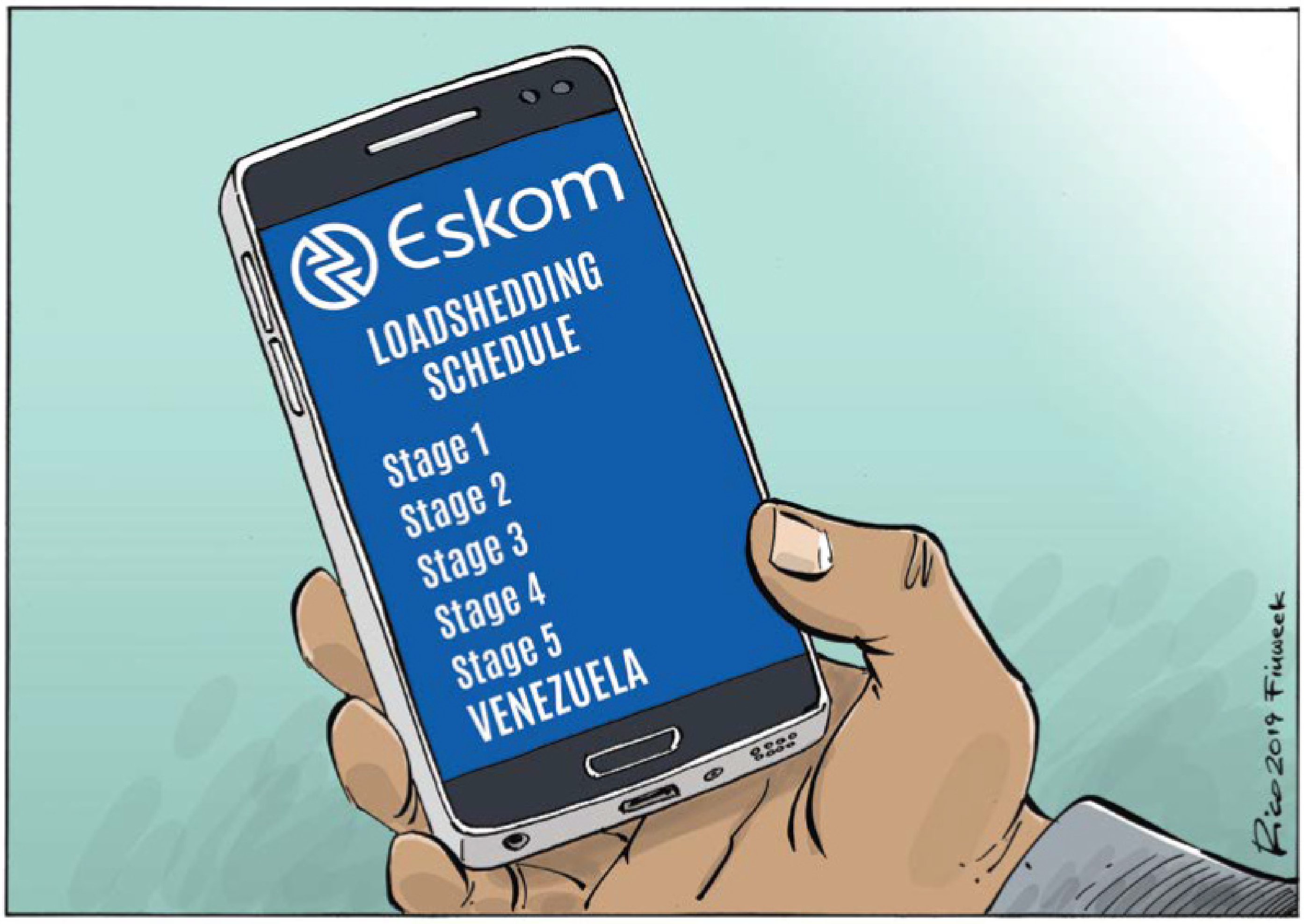
GLOBAL GROWTH

2.6%

Global growth could reach a ten-year low within the next two years, according to Capital Economics. In a research note, the group said that global GDP growth remained "quite soft" in the last quarter of 2018, while "early evidence points to a marked slowdown in the first quarter [of 2019]". Global GDP growth came in at 3.1% for Q4 2018. It pointed out that growth in the US economy slowed to 2.6% annualised for the last quarter of 2018, from 3.4%. It warned that "hard data for January have been disappointing on the whole", and that the "downturn in manufacturing appears to have worsened".

DOUBLE TAKE

BY RICO



THE GOOD

The average level of dams in the Western Cape has doubled year-on-year, from 20.3% in the first week of March 2018 to 40.5% during the same period this year. *Engineering News* reported that the Theewaterskloof dam was up from 10% last year to 40.8%; Voëlvlei dam was 65.6% full, up on last year's 15.5%; and Bergriver dam registered a level of 73.7% compared with 49.6%. Dams have dropped slightly due to hot and dry summer months. "We are hopeful of another good winter rainfall period, but only time will tell," Western Cape local government, environmental affairs and development planning minister Anton Bredell said in the report.

THE BAD

It's election year and the ANC continues to fight on all fronts, including among themselves. This became clear when Deputy President David Mabuza told MPs he's not taking his own finance minister, Tito Mboweni, seriously regarding his remark that some SOEs should be privatised. According to a *TimesLive* report, Mabuza was responding to DA MP Natasha Mazzone, who wanted to know if he supported Mboweni's privatisation ideas. "These are his own comments ... We'll take the minister seriously when he's articulating government positions, but when he's talking about his views, when he's tweeting, that's his own."

THE UGLY

Almost five decades after originally listing on the JSE, Group Five has filed for business rescue, and its shares were subsequently suspended on the JSE. Many market commentators have pointed to the prolonged weak state of the local construction sector following the announcement by Group Five, once a giant player in the South African construction sector. *Business Day* reported that, boosted by contracts in the run-up to the 2010 Fifa World Cup, Group Five's market share was R8.2bn in 2007. However, by mid-March, it stood at R99.9m.

By Glenneis Kriel

Keyless technology eases property management

A new digital and wireless solution allows companies and landlords to manage access to buildings remotely.

Jacquis Tolsma launched OPEN, a company that specialises in access management, two years ago, after forgetting his keys at a friend's house. "The incident made me identify a gap in the market for technology that allowed people to open any door or gate from anywhere in the world," Tolsma says.

Tolsma's solution supplies people with access pin codes via a user-friendly app. The pin codes may be valid for anything from a day to a year, depending on the requirement, and even automatically change every day with the user receiving an SMS 30 minutes before the access period.

As such, the technology allows guesthouses and Airbnb owners to forego the headache of lost keys and having to be present for key hand-overs. It also allows armed response officers or the police to enter properties without having to wait for a store manager or property owner to arrive with the keys during attempted break-ins.

For commercial companies, the technology allows workers to enter offices outside of office hours without putting the company's security at risk, as each employee has a unique pin code to identify when they enter the premises.

The risks with this system, according to Tolsma, is much lower than having to work with keys, which all have to be replaced when lost. OPEN users can instantly generate a new pin code if they want to void a previous code and the company is able to reset codes remotely, if for instance a cellphone with the app is stolen and users are unable to do so themselves.

Jacquis Tolsma
Founder of OPEN

The device

Tolsma self-funded the start-up with money he made while working as a landscape architect in Dubai. "The first two years were tough, since I had to manage the development of the prototype and the business while holding a regular job and doing my MBA," he says.

OPEN has since secured significant angel funding, which allows Tolsma to spend all his time building the company and further improving the technology.

Tolsma realised from the start the importance of investing in a stable, scalable technology instead of skimping on costs. Development of prototypes was therefore outsourced to a young developer and then refined and expanded by an experienced software engineer and electronic designers.

The first prototype was quite basic, opening a door via an app that triggered a phone call to a global system for mobile (GSM) device. It included proximity checking, meaning the door or gate only opened if the user was within 200m of an entrance.

Early customer feedback led to OPEN developing its own hardware, named CONNECT, to provide customers with instant response and a keypad that allowed pin codes to be changed remotely. Additional functions allow owners to see when doors are opened and closed, to monitor when people have entered or left a property.

The company is planning on launching the next-generation hardware that will be completely wireless in May this year and is also working on an alarm system to notify users "if a door is opened when it shouldn't be".

Prices for the hardware starts at R2 200 per CONNECT device which, along with a strike lock, magnetic lock, gate motor or garage motor, allows users to remotely monitor and grant access to their properties.

Keypads may be added at R1 000, but they aren't necessarily required. "When we learnt that you were not allowed to drill into the corridor walls of buildings in Dubai, we started using only the OPEN mobile apps for access into apartments," Tolsma says.

Subscription fees start at R100 a month for basic membership, which allows one user to access one door, garage or gate with 15 guest entries per month, and goes up to R2 500 per month for enterprise membership, which allows 500 users to access up to 20 doors and unlimited guests.

"Subscription costs include support, reports, the SIM card and mobile data for a back-up internet connection if WiFi fails, as well as access to ongoing feature development," he says.

The company is planning on launching the next-generation hardware that will be completely wireless in May this year and is also working on an alarm system to notify users 'if a door is opened when it shouldn't be'.

The market

While a small number of similar solutions exist in the South African market, Tolsma identifies their competitive edge as the fact that they offer a fully integrated system that can work on any type of door and with any type of gate motor.

The technology was initially aimed at home owners and Airbnbs in South Africa but proved expensive to use on single-door premises. The focus then shifted to small and medium companies, retailers and hotels. His angel investor bought into OPEN because he saw the potential the digital solution could have on his own businesses.

"Our first sale was made in October 2017, after which we managed to break into the rental market via Rawson Property in December 2017," he says.

The company will have three full-time employees, including Tolsma, from April onwards, focusing on business development, both locally and in Dubai and America. "I think the fact that we have come up with a solution for a global problem will help to open doors for us. It will be interesting to see the new challenges that the international market will throw at us," Tolsma says. ■

editorial@finweek.co.za

Photos: Supplied

FILE OUTSTANDING RETURNS NOW AND PAY TAX DUE BY 29 MARCH

Doing things the right way means doing them accurately and on time. Talk to us before it's too late to avoid penalties and interest.

By David McKay

No 'SA-off' strategy at South32

News of South32's intention to sell its South African Energy Coal was a big announcement within the mining sector. In particular, it raised questions about the miner's future plans in South Africa.

Perth-headquartered South32 is selling its South African Energy Coal, but South Africa remains a priority for the company.

Photo: www.south32.net

One of the biggest events in SA's coal mining sector this year is the sale of South32's South African Energy Coal (SAEC), a division of the Perth-headquartered company that produces about 28m tonnes a year (Mt/y) of thermal coal, of which approximately half is sold to Eskom.

While the sale is going to create huge opportunity for the successful buyer or consortium that buys it, it also raises questions about South32's future interest in the country considering that of all its new business spend so far this year – equal to about $1.5bn – zero has been in the country.

"There's definitely not an 'SA-off' strategy at South32," says Mike Fraser, chief operating officer of South32's Africa division. "Aluminium is absolutely part of the strategy," he says of the Bayside and Hillside aluminium smelters. In fact, almost a third of South32's interim earnings this year was from "the aluminium chain" of which SA is a part.

The second-largest contributor to South32's interim earnings was manganese. A lot of that was driven by the high-margin Australian business GEMCO, but Fraser insists the SA mines are front-and-centre of South32's strategy. "We are the global leader and we cannot but be in SA as we've got 80% of total world manganese resource."

He acknowledges, however, that the poor track record of junior mining in SA – explorers essentially – is a disadvantage. South32's strategy is to farm-in to the early work conducted by junior miners.

Graham Kerr
CEO of South32

Improvements to the Mining Charter, which has removed the need for empowerment for exploration companies has, "... moved things forward".

"There's not a whole number of dripping roasts," he says, although improvements to the Mining Charter, which has removed the need for empowerment for exploration companies has, "... moved things forward".

Fraser also points towards South32's investment in its existing SA business, including some R4.3bn investment in Klipspruit, a coal mine – a decision taken prior to the election of President Cyril Ramaphosa. "I still think that was a bold decision even knowing we'd be exiting," he said of the impending SAEC divestment.

Details are sparse regarding progress on the sale process. Graham Kerr, CEO of South32, said a shortlist is being compiled from the more than 50 initial applications. *finweek* can reveal that number is down to about three parties, which consists of joint ventures and consortiums.

Fraser, speaking to *finweek* at the firm's Johannesburg office, provided a bit more detail on the process. Whoever wins the bidding process must be anchored by a black-owned company with a balance sheet that can shoulder the cost of resource renewal, production growth, and $692m in rehabilitation charges.

"Firstly, the structure needs to be majority black for transformation reasons," said Fraser. "Secondly, whoever we partner with has to have a balance sheet for the long term. There are very

Rehabilitating Optimum Coal Mine

Ellington Nxumalo acknowledges there was "a lot of leprosy" ahead of the company taking on the contracting for Optimum Coal Mine, the Mpumalanga thermal coal mine once operated by Gupta company Tegeta Exploration & Resources.

Having kicked the tyres of the mine, however, he's optimistic it can be revived, provided, of course, the somewhat meandering, politically charged process of taking the mine out of business rescue can be navigated.

Nxumalo is joint founder of Lurco Group, a coal mining company that began operating in 2010 by trading coal and supplying some of it to local hospitals. A key moment in the firm's history was signing a contract in 2014 with South32 to rehabilitate coal slag from its Douglas colliery, now called Van Dyk's Drift.

In terms of this arrangement, Lurco Group invested R300m in the surface deposits, which consist of some 70Mt, in return for the mining licence. Lurco Group toll treats some of the coal from Van Dyk's Drift; it also supplies some coal direct to Eskom, and then exports a portion.

Optimum Coal Mine, however, looks like a different kettle of fish. First, before anything like mining occurs, Lurco and its joint venture partner – the government-owned African Exploration & Mining Finance Company (AEMFC) – has to wait on a legal spat between Optimum's creditors who are disputing Eskom's declared right to vote on the business plan of the mine's successful bidder.

Ellington Nxumalo
Joint founder of Lurco Group

Right now, the Lurco-AEMFC consortium is in the pound seats. A post-commencement funding proposal (PCF) of some R1bn has been accepted by the business rescue practitioners and a management contract has been signed. "The target is to get back to 1.5Mt per month," says Nxumalo.

The consortium had set aside a total of R3.5bn for the acquisition, an amount that was fully funded via a combination of debt and equity, although Nxumalo says he was restricted from getting into funding structure details. Vitol, the Swiss commodity trading company, is a partner in the Lurco Group business.

Said Nxumalo: "About 60% of the PCF will be to get the mine into production. And then some R200m has been put aside for salaries. But the salary bill is too high; it's about R27m per month. That is the biggest challenge. There has to be some tough conversations" – suggesting job casualties are inevitable at the mine. ■

significant rehabilitation charges that require ongoing capital investment as any coal mine would have in order for a sustainable future. It would be irresponsible of us not to have someone who could meet it," he said.

Although the rehabilitation charges totalled $692m, some 40% of that amount was funded in the form of guarantees, cash in the bank, or via trusts held by SAEC.

Fraser said the successful bidders for SAEC would have to demonstrate an ability to not only renew the company's resources, but potentially grow production.

The consortium had set aside a total of
R3.5bn
for the acquisition, an amount that was fully funded via a combination of debt and equity,

"There are 4.5bn tonnes of in-situ coal resources producing 30Mt/y and 21% entitlement to Richards Bay Coal Terminal (RBCT)," said Fraser. "You could run that entitlement really hard. We know RBCT can push harder if it hits the straps.

"The other significant opportunity is in supporting Eskom in long-term coal supply. We think Eskom should be going back to firms and signing long-term deals – not necessarily cost plus. When the company is signing R1.400/t landed coal supply agreements, we think it can do a lot better," he said. The winning bid would be unveiled in about ten to 12 months' time. ■

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market place

BARLOWORLD

BUY SELL HOLD

By Simon Brown

It remains resilient

I was crunching the numbers to see which JSE-listed stocks meet the classic Benjamin Graham defensive value methodology (see chapters 4, 5 and 15 of *The Intelligent Investor*.) Graham's book details his enterprise methodology with the defensive being, as the name suggests, safer. Elements included in the defensive process are: the current ratio, market cap, dividend and profit history, along with book value and ultimately the 'Graham Ratio'.

Only one stock passed with a valuation of over R200.

The Graham-defensive methodology looks for boring, reliable stocks with proven profitability, and Barloworld certainly fits.

Barloworld has local and offshore exposure and recently cleaned up a bit with the disposal of the troubled Iberian business. It still has vehicles: rental, sales, fleet management and logistics, coupled with earth moving and power system equipment. It's been a tough space, but the company continues to make profits and is very much an SA Inc stock.

The beauty of Barloworld is that it is resilient. It has seen very tough times before and quality management continues to make profits and pay dividends.

Last trade ideas

- **BUY** Anglo American — *7 March issue*
- **BUY** RSA retail savings bonds — *21 February issue*
- **SELL** Massmart — *7 February issue*
- **BUY** British American Tobacco — *24 January issue*

WOOLWORTHS

BUY SELL HOLD

By Moxima Gama

Continued upside warrants buy

Woolworths Holdings' share price has been hit hard over the past two years by the underperformance of its Australian department store, David Jones, which it acquired five years ago at a cost of R21.5bn.

In November last year, Woolworths said it would drop the David Jones brand, with plans to rebrand the range under its in-house Classic Collection. This decision triggered an uptick in the share price, but one not strong enough to remove it from bearish territory.

The share lost all its gains when two of its directors suddenly resigned in February. This after David Jones CEO David Thomas resigned, leaving the retailer having to find its fourth CEO for its Australian chain since 2014.

Woolworths is currently trading in a wedge pattern. Last month it held at 4 305c/share and bounced on the lower slope of the wedge. News that former Clicks CEO David Kneale would join the board as an independent non-executive director, however, triggered a move through a key level at 4 715c/share. Continued upside through that level could see Woolworths reclaim some of its losses within the wedge.

David Kneale
Former CEO of Clicks

Photo: www.clicksgroup.co.za

How to trade it:
Woolworths had gapped downwards in the second week of January, and since gaps are usually closed, a recovery may see Woolworths fill that gap towards the upper slope of the wedge around 5 500c/share. Continued upside above 4 715c/share would warrant a good buy signal. A positive breakout of the wedge would be confirmed above 5 845c/share – thus ending the long-term bearish pattern – stay long in this instance.

A reversal below 4 535c/share could see Woolworths return to the 4 305c/share key support mark.

Failure to hold there could deepen losses to either the 3 940c/share level or the lower slope of the wedge. I recommend a stop-loss be created below 4 535c/share. ■

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Last trade ideas

- **BUY** Northam Platinum — *7 March issue*
- **CAUTION** South32 — *21 February issue*
- **HOLD** Vodacom Group — *7 February issue*
- **BUY** Richemont — *24 January issue*

By Moxima Gama

MTN GROUP

Possibly recovering?

MTN's share price toppled sharply from a high at 26 345c/share in 2015 after the Nigerian government issued it with a $5.2bn-fine relating to unregistered SIM cards. The share price traded through the support trendline of MTN's primary bull trend, which had held for 13 years. Though the fine was later reduced, MTN's share price has failed to rebound, with further controversies doing it no favours. In August 2018, MTN's current bear trend reached 2008 prior lows, following US sanctions on Iran, which has prevented MTN from repatriating cash from the country – its third-largest market.

Outlook: Earlier in March, MTN's share price recorded its longest losing streak since 1995, fuelled by news that MTN was expecting lower-than-expected profits for 2018 in the second half of the year. The share price jumped 12% when year-end results were released on 7 March, as MTN said that it would sell assets of about R15bn over the next three years to pay off debt.

52-week range:	R69.07 - R134.66
Price/earnings ratio:	28.16
1-year total return:	-22.24%
Market capitalisation:	R179.4bn
Earnings per share:	R3.37
Dividend yield:	5.24%
Average volume over 30 days:	5 388 570
	SOURCE: IRESS

On the charts: Though MTN is trading in a bear trend, its future prospects look solid, as it looks at listing in Ghana and Nigeria.

Go long: With major resistance at 9 300c/share, breaching that level would end the steeper bear trend – possibly triggering a recovery within the primary bear trend. This could see MTN trade through 10 475c/share and return to either the resistance trendline (blue bold trendline) or the 14 000c/share-level. Note that the three-week relative-strength index (3W RSI) must breach the upper slope of its long-term symmetrical triangle to confirm the break through the 10 475c/share resistance level. Above 14 000c/share, MTN could recover further to 16 500c/share and then towards the support trendline of its previous long-term bull trend (around 19 295c/share).

Go short: MTN would resume its steeper bear trend and extend losses to next support at 4 830c/share on a reversal below 6 905c/share. ■

MTN GROUP

SOURCE: MetaStock Pro (Reuters)

GROWTHPOINT

Starting to look bullish

Growthpoint Properties is a diversified property investment holding company, and runs five property segments, including Retail, Office, Industrial, V&A Waterfront and Growthpoint Properties Australia. Growthpoint's share price lost ground in March 2018 – losing about 40% of its value – after testing a high at 3 150c/share. This was in line with the sector, with the listed South African Property Index (SAPI) having seen its worst calendar year return since inception in 1993.

Outlook: Growthpoint has retained firm support at 2 200c/share. Relative to its peers, Growthpoint has been an outperformer in the current bear market, thanks to its investment in Australia in 2009, listed as Growthpoint Properties Australia (GOZ).

52-week range:	R22.20 - R30.72
Price/earnings ratio:	17.48
1-year total return:	-12.19%
Market capitalisation:	R73.35bn
Earnings per share:	R1.40
Dividend yield:	8.7%
Average volume over 30 days:	7 503 165
	SOURCE: IRESS

On the charts: Growthpoint breached the resistance trendline of its corrective bear trend in January this year.

Go long: Growthpoint had confirmed a positive breakout of its corrective bear trend above 2 565c/share last month. But because the 3W RSI was overbought, Growthpoint's share price pulled back.

If support holds firmly at 2 360c/share, Growthpoint should trade through 2 565c/share once again and present another good buying opportunity with potential gains to 2 850c/share. Expect Growthpoint to retest its all-time high at 3 150c/share on continued buying above 2 850c/share.

Go short: Downside through 2 360c/share could trigger a sell-off to 2 220c/share. Failure to bounce there could extend losses to the support trendline of the primary bull trend (the black bold trendline) – dated back to October 2004. A negative breakout of the bull trend would be confirmed below 1 795c/share. ■

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GROWTHPOINT

SOURCE: MetaStock Pro (Reuters)

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

FUNDAMENTALS

Attention investors: Time is money!

One of the important takeaways from Warren Buffett's annual Berkshire Hathaway letter is that the biggest asset investors have is time. Use it wisely.

The annual Berkshire Hathaway letter from chairman Warren Buffett was released online on 23 February and I want to go through some of the highlights. You can find the entire letter at berkshire-hathaway.com. It is very much worth the read. I'll also be catching the live webcast of the annual general meeting (AGM) on 4 May.

The letter kicks off with a swipe at adjusted ebitda earnings (earnings before interest, tax, depreciation and amortisation), which Buffett states excludes a "variety of all-too-real costs".

To illustrate: Let's say a company writes down an acquisition, not worried about doing so because it's not a cash event. At the time of the write-down, it wasn't a cash event, but it was when it paid for the acquisition. Ebitda works in the same way with interest and tax – these are very real and can't simply be wished away.

He also shows the power of well-timed share buybacks. Berkshire's stake in American Express has increased from 12.6% to 17.9% purely on the back of the company buying back its shares – Berkshire didn't buy a single extra share. It now gets a larger slice of the profits and ultimately the dividends into the future. The important point is to note the point of this being 'well-timed' (I added that phrase) because management is often not the best judge of the value of its shares.

I like a company to have stated policy on buybacks that include what price relative to net asset or intrinsic value they will be buying. Just having a pile of cash and deciding to buy back shares often ends in tears as the price paid is way too high.

Buffett spends a few pages talking about the American Tailwind.

He started investing 77 years ago (1942) during a world war. Since then the US economy has had periods of rapid growth and others of high interest rates and inflation. They've seen recessions and market crashes, yet over the 77-year period there has been no better investment – the S&P 500 has returned an annualised 11.8%. He is reminding us not to panic. At times the future will seem very gloomy, but at the end of the day markets perform. Not always in the short term, but always in the long term.

That 11.8% return would have seen $1m turn into about $5.3bn! This huge wealth creation illustrates that the biggest asset for investors is time. Now, for many readers (myself included) time is not something I have left in buckets. But youngsters certainly do. More so for kids who really do have many decades ahead of them; if they start early enough, even with a small amount, they can use time to their advantage to create wealth. We oldies need to spread that message. Spread it far and wide. It is less about how much money we have to invest; it is more about how much time we have to invest.

An example is that R33 000 put into a local tax-free savings account at birth and left until age 65 will generate a monthly retirement of R10 000 in today's money (naturally I am making many assumptions, but you get the drift).

A last and equally important point is costs. That return mentioned above would be almost cut in half to $2.65bn if there was a 1% annual fee attached to the investment. Sure, fees are a part of life, I have no problem with that. But we need to recognise the massive impact fees have, and providers need to stop being greedy and negatively impacting our returns with their ridiculous fees. ■

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R33 000 put into a local tax-free savings account at birth and left until age

65

will generate a monthly retirement of R10 000 in today's money.

He is reminding us not to panic. At times the future will seem very gloomy, but at the end of the day markets perform. Not always in the short term, but always in the long term.

Warren Buffett
Chairman and CEO of Berkshire Hathaway

Photo: Gallo/Getty Images

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.

ASPEN

Wait and see

Aspen's interim results to end-December came in at the lower end, with revenue growing 1% and headline earnings per share (HEPS) falling 16% as costs grew – especially the cost of servicing its debt. This debt sits at R53.5bn (more than the market cap of R46bn) and remains the concern for shareholders. This concern saw the share drop some 50% at one point after the results release, before a recovery to close 'only' 28% down at just over R100. The company is currently in breach of its normal debt covenants, which the lenders have agreed to extend for now. The immediate solution for the debt issue is the sale of its infant milk formula business – New Zealand's Overseas Investment Office is the last remaining office required to give the sale the go-ahead. I can't determine if this approval is under threat, but if the sale collapses, Aspen will need to do a large and quick rights issue to raise money to pay down debt. However, even the successful conclusion of the sale would only reduce debt to some R44bn, and the company may still require a rights issue, or at least some aggressive selling of assets to raise cash. My view was that Aspen looked fair at around R140, but I cautioned to wait for the results. Now we have the results and I would still rather wait and see here.

JSE

Needs a bull market

JSE results for the year to end-December were much better than I expected and even included a special dividend of 185c on top of the 655c final dividend. HEPS was up 6%. The story was mostly about cost cutting as revenue slipped slightly. With the new exchanges competing for revenue it remains a tough business. What will really help earnings is a bull market that drives volumes up for both the JSE and competition. The dividend yield is attractive, but a historic price-to-earnings ratio (P/E) of 15 times still looks expensive.

MURRAY & ROBERTS

Takeover seems a done deal

Murray & Roberts' results for the six months to December were pretty much moot as it seems certain that Aton will succeed in its takeover. Aton still needs regulatory approval from South African and Canadian authorities, and this is due by the end of March (although that deadline can be extended). With the Murray & Roberts share price well below the 1 700c takeover price, shareholders seem to have accepted the deal as a certainty. Regulators could scupper the deal, but that's unlikely. At the current 1 400c price there's a nice 20%-odd profit when the deal happens, but it will take some months.

The dividend yield is attractive, but a historic price-to-earnings ratio of

15

times still looks expensive.

VIVO ENERGY

Still concerned about Morocco

I have been watching and writing about Vivo Energy since it listed on the JSE about a year ago. It owns some 2 130 Engen- and Shell-branded service stations in 23 African countries (excluding South Africa). Naturally, it sells a lot of fuel, a largely inelastic product, with volumes growing at around the same pace as GDP. Vivo is also rolling out non-fuel retail offerings such as convenience shops, which have become commonplace in SA, and drive profits and fuel sales. I really like the thesis of the business, but Morocco remains my concern. Sales in Morocco are now only 18% of the group, down from 29% as the Engen deal diluted existing markets. The issue is that the Moroccan government wants to regulate fuel prices, yet over a year later we still have no news on that front and we simply have no idea how much it may impact Vivo's largest market. For now, I watch and wait.

BAT

Be wary of this sector

British American Tobacco's full-year results were eagerly awaited and gave the market some hope. My concerns, however, remain high debt levels post the Reynolds acquisition, ongoing litigation in Canada and risks in its largest market, the US. I have written before that the industry seemed to think vaping would save the otherwise shrinking markets such as the US. While we're certainly seeing a marked increase in teenage smoking (via vape devices) in the US, this has raised the ire of regulators and I would stay away from this sector.

SHOPRITE

Attractively priced – if they get it right

Shoprite* results were eagerly awaited after two trading updates – the second update sent the share plummeting as it announced a significant drop in profits. The actual results (for the six months to end-December) are a story of two parts. On one side there are issues beyond management's control such as hyperinflation in Angola and zero food inflation locally. On the other hand, there was a distribution centre strike and a poorly implemented IT upgrade that resulted in issues with stock levels. The number I wanted to see was the operating margin which, while down by 1%, still came in at 4.4% and was well higher than I had expected (I thought it might be as low as 3.5%). Management is working to fix the issues responsible for the decline and if you believe (as I do) that they'll get it right, then the stock is priced very attractively.

SHOPRITE

The Wiese effect

The other big story with Shoprite is that chairman Christo Wiese wants to sell his voting shares that afford him no economic rights but do allow him a vote of 32.3%. Coupled with the almost 14% of ordinary shares he owns, this gives him effective negative control of Shoprite. The issue here is what these shares are worth and who would buy them. Ultimately, this is not an operational issue for Shoprite, and I suspect it will be hard to value and sell these shares. Hopefully Shoprite isn't going to buy the shares as it really doesn't impact the business and is just a shareholder issue brought to the fore by the other issues surrounding Wiese.

EDCON

Now to get the traffic into stores

News that Edcon has reached a deal with landlords is good news for the property sector. The property owners have in some cases dropped rentals and taken on some Edcon equity, so it is not a painless process for them, but exposure has been reduced with most managing to let some of the Edcon space to other anchor tenants. They also have the right to take more back from Edcon as and when new tenants are found. This was of course the easier part of the process. Now Edcon needs to get foot traffic and sales in order to stay alive.

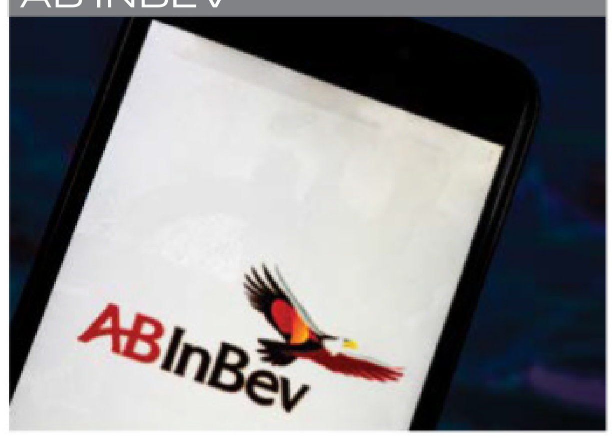
Volume growth remains modest, as expected for a large mature business, but it's still able to get price increases with its premium brands.

TONGAAT HULETT

A painful trading update

Tongaat Hulett has gone from bad to worse… to just plain scary. Results are not due until mid-May, but an early trading update was really bad, and a more recent Sens announcement now also talks about "certain practices" that may require restating some previous results. I suspect this may have to do with land sales being booked into profit when they shouldn't have been. The share price has collapsed to below 2 000c and is back at 2004 levels. Debt remains another huge concern and a rights issue here is certain – we just don't know how big it'll have to be, but at current levels it will be massively dilutive. Doing a rights issue at 2 000c as opposed to, say, 10 000c is a real game changer – for the worse.

AB INBEV



Looking for a defensive stock?

Anheuser-Busch InBev has also seen its share price falling and also has a mountain of debt. But regarding regulation, it's in a much better position than the tobacco industry. Volume growth remains modest, as expected for a large mature business, but it's still able to get price increases with its premium brands. If you're looking for a defensive stock, this one qualifies, but watch that debt like a hawk. ■

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**The writer owns shares in Shoprite*

Photos: Gallo/Getty Images

By Simon Brown

COMPANY FINANCE

How a company's debt can cripple shareholders

Company debt is not necessarily a problem, but when it becomes excessive, it can prove disastrous for shareholders. It's therefore imperative to keep an eye on debt levels.

On p.14 of this issue, I write about the Warren Buffett annual letter to Berkshire Hathaway shareholders, but one area he talks about needs particular attention – debt. Improving profits in a business comes from improving margins, product lines and general market growth. But from time to time a business will grow via debt or equity.

Generally, using debt works well enough. You borrow money at say 10% and buy or build an asset that returns 12% – you're ahead of the curve from day one. The risk, of course, is changing interest rates or returns that do not go as expected. Recent times on the JSE have shown how a significant number of companies undertook large acquisitions or projects, which ended up costing more and delivering less than promised – and also took longer to get going.

Debt certainly helps juice returns for shareholders but in his letter, Buffett refers to "a Russian roulette equation – usually win, occasionally die". In other words, when debt works it's great; profits grow, and management and shareholders get rewarded. But every so often credit vanishes, debt costs soar and the whole thing collapses. Often with fatal results. Importantly, those fatal results affect the company and the shareholders. Management just rushes for the exit and moves onto the next adventure, usually keeping the rewards earned while stacking up the debt that ultimately became crippling.

As investors, we need to keep a very careful eye on debt levels in the stocks we own, even during the good times. Perhaps especially during the good times because when the bad times arrive, it is simply too late to do anything.

There is, of course, recourse for excessive debt and that's often a large rights issue. This either dilutes existing shareholders' holdings or requires them to put more money into the business in the hope that it survives long enough to reward them. Not an ideal situation.

There are a number of ways you can keep an eye on debt.

Firstly, via a debt-to-equity ratio, which simply compares debt on the company's balance sheet to the equity. You can then compare this figure to previous years and against the company's peers in the sector to get a sense of its debt burden. Is it rising or falling, and why? This ratio should be falling as equity increases and debt is paid off over time. The exception being when a new tranche of debt is raised for a project.

To get an idea of how manageable the debt burden is, you can then look to the interest cover: profit before interest and tax payments divided into the interest payments. A level of 1.5 times or lower should raise some red flags, as any blip on the earnings front could see the company struggling to pay off the debt and heading for that rights issue.

Another figure to consider is the current ratio, which looks at current assets against current liabilities. Current means due (or redeemable if an asset) in the next 12 months. If the current liabilities exceed current assets, then there are more red flags.

A last point is to look at the debt profile as detailed in the annual report. This will tell you when debt expires and may have to be rolled over, and will also detail debt covenants that, if breached, could see lenders recall the debt.

At the end of the day debt can be useful, but it can also be a game of Russian roulette with shareholders the victims – so watch it closely. ■

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When debt works it's great; profits grow, and management and shareholders get rewarded. But every so often credit vanishes, debt costs soar and the whole thing collapses.

Photo: Shutterstock

finweek
FUND FOCUS
YOUR QUARTERLY REVIEW OF SA FUNDS
MARCH 2019

HOW TO RIDE OUT TOUGH MARKETS

Gallo Getty Images

By Leon Kok

OVERVIEW

When opportunity comes knocking

South Africa is contending with a very troubled economy. However, there are a number of excellent investment options to consider as we face this challenging environment.

In the several decades that I've covered the fund industry in SA, seldom has it been as defensive as it is at present. But it needn't be the end of the world!

The current state of affairs, of course, is a function of a very troubled economy and relates to some seriously underperforming growth assets.

Nor is it easy to accelerate out of this situation when weighed down by atrocious public management, corruption and an entire dispensation held hostage by the likes of Eskom, Prasa and Bosasa.

Mike Brown, managing director of etfSA.co.za, points to the average total investment return of the 130 general equity unit trusts in the three years to December having been a paltry 2.04% a year, compared with 4.33% delivered by the FTSE/JSE All Share Index (ALSI). Only 28 of the 130 fund managers (21.5%) managed to beat the index benchmark over this period.

One immediate alternative, he suggests, is several locally accessible exchange-traded funds (ETFs) that generated an annualised 20% plus over the same period. We aim to give more exposure to these going forward.

However, not that the active fund industry is taking this lying down. Coronation Fund Managers, for instance, which came in for enormous criticism in recent years for its apparent over-exposure to resources, boasted a 30.72% annualised return in its Resources Fund during the past three years. That's almost about as good as it gets.

We report on Coronation's head of personal investments and a superb longstanding investment analyst, Pieter Koekemoer, warning of the dangers of trying to time the market. He asserts that now is not the moment to irrationally capitulate from well-managed funds with good long-term records. Capitulation is also described as 'panic-selling' and is usually based on investor fears that stock prices will fall further than they have.

Large drawdowns measured in five-year periods since the 1969 crash, Koekemoer points out, have occurred about five or six times and on each occasion they've given rise to well above-average long-term future returns.

In similar vein Investec Asset Management's Paul Hutchinson reminds us that "the darkest hour is just before light – while it may not be 5am, it is clearly no longer 8pm!"

Among the current plus factors highlighted by him is that the SA equity market is well-priced and especially offers opportunity for good long-term returns.

PSG chief investment officer, Greg Hopkins, also reckons that the country currently offers a standout investment opportunity, but doesn't discount the challenges. On the latter, he says, his house considers the risks of two scenarios: The "muddle along scenario" with uncertainty, low growth and low confidence levels; and the "low road scenario" with significant further deterioration in the country's governance and finances.

The South African listed market constitutes less than **1%** of global market capitalisation, and the ten largest shares on the JSE account for 55% of the All Share Index, pointing to enormous over-concentration.

Hopkins aptly quotes Warren Buffett: "Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs not teaspoons."

The flipside, of course, is that you shouldn't keep all your eggs in one basket. Allan Gray's investment team maintains that high-net-worth offshore exposure should be a minimum 30% to 50% and presents a strong case for optimal offshore diversification.

Important to bear in mind, it points out, is that the South African listed market constitutes less than 1% of global market capitalisation, and the ten largest shares on the JSE account for 55% of the ALSI, pointing to enormous over-concentration. The ALSI accounts for a mere 12% of the MSCI World Index.

Besides, by remaining local, you're vulnerable to a very volatile rand, and, in certain circumstances, you might well lose out to significant tax advantages that could otherwise be accrued offshore.

Prudential Unit Trust MD, Pieter Hugo, provides a superb roadmap on choosing tax-free unit trusts, arguing also that tax-free offshore funds are excellent choices for investors with relatively high offshore exposure requirements.

These include Prudential's recently added rand-denominated global feeder funds, namely the Global Equity Feeder Fund, Global Balanced Feeder Fund and Global Inflation Plus Feeder Fund. They're managed by a large and experienced team at Prudential's London-based parent, M&G Prudential.

I've personally met with several of them and was greatly impressed.

Enjoy the read. ■

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

Photo: Gallo/Getty Images

CONTENTS

By Leon Kok

EXCHANGE-TRADED FUNDS

The game has changed

In the past, exchange-traded funds were seen as tactical instruments. Not anymore. They are being increasingly used as core long-term holdings and investors would do well to adapt to this change.

Financial Times columnist, John Authers, wrote some time ago that we now live in the age of the exchange-traded fund (ETF). Charley Ellis, who started as an active fund manager in the US in 1960 and more recently published *The Index Revolution,* went further and suggested that active managers have increasingly deprived themselves of a living.

ETFs, he pointed out, are no longer considered tactical instruments, but as core long-term holdings. Now at least 20% of leading US and European institutionalised funds deploy ETFs, up from about 10% just a decade ago. ETFs, of course, are used as alternative instruments to derivatives and individual securities as well as actively managed unit trusts. They can also be very tax-efficient.

Leon Kok spoke to Mike Brown, MD of etfSA.co.za, a leading Johannesburg-based ETF provider, about these and related issues, and also his firm's engagement in passive investing.

Why, in your view, should SA investors increase exposure to ETF-type products?
What we are seeing now is that you need to use ETFs as 'tools' to give access to as many asset classes as you can, such as cash, equities, bonds in their various forms, listed property and commodities, to mention a few.

A big shift furthermore took place in the US during the past 20 years, with investment managers looking to invest offshore and in alternative investments, which now can be found globally in the form of passive ETF products, while also interrelating with previously conventional asset classes. Moreover, ETFs are becoming more sophisticated, and now, for instance, you have smart beta instruments that look to deliver risk factors, like volatility or momentum, and smooth these out over time. They're specialised and give you what they say they are and are easily accessible.

At present there are about 100 ETFs/ETNs on the JSE, which give sufficient access to different markets and assets to enable competition in portfolio management directly with active managers. Besides, they're cheaper; you can now deploy them in your tax-free account, and you're not restricted by active fund complexities such as the liquidity of many shares. Exchange-traded products (ETPs) always have market makers which provide infinite liquidity instantly at net asset value.

You've claimed that index-tracking ETFs have become increasingly dominant in SA's investment performance surveys over multiple time periods. Please clarify?
Active investment managers invariably promise in their mandates that they'll outperform their relevant benchmarks, which are the indices of total market returns. Only by aiming for such alpha (market-beating) returns, would they be justified in charging their high investment fees, often including performance fees. But the track record in achieving such alpha returns is rather dismal.

Let's look at the three- and five-year returns in the years to December 2018.

In the case of the three-year returns, the average total investment return of the 130 general equity unit trusts was 2.04% a year, compared with 4.33% delivered by the FTSE/JSE All Share Index (ALSI). Only 28 of the 130 fund managers (21.5%) managed to beat the index benchmark over this period.

For the five-year period, the results were broadly similar. The ALSI returned an annualised 5.77%, but the average equity manager's return was only 3.90%. Only 14 of the 104 asset managers (13.5%) in the survey managed to outperform the index over this period.

Yet ETFs can give the index performance at very low tracking error. The table shows the top-performing Collective Investment Schemes in SA over the periods one to ten years. The fact that the very top-performing funds over historic periods were often passively managed ETFs is significant. I might add that of the 1 244 registered CIS funds in SA, less than 70 are passively managed ETFs. And for them to have performed so well in such a large universe of actively managed funds is noteworthy.

You offer several portfolios for individual investors, without their having to directly access individual ETFs. Examples?
Indeed, for retirement funding they include the likes of the Wealth Conservator Portfolio with a target return of CPI+3% over a rolling three-year period; the Wealth Builder (CPI+5%) over a rolling five-year period; the Wealth Enhancer over a rolling seven-year period; and the Wealth Maximiser (CPI+10%) over a rolling seven-year period. We have also introduced a simple fixed-asset allocation retirement fund portfolio, the Wealth Default Portfolio, to meet recent regulations requiring a default option.

We design bespoke-managed ETP portfolios for the requirements of the individual investor, using either JSE-listed or globally listed ETPs for asset allocation.

Do you offer other products?
Yes, they include a basic Discretionary Investor Plan; ETF Tax-Free Accounts; Retirement Annuity Funds; Post Retirement Investments; and Discretionary Wealth Management Portfolios, both domestic and offshore.

Only ETFs are used in all the portfolio constructions. The retirement portfolios are Regulation 28 at all times; and detailed portfolio fact sheets and performance updates are provided monthly. ■

TOP-PERFORMING INDIVIDUAL COLLECTIVE INVESTMENT SCHEMES*

		% Per Annum	ETF Ranking
1 Year			
CoreShares PrefTrax	ETF	19.24%	1
Alexander Forbes Investments US Dollar Feeder	Unit Trust	18.38%	
2 Years			
Coronation Resources	Unit Trust	16.66%	
Satrix RESI	ETF	16.19%	2
3 Years			
Coronation Resources	Unit Trust	30.72%	
Old Mutual Mining & Resources	Unit Trust	21.87%	
Satrix RESI 10	ETF	20.57%	3
5 Years			
Sanlam INDA Opportunities Feeder	Unit Trust	14.87%	
Sygnia Itrix USA Index	ETF	14.32%	2
7 Years			
Sygnia Itrix MSCI USA	ETF	20.97%	1
Old Mutual Global Equity	Unit Trust	20.81%	
10 Years			
Nedbank Investments Financials	Unit Trust	18.12%	
Centaur BCI Flexible	Unit Trust	16.84%	
Sygnia Itrix USA Index	ETF	16.83%	3

**Measuring all funds in the CIS Survey.*
SOURCE: Quarterly Collective Investment Schemes Survey (31 December 2018).

By Leon Kok

MARKETS

Don't try to be the market-timer!

The last few years have been challenging, but investors shouldn't reduce risk based on this weak performance. In fact, if you do this, you might be setting yourself on a lower growth trajectory.

CORONATION BALANCED PLUS: ANALYSIS OF LARGEST DRAWDOWN PERIODS AND SUBSEQUENT PERFORMANCE

	Start	End	# of months	Drawdown	Following 1 year	Following 3 years (p.a.)	Following 5 years (p.a.)
Largest drawdown	May 1998	Aug 1998	4	-34.3%	29.1%	19.1%	14.2%
2nd largest drawdown	Nov 2007	Feb 2009	16	-16.8%	34.7%	19.8%	20.5%
3rd largest drawdown	June 2002	March 2003	10	-12.2%	35.7%	36.9%	28.2%
4th largest drawdown	Feb 2000	May 2000	4	-8.8%	24.9%	10.5%	18.4%
5th largest drawdown	Sep 2018	Dec 2018	4	-7.8%	N/A	N/A	N/A
	Average		11	-16%	24.9%	21.6%	20.3%

For full and current performance details, please refer to the Minimum Disclosure Document on the Coronation Balanced Plus Fund available on Coronation's website.

Times might seem tough at present for many long-term unit trust investors, but now is not the moment to irrationally capitulate from well-managed funds with good long-term records, says Pieter Koekemoer, head of personal investments at Coronation Fund Managers.

He fully acknowledges that 2018 was a "brutal year" for financial markets, compounded by five years of poor performance. He also points to Deutsche Bank having described it as the worst year in over a century in terms of the breadth of declines. "It was even worse than 1920 with 90% of global assets returning a negative number in dollars. None of the major equity markets managed a positive dollar return."

But important to consider, he asserts, is the impact that down-periods have on future returns. The JSE delivered disappointing returns over five-year periods six times since the 1969 market crash and, on each occasion, this was followed by above-average long-term future returns.

Multi-asset funds, that give managed exposure to domestic and international shares, property, bonds and cash, have a similar track record. The four largest peak-to-trough drawdowns in the Coronation Balanced Plus Fund since its launch in 1996 averaged a decline of 16% over a period of 11 months. In subsequent periods, the fund returned 24.9% over the following one year, an annualised 21.6% during the following three years, and 20.3% per year in the next five years.

"Our view is that, given current depressed valuation levels of South African assets, there is a strong case to be made for expected returns over the next five to ten years in the risky asset classes to exceed returns from the income asset classes," he says. "If you capitulate now and reduce risk exposure, you are likely to set yourself on a lower growth trajectory.

"The upside to fair value that we currently find in the local equity market is at levels that we last observed during the global financial crisis. These valuation levels were consistent with a strong recovery in subsequent years. It is often the returns that follow disappointing periods such as the one we're in currently that ultimately reward those who are patient."

Critical, of course, Koekemoer concedes, is how an investor responds to market conditions. At each point along the cycle, the investor makes specific trade-offs between emotional comfort and long-term returns, all of which connect to underlying personality, circumstances and experience.

Several behavioural studies have shown that the fear of taking a risk and getting it wrong have outweighed the fear of missing out. Simply put, potential losses loom larger than potential gains. It is therefore understandable that many investors are contemplating giving up on the local equity market.

Pieter Koekemoer
Head of personal investments at Coronation Fund Managers

However, as markets enter a positive stage, the natural state of reluctance diminishes.

Koekemoer says it's pointless trying to identify turning points in the market as this cannot be done consistently with high levels of certainty. Besides, few investors have the courage to enter at those low points.

Also important, he says, is to recognise that local economic conditions are not the exclusive determinant of local stock market performance. While SA's anaemic economy and weak sentiment definitely impact the returns produced by 'SA Inc' shares such as the banks and retailers, this is only part of the story. Foreign exposure represents more than half of the valuation of JSE-listed companies. Many of the global businesses that happen to be listed on the JSE have also been under the cosh for company-specific reasons, comprising the likes of Naspers*, British American Tobacco, AB InBev, Richemont and Intu Properties.

"It's an interesting situation that current valuation levels of many of these global companies are now on par with leading local groups, despite the more attractive opportunity sets and lower risk profiles of these large and diversified businesses."

On Coronation's own prowess, Koekemoer points to it having added considerable value to portfolios over the past five years. This has encompassed a commitment to the long term and quality research, persistently adjusting to market change, refining and enhancing.

"Our aim is to remain objective, independent, focused and disciplined, working hard to deliver long-term outperformance in our funds. On the downside, of course, there are periods when you underperform, which we understand can be taxing for clients". ■

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

By Paul Hutchinson

SA EQUITIES

The darkest hour is just before the dawn

It's been a torrid time for listed property and equities, but switching to cash is not necessarily the answer. Instead, a broad-based multi-asset fund could serve investors well.

Following five years of disappointing returns from listed property and equities, many investors are questioning why they should not simply cut their losses and switch to cash. Investor anxiety was further exacerbated following the worst December for US equities (down more than 9%) since the Great Depression!

Factors contributing to these disappointing market returns included:

■ Rising US interest rates, resulting in both reduced liquidity and a higher discount rate, thereby reducing the present value of a company's future cash flows.

■ A policy shift from globalisation to protectionism, with President Trump seemingly intent on sparking a trade war.

■ In South Africa, while we got a new president, a mild recession dampened the Ramaphoria-rally.

■ Domestic interest rates were cut in March 2018 only to be raised again in November.

■ Several unfortunate corporate events: the Steinhoff aftermath, MTN's troubles with the Nigerian authorities, the Resilient group of companies shaking the foundation of the property market, Tencent dragging Naspers* down, Tiger Brands and its polony-induced crisis, and tobacco stocks going up in smoke.

So, while commentators may inform us that we are only four months away from South Africa's longest equity bull market, it certainly doesn't feel like it. The most recent almost ten years' annualised return of 14.6% is far more tepid than previous bull markets, with much of this return front-end loaded. In fact, South African equities have mostly drifted sideways over the past five years.

Importantly though, last year's -8.5% SA equity market performance, coupled with positive earnings growth from many companies has made our equity market (and global markets for that matter) more reasonably priced.

Remembering that "the return you get depends on the price you pay", today's lower prices means that the probability of inflation-beating returns from SA equities has risen.

Importantly though, last year's

-8.5%

SA equity performance, coupled with positive earnings growth from many companies has made our equity market (and global markets for that matter) more reasonably priced.

Other than valuations, what else has changed?

■ The US Federal Reserve appears to have backed off from its interest rate hiking cycle, having previously telegraphed several 25 basis points rate hikes in 2019, and reset expectations to zero. This has halted the strong march of the US dollar and reinvigorated emerging market assets.

■ Donald Trump has toned down his trade war rhetoric (perhaps with an eye on the upcoming US elections and his desire to serve a second term) and hinted at a reconciliation with China.

■ In South Africa, upward inflation pressure appears non-existent, suggesting that the November 2018 rate hike is likely to be the only hike in this rising interest rate cycle, the obvious risks to this view being a depreciating rand and a rising oil price.

■ As an aside, our relatively low inflation rate is likely to be positive for South African bonds, which are currently yielding a real return of approximately 4%, making them an attractive asset within multi-asset and inflation-plus portfolios, particularly as there is scope for interest rates to fall.

However, investors cannot be ignorant of potential risks, which include slowing global growth, rising recession risk in the US, a hard Brexit (and Corbyn-led UK government), populist policies and, closer to home, Eskom and government finances. Importantly though, these risks are broadly understood by most market participants and more fully reflected in asset prices.

Where to from here?

So, while cash has been the best place to hide over the past three years, in a stable or even falling interest rate environment it is unlikely to deliver the after-tax real returns required by most investors to meet their financial planning goals. Therefore, most investors' needs may be best served by a broad-based multi-asset fund such as the Investec Opportunity Fund, where the fund manager can exploit all the levers available to them to deliver inflation-beating returns over the long term.

In fact, in a recent interview, Clyde Rossouw, portfolio manager of the Investec Opportunity Fund, encourages long-term investors not to become despondent. He goes on to say: "I know we have had three years of very muted returns and investors may be tempted to turn to cash. We believe it is a good time to sow the seeds for future returns from growth assets."

"What's encouraging for us is that the investment environment has become more favourable to pursue attractive real returns over the long term. To summarise: we still like SA bonds; we're seeing much better value in local equities; and we expect continued growth opportunities offshore. So, from an asset allocation perspective, we have identified several drivers of returns that should help us to deliver inflation-beating returns over the long term."

Following several years of disappointing negative real returns from most growth asset classes we are closer to the dawn. While it may not quite be 5am, it is clearly no longer 8pm! ■

Paul Hutchinson is the sales manager at Investec Asset Management.

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Photo: Gallo/Getty Images

By Pieter Hugo

TAX-FREE INVESTMENTS

Choosing your tax-free unit trusts

The new tax year has started and it's a great time to consider the tax-free benefits available to you. However, your investment decisions should not be based on the tax saving you can achieve, but on maximising your returns.

Everyone should certainly take the utmost advantage of the tax breaks available from tax-free investments. March marks the beginning of the 2019/20 financial year, so investors now have the opportunity to maximise their returns by investing the full R33 000 allowed for the year during the month. However, your choice of funds should not be based on maximising the tax saving, but rather on maximising your *total returns after tax*. A holistic view in the context of your overall portfolio, positioned to achieve your short- and long-term investment goals, should guide which tax-free unit trusts are most appropriate for you.

A long-term investment

Even though you can withdraw funds from tax-free investments at any time, because of their annual and lifetime contribution limits we would argue that they are ideally suited to long-term investments.

Their specific tax allowances have been designed such that maximum advantage can only be gained by investing in them consistently every year, and by keeping the funds invested as long as possible – preferably in a unit trust with a long-term investment horizon (say seven to ten years) such as those including growth assets like equities and listed property. This is so you'll get the highest possible benefit from reinvesting and compounding the tax-free returns over time. If you withdraw funds from your tax-free investment, you aren't allowed to replace them later without further drawing down your R500 000 lifetime limit. So, it's best to use tax-free unit trusts for a long-term investment goal like retirement or your children's tertiary education.

By holding listed property within a tax-free product, there is no corporate income tax and you pay no income tax, at a maximum 45%, or capital gains tax.

Property and equities: wise longer-term choices

In order to benefit from both relatively high tax savings and long-term inflation-beating returns, investors would be wise to consider listed property and equities, as both maximise the potential of compounding your tax-free returns over the longer term. Listed property is particularly beneficial because there is effectively no corporate or individual tax on the investment returns. Listed property companies (REITs) do not pay corporate income taxes as long as they distribute all their rental income, which is then taxed in the hands of the investor as interest income at your marginal income tax rate. Therefore, by holding listed property within a tax-free product, there is no corporate income tax and you pay no income tax (at a maximum 45%) or capital gains tax (CGT).

A capital gains event is triggered only when you sell (part or all of) your investments with a gain. Currently, an amount of 40% of any gain is included in your annual income and you pay tax on it at your marginal rate of income tax. So, for individuals in the highest tax bracket of 45%, their effective CGT rate is 18% (40% of 45%), after using up the annual capital gain exclusion of R40 000.

Investing in equities apart from listed property via a tax-free unit trust means not having to pay either the 20% dividend withholding tax (DWT) or CGT. DWT is normally withheld from your dividends before they are paid to you, and the company will already have paid 28% corporate income tax on its net profits before paying dividends to shareholders.

Cash: unattractive in the long term

On face value, bank deposits or other cash-type holdings offer relatively high tax savings. The interest you earn on cash and bonds is subject to income tax (at a maximum marginal rate of 45%). However, investors do get a tax exemption on interest income every year – R23 800 if you're under 65 and R34 500 if you're older. And cash investments typically earn returns of only 1% to 2% p.a. above inflation, so re-investing and compounding these returns over time is much less powerful than equities or listed property, which generally return 6% to 8% p.a. above inflation.

Offshore options

Tax-free offshore funds are suitable options for investors with relatively high offshore exposure requirements. Under the tax-free regulations, although you will have to pay all taxes (CGT, DWT and tax on any interest and other investment income) to the appropriate foreign tax authorities where necessary, you then won't be liable for any of these taxes due to Sars over and above this. In non-tax-free offshore vehicles you would still have to pay Sars.

This makes tax-free offshore funds an excellent way to raise your foreign exposure, especially if you have already taken advantage of the tax benefits under your full retirement annuity allocation (subject to the 30% offshore limit). Or, for example, if you are a member of a company retirement fund which has no offshore holdings, this is a tax-efficient way to diversify your total portfolio.

Prudential has recently added three of our rand-denominated global feeder funds as tax-free options for investors: the Prudential Global Equity Feeder Fund; the Prudential Global Balanced Feeder Fund; and the Prudential Global Inflation Plus Feeder Fund. These funds are managed by a large and experienced team at Prudential's London-based parent, M&G Prudential. ■

Pieter Hugo is the managing director of Prudential Unit Trusts.

Photo: Gallo/Getty Images

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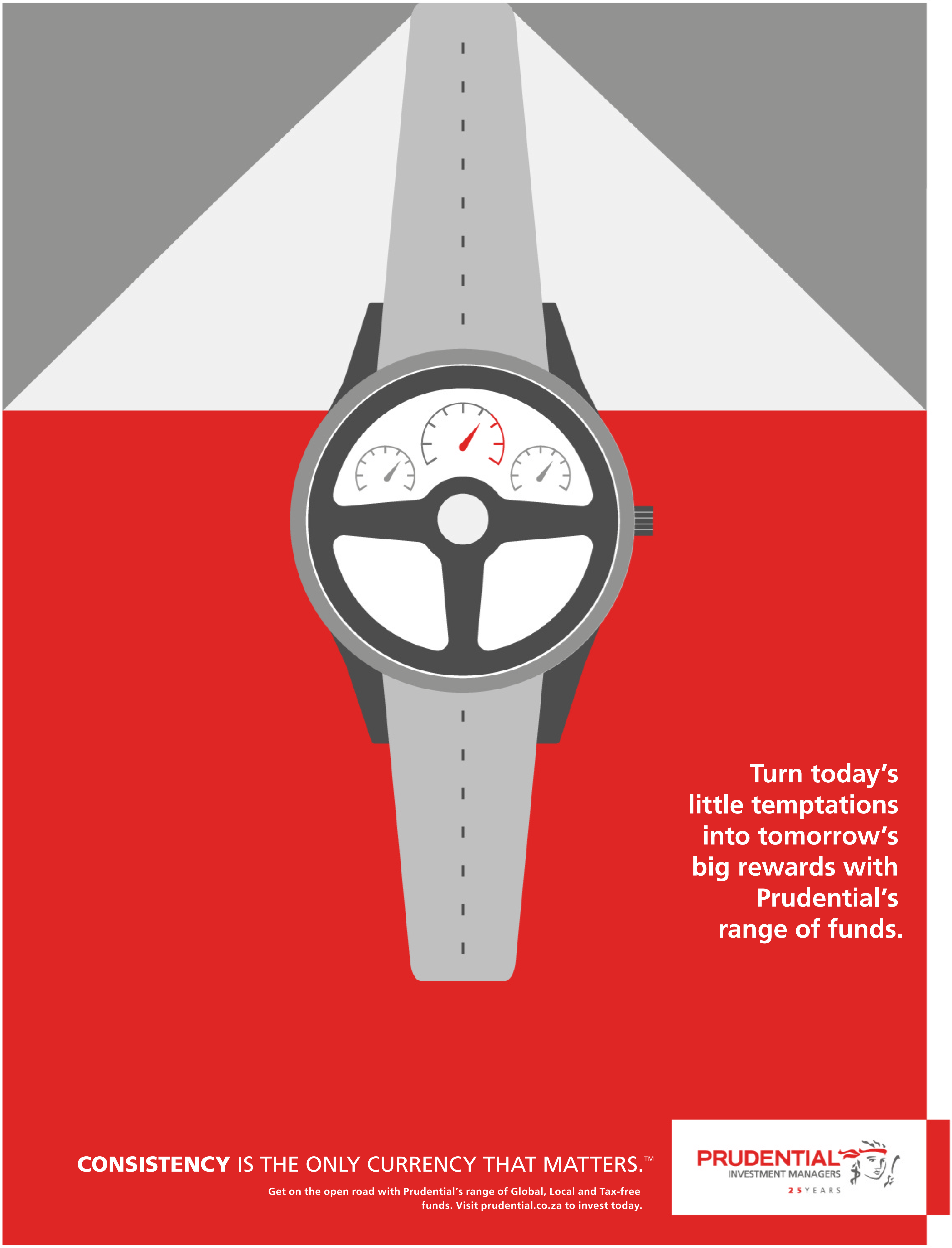
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FUNDAMENTALS

Simplifying offshore investing

An offshore investment platform is a convenient solution – it provides you with one point of contact when it comes to managing and administering your investments abroad.

Depending on your household spending habits, and your personal goals and objectives, you should consider holding between 30% and 50% of your total investment portfolio offshore, according to Allan Gray's research. If your only offshore exposure is within your long-term savings held in a retirement product, this may be insufficient diversification, especially since the South African listed market comprises approximately 1% of the world's total listed market value. Add to this the concentration of the local listed market (the ten largest shares on the JSE account for 55% of the FTSE/JSE All Share Index, compared to just 12% for a global index such as the MSCI World Index), and the volatile rand, and it becomes clear why offshore diversification is core to a successful long-term investment plan.

"Over the years, South African exchange control regulations, which limit the amount that you can transfer or invest abroad, have been relaxed considerably, creating more opportunity to take advantage of the opportunities presented by investing offshore," says Julie Campbell, senior manager at Allan Gray.

Julie Campbell
Senior manager at Allan Gray

How much can investors take offshore?

South African resident individuals 18 years or older are granted an allowance of R1m per calendar year by the South African Reserve Bank (Sarb), namely the single discretionary allowance (SDA), to use for any legal purpose offshore. This allowance includes all foreign expenditure, such as monetary gifts, loans, foreign travel expenses, maintenance and offshore credit and it can also be used for investing offshore. Residents are able to use this annual allowance without obtaining prior approval from the South African Revenue Service (Sars) or the Sarb.

"If you have more than R1m to invest and are a taxpayer in good standing, you can apply for a tax clearance from Sars to allow you to invest up to an additional R10m offshore annually. This is called the foreign investment allowance. For amounts higher than R11m, you will need special clearance from the Sarb," explains Campbell.

If you are invested in a local unit trust that invests a portion of its investments offshore, for example a balanced fund, or in a rand-denominated offshore unit trust, this is not counted as part of an investor's offshore allowance.

"These unit trusts use your investment manager's foreign allowance rather than your own."

However, locally registered unit trust companies are also limited by exchange control regulation: The Sarb currently allows 40% of a fund manager's retail assets to be invested offshore (plus an additional 10% in Africa outside of South Africa). This is termed a manager's foreign capacity.

"Your ability to invest offshore through rand-denominated offshore unit trusts will therefore depend on how much foreign capacity the manager has available," says Campbell. "But given how volatile the rand can be, this route may not always be available."

Offshore options using an investor's own allowance

There are two routes: Either invest directly with the offshore fund manager of your choice or invest via an investment platform that offers offshore unit trusts.

"The process to invest directly with a selection of offshore managers can be administratively intensive, as different jurisdictions may have different requirements governing how individual investors access funds regulated in their market," says Campbell. "Furthermore, offshore fund managers often have higher minimum investment requirements than offshore investment platforms, as platforms can take advantage of the fact that they aggregate multiple underlying clients' assets to allow for lower minimums."

She says that investing via an offshore platform may offer a simple and convenient solution to investors who are looking for one point of contact for the administration and ongoing management of their investments. Withdrawals can also be made into an investor's offshore bank account without any further SA exchange controls. Meanwhile, being locally domiciled simplifies estate planning for SA tax residents: If you die while invested, your assets will be part of your South African estate and will be dealt with by a local executor.

Allan Gray has reduced the barriers to entry for South African investors who want to invest offshore by significantly reducing the minimum amount required to invest via its offshore investment platform. It has also introduced the option to use rands for lump-sum investments in new and existing offshore accounts, if you are using your SDA, with Allan Gray facilitating the conversion to foreign currency. "The Allan Gray Offshore Investment Platform makes it easier to take advantage of the opportunity to diversify investment risk and to get exposure to unit trusts and offshore managers that are not locally available," explains Campbell.

Tax considerations

It is important to be aware that direct offshore investments are taxed differently for capital gains tax purposes from local rand-denominated unit trusts.

"When you withdraw from a rand-denominated unit trust, you pay tax on all gains on your original rand investment, regardless of whether those gains are from capital growth or currency movement. If you withdraw from a foreign currency unit trust, you don't pay tax on currency movement while you are invested," says Campbell.

This means that if the rand weakens, it is more tax-efficient to be invested in a foreign currency unit trust, while if the rand strengthens, it is more tax-efficient to be invested in a rand-denominated unit trust.

"It is a good idea to consult an independent financial adviser who can help you determine the appropriate level of offshore exposure to meet your long-term investment goals, and help you select an offshore unit trust that is appropriate for your needs and circumstances," she concludes. ■

Photo: Shutterstock

By Greg Hopkins

LOCAL OUTLOOK

Investor concerns about South Africa

With the JSE down significantly in 2018, many investors are disillusioned. Further, uncertainty about South Africa's political and economic future has heightened perceived investment risk. Is it time to throw in the towel?

Greg Hopkins, chief investment officer of PSG Asset Management, answers a few common client questions.

With dark clouds on the horizon, should investors wait out the storm in cash?

It's understandable that local investors are concerned. International investors have shunned emerging markets in general and in SA, low levels of trust in government due to large-scale corruption and policy uncertainty have eroded confidence.

However, as Warren Buffett once said, "Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons."

In the investment world, storm clouds – environments of fear or uncertainty – often lead to low prices and low expectations. These provide attractive opportunities and create a foundation for future strong returns.

In our portfolios, cash levels have declined as we continue to find above-average companies and securities at below-average prices, both locally and abroad. Further, South African government bonds are offering potentially equity-like returns at substantially lower levels of risk.

How does PSG Asset Management manage downside risk in South Africa?

While we believe that SA is currently offering a standout investment opportunity, we don't discount the challenges. We consider the risks of two scenarios:

The 'muddle along' scenario:

Uncertainty, generally low growth and low confidence levels prevail.

The 'low road' scenario:

Significant further deterioration in the country's governance and finances.

We tackle our assessment of SA by:

■ Actively keeping an open mind. Gathering evidence and facts to get the odds in our clients' favour and being open to changing our minds if facts change.

■ Looking at the bigger picture. South Africa has faced many significant challenges in its history, so it's worth considering how it's dealt with these and how our markets have responded.

■ Guarding against behavioural biases. It's human to upweight visible, vivid evidence, and downweight less obvious information that may be equally important. Once we upweight information, we often draw (potentially false) conclusions about the future.

We've mitigated the risks South Africa faces in our portfolios by:

■ Hedging against unfavourable outcomes with cheap insurance. For example, the PSG Flexible Fund has a significant weighting (26%) in direct offshore equities acquired at very attractive prices, offering the potential for healthy upside while limiting downside risk. It also holds local stocks with rand-hedge characteristics (roughly 15% of the portfolio).

■ Retaining healthy cash balances in our multi-asset funds. The PSG Flexible Fund currently holds around 17% in fixed interest. This adds an additional layer of diversification and a buffer against equity market declines.

■ We insist on a wide margin of safety for all our holdings. Ideally, our portfolio holdings should already price in a significant number of potential downside and tail risks.

ROLLING FIVE-YEAR FTSE/JSE ALL SHARE INDEX RETURNS HAVE BEEN HIGH FOLLOWING PERIODS OF POOR PERFORMANCE

SOURCES: INET, PSG Asset Management

What is the five-year investment outlook for South Africa?

Rolling five-year returns in South Africa to December 2018 have only been poorer on four occasions over the past 40 years (as shown in the graph). Of the local companies included in this sample (around 289), 79% are down by more than 20% from their five-year highs. However, this has created the opportunity for strong potential returns in future. After the previous five low points on the graph, three-year annualised returns averaged around 24%.

Starting yields in both the fixed income and equity markets are high. Historically, this resulted in future returns that were significantly above average. 20-year government bonds are currently offering a nominal yield of around 10%, which is a real (after-inflation) yield of 4% to 5%. Similarly, our portfolios are invested in a basket of domestic-facing companies that are, on average, currently trading at P/E ratios of eight to nine times. This implies a starting yield of around 12%.

Are there mitigating factors to the 'low road' scenario?

While the challenges South Africa faces are very real, the country remains a functioning democracy and the credibility of its institutions – including the South African Reserve Bank, National Treasury and the judiciary – has been tested and proven over the past number of years. The Ramaphosa administration has also instituted leadership changes at state-owned enterprises and the National Prosecuting Authority.

Despite these mitigating factors, asset prices may already be reflecting a 'low road' outcome.

This in itself mitigates downside risk and, for opportunities that present a sufficient margin of safety, places the odds in investors' favour.

This may well be a cloudburst of gold, and it may be time to bring out the washtubs. ■

Greg Hopkins is the chief investment officer at PSG Asset Management.

By Leon Kok

INTERNATIONAL EQUITIES

Offshore funds that you may wish to flag

With a number of political and economic factors playing out in global markets, deciding where to invest offshore is complex. However, there are a number of funds that have performed well and provide diversified exposure.

Given the enormous public mismanagement and corruption in SA, coupled with the resultant appalling level of economic growth, it's hardly rocket science to suggest that one's investment focus needs to have a strong offshore weighting.

This is not going to change soon.

We have consistently recommended, in fact, that the average middle- to high-income investor ought to place at least 30% to 50% of their fund assets in offshore funds.

Ideally, one needs to be invested across the globe (not being dependent on one particular country or region); be exposed to companies which provide day-to-day necessities such as Unilever, Johnson & Johnson and Nestlé; have sound long-term performance records; and can bank on dividend yields in the region of, say, 3%.

However, you also need to be aware of the hazards.

General outlook

In general, leading international investment houses remain marginally bullish about US stocks this year, but believe that you also need to become defensive in approach. That means getting into cash as well. BlackRock, for instance, reckons there is a cumulative probability of more than 50% that a recession will strike before the end of 2021.

Schroders Global says higher borrowing costs are not the only risk to profitability and valuations. Labour, energy and other business costs are also rising. At the same time, the trend towards protectionism is creating less efficiency in supply chains. Companies heavily reliant on China could be faced with 25% tariffs on exports to the US this year.

Russell Investments is pretty bullish about Asia Pacific, expecting GDP growth there to be in the 4.5% to 5% range, with China and India the major contributors. Equity markets in the region are generally considered to be good value at present.

It expects China to deliver 6% GDP growth, in spite of various obstacles; for India to maintain a very healthy 7.5%; and South Korea to return a decent 2% to 3%.

The house also forecasts that emerging Asia will deliver more than 10% earnings growth, while Japan is well-placed to exceed modest industry consensus expectations. Politics will be a key theme for the region, with elections to be held in India, Indonesia, the Philippines and Australia.

Most investment houses, however, are wary of the eurozone's outlook, particularly Italy, governed by a coalition comprising the left-leaning Five Star Movement and right-of-centre League political parties.

Market sentiment on euro-area equities nevertheless is regarded as slightly positive relative to the US, even though they moved into negative terrain recently. Some contrarian indicators suggest that the decline was probably overdone.

So, what's immediately available?

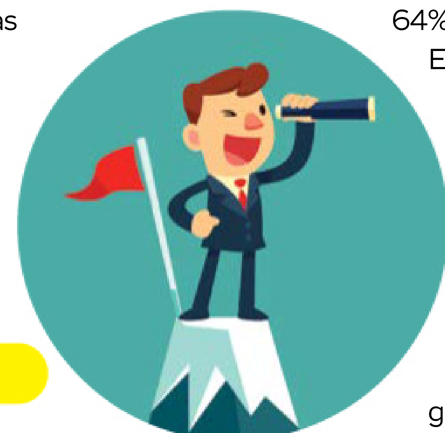

Photo: Gallo/Getty Images

Leading international investment houses remain marginally bullish about US stocks this year, but believe that you also need to become defensive in approach. That means getting into cash as well.

Global equity general funds

Among the most outstanding big brand performances on a five-year cumulative view have been the Investec Global Franchises Fund with a 77% return; Old Mutual Global Equity 74%; Nedgroup Investments Global Equity Feeder 72%; Stanlib Global Equity Feeder 65%; PSG Wealth Global Creator Feeder 64%; Absa Global Feeder 64%; Coronation Global Opportunities Equity 59%; and Allan Gray-Orbis Global Equity 52%.

Managed by Clyde Rossouw, the R7.4bn Investec Global Franchise Fund is a high-conviction portfolio of about 25 to 40 stocks of primarily investment-grade companies with high customer loyalty, strong brands and no debt.

The R17.4bn Old Mutual Global Equity Fund, launched in May 1995 and managed out of London, has long been the market leader among SA's conventional global equity funds. About 28% of its portfolio is exposed to the US, followed by Japan 5.6%, UK 4.5% and Canada 2.7%.

The Nedgroup Investments Global Equity Fund has been managed by London-based Veritas Asset Management since 2010. Its philosophy combines a global thematic approach with a fundamental research process to construct what it considers an unconstrained high-conviction portfolio.

As for global multi-asset high-equity funds, my top choice would probably be the Coronation Global Managed Fund with a 42% return, followed by the Investec Global Strategic Managed Feeder with 40%, and the Momentum International Balanced Feeder at 39%.

Regional equity general funds

The most outstanding in this category has been the Sanlam India Opportunities Feeder at 81%, followed by the Sanlam Asia Pacific FoF 40%. If you're bullish on Europe, you might look at the Stanlib European Equity at 20%. In December we also reported on the Old Mutual Africa Frontiers Fund that generated a 14.3% return in US-dollar terms last year.

Global real estate general funds

Naturally, there is a valid case to also diversify into a good global real estate fund and certainly worthy of consideration are the Marriott International Real Estate Feeder and Stanlib Global Property Feeder, both with cumulative five-year returns of 53%. ■

By Schalk Louw

INDICES

Don't compare apples to pears

It's important to know what investors are talking about when they refer to the South African market and, more importantly, to know what fund managers and ETFs refer to when measuring fund goals against a particular index.

The French have a saying, "comparer des pommes et des poires", which means to compare apples to pears. While there are numerous scientific reports on the similarities between apples and pears, the moral of the story is that when comparing things, you have to make sure that they are actually comparable and that you don't end up comparing two completely different items or subjects.

Around the end of February, I published a table comparing the one-week and one-month returns of the top 10 largest MSCI Emerging Market indices in US-dollar terms on social media. I was told fairly quickly that the data couldn't be correct, as the table showed that South Africa lost 5.34% of its value in dollar terms in February.

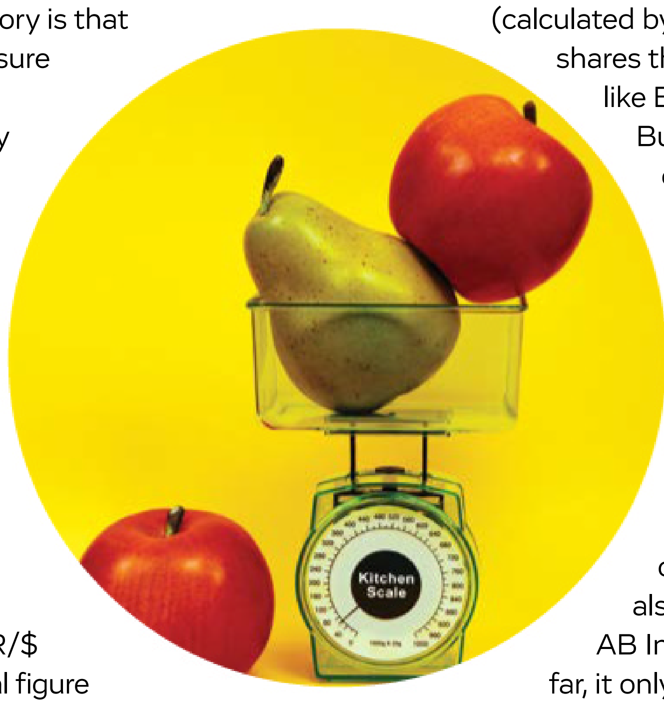

Photo: Shutterstock

The argument against my post was that if we adjust the rand-based returns of the FTSE/JSE All Share Index (+3.41%) by the R/$ weakening (5.89%), it would leave the actual figure in the vicinity of -2.5% in dollar terms. My response to this is that if you compare different MSCI indices (MSCI is one of the largest international index suppliers globally) and then decide to throw an index into the mix that isn't an MSCI index in any way, you are, in fact, comparing apples to pears.

I decided, however, not to discuss my opinion on what I believe to be wrong or right, but rather to highlight the differences between the four largest South African stock market indices for this edition. These four indices appear on most fund fact sheets (also known as minimum disclosure documents or MDDs), and I believe that the information will help investors to compare apples with apples when considering investments in shares.

FTSE/JSE All Share Index

This is probably the most well-known index in SA and it's mostly just referred to as the JSE. This index represents 99% of the total capital value (before any adjustments made in terms of investable weights) of all ordinary shares listed on the JSE's main board. They also have to conform to certain minimum liquidity and free-float criteria (calculated by multiplying the share price by the number of shares that are readily available in the market). Shares like British American Tobacco (BAT) and Anheuser-Busch (AB InBev) with primary listings on other exchanges/indices find themselves on the JSE's main board and will therefore be included in the FTSE/JSE All Share Index, despite the fact that as companies and income streams they have very little to do with South Africa as a country.

	MSCI South Africa Index	FTSE/JSE All Share Index	FTSE/JSE Top40 Index	FTSE/JSE Capped SWIX All Share Index	Average (J203)
1 month	0.61%	3.41%	3.57%	1.23%	0.07%
6 months	-4%	-4.54%	-5.33%	-4.14%	-2.46%
1 year	-6.85%	-3.98%	-3.34%	-6.19%	-5.79%
2 years (annually)	5.66%	4.64%	6.09%	3.49%	0.82%

SOURCE: FNB, PSG Wealth Old Oak

FTSE/JSE Top40 Index

As its name suggests, this index consists of the 40 largest companies measured by market cap on the JSE. The free-float methodology is also applied, which means that although a share like AB InBev is the largest company listed on the JSE by far, it only has 1% free float available, which doesn't make it large enough to be included in the Top 40 largest companies according to net market cap.

MSCI South Africa Index

This index consists of 50 JSE-listed large and medium (mid)-cap companies. These companies must have their primary listing on the JSE. This means that shares like AB InBev and BAT (and all shares whose names are followed by PLC) which have primary listings on other stock exchanges, are not represented in this index. Most people will argue that this index is more representative of SA as a country and our local businesses, but the disadvantage right now is the fact that currently one share (Naspers*) makes up 30% of the total index.

FTSE/JSE Capped SWIX All Share Index

This index is making its appearance on more and more MDDs. But before we get to the "capped" part of this index, I would like to explain why SWIX finds itself at the core of this index. This index consists of exactly the same shares as the FTSE/JSE All Share, but the weight of each share is calculated according to an alternative free-float method, whereby only shares that are registered and held in dematerialised form in SA (maintained by STRATE) are used to determine their weights in the index. The capped part refers to the weight that each share is capped by in this index, which is 10%. This means that even Naspers, which according to the FTSE/JSE All Share currently represents a whopping 19% of the total index, will also be limited to a weight of only 10%. ■

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By Maarten Mittner

OVERVIEW

Off to a credible start to the year

The first quarter of 2019 is coming to a close and it looks like our local equity market had a reasonable start, all things considered. Globally, markets also faced challenges but managed stronger performances.

As the JSE All Share heads toward the end of the first quarter of 2019, all things considered the local equity market had a reasonable start to the year, firming about 5% since the first trading day in January.

That is somewhat weaker than the performances of other global equity markets, but probably the best that could reasonably be expected under the circumstances, as a myriad of challenges remain after last year's reversals.

The Dow Jones and S&P 500 have climbed 9% respectively. The FTSE 100 and the Nikkei have both added 5%. But the star performer has been the Shanghai Composite, jumping 20% year-to-date and clearly pricing in a positive outcome to the present trade talks between China and the US, as well as further stimulatory measures from the Chinese authorities.

The star performers on the JSE have been mining stocks, with the Resi 10 index gaining 9%. Market giant Naspers* recovered 9% following the unbundling of MultiChoice. The Resi 10 was boosted by shares such as Anglo American and BHP rising 15% and 11% respectively. Stocks that were hammered last year generally continued their recovery mode, with British American Tobacco up 23% and Richemont 10% for the year so far.

The market also had to discount sharp reversals, including previous blue-chip Aspen, plummeting 25%, and sugar producer Tongaat Hulett falling to a 25-year low. Retailers continue to have a torrid time, with Mr Price retreating 14%, Woolworths 13%, and Shoprite 6%.

Consumer stocks remain on the back foot. Vodacom has lost 13%, but bombed-out MTN at last seems to be in recovery mode. At the same time there have been some promising rebounds at MMI Holdings, and at Nedbank, where Ecobank reversed last year's losses. However, despite Capitec jumping another 10% for the year, the Fin 15 index is largely unchanged.

With risks remaining elevated, the All Share put in a credible performance, navigating between populist rhetoric from the ANC, continued troubles at Eskom and indications that global growth could experience some form of reversal going forward. Global bourses have generally fared better, but the tide lifted the JSE over the period.

How long the Goldilocks moment – not too hot and not too cold – will continue, is uncertain as many factors come into play. Lower global growth is throwing a shadow over further gains. At the same time central banks have reacted sensibly, adopting a more dovish tone to further rate hikes. Much will depend on real company earnings reported for the rest of the year, which could indicate if markets are overpriced at present levels.

The US Federal Reserve has 'paused' with further hikes. Present lending rates at a maximum of 2.5% are at, or close to, the neutral rate, estimated to be at 2.8%. Fed chair Jerome Powell's assertion that President Donald Trump cannot fire him – "the law is clear on that" – left markets confused momentarily, as they mulled if it is a good or bad thing, finally deciding to adopt a non-committal attitude.

Powell is still attempting to recover some credibility after suffering a setback at the end of 2018 when the Fed indicated it was set to hike rates further, despite an expected slowdown in economic growth. For now, markets have priced in no further interest rate increases in the US this year.

Against the backdrop of subdued growth in Germany, the European Central Bank (ECB) has also seemingly put a lid on interest rate hikes for the year, sending the euro to an annual low against the dollar.

Locally, the rand lost 50c against the dollar after President Cyril Ramaphosa reaffirmed ANC policy to do away with the Reserve Bank's (Sarb) private shareholding. Although the Sarb is only one of six global central banks with private shareholders, the timing of the policy change is questionable against the backdrop of persistent calls by populist political parties, and from Cosatu, to "nationalise" the central bank.

The Dow Jones and S&P 500 have climbed 9%respectively. The FTSE 100 and the Nikkei have both added 5%. But the star performer has been the Shanghai Composite, jumping

20%

year-to-date.

Although Ramaphosa's stance is clearly not "nationalisation", it does open the door for greater government pressure on the Sarb. It also reduces the theoretical independence of the bank, which has adopted a marked hawkish stance on interest rates. Governor Lesetja Kganyago has made it clear that rates are set to remain at present elevated levels for now, and will only be reduced if inflation subsides further. That's not what politicians want to hear in an election year.

Whatever the case, global factors are still expected to remain the main driver on the JSE.

The bond market continues to adopt a wait-and-see attitude amid general scepticism that central banks will be successful in preventing some form of "overkill" in the rates normalisation process. The US ten-year remains stuck at a yield of between 2.6% and 2.7%. The greatest movement since January was in German Bund yields, with the benchmark ten-year yield dropping to 0.10%, and even lower at times, as investors rushed into the German market in safe-haven trade on the ECB's dovish stance.

Yields on the local benchmark R186 rose in tandem with the weaker rand, but soon rebounded from the 9%-level to around 8.6% at present. Foreign buyers have entered the local market again, but trade will remain volatile.

Prospects for global markets remain inexorably linked to central bank policies. Which becomes even more important as lower global GDP growth becomes increasingly likely. ■

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

Photo: Shutterstock

By Lloyd Gedye

A BATTLE FOR SURVIVAL

Over and above the scandals that have dogged the local ICT sector, it lags the rest of the world in terms of innovation. But does the sector still hold investment opportunities?

The last few years have been challenging for South Africa's information, communication and technology (ICT) sector – share prices have in many instances tumbled and the headlines have often been dominated by allegations of corruption and bribery.

Ashburton Investments senior fund manager Nick Crail describes the sector as "a bit of a lemon". Globally the ICT sector is dominated by significant innovation, he says. But if you look at South African ICT companies on the JSE All Share Index, many simply don't fit that bill.

"Listed IT companies in South Africa are much more involved in implementing services for someone else's products," explains Crail. He says the sector is dominated by a handful of small-cap companies, and often there is a lack of liquidity in shares for such companies.

Nick Crail
Senior fund manager at Ashburton Investments

Peter Takaendesa
Portfolio manager at Mergence Investment

South African IT companies are essentially distributors of innovation, argues Mergence Investment's Peter Takaendesa. "The ICT sector generally is struggling," he says.

Unum Capital's Michael Porter concurs. "We are not very bullish on this sector," he says. "We don't see too much value in this sector currently as a whole."

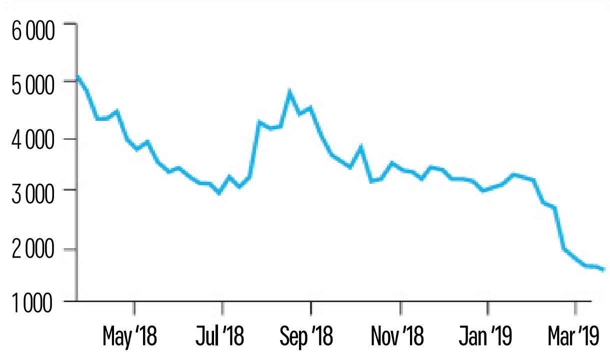
For Porter, investment interest lies with the odd individual company in the sector, not the sector generally. He points out that a lot of South Africa's listed ICT companies have been hit with a string of bad news, with some scandals involving allegations of corruption, bribery and the illegal expropriation of funds. These allegations have impacted investor confidence for specific companies, but also for the broader sector as a whole.

One player in the ICT sector that of course remains a firm favourite with investors is Naspers*, which recently

Photo: Shutterstock

> “We are not very bullish on this sector. We don’t see too much value in this sector currently as a whole.”

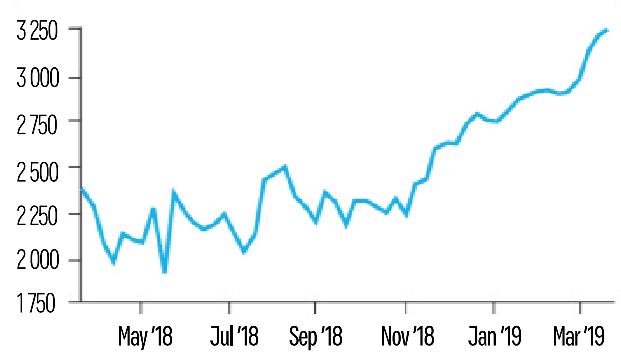
EOH



52-week range:	**R12.50 - R75.30**
Price/earnings ratio:	**5.9**
1-year total return:	**-77.84%**
Market capitalisation:	**R2.85bn**
Earnings per share:	**R2.78**
Dividend yield:	**-**
Average volume over 30 days:	**955 986**

SOURCE: IRESS

DATATEC



52-week range:	**R17.15 - R34.30**
Price/earnings ratio:	**-**
1-year total return:	**25%**
Market capitalisation:	**R7.06bn**
Earnings per share:	**-R0.17**
Dividend yield:	**-**
Average volume over 30 days:	**616 197**

SOURCE: IRESS

unbundled its MultiChoice business.

Porter says that while Unum Capital likes Naspers "mainly due to their holding in Tencent", the company's management process of off-loading non-core assets will be good for shareholder returns.

Unum Capital trader Taahir Joosub argues that Naspers has great prospects in mobile gaming and a "solid track record" in acquiring unicorn investments in the ICT space.

But where do investors put their money beyond Naspers in the SA listed ICT sector?

EOH

Both Datatec and EOH have suffered share price pressure since 2018 as their businesses go through restructuring.

Most of the portfolio managers interviewed by *finweek* felt neither of these two companies currently offer value to the investor.

EOH chief executive Stephen van Coller recently described the company as a "vegetable soup".

"It's not clear if it's 10% carrots or 90% carrots," he told Bloomberg. "We're working toward fixing this, and part of that will be to split it into different units with separate boards to get the capital structure right."

EOH consists of roughly 270 different companies, and Van Coller has indicated plans to break EOH into different parts to release greater value, with the software business split into about six to eight separate companies.

He has his work cut out and will have to work quickly before shareholders lose patience.

Over the last year, the EOH share price is down just short of 75% and over the last three years just shy of dropping 88%. It has lost 45% this year alone, with a 34%-drop after its announcement in mid-February that Microsoft had cancelled a partner network agreement and licensing solution provider agreement with one of its subsidiaries, EOH Mthombo. EOH Mthombo was a direct reseller of Microsoft licenses and the cancelled agreement was expected to have a material effect of R10m on profits.

But a few days later TechCentral reported that the cancelled agreements related to a US Securities and Exchange Commission (SEC) investigation into a R120m South African department of defence procurement deal. The investigation was reported to have begun when a whistleblower presented evidence in November 2018. TechCentral also reported on another SEC investigation into a multi-million dollar tender in Tanzania that involved EOH affiliate company Twenty Third Century Systems (TTCS).

Crail says EOH's reputation is under serious duress and the company "uninvestable" as things stand. "It's bang or bust," he says.

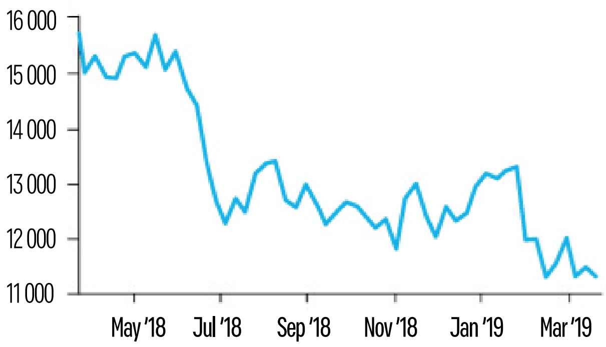
Takaendesa describes EOH as a "very tricky" prospect at the moment. "If this thing survives, there is a lot of value there," he says. "But there really is nothing to base an investment decision on."

MTN

52-week range:	R69.07 - R134.66
Price/earnings ratio:	28.16
1-year total return:	-22.24%
Market capitalisation:	R179.4bn
Earnings per share:	R3.37
Dividend yield:	5.24%
Average volume over 30 days:	5 388 570

SOURCE: IRESS

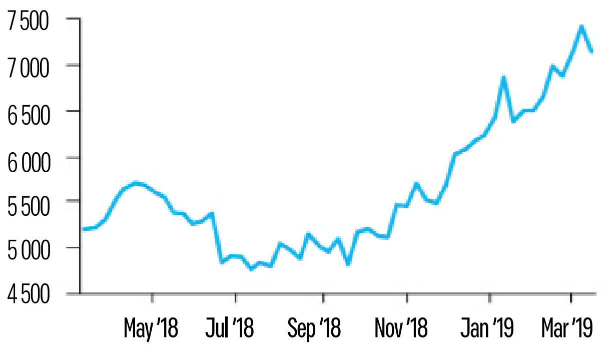
VODACOM



52-week range:	R111 - R167.86
Price/earnings ratio:	13.32
1-year total return:	-26.26%
Market capitalisation:	R210.56bn
Earnings per share:	R8.63
Dividend yield:	7.13%
Average volume over 30 days:	1 896 120

SOURCE: IRESS

TELKOM



52-week range:	R46.09 -R75.31
Price/earnings ratio:	13.19
1-year total return:	45.5%
Market capitalisation:	R38.34bn
Earnings per share:	R5.69
Dividend yield:	2.99%
Average volume over 30 days:	1 323 826

SOURCE: IRESS

Datatec

Between January and April 2018 Datatec's share price dropped from R56.51 to R19.71. Over the last year its share price is up 26.9%, although still down 34.7% over the last three years.

Crail argues that Datatec started to recover well. However, the company is currently selling off businesses, some of which are cash cows. He expects that this will hurt the company in the long run.

Takaendesa believes that Datatec does offer value to investors, pointing out that shares have indeed recovered to R31 per share from lows of R19. "Shares got super cheap," he says. "There are good signs of recovery."

He explains that Datatec's story is not currently about growth, but rather about restructuring. He argues that the company has a strong net cash position and continues to buy back its shares.

A share price of R34 is considered full value currently, according to Takaendesa.

The mobile players – MTN and Vodacom

MTN and Vodacom, both seen as mobile giants, have had their fair share of negative headlines over the last few years.

MTN has been dogged by allegations of bribery in Iran, faced huge fines in Nigeria and had executives deported from Uganda, related to issues of "national security".

Recent legal developments relating to its business in Uganda and Iran have knocked its share price, which has dropped by over 10% in the last month.

MTN's share price is down more than 60% over the last five years, falling from R199.50 in March 2014 to R76.62 at the beginning of March 2019, before recovering to over R95 after releasing its results.

Vodacom also faced public backlash in 2019. First over its ongoing settlement with "please call me" inventor Kenneth Makate and secondly over an attempt to bill subscribers for rolling over data they had already paid for.

Vodacom's share price is down 8.7% over the last five years, however, its down 31% in the last year. In mid-2017 it was trading at around R185, but currently trades at around R114.

MTN's share price is down more than

60%

over the last five years, falling from R199.50 in March 2014 to R76.62 in March 2019.

The wait for regulatory certainty

At the end of February, it was reported that government had shelved its Electronic Communications Amendment Bill, which had proposed the establishment of a wireless open access network (Woan), aimed at bringing prices down for consumers.

Communications minister Stella Ndabeni-Abrahams referred to the amendment as "ad hoc" in Parliament, stating that the department would consult further.

Unum Capital's Michael Porter says the Woan as proposed would open the door for small players to leverage off the infrastructure of bigger players like MTN and Vodacom, at a set rate. He says government argued this would facilitate declining communication costs and make it easier for smaller players to enter the market.

According to Porter, it appears the policy is not off the table completely.

THE BATTLE FOR SPECTRUM

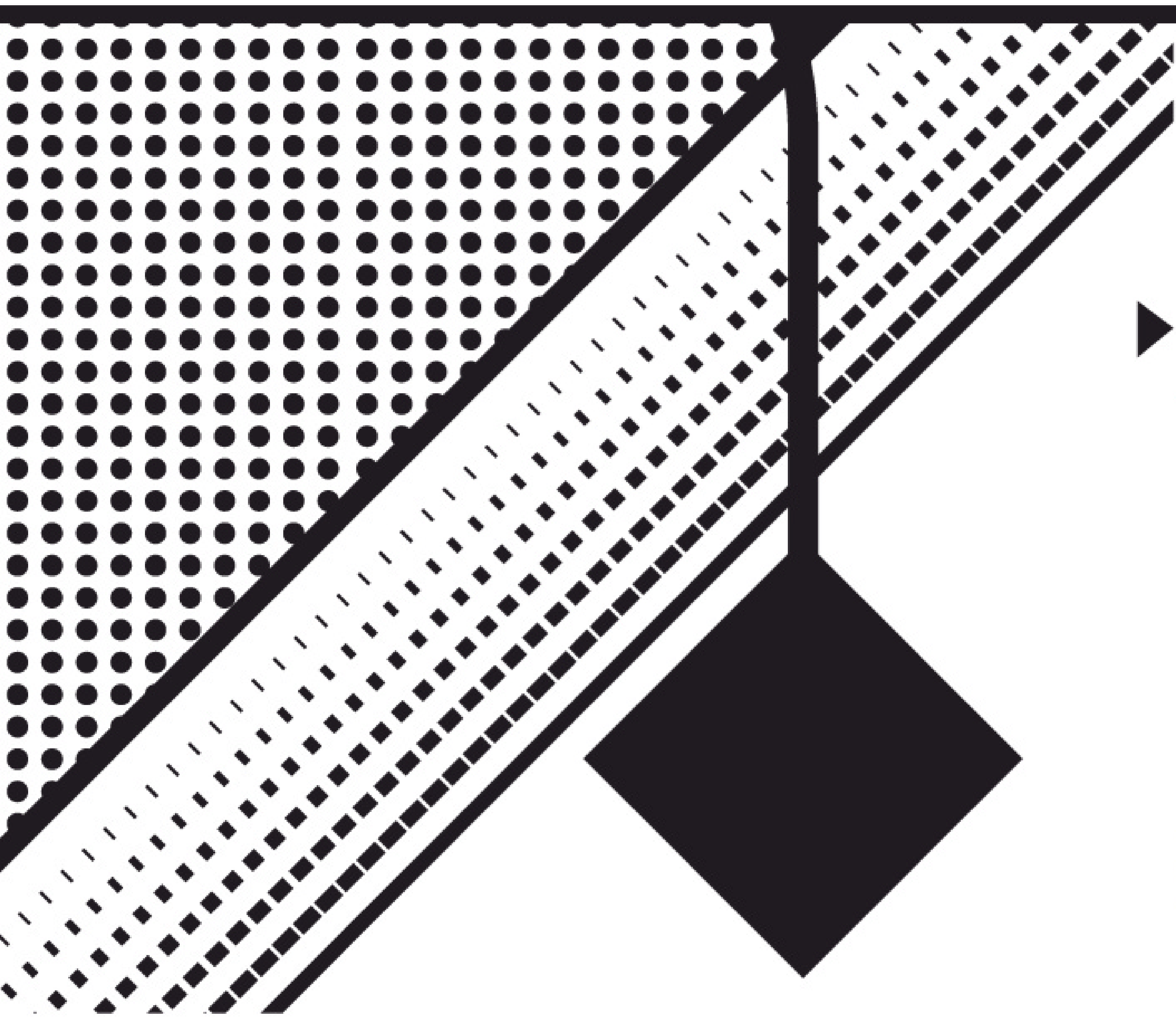
Meanwhile, ICT analysts that *finweek* spoke to argue that both Cyril Ramaphosa's State of the Nation Address and Tito Mboweni's budget speech indicated that government is racing ahead to release spectrum, used to carry data over air waves and which is in high demand in the sector.

An industry insider who spoke to *finweek* off the record suggested that an auction would play into the hands of the companies with the deepest pockets and argued that if the incumbents were awarded the new spectrum, it would ensure their dominance for another 15 to 20 years.

One analyst suggested that a driver of the release of spectrum might be the revenue from a spectrum auction that will be available to the fiscus.

Ashburton Investments senior fund manager Nick Crail does not think a spectrum auction is the best way to allocate spectrum, as government needs to find a balance between attracting companies who want to invest capital upfront and making sure that national connectivity constraints are addressed at the same time.

One analyst suggested that government is unlikely to hand over the spectrum without stringent conditions, such as rolling out services in rural areas or terms and conditions for wholesaling. ■



Unum Capital's Joosub says its best to avoid both Vodacom and MTN at the moment. He explains that several studies have highlighted the expensive pricing of data in South Africa, when compared internationally. And the local industry regulator, the Independent Communications Authority of South Africa (Icasa), has already indicated plans to further regulate data prices to benefit consumers.

"I expect this theme to continue and for this reason I believe the telecom operators are in a structurally declining industry in terms of profitability," he says.

Ashburton's Crail points to MTN's challenges in Africa and says its troubles in Iran, Uganda and Nigeria are specifically weighing heavy on investor confidence.

"Nobody knows what's going to happen," he says.

MTN has also at times experienced difficulty to repatriate profit from some of the countries in which it operates. This has resulted in financial pressure.

Crail is more positive on Vodacom. He says that while this mobile operator might have a mature South African business facing regulatory uncertainty, it's operations in the rest of Africa are experiencing growth.

"Vodacom is a nice defensive stock, at the right price," argues Crail.

Mergence Investment's Takaendesa prefers MTN, arguing that its key challenges are legacy issues going back a few years. He also reckons that this has been more than factored into MTN's share price. He argues that if it wasn't for these legacy challenges, MTN would be trading closer to R110 or R120 a share.

Sipho Maseko
CEO of Telkom

Telkom

CEO Sipho Maseko may have been able to turn Telkom around during his six years at the helm, but portfolio managers appear divided as to whether Telkom currently represents a good investment or not.

Some choose it over Vodacom and MTN; others prefer one of the two mobile giants.

Telkom's share price is up 117% over the last five years from around R32 in March 2014 to around R74 in March this year.

But most of the upswing happened in Maseko's first few years at the helm.

Takaendesa says the problem with Telkom is that all the "low hanging fruit" has already been harvested. "They've already streamlined and cut the headcount."

Maseko more than halved the workforce of 22 000 that was at Telkom when he arrived in 2013.

But while Telkom's mobile business is doing well, the legacy fixed-lines business is in structural decline, which represents a challenge, Takaendesa points out.

Telkom's interim results (for the six months to the end of September) boasted growth of 50% in its mobile subscriber base, to 6.5m (with 1.7m post-paid customers and 4.5m pre-paid customers). At the same time fixed-line broadband subscribers had dropped from 999 311 to 974 181 over the six months.

But analysts suggest that fibre-to-the-home (FTTH) players are "eating Telkom's lunch".

While Telkom dominates the long-haul fibre market in SA, Takaendesa says that FTTH players have stolen the march on it. Telkom is therefore no longer the dominant player when it comes to the last mile.

Crail agrees that Telkom's unwinding legacy businesses pose a risk.

On the mobile front, there has been much speculation that Telkom would look to acquire Cell C.

Crail says that the South African market probably has too many cellphone operators. "We probably need just three," he says. But he suggests that while a rumoured tie-up between Telkom and Cell C would make sense, it should have happened five years ago.

"Cell C can't stand on its own two feet," he says, pointing to the Blue Label share price, which has dropped significantly since it invested in Cell C.

Crail says that Telkom doesn't have the balance sheet to challenge MTN and Vodacom properly. "We think Telkom is quite expensive," he says.

However, Telkom is the only South African telecoms stock that Unum Capital holds, says Porter. ■

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By Glenda Williams

GEARING UP FOR GROWTH

Eroding new car sales indicate domestic purchasing power strain. For SA's carmakers, profitability

"The best proxy indicator for middle-class spend is a car," says Dr Martyn Davies, managing director, emerging markets & Africa, Deloitte. If that's the case, eroding new car sales speak of a middle class with diminishing purchasing power.

Last year, sales dropped 1% to 552 226 units. Next year, sales are predicted to erode further by 0.4% to 550 000 units, said Andrew Kirby, president and CEO of Toyota South Africa Motors (TSAM), speaking at the Toyota State of the Motoring Industry (SOMI) in February.

Despite growth in sales of SUVs and double-cab bakkies, sales of other vehicle segments are shrinking (see graph). Small cars, though, remain the biggest market due to affordability while expensive electric and hybrid vehicles (no government incentives) illustrate a downward trajectory.

Fuel price increases and a new carbon tax on fuel are not helping grow sales. The general fuel levy and the Road Accident Fund levy recently increased by 15c and 5c per litre respectively. But from 5 June this year the new carbon tax on fuel comes into effect, with an additional tax of 9c/litre on petrol and 10c/litre on diesel putting further strain on middle-class purchasing power.

The domestic market for new cars is small, and therefore not the answer to significant growth or profitability for SA's car manufacturers. That lies predominantly with exports. Around 60% of locally built cars already head off to the rest of the world.

SA's automotive sector is a leading manufacturing engine for economic growth. It contributes 7% to GDP, constitutes 30% of total manufacturing output, is responsible for 14% of total exports and employs 112 000 people in vehicle and component production. Seven carmakers – BMW, Ford, Isuzu, Mercedes-Benz, Nissan, Toyota and Volkswagen – have a local manufacturing presence.

The importance of a robust motor manufacturing industry in SA is beyond question. It is also key to foreign investment. In 2017/18 that amounted to R16bn worth of investments by Mercedes-Benz and VW. In the two years prior, BMW and Toyota each invested over R6bn and Ford R2.5bn. Over the next five years, the automotive industry's investment commitment comprises R40bn.

Fortunately, SA's government has essentially extended and replaced the current automotive production incentive scheme. The new South African Automotive Masterplan (SAAM) 2035 will run from 2021 to 2035, replacing the current Automotive Production and Development Programme (APDP).

Martyn Davies
Managing director of emerging markets & Africa at Deloitte

Andrew Kirby
President and CEO of Toyota South Africa Motors

Thomas Schaefer
Chairman and managing director of Volkswagen Group South Africa

Photos: Supplied

Other hurdles may not be overcome as easily. Foremost among these is labour costs. Wage negotiations with unions take place this year and unions have already given indications that the gloves are off.

"The union movement in SA has been more agitated during this period of turmoil and uncertainty and we are expecting tough discussions," says Kirby.

Labour disputes threaten production, costs and jobs, as well as the country's goal of growing vehicle production to 1% of global output. That target amounts to 1.4m vehicles produced annually – drastically increasing the percentage of vehicles assembled locally from 38.7% to 60%.

Expanding exports

From 1995 to October 2018, SA exported over 4m vehicles, Kirby said last year. The total export value of vehicles and components over that period exceeded R1.47tr.

But the success of the SA automotive industry relies on expanding its global export opportunities, says Neale Hill, managing director, Ford Motor Company South Africa and sub-Saharan Africa (FMCSA).

"As an industry, we have already made great progress, increasing total export volumes substantially from 239 465 vehicles in 2010 to 351 154 in 2018, and potentially climbing to over 400 000 units by 2020," he says.

Approximately two-thirds of FMCSA's total vehicle production (over 100 000 units annually) is exported to 148 countries throughout Europe, the Middle East and Africa, 23 of them in sub-Saharan Africa.

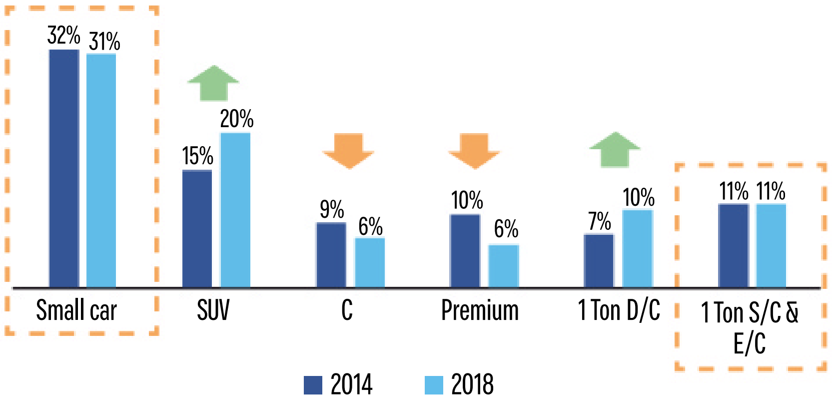
According to Deloitte's Davies, Africa is one of the areas with export growth potential, but regulation in Africa that is more enabling is required.

Kirby believes Africa provides an opportunity to further grow Toyota's exports. TSAM already exports to 42 countries on the continent. "Around 50% of Toyotas sold in Africa are manufactured in South Africa," he says, adding that TSAM has received a 38% increase in orders from Africa for 2019.

OUTSIDE SOUTH AFRICA

and growth now lie with exports and the African continent.

SEGMENT TRENDS



SOURCE: Toyota SOMI 2019

Looking to Africa for growth

Volkswagen SA is driving the idea of working together with African countries to create partnerships that are mutually beneficial.

"The solution for the continent and for SA is cooperation," asserts Thomas Schaefer, chairman and managing director of Volkswagen Group South Africa (VWSA). African countries, he claims, are increasingly identifying the automotive sector as a key manufacturing industry for the realisation of their countries' goals.

Ethiopia joined Ghana and Nigeria in becoming the third country in sub-Saharan Africa to sign a Memorandum of Understanding (MoU) with VWSA in the last six months. MoUs identify key pillars for the development of an automotive hub. These include the establishment of vehicle assembly facilities (with SA providing assembly kits), localisation of automotive components, and introduction of mobility concepts.

Africa offers a good prospect for local vehicle manufacturers, but the proliferation of used cars dumped into Africa from overseas markets is a threat, claims Davies.

"Africa is not a dumping ground for second-hand vehicles. Africa needs to protect its economies. If we want to industrialise our countries, we have to prevent these cheap imports."

Ghana is now restricting its importation of used cars, reveals Schaefer.

A robust automotive industry comes with favourable government policies, a stable labour force, a strong export market and healthy domestic demand. The latter includes consumers supporting locally built vehicles by buying local.

For SA's patriotic car buyers, good news is on the horizon. National Treasury's proposal to align the tax treatment (for ad valorem customs and excise duty purposes) between imported and locally manufactured vehicles is expected to make 'Made in SA' cars cheaper than their imported counterparts. ■

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Internal combustion vs. electric

"The whole world is moving from internal combustion engines to electric," says VWSA's Thomas Schaefer. So despite weak domestic electric vehicle (EV) sales and almost zero sales in Africa, Schaefer says VWSA is considering introducing EVs in Rwanda.

"I am not so sure that Africa will adopt new technology at a slower rate," he tells *finweek*. "Rwanda is on a green drive. They are ready for electric cars. Fuel there is super expensive and they already create around 70% of their electricity from renewable energy, expected to be 100% within ten years. They are creating free electricity."

Another factor that could turn the tide in EVs' favour are new emission requirements. That's pushing up costs of producing engines that run on fossil fuels. New emission costs per engine are going "sky high", says Schaefer. "At some point the cost of producing a traditional combustion engine will meet that of an electric motor."

Asked about the viability of manufacturing EVs locally, president and CEO of Toyota South Africa Motors, Andrew Kirby, tells *finweek* that "manufacturing electric vehicles is not a big technical challenge.

"We have the capability to do that. But to manufacture in SA to only sell 66 vehicles annually means we don't get a return on our investment," he explains.

EV manufacturing for export also appears unfeasible.

"Markets in Europe, the US and China that are incentivising EV sales are trying to generate their own local manufacturing to support those markets, so who would we export to?" asks Kirby.

Manufacturing aside, electric cars can provide opportunities for SA.

"Lithium-ion battery production in South Africa is the obvious choice," Schaefer tells *finweek*. "We could do batteries here *for Africa,"* he quips.

There are plans for the production of lithium-ion batteries in SA, he adds, citing Coega, a region rich in manganese (a lithium component) as the probable production site. ■

By Glenda Williams

Backing a new horse (power)

The shift to electro-mobility gains traction, though less so locally.

The Nissan LEAF and BMW i3 on charge at the Victoria Wharf Waterfront in Cape Town.

Electric vehicles are predicted to comprise 11% of global sales by 2025 and 55% by 2040. One million electric vehicles were sold in 2017. In 2018 that rose to 1.6m.

The switch to electric vehicles has largely been driven by the 'Dieselgate' emissions scandal and the reaction of governments to ban diesel engines (particularly in Europe), and tighten fossil fuel emissions through hefty taxes.

Carmakers have responded swiftly to this clean energy quest with electric vehicles. Twenty brands currently market electric vehicles, with 150 different model ranges expected in the next five years.

Electric vehicles come in three forms: emission-free 100% battery electric vehicles (BEV); plug-in hybrid electric vehicles (PHEV) with electric motor and internal combustion engine combination; and a mild hybrid electric vehicle (MHEV) that harvests energy when coasting.

Electric vehicles are predicted to comprise

11%

of global sales by 2025 and

55%

by 2040.

All-electric vehicle sales

Currently there are only two all-electric vehicles available in South Africa – the BMW i3 and the Nissan LEAF. The Jaguar I-PACE joins the local BEV line-up in March. (See box.) Also expected for the domestic market this year are the all-electric Mercedes-Benz EQC and Audi e-tron.

For the BMW Group, 2018 was the fifth consecutive year of increased BMW i3 sales, up 10.6% to 34 829 sales worldwide. Nissan has sold more than 380 000 Nissan LEAFs globally since the 100% electric model went on sale in 2010. Last year 46 989 LEAFs were produced, up 177% from 2017.

Locally, electric and hybrid trajectories are not following the same upward path seen abroad. This, in large part, is due to a lack of government incentives (the opposite being true for many markets abroad), with the heavy import duties levied on electric vehicles adding to an already expensive price tag.

On the domestic front, sales of BMW's all-electric i3 were around 20% lower in 2018 (down to 54 from 66 in 2017). The decline was a result of the change-over to an i3 with a larger (120Ah) battery, Edward Makwana, group product communications manager at BMW Group South Africa and sub-Saharan Africa, tells *finweek*. "The larger-battery i3s were only produced towards the end of last year and just went on sale this year."

Richard Gouverneur
Managing director of Jaguar Land Rover South Africa and sub-Sahara Africa

The Nissan LEAF made its local debut in 2013 and since then a total of 92 units have sold, Patience Dumisani, head of product communications at Nissan South Africa, tells *finweek*. But the LEAF was not sold locally in 2018 due to the expected introduction of the new, second-generation Nissan LEAF, expected in SA by the end of 2019.

Range anxiety and charging worries have contributed to putting the brakes on all-electric sales locally. While these issues have mostly been addressed, the main contributor – that of price – has not. Until government comes to the party, local sales of electric vehicles are likely to remain lukewarm and available only to high-income earners. ■

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ALL-ELECTRIC JAGUAR I-PACE SUV DEBUTS LOCALLY

Electric vehicle choice widens locally with the introduction of the Jaguar I-PACE SUV, the country's third pure electric vehicle and first all-electric SUV, this month.

Two synchronous electric motors generate a staggering 294kW of power and 696Nm of torque, launching the all-wheel drive SUV from 0-100km in 4.8 seconds, while the 90kWh battery provides a range of up to 470km to quell range anxiety.

Apart from the limited-number First Edition, three trim grades are offered, with prices ranging from R1 687 200 to R1 820 900.

Richard Gouverneur, managing director of Jaguar Land Rover South Africa and sub-Sahara Africa, tells *finweek* that "more than double-digit" orders have been received locally. ■

Photos: BMW Group/ Motorpress.co.za/ Jaguar Land Rover

CEO INTERVIEW

By David McKay

Flying further afield

Comair CEO Erik Venter has been with the company for over two decades. Over the last few years, the company's focus has shifted beyond aviation in order to grow the business.

It was the chance of a free flight that first brought Erik Venter to Comair's door. "A friend of my father's suggested I apply for a job at this company, Comair ... but I was taking a bus to visit a friend in Harare," says Venter.

"But since the job application involved a free air ticket, the accountant inside me decided it was a good idea."

That was some 23 years ago. After graduating from the University of Cape Town, Venter went on to complete his articles at KPMG. When he took a job at Comair, it was as finance manager. He then moved around the group in various capacities before being appointed CEO in 2013.

Naturally, the world has moved on since the mid-1990s when Venter first joined the company. Perhaps the single largest development has been the fact that Comair as an investment proposition can't rely solely on its long-standing aviation business. That's why three years ago Venter introduced a diversification strategy which, in essence, seeks to capitalise on consumer services pre- and post-air travel.

Brands such as the SLOW and SLOW in The City lounges, and Kulula.holidays, are well-known, front-facing consumer experiences. But the company also has a food business that supplies both its terminal lounges and, increasingly, those of other airlines. Venter wants these to grow, especially on the continent.

But it's in the technology-driven space that new opportunity beckons.

A new online platform will start trading mid-year and will intend to tap into the high-net-worth inbound luxury travel sector, a vertical in the tourism industry that Venter & Co have identified as high growth. So far, Comair has allocated R26m over the last three years developing the initiative.

Erik Venter
CEO of Comair

"The idea would be to get the platform on your phone where you can organise your travel details and get recommendations of places to stay," says Venter.

Previously, Comair was reliant on the business network of, in the case of Germany, a single travel agent. That approach can't pass muster today, and while Venter is doubtful SA has the infrastructure to support a broad tourist inflow as New Zealand has achieved (aided by the myth-seeking *Lord of the Rings* cohort) posh safari, for instance, is perhaps a good start.

Identified three years ago as a five-year plan, the strategy is to develop non-aviation business to the point where it represents half of the overall Comair offering compared to about 23% of the total today. There's an added difficulty, though, in that this target has to be achieved without compromising aviation, which is being positioned for when growth can occur again.

The strategy is to develop non-aviation business to the point where it represents half of the overall Comair offering compared to about **23%** of the total today.

The law of the jungle in the aviation business is that growth in passenger numbers only occurs when gross domestic product grows at 2% or more. It must have been sobering business, therefore, to hear SA finance minister Tito Mboweni tone down this year's GDP growth to 1.5% (from 1.7% as per previous estimates). As for 2% GDP growth, that's only expected from 2021 at the earliest.

"As soon as GDP growth drops below 2%, we just see that there is complete stagnation in air travel growth," says Venter.

Photos: Supplied

> **"As soon as GDP growth drops below 2%, we just see that there is complete stagnation in air travel growth."**

"We have seen for a while now there's been extremely limited growth in the SA market. Over the last eight years there's been about 4.5% growth whereas in the global market there's been 5% per year. So, we're virtually sitting in a stagnant domestic market at the moment and that's really what triggered us a while ago already to start looking at diversification.

"We're almost holding ground at the moment in the airline space, to say: 'Well, we've just got to tread water until we see some economic growth again'. So, if that's the case, we've got to find more appealing growth elsewhere than just in the airline space," he says.

That's not to say there's been no 'growth' in the airline business. Comair has upgraded its fleet and bought more efficient aircraft, enabling the aviation division to move forward in terms of efficiencies, if not revenue.

"But that can't carry on forever," he warns. "That is really why we're trying to ensure that the other businesses' growth actually achieves a sort of hockey-stick effect fast enough to compensate for the fact that we can't continuously just make progress on efficiencies.

"We don't know when we're going to get to any kind of meaningful economic growth again. We're hoping that in another 24 months we might get to 2%, but that's anyone's guess right now. It depends, I guess, on how positive government comes out in terms of investor-friendly policies in the future.

"But in the meantime, we've sort of got to take the worst-case scenario and be prepared for treading water for a bit longer."

There are some crumbs of comfort for the likes of Kulula.

One is seeing how quickly consumer confidence can return to the passenger market. When former president Jacob Zuma stepped down in February 2018, there was a surge in domestic travel for the month – a development Venter said was related to corporate clients deciding to pick up on projects that had been on the back-burner.

"We even saw the leisure market: people just had the kind of confidence to spend the money. So, there was a bit of a surge of people going to play golf at Fancourt, and these little things. We were quite astounded at just how quickly the market responded. The first-hand stories from our corporate clients were that they were going to push forward on stuff that's been warehoused for five years or six years. So, I think there is pent-up demand, but it has to have that confidence."

A plane belonging to budget airline Kulula stands on the apron at OR Tambo International Airport in Johannesburg.

Comair has long prided itself on never having reported an operating loss and the group's recent interim performance suggested the record would be maintained. Cash fell quite heavily, but investors were relatively sanguine.

In fact, shares in the company nipped up more than a quarter in February following a Supreme Court judgement awarding Comair R1.1bn in damages from state-owned SAA, related to an earlier High Court ruling on anti-competitive behaviour. The fact is, though, the cash is payable over three years and tax has to be paid first. It's not the windfall it at first looks.

SAA, and its long-standing operating problems, grates Venter no end. Asked if perhaps government's pledge to improve the running of state-owned enterprises could result in structural changes to the benefit of all, he is dismissive.

"I think the biggest challenge that they're facing is a massive skillset deficit. Aviation skills aren't even readily available globally despite the fact that we've had a lot of European airlines shutting down recently," he says. He's not referring to pilots and ground staff, positions he considers "generic" and relatively easy to train, albeit expensive.

Rather, it's the specialist finance and commercial functions that manage pricing, seating and scheduling; in essence, revenue optimisation and integrity as well as lease and maintenance specialisation. "There are so many areas that you can't just take a generic person and put them in there and expect them to float even," he says.

Venter reckons there's probably 200 to 300 positions in SAA that need specialist skills that aren't there anymore.

"Now how do you overcome that? There isn't a single consulting firm in the world that can give them an entire pool of people to deal with that. And that's the challenge. It doesn't help to have a few senior executives and nothing in middle management that has got the skillset." ■

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By Glenneis Kriel

Price comparisons bring transparency to online shopping

PriceCheck lists product prices at various retailers to help online shoppers make better-informed purchasing decisions.

Kevin Tucker started PriceCheck in 2006, sold it to Naspers* in 2010 and then bought it back in 2015. Today, the website lists more than 8m products from roughly 800 merchants and attracts over 2.3m regular browsers per month. Tucker talked to *finweek* about his journey with this company.

What did you do before you started PriceCheck?

After doing a computer science degree at UCT, I went on a two-year working holiday to gain work experience in England. I ended up doing lots of random temp jobs for almost a year until I finally landed a job as a web developer at a web development company, Totally PLC. During my time in London, I developed an online auction platform, where people had to pay to bid to keep selling prices low. I sold the platform to a European company after a year and half.

Where did you get the idea to start PriceCheck?

I did a lot of online shopping while in London and on my return to South Africa discovered there weren't any price discovery or comparison sites like the ones I used overseas to guide my purchasing decisions.

Where did you get start-up funding?

I bootstrapped the first year, writing the platform in my bedroom and launching it in June 2006 with no marketing or fanfare. The website caught the attention of Onno Staal, a Dutch investor, who ran a similar platform in the Netherlands, and we went into a 50/50 partnership in 2007. The deal freed up cash to invest in the growth of the company.

What were your biggest challenges when you started out?

It was difficult to monetise the platform, since the concept of "pay per click" was not yet developed. We generated most of our income through miscellaneous commission on referred sales, especially to Kalahari.net.

Why did you sell the company to Naspers in 2010?

It was a good deal for both parties, since revenue was growing significantly each month and I just turned 30 and wanted to experience a little more of the "good life". I stayed on for another ten months, during which I learnt a lot, but thereafter decided to take a break from the corporate world. Naspers, however, convinced me to stay to work on a sales platform similar to Groupon, but the division was closed down after another seven months.

Why did you buy PriceCheck back in 2015?

I heard rumours that Naspers was thinking of shutting PriceCheck down. By that time I had developed another platform called Shoppingfeeder that allows retailers and companies to list their products and services on price comparison sites across the globe, so realised the value that PriceCheck could add to this site.

I approached Manuel Koser of Silvertree Internet Holdings for financial backing. It took eight months of negotiations before Naspers agreed to sell PriceCheck, resulting in Silvertree Internet Holdings becoming the majority shareholder in the platform.

What was the state of the company when you bought it back?

Naspers had spent quite a lot of money on growing the brand, resulting in a lot of brand affinity. The platform, nevertheless, was running at a loss, so we had to restructure to get back on track. Hosting fees were way above market prices, too much money was spent on the marketing of the site instead of improving efficiencies, and there were too many freeloaders benefiting from the service.

You also had to retrench people, so I guess staff morale was pretty low?

PriceCheck only had four employees when we sold the company to Naspers. When we bought it back, the staff component had grown to 40 employees, which we reduced to 15. It was a tough time, but people voluntarily left after we showed them the poor financial state of the company. For them, the option was to jump ship while they could still score a few months of

Q&A:

Kevin Tucker
Founder of PriceCheck

compensation rather than leave later when there might not be a safe landing.

Staff morale picked up soon afterwards when the company started making money and they could see we were on a better trajectory. This actually happened very soon, since we had to prepare for our first Black Friday campaign which was due about three weeks after the takeover.

It also helped that I have a vested interest in the company's success, which is much better than working for a large multinational where the closure of a division does not really have a big impact on the overall business. Since then our staff component has grown again to 35 people.

How would you describe your management style?

With no formal business management training, my approach is to keep things simple, do what needs to be done and to lead by example.

How do you feel about flexi-hours?

Our policy on flexi-hours has changed as I became increasingly aware of how much time people are spending in traffic to reach the office. Now work hours may be anything from 07h00 to18h00, as long as everybody is at the office between 10h00 and 15h00. People are allowed to work from home once a week on prior arrangement and we have two developers who work remotely.

I like the spin-offs of flexi-hours: Firstly, it enhances people's sense of responsibility but also gives them an opportunity to get in touch with what is happening around them. You are not going to get this exposure if you sit in the office all day.

Naspers expanded the company into Nigeria. What happened to this division?

Naspers ventured into the Nigerian market in partnership with MTN around 2014, when the country's economy was booming. The oil price collapsed soon afterwards, resulting in a huge slowdown in ecommerce and trade in general. We still have a lot of capacity to grow in South Africa, so have shelved the Nigeria expansion for now.

What is competition in the market like?

Being the only online platform offering price comparisons, we don't have any direct competition but ironically compete indirectly with Google, through which we generate most of our browsers, and some of the retailers whose products we list. What makes us unique is the fact that we are totally independent.

What does your marketing strategy look like now?

We primarily use Google Ads, email and social media and other remarketing tools like Criteo, but will also run radio advertisements for big campaigns, such as our Black Friday campaigns.

How has the service offering changed since you started PriceCheck?

At first we only did price comparisons based on retailers' listings, but now also provide sales recommendations based on machine learning and offer product reviews. The overall goal is still to help shoppers make better purchasing decisions.

Who is your greatest inspiration?

I have never really had a business idol or mentor, but I like stories of people, like Elon Musk, who make it big after taking huge risks to start a company on nothing more than a whim. The thing is that many of the products entering the market, especially on the digital side, are so new that it's near impossible to gauge the market potential.

What were some of the biggest lessons you have learnt so far?

From my original partnership – never enter a 50/50 partnership. It resulted in too many deadlocks that over time paralysed the business and soured our friendship.

From my dealings with Naspers, I learnt not to skimp on good lawyers, especially not when you are an amateur company dealing with a huge multinational.

Over the last two years, I have learnt to entrust others with not only the trivial, but also important aspects of the business. It is extremely hard to stop micromanaging things when you have been doing everything for a company since its inception, yet failure to do so will not only have a negative impact on the company over the long run, but also your own well-being.

What is your biggest challenge at the moment?

Our biggest challenge is to maintain growth. We will address this challenge by going back to the basics, to improve search efficiencies and product content.

What are your plans for the future?

With improved artificial intelligence resulting in companies achieving things now in months what otherwise would have taken years, it is very difficult to predict which way the market is going.

The entrance of Amazon in the local market would, for example, be a total disrupter in ecommerce, resulting in shoppers having access to a much wider variety of products without the costs associated with buying them from overseas via Amazon. My goal for now is to try and stay relevant by providing excellent service.

Do you have any advice for other aspiring entrepreneurs?

If you have a gut-feel, especially when it comes to digital innovation, go for it. Don't get analysis paralysis – take the plunge before someone else does. ■

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

Photos: Supplied

CUSTOMER DEVELOPMENT

Important advice for entrepreneurs

When developing a product for potential customers, there are some key points that entrepreneurs need to consider, or they will risk missing the mark entirely.

As an entrepreneur, you need to learn who the buyer of your product is. Are they different from the user? Where do their budgets come from? What is their purchase process? When developing your product, you need to understand all of this.

This is according to Patrick Vlaskovits and Brant Cooper's book, *The Entrepreneur's Guide to Customer Development: A "cheat sheet" to The Four Steps to the Epiphany,* which was unpacked by Cooper himself at the latest We Read For You (WRFY) event hosted by USB Executive Development (USB-ED) and *finweek* in Cape Town on 14 February.

Focused on the 'customer discovery step', *The Entrepreneur's Guide to Customer Development* is an easy-to-follow guide for finding early adopters, building a minimum viable product, finding product-market fit, and establishing a sales and marketing roadmap. It provides detailed customer development and lean start-up concept definitions, a step-by-step approach to best practices, a business model analysis guide, case studies, rich graphics, worksheets and exercises.

Cooper, co-founder and CEO of Moves the Needle, uses his 20 years' experience to help companies bring high-growth products to market. He previously authored *The Entrepreneur's Guide to Customer Development*, the first purpose-written book to discuss lean start-up and customer development concepts.

He urges entrepreneurs to figure out where they can find their customers. "Get your feet on the street, do surveys etc. It's the people and companies who are willing to talk to hundreds of customers that are successful. Think about your market segment and how they prefer to move along the funnel. Ask yourself what their journey looks like? If the customer does not understand your product… this is great feedback. You need to work with the customer in finding ways to help them. The trick is to understand their problem. How can your idea fit into their environment?" he adds. Understanding your customers' aspirations is important, emphasises Cooper. The key is how you interact with them and what you do with the information they give you.

Down to business

Cooper says that it's great to have a plan, but it is important to understand that the plan is going to change, because start-ups work with a lot of uncertainty.

"You might know 95% how you're going to hit your numbers this year, but there's still 5% uncertainty. You can't execute (a business) through uncertainty. You need to first learn to act differently in times of uncertainty. It's all about balance – all across a start-up you have to balance," he explains.

When assessing the overall risk associated with a business, Cooper says that you should know which risks could "make or break" the business, whether there is a dependency chain between these identified risks and then prioritise them accordingly.

"If the product is not desirable, it's not viable. If you get the core principles (of customer development) right, you're good to go." ■

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finweek is the USB-ED's media partner in its We Read For You series. The next event will be held on 26 April, where the book *Scaling up: How a Few Companies Make It… and Why the Rest Don't* will be discussed by Fredeline Elie. To register, please visit www.usb-ed.com/WRFY. Admission is free.

1

UNDERSTANDING YOUR OWN BUSINESS

- Who is the buyer?
- Different than user?
- Where does their budget come from?
- What is the purchase process?
- Pilot required?
- Length of sales cycle?
- Channel requirements?
- Who will obstruct?
- Who is your champion?

2

UNDERSTANDING THE FACTORS THAT SHAPE YOUR CUSTOMERS

- **THE RATIONAL:**
  - Cost
  - Elimination of pain
  - Fulfillment of passion
  - Risk avoidance
- **THE IRRATIONAL:**
  - Emotions
  - Social status
  - Self-perception

3

WHAT START-UPS NEED TO LEARN ABOUT CONSUMERS:

- Who has pain / passion?
- Who are influencers? Who do they influence?
- What are hidden drivers?
- What makes them secure?
- What do they dream / worry about?
- What characteristics are shared with like buyers?
- Where do they live?
- What do they require to buy? Demo? Trial?

4

WHERE CAN YOU FIND CUSTOMERS?

- Feet on the street
- Directories
- Social networks
- Surveys
- Landing pages
- Social media
- Friends and family

SOURCE: *The Entrepreneur's Guide to Customer Development: A "cheat sheet" to The Four Steps to the Epiphany*

By Amanda Visser

Business interrupted: How leaders adapt to a changing world of work

As the work environment constantly evolves and adopts new technologies, business leaders need to manage this change

Business leaders are gaining a deeper understanding of the challenges the 4th Industrial Revolution poses, and they are viewing the actions needed to succeed more realistically.

However, the second global survey on this new world by Deloitte also shows many senior executives remain less prepared than they think they are.

Faced with an ever-increasing array of new technologies, leaders acknowledged they have too many options from which to choose and, in some cases, lack the strategic vision to help guide their efforts, writes Deloitte Global CEO Punit Renjen in response to their survey findings.

The amount of attention that is given to the 4th Industrial Revolution and its challenges is unprecedented, says Shawn Cunningham, partner in the international consultancy Mesopartner and faculty member of the University of Stellenbosch Business School's Executive Development unit.

Being successful in this constantly changing environment will require companies to adopt a merit-based culture, where the person with the most knowledge is the go-to-person instead of the most senior person.

New strategies

Companies will have to distribute the "scanning function" in their organisation. They need more people to scan for opportunities, for changes and weak signals – the small things that are not directly related to their business right now, but could affect their clients, suppliers or even government and policymakers.

Alex Granger, co-founder of Twice Blue, a human capital consultancy in Johannesburg, says they are increasingly noticing a workforce that is "crying to participate and contribute meaningfully" to their organisations. People need to become "authors" in the change environment. If they are invested in the success of the change, it is more likely that they will be assertive in the execution of the change.

Punit Renjen
CEO of Deloitte Global

Being successful in this constantly changing environment will require companies to adopt a merit-based culture, where the person with the most knowledge is the go-to-person instead of the most senior person.

Alex Granger
Co-founder of Twice Blue

Photo: Supplied

Adapting to the rapid changes requires an ability to combine and converge new information to do a quick "scenario-setting exercise".

This will enable business leaders to see whether their strategy is able to deal with, respond to and leverage on these new emerging issues, says Cunningham.

Not only about technology

The 4th Industrial Revolution implies social unrest and many things being out of place. "A lot of people do not see that, so they feel safe," says Cunningham.

Businesses are dealing with a lot of disruptive "socio-technological change". It is not simply about equipment and technology; the focus should be on disruptive business models.

"What puzzles me is that in other countries, this revolution is leading to far more small enterprises starting up, becoming specialist and knowledge-intensive companies… I am not seeing that in SA," notes Cunningham.

The lack of investment in research and development (R&D) is also a major obstacle for South African companies to adapt to technological changes. And Cunningham warns against a too narrow understanding of what the 4th Industrial Revolution is all about. Everybody is getting carried away by things like artificial intelligence, driverless cars and 3D printing. It's not only about these innovations.

"You have to figure out how you are going to organise your business around this new technology. You might need to develop new supply networks, develop a new way of costing and managing things – and possibly new clients," he explains.

The future leaders

Deloitte's Renjen says among the surveyed executives, only 47% are confident that they are doing enough to create a workforce which is ready for Industry 4.0.

The survey highlighted a specific subset of leaders for the new world.

ship needs to

and adapt accordingly in order to stay ahead.

The social supers: Some leaders have figured out how to do well by doing good. They have found new revenue streams by developing or changing products and services to be more "socially or environmentally conscious".

The data-driven decisives: They are more likely to invest in disruptive technologies, to be concerned about the ethical use of new technology, and to train their current employees to be ready for the technological revolution.

Disruption drivers: They are more confident that they can lead in the revolution and are more assured that their organisations are prepared to "capitalise" on the opportunities associated with Industry 4.0. Their approach to decision-making is more holistic.

The talent champions: They believe they have the skills their companies need, and that the composition of their workforce is correct. They "embrace" their responsibilities to train their employees for the future of work.

Finding an edge

According to Twice Blue's Granger, leaders need to be relentlessly "curious about innovation". They must realise that their training from ten years ago is not going to be sufficient. "They have to learn the new ways of work, understand disruption and exponential ways of growing their business."

Cunningham says developing the South African workforce will depend on how capable leaders are to manage a "diverse workforce" that is highly specialised – or more specialised than was required in the past. "We may have to upskill our management teams, and we may have to change them more often."

Granger says that some of the key areas that will drive senior leadership are agility, adaptability and collaboration. They will need the ability to solve complex problems, think critically and creatively. This will keep them ahead of the change curve. SA needs organisations that will be able to guide the new entrepreneurs and businesses to survive *and* thrive in the new world. Those that are already doing it are not well-positioned or visible, says Cunningham. ■

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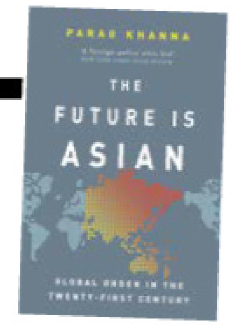
Photo: www2.deloitte.com



This week, one lucky reader can win a copy of *The Future is Asian: Global Order in the Twenty-first Century* by Parag Khanna. To enter, complete the online version of this quiz, which will be available on fin24.com/finweek from 18 March.

1. What was the number of casualties in the Ethiopian Airlines plane crash on 10 March?
2. Pharmaceutical company Aspen lost a third of its value on 8 March following shareholders' fears over the company's:
   - New CEO
   - Debt burden
   - Name change
3. What rooms has Bosasa allegedly been sponsoring for the ANC for the past three elections?
4. Name the CEO of Telkom.
5. Which international popstar did former American professional baseball player Alex "A-Rod" Rodriguez recently become engaged to?
6. **True or false?** Transport minister Blade Nzimande announced an increase in car licence fees for 2019.
7. How many runs did the Proteas win by against Sri Lanka at the third One-Day International in Durban on 10 March?
8. Who is South Africa's current minister of communications & telecommunications?
   - Dipuo Letsatsi-Duba
   - Mildred Oliphant
   - Stella Ndabeni-Abrahams
9. On 8 March, which High Court ruled against Eskom for disconnecting the electricity of municipalities in arrears?
10. **True or false?** The headquarters of Apple are situated in New York City.

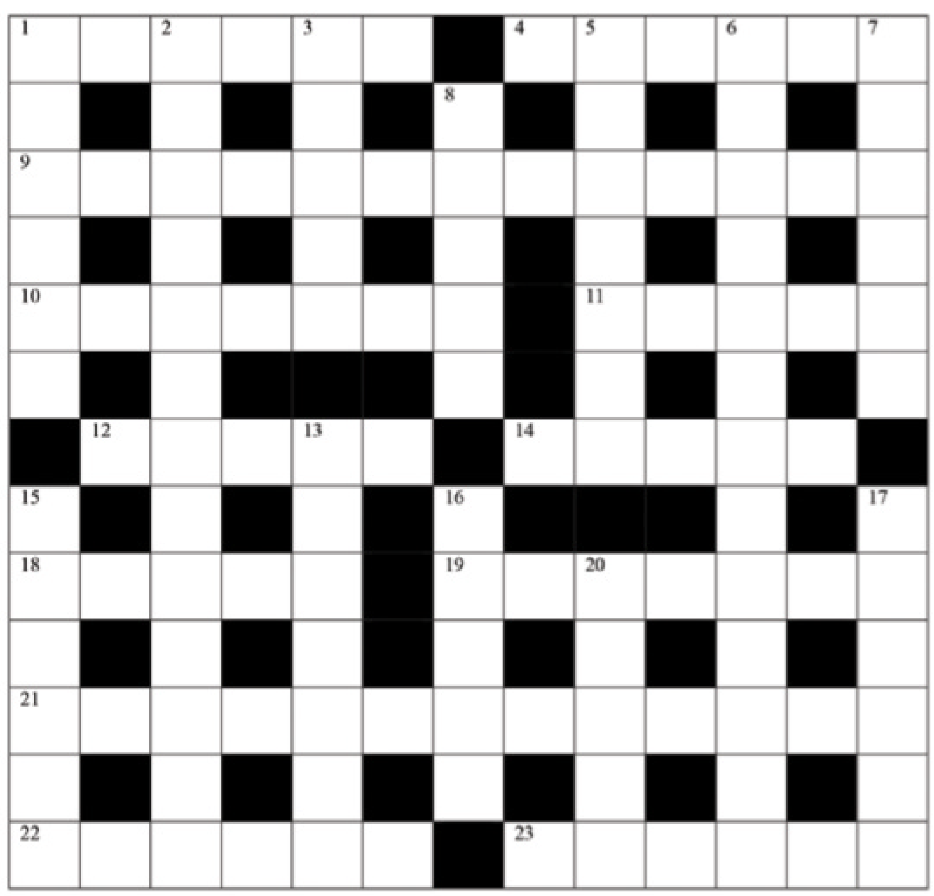
CRYPTIC CROSSWORD NO 728JD

ACROSS

1 One lady keeping husband for another lady (6)
4 Fleet wing has nothing from the start (6)
9 US yardbird employed to level the lawn? (1,6,6)
10 Foolhardy fellow ejected from Spitfire (7)
11 Expose quarry in court (3,2)
12 Lift up an end (5)
14 Beardless member of party (5)
18 Nonsensical talk on English trip (5)
19 Braves ruffians in Paris (7)
21 Attaching pile is potentially difficult to get out of (2,1,5,5)
22 Transform silly old people into educators (6)
23 One's pet drink in the kitchen (6)

DOWN

1 Lower interest rate? Yes, in a way (6)
2 A flat claim of truth to be tested in court (1,6,2,4)
3 Get around in a car (5)
5 Arrange again to get more of the same (7)
6 Lager got brewed under heads of agreement. Quite the opposite! (2,11)
7 Rushed from Latin to rugby training (6)
8 Dines out with a nasty person (5)
13 A box, we hear, returned to artist's studio (7)
15 An eye specialist, we hear (6)
16 Instil scholar with article (5)
17 Unprepared when police founder returns (6)
20 Dominant character (5)



Solution to Crossword NO 727JD

ACROSS: 1 Alteration; 7 Fee; 8 Managerial; 11 Grammies; 12 Lair; 14 Drowns; 15 Limbic; 17 Owns; 18 Arboreal; 21 Local derby; 22 Fix; 23 King Arthur

DOWN: 1 Armageddon; 2 Tantamount; 3 Regiment; 4 Target; 5 Oral; 6 Eel; 9 Marble arch; 10 Bricklayer; 13 Disorder; 16 See 20; 19 Loki; 20 & 15 Yin or Yang

On margin

The fat cats of SA

This issue's Zulu word is *sutha*. *Sutha* is to get or be full from eating.

From recent reports, it seems one of SA's big four banks has been *sutha*-ing by reaping from black homeowners. It seems they've been saying, "How can we help you?" while they actually mean "How can we help ourselves to your hard-earned money?" *Sies*.

Of course, we all want to *sutha*. No one likes to go hungry. However, when fat cats *sutha* by making those who are already hungry even hungrier, it is despicable. But that seems to be the SA way.

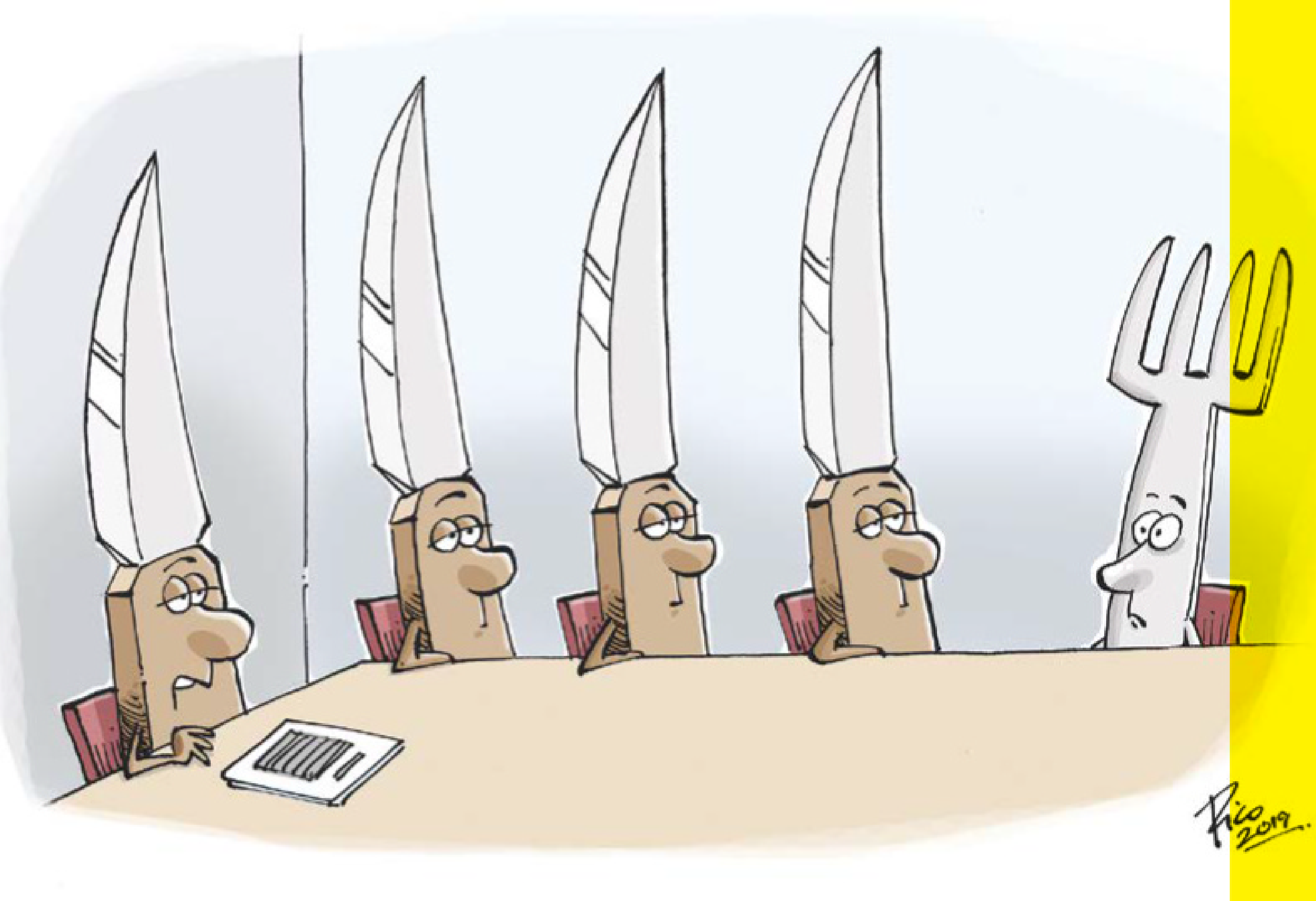
From big business to politicians, the fat cats *sutha* and get fatter at the expense of the already hungry. We've seen the Bosasa lot; they look like they *sutha*. A lot. Way too much, in fact. I wonder if they will enjoy prison food as much as they enjoy their ill-gotten gourmet meals? I doubt any prisoner eats prison food to *sutha*. I think in prison you eat so you don't die and so you have enough energy to fight off those who believe every day is Valentine's Day and you're their Valentine, whether you like it or not.

Speaking of *sutha*, Bosasa and prisons, isn't the minister of justice Michael Masutha? Yes, he is. Isn't he allegedly closely linked to Bosasa? Did he take his surname way too seriously? Because Masutha means "one that always *suthas*"?

Where there is smoke, there is fire. Or burnt chicken pieces.

Anyway, if the likes of the bank that promises to help but allegedly helps itself to your money wasn't so greedy, there'd be enough for all of us to *sutha*. It wouldn't suit the fat cats in suits for all of us to *sutha*, though. See what I did there? Suits that are only suited to *sutha*-ing alone.

– *Melusi's #everydayzulu* by Melusi Tshabalala



"I'm sorry, Bob... you're just not cutting it."

Verbatim

Darrel Bristow-Bovey @dbbovey
Just landed in Tokyo, which so far is a combination of the future, the 80s and a nine-year-old girl's birthday party.

Adam Liaw @adamliaw
My friend is holding a social tennis tournament for his 40th birthday followed by a party and is calling it "Love : Forty" and I just think that is straight up the best idea I've ever heard.

Kol @kohlw0rld
Babies stare a lot for someone who doesn't know how to fight.

Michael Jordaan @MichaelJordaan
When things go right, luck often looks like skill.

Jeet Heer @HeerJeet
Guys, guys, I'm beginning to think America isn't a meritocracy but a place where money rules and the rich rig the system to stay on top.

Chris Kelly @imchriskelly
When you're writing, it's good to give yourself little rewards along the way. For example, once I've typed a word, I allow myself to look at the internet for 4 hours.

Margaret Cabourn-Smith @MCabournSmith
I swear Brexit is making me stupider.

Abby Heugel @AbbyHasIssues
Welcome to adulthood.
The weather makes you angry now.

"Democracy is supposed to give you the feeling of choice, like Painkiller X and Painkiller Y. But they're both just aspirin."

– Gore Vidal, American writer (1925 – 2012)

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