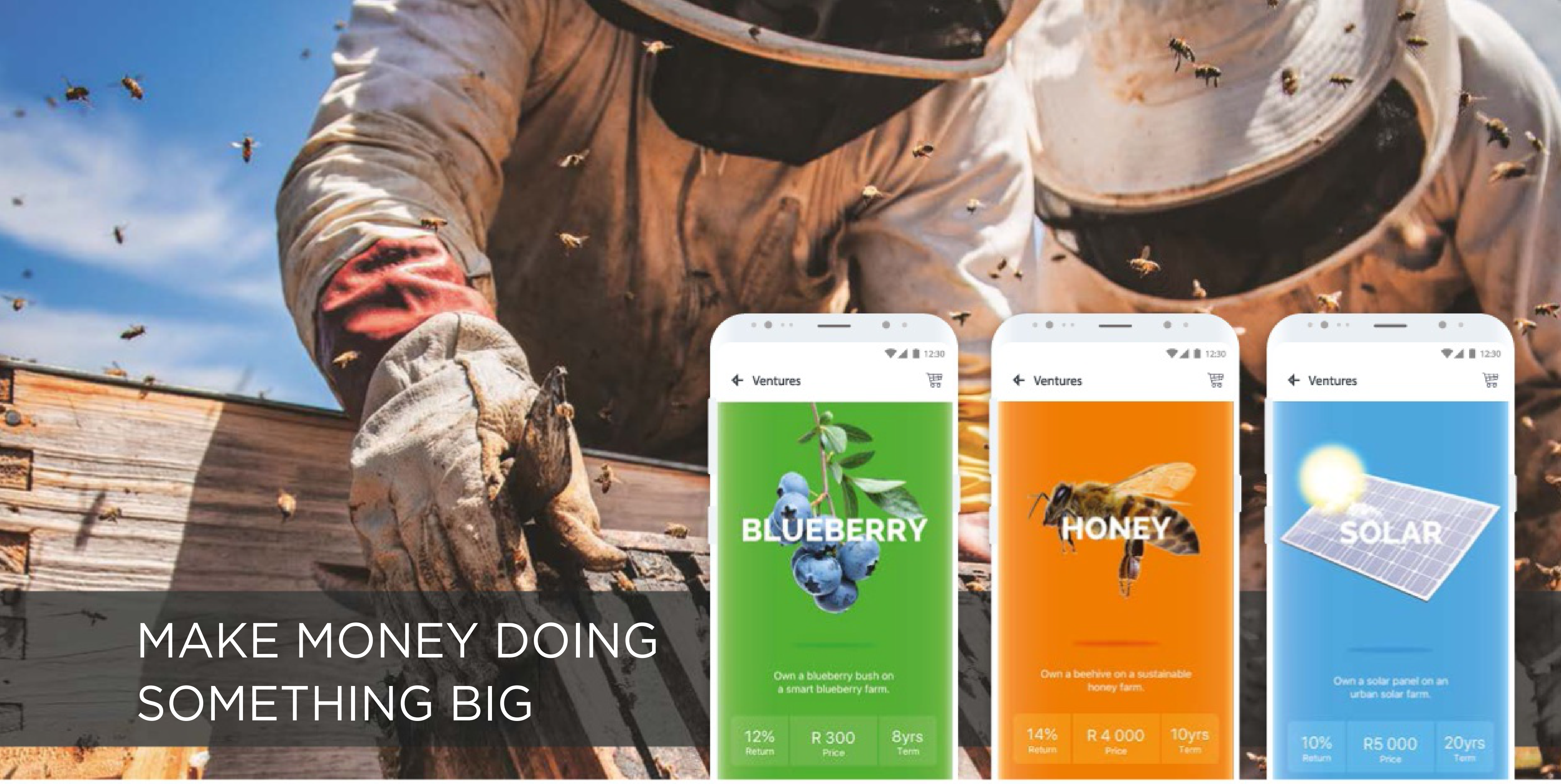
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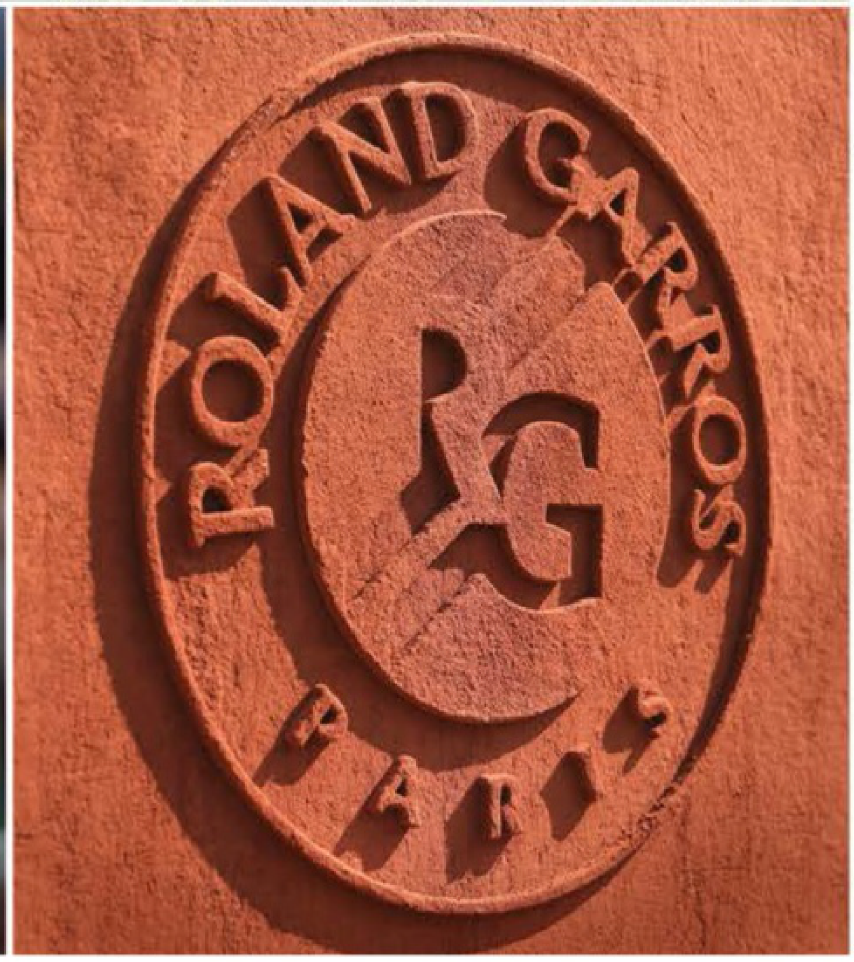

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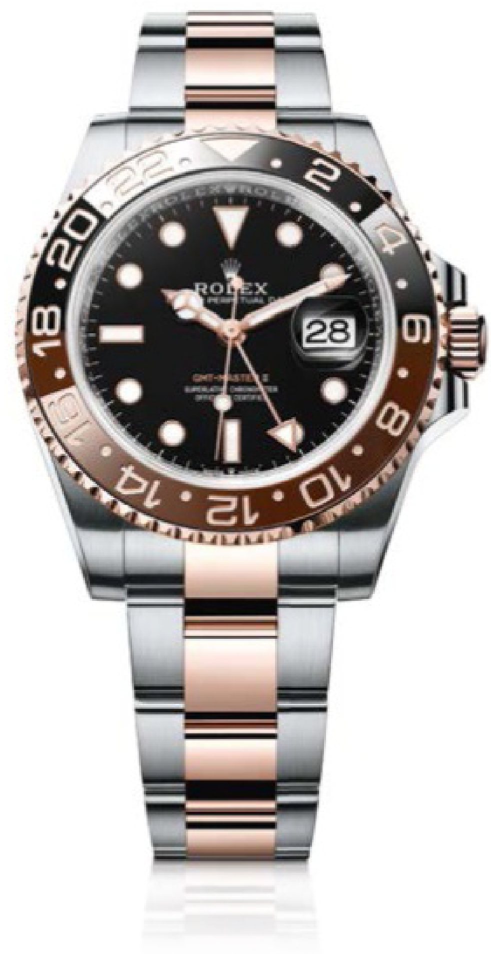
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from the editor

ANNELI GROENEWALD

South Africa's President, Cyril Ramaphosa, is reportedly a glass-half-full type of guy.

When this issue went to print, he was having a very relaxed (and frank) chat at the Goldman Sachs Investment Conference in Johannesburg. Not shying away from tough topics, he lambasted state-owned enterprises and talked about the urgency of having to fix them. He cracked clever jokes. He talked about privatisation, about visa regulations and "opening up the country". He admitted, "sadly", that the regulatory environment was impeding business.

He talked about the land issue. He has previously referred to this as the original sin, and reiterated that it has to be addressed. But, he insisted: "We have a constitution. We are going to insist that everything is done according to our Constitution and the rule of law. We will not allow land grabs to happen."

Another important theme was raised: youth unemployment. With the unemployment figures for the first quarter of 2019 just in, we have yet again been reminded of exactly how big this issue is – especially for young people.

Ramaphosa admitted that, with almost 60% of youth currently unemployed, SA has a huge problem. He said that when students leave universities or technikons, they get degrees and certificates. But then, when they start looking for jobs – armed with their recently acquired qualifications – they can't find any. That, he said, is why young people in SA become disgruntled and stop taking part in society (like not voting).

He pleaded with South African companies to give youngsters a chance to get work experience. He pointed to those that have participated in the Youth Employment Service campaign (the so-called 'Yes' campaign), an initiative between government and public enterprise to boost employment opportunities, and said companies were starting to "do real quality stuff" to develop skills and opportunities.

Ramaphosa mentioned Nedbank as an example. The bank has already taken more than 3 100 youngsters on board "in one go". Once these young employees have been exposed to the work environment, and have acquired skills and experience, they become more employable, or as he pointed out, go out and start their own businesses.

Over the next three years, President Ramaphosa wants to create 1m "opportunities". In a glass-half-full scenario, the good news is that we have millions of people ready to jump at those opportunities. ■

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By Johan Fourie

ECONOMY

How to permanently escape poverty

A prominent school of thought suggests lump-sum cash payments, or even a job, as a means to assist those living in poverty. But recent research suggests neither of these offer a permanent solution.

What is the best way to help someone who is living in poverty? A hefty handout? A job? Or something entirely different? These questions are at the heart of what development economists want to know. And not only development economists: politicians often purport to want to implement policies that benefit the poor. But which policies are likely to have the biggest effect?

One prominent school of thought has emerged in the last decade with a simple answer: give people more cash. Individuals know what is best for themselves, these scholars argue, and paying them a lump sum will naturally allow them to improve their lives according to their own preference set. Some may invest it in educating their children (a pension plan for many in the developing world), others might start a business, pay off crippling debt, purchase a house, or improve the nutritional value of their food (improving health). Perhaps some will spend frivolously, but the net gains, on average, will be large.

Much of the evidence for this line of argument has come from studies that use randomised control trials (RCTs) in developing countries. An RCT would, for example, take all the people in a village, assign half of them randomly (with the flip of a coin) to a treatment group and the other to a control group.

In Northern Uganda, a programme giving women **$150** grants and basic training yielded large income gains after 18 months.

The treatment group receives the 'treatment', like a $300 lump-sum payment. The impact of the policy is measured by comparing the incomes, wealth or health of individuals after a month (or year) to those in the control group. If individuals in the treatment group are better off than the control group, the researcher can causally claim, because of the random assignment, that the lump-sum payment had an effect.

Several studies do exactly this and find large effects in the short run. In Northern Uganda, a programme giving women $150 grants and basic training yielded large income gains after 18 months. Cash grants to entrepreneurs in Sri Lanka, Ghana and India led to increases in earnings a year later. Cash grants to poor farmers in Mali raised incomes one to two years later. Cash transfers in Kenyan villages led to increases in assets but no impact on incomes. There are many other examples.

These optimistic results of the effect of cash transfers has also catapulted debates about reparation payments (in the context of US slavery or African colonialism) back into the political arena. Surely, proponents argue, if cash transfers can have such positive gains, a once-off reparation payment would go a long way to address the injustices of the past.

But, as a new study suggests, perhaps we should be more cautious of the permanent impact of cash transfers. In a recent National Bureau of Economic Research working paper, development economists Chris Blattman, Stefan Dercon and Simon Franklin published the results of a five-year study of young, mostly female, low-skilled job-seekers in Ethiopia.

In 2010, they identified almost 1 000 people interested in a job at five different firms (in different sectors and different regions of Ethiopia). They then introduced two interventions: Some women received a cash grant intended to stimulate self-employment, another group got a factory job, and a third group received neither (the control group). They interviewed participants in all three groups at the time of recruitment, a year later and again five years later.

After one year, the authors found exactly what they had hoped to see: a large improvement in the incomes and well-being of those that received a grant (compared to the control group) and higher wages for those receiving a job (again, compared to the control group). These one-off interventions, the authors believed, would push beneficiaries to a level of income and well-being permanently beyond their peers in the control group.

But when they measured income and well-being after five years, neither of these interventions had an impact anymore. "For the most part, we do not find support for the hypotheses that start-up grants lead to sustained income changes, or that industrial job offers affect long-run well-being," they conclude. "Over five years, we see that these young and mostly unemployed women found relatively full-time employment in a variety of wage work and microenterprises, even without the opportunity for a grant or an initial job offer. Medium-run equilibrium labour market outcomes seem unaffected by the interventions. After five years we see almost complete convergence in earnings, employment, and health."

These results suggest that we should rule out sustained or transformative impacts of cash grants. Poverty alleviation is not as simple as cash hand-outs or even, it seems, jobs. Such hand-outs may result in short-run improvement in productivity, income and well-being, but compared to a group of peers with similar characteristics, these beneficiaries are likely to converge back to the mean within a few years.

The results are depressing, but they do help us understand that poverty is a multifaceted and complex phenomenon. There is no easy solution (else we would already have found it).

Calls for reparations, payments of historical debt or even a basic income grant may have very valid ethical grounds, but perhaps we should be careful not to overestimate its potential to lift the poorest of the poor permanently out of poverty.

For that to happen, something else is needed. What that might be is why development economists do research. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Shutterstock

in brief

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>> Tharisa is keeping the faith in Zimbabwe *p.14*

EDITORIAL & SALES

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"THIS ATTACK HAS ALL THE HALLMARKS OF A PRIVATE COMPANY KNOWN TO WORK WITH GOVERNMENTS TO DELIVER SPYWARE THAT REPORTEDLY TAKES OVER THE FUNCTIONS OF MOBILE OPERATING SYSTEMS."

– **WhatsApp** admitted to a vulnerability in the messaging app that has allowed attackers to inject commercial Israeli spyware onto phones, reported the *Financial Times*. The company, which is owned by Facebook, said it had discovered in early May that attackers were able to install surveillance software on both iPhones and Android phones by calling targets using the app's phone call function. WhatsApp issued a statement encouraging its 1.5bn users worldwide to upgrade to the latest version of the app as well as keeping mobile operating systems up to date, to protect against potential targeted exploits designed to compromise information on mobile devices.

"WE WORK AS A COLLECTIVE."

– **Secretary-general of the ANC, Ace Magashule,** cleared the air and said there were no hard feelings between him and leader of the ruling party, President Cyril Ramaphosa, as quoted in *Business Day*. "There is no fallout between me and the president, we work as the leadership of the ANC," he reportedly said. The comment follows a war of words between Magashule and the ANC's head of elections, Fikile Mbalula, after the secretary-general challenged the view that it was Ramaphosa who had led the ANC's electoral success. Magashule hit back at Mbalula for saying the ANC would have scored less than 40% of the votes if Ramaphosa was not elected party leader in 2017.

"The long-term economic potential of South Africa is unquestionable."

– **Colin Coleman, Goldman Sachs CEO of sub-Saharan Africa,** in a statement announcing the bank's pursuit of a South African banking licence that will allow it to offer fixed-income products in the country, reported Reuters. It said its expansion plans include an equity trading cooperation agreement with Investec, which would see both banks extend their equity trading capabilities in South Africa and deepen links with African and international institutional clients looking to invest in the region.

THE GOOD

South Africa's banks are slowly but surely shying away from financing new coal projects. Nedbank, Standard Bank and FirstRand will not fund two new independent coal-fired power producers, Khanyisa and Thabametsi, reported *Business Day*. Nedbank told the paper "its strategy is to support the diversification of SA's energy supply and will no longer finance new coal-based generation projects". Standard Bank said in a statement it "supports the adoption of higher-efficiency and lower-emission coal-fired plants". FirstRand said it will provide financial services to clients where the mining, processing or use of thermal coal for energy generation forms a substantial part of clients' primary business activities.

THE BAD

Sibanye-Stillwater has revealed the cost of the five-month long strike by members of the Association of Mineworkers and Construction Union (Amcu) at its South African gold operations. Gold output, excluding that from the 38%-held DRDGold, fell by 63% to 106 948oz compared with the same quarter a year earlier. The group's all-in sustaining costs were R1m/kg of gold, far above the R550 000/kg at normal production levels, said CEO Neal Froneman in *Business Day*. The received gold price for the quarter was R588 040/kg, reported the paper.

THE UGLY

SA's unemployment rate rose to its highest level since Q3 2017 to 27.6% in Q1 2019, reported Stats SA in its quarterly labour force survey. There were 6.2m people without jobs in the three months to the end of March, compared with 6.1m people in the prior quarter. Employment decreased in all four of the sectors in Q1 2019 – with the formal sector recording the largest employment losses of 126 000, followed by the informal sector (68 000), private households (31 000) and agriculture (12 000). The expanded definition of unemployment, which includes people who have stopped looking for work, rose by one percentage point from 37% in Q4 2018 to 38% in Q1 2019.

Photo: Gallo/Getty Images

DOUBLE TAKE BY RICO

PARLIAMENTARY HISTORY MADE

14

In a South African first, 14 political parties will be represented in the 400-member Parliament following the 2019 national election results. Historically, 13 political parties have been represented in the National Assembly, according to the Independent Electoral Commission (IEC) chair Glen Mashinini, as quoted in *Business Day*. The ruling ANC clinched the majority of parliamentary seats with a 57.5% share in the national elections, announced the IEC. This was a bit of a historic election as it was the first time the ANC attained a national election result below 60%. The ANC's seats fell to 230 from 249. Newcomer parties in the National Assembly include former Cape Town mayor Patricia de Lille's GOOD party, the African Transformation Movement (both with two seats each) and Al Jama-ah with one seat.

THE COST OF TRUMP'S TRADE WAR

$200bn

US President Donald Trump escalated the US-China trade war by rolling out 25% tariffs on $200bn worth of Chinese goods. Most of the imports hit by the new 25% tariff rate are industrial or intermediate goods that are used as component parts in products manufactured in the US, according a CNN report. The US Trade Representative's office has said it plans to hold a public hearing in June on the possibility of imposing duties of up to 25% on a further $300bn worth of imports from China. Cellphones and laptops would be included on that list, but pharmaceuticals would be excluded, reported Reuters. JPMorgan analysts released a research note via CNBC estimating that Apple alone would need to increase the already high price of the iPhone XS by 14% to cover those costs, factoring in specific components that would be affected and assuming suppliers maintain their own profitability.

VODACOM

6.6%

Vodacom reported a 6.6% drop in headline earnings per share from 923c to 862c in its annual results for the 12 months ended March 2019. "Headline earnings per share for the year was down 6.6%, impacted by the new BEE ownership deal in the current financial year, partially offset by an increase in contributions from Safaricom, acquired in the prior year," said the company in a statement. The R16.4bn deal became the biggest BEE deal in the ICT sector to date after its completion in Q4 2018, according to lead legal advisers on the transaction at Cliffe Dekker Hofmeyr.

By Glenneis Kriel

Insurance with real rewards

Pineapple is disrupting the insurance industry with a modernised version of the "old" stokvel community savings model.

While participating in an innovation competition run by Hannover Reinsurance in 2016, Matthew Elan, Ndabenhle Ngulube and Marnus van Heerden came up with the idea of starting a true "community-based" service to restore faith in insurance products.

"There is a perceived conflict of interest in the traditional insurance business model, because insurers both decide whether claims should be paid and profit from low pay-outs. To remove this conflict, we developed a business model based on the traditional stokvel savings model, whereby contributors are the ones who benefit when pay-outs are low," Van Heerden says.

The company was named Pineapple because of this community-centred approach. A pineapple is not an individual fruit, but a collection of berries that together form a structure that protects each and every one, explains Van Heerden. With Pineapple they wanted to create a platform where clients come together as a community and look out for one another.

How it works

Claims are paid out of the pockets of a member's community. By default, customers join the general community but can choose with whom they want to share their risks by forming independent communities with members they know or trust. This strengthens fraud prevention, "as participants behave better when they know they are impacting real people," Van Heerden explains.

A community needs at least 150 to 200 members to be viable. A contributor's exposure might be divided between the general and an independent community.

The price of the insurance is market related. "We would rather give people better rewards for claiming responsibly than skimp on the contribution side and then be unable to provide a good service," he says.

Pineapple charges a fee to cover running costs, while a percentage of contributions is diverted to a fully underwritten central fund to ensure there will always be enough money to pay claims (even when a community's pockets run dry).

At the end of each year, contributors receive what is left after these costs and claims in the community have been settled.

The solution is completely digitised. Clients take out insurance via Pineapple's mobile app by taking a snapshot and answering a few questions about the product they want to insure. The system uses big data and artificial intelligence to generate a quote in a matter of seconds.

Claims are submitted online. "The majority of our claims are settled within two days, but may take longer if more information or evidence is required."

Clients can phone Pineapple, but the company prefers communicating through their online messaging system, as this allows them to better track queries and generate well-informed feedback.

Ndabenhle Ngulube
Co-founder of Pineapple

Marnus van Heerden
Co-founder of Pineapple

Matthew Elan
Co-founder of Pineapple

More than **80%** of clients are between the ages of 18 and 25; an age group traditionally seen as averse to taking out insurance.

"Our online messaging system is semi-automated, switching to a person if the chat bot is unable to help," Van Heerden says.

According to him, up to a third of non-life claims in South Africa are fraudulent: "While the communities tend to become self-regulatory, we also use artificial intelligence to protect the communities against fraud. Suspicious claims are flagged and investigated by an assessor."

The team

Lireas, a subsidiary of Hannover Reinsurance, was so impressed with the Pineapple business model that it invested R5.2m in the start-up in return for a 25% stake in the business. Pineapple is in the process of closing another round of funding to grow the business.

"Getting funding turned out to be much harder and tiring than I anticipated," Van Heerden says, mentioning that it is important to "match your interests".

One of their greatest initial challenges was to develop a platform that was user-friendly and efficient, yet complied with the rigorous security, performance and access control standards governing the insurance industry. "Hannover Reinsurance, together with its primary insurer, Compass Insure, really helped us navigate around some of the challenges during the development phase," he says.

Prior to the Hannover competition, the founders did not know one another. They were grouped together as one of the two SA teams that participated. Their diverse backgrounds – Ngulube being in software engineering, Elan in actuarial sciences and Van Heerden in law and accounting – meant that each contributed different strengths and perspectives.

Marketing

Pineapple took on over 1 000 early-access users in 2018 and used their feedback to refine the system. The platform was officially launched in July 2018, now boasting over 13 000 members. "Not all these members are active, but our conversion rate is about ten times higher than that of traditional online platforms," Van Heerden says.

More than 80% of clients are between the ages of 18 and 25; an age group traditionally seen as averse to taking out insurance.

The company initially created awareness via social media and Google Ads. "It allowed us to create awareness at a fraction of what it would have cost to do so through traditional channels," he says.

Plans for the future

Pineapple is in negotiations to expand its footprint into the US and is partnering with a well-established insurer to expand into car insurance in SA by July. They are also looking into other opportunities to expand the product offering, but this will be guided by customer feedback.

"We have received requests for travel, health and building insurance and will, over time, look into these opportunities." ■

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By David McKay

Who will go for AngloGold Ashanti's gold?

Shortly after taking the reins at the miner, CEO Kelvin Dushnisky made it clear that the group intends to divest from its SA assets in the yellow metal. He aims to have the deal completed soon.

AngloGold Ashanti's decision to sell its last remaining SA gold assets comes just over six months into CEO Kelvin Dushnisky's tenure at the company since succeeding Srinivasan Venkatakrishnan. In other words, he made his mind up pretty quickly about where the group stood on SA.

"The industry generally in SA has not chosen the right time," says Dushnisky about when assets ought to be sold. "They squeeze out the last ounce of value. Why then would someone buy an asset?" he asks *finweek* in an interview shortly after the group announced it would sell Mponeng which, with its nearby surface operations, is set to produce about 360 000 ounces of gold this year based on the annualised first-quarter numbers.

Quite how this divestment will proceed is hard to know, however. Dushnisky has targeted deal completion by the year-end – a target that has some analysts doubtful. At the time of writing, there are no obvious buyers except, perhaps, Harmony Gold which has already spent $300m buying Moab Khotsong from AngloGold in 2017.

Harmony declined to comment on market speculation it might be the natural buyer. It is worth noting, though, that it has R4.6bn in net debt at the last count and is facing questions about how to fund its 50% portion of Wafi-Golpu, a project in Papua New Guinea that is, for all intents and purposes, its future.

Another obvious buyer is Sibanye-Stillwater. It is founded on the gold assets it bought from Gold Fields, and more recently has been buying up platinum group metal mines. It is currently waiting on the Competition Appeal Court to approve its planned takeover of Lonmin, a transaction that is financed with shares.

There are no obvious buyers except, perhaps, Harmony Gold which has already spent

$300m

buying Moab Khotsong from AngloGold in 2017.

Kelvin Dushnisky
CEO of AngloGold Ashanti

However, it, too, has net debt but of a scale that eclipses all over strategic objectives right now. The company recently raised R3bn through a metals streaming deal and a share placement – the proceeds of which it pumped into the balance sheet such is the concern its faltering gold operations won't be able to generate sufficient cash to meet net debt targets of two times earnings before interest, tax, depreciation and amortisation (ebitda).

Another issue is that there's an awful lot of gold assets on the market right now. Not just the ones Barrick Gold is likely to divest following its merger with Randgold Resources, but assets AngloGold itself has put on the table: its Sadiola mine in Mali, and Cerro Vanguardia, an operation in Argentina.

Dushnisky, though, appears relaxed. "There is a different universe of buyers for all the assets that we are selling so we expect good bidding for everything," he says. "What we are selling in SA is really a premium package. I'd be surprised if we don't see full value surfacing. And if we don't see the value, we'll continue to operate the asset," he says.

Dushnisky added that he would consider a partial sell-down of Mponeng such that AngloGold would retain a strategic step. This is sometimes viewed positively by stakeholders such as government, as a level of custodianship is still retained by the original operator, especially in the event the buyer is not a company with strong SA credentials or where its equity or balance sheet is not as robust.

Photos: Shutterstock | Gallo/Getty Images

Dushnisky even entertained one analyst's suggestion that the assets could be spun out into a separate vehicle.

The mine currently has eight years of operation left, equal to some 11m ounces, but its mining right runs until 2037 and there's an estimated 20 years of mining left after existing reserves are depleted. In that sense, the mine is certainly 'premium'.

It does, however, require significant investment to access these additional reserves. Dushnisky wouldn't be drawn on just what's required in terms of capital expenditure as that may affect the way companies bid for the asset.

The withdrawal from SA, after more than a century, seems a highly significant event for the gold industry and begs the question as to whether Gold Fields will do likewise.

In any event, the withdrawal from SA, after more than a century of digging holes in the country, seems a highly significant event for the gold industry and begs the question as to whether Gold Fields will do likewise and put its loss-making South Deep mine on the table.

The incentive for doing so – for both AngloGold Ashanti and Gold Fields – is the removal of the so-called "South African discount". Dushnisky tells *finweek* operating risks are everywhere in different formats in every country, so it's not really fair to wax on about SA discounts.

But analysts seem to think investors will nonetheless reward AngloGold if it removes its exposure to special SA risks such as its track record of unsafe deep-level underground mining, a volatile union environment and community disruption, and regulatory uncertainty.

Said RBC Capital Markets analyst James Bell: "The opportunity is clear, though there is potential for the narrowing or removal of the so-called SA discount – something that has partially caused a 20% to 40% discount versus global peers in recent years".

"If successful, we expect this would be a key positive catalyst for AngloGold's share price," said JP Morgan Cazenove. The bank has applied a base net present value of about $400m on AngloGold's SA assets which may well put valuation beyond the tolerance of what SA bidders might be prepared to offer. ■

editorial@finweek.co.za

By David McKay

Tharisa CEO optimistic about Zimbabwe

Despite a slew of economic and political problems that have left many pessimistic about the country, mining company Tharisa is keeping the faith.

After the euphoria of Robert Mugabe's toppling in late 2017 after 37 years in power, Zimbabwe has returned to earth with a bit of a sobering bump. At the time of writing, the country is plunged in a load shedding crisis that hurts all, especially the country's mining fraternity – a major part of its economic lifeblood.

One of the mining companies quick off the mark in the wake of Mugabe's forced removal by forces sympathetic to current President Emmerson Mnangagwa, was Johannesburg-listed Tharisa, led by CEO Phoevos Pouroulis, son of SA's mining entrepreneur Loucas.

It virtually leapt into Zimbabwe with both feet, signing two agreements to build a chrome mine via a company called Salene, and taking a 26.8% stake in a consortium of Zimbabwean business interests through Karo Platinum using land that the government had extracted previously from Impala Platinum.

The load shedding problems are just insult to injury for an economy hobbled by a currency crisis which had seen the price of staples increase in the order of 300% lately. It really looks like the return of the bad old days. But Phoevos Pouroulis is keeping the faith.

"There seem to be two camps about Zimbabwe: Those with negative outlooks based on its historic position and those that are seeing a more optimistic outlook," says Pouroulis.

Emmerson Mnangagwa
President of Zimbabwe

Photo: Gallo/Getty Images

Tharisa is edging towards finalising drilling ahead of conducting a feasibility study for Karo Platinum which, based on initial studies, could see investment of

$4.2m.

Unsurprisingly, given where he's taken Tharisa – which currently produces chrome and platinum group metals from a mine in the North West province – Pouroulis is one of the optimists.

"The African Finance Corporation has supported us and all around us we see evidence of a willingness to reform the economy. It might be slow progress, and a bit frustrating, but we are seeing things improving on the ground," he says, which he describes as "enabling".

Tharisa is edging towards finalising drilling ahead of conducting a feasibility study for Karo Platinum which, based on initial studies, could see investment of $4.2m.

The company's chief financial officer, Michael Jones, also raised the prospect that Tharisa could make a decision on a call option that would see it pull the trigger on Salene, a smaller capital outlay but nonetheless a sign that Tharisa is serious about its plans for Zimbabwe.

Noises from elsewhere in Zimbabwe are promising, if a little 'long in the tooth'. The government has been talking about imminent massive investment in its platinum sector for as long as it's had platinum. It said in April two new large investors were due to be unveiled for developments in the Mhondoro-Ngezi platinum belt. This is promising support for Tharisa as this is the region its Karo Platinum hopes to one day mine. ■

editorial@finweek.co.za

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>> **House View:** AB InBev, Steinhoff, *p.20*
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FUND IN FOCUS: TRUE NORTH IP ENHANCED PROPERTY FUND

By Timothy Rangongo

Owning a piece of the world

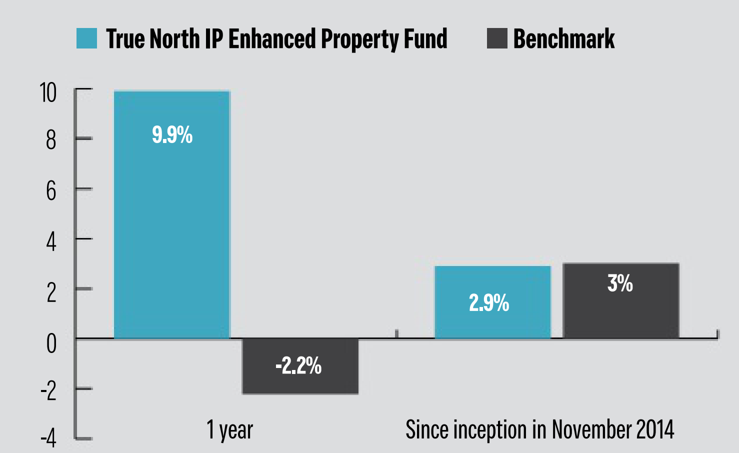
True North's property fund offers investors access to commercial properties locally and globally.

FUND INFORMATION:	
Benchmark:	JSE All Property Index (75%), FTSE EPRA NAREIT Developed Index (25%)
Fund managers:	Wim Prinsloo
Fund classification:	South African - Real Estate - General
Total investment charge:	1.93%
Fund size:	R100m
Minimum lump sum/ subsequent investment:	R10 000/R1 000
Contact details:	012 004 0588/info@tncm.co.za

TOP 10 PROPERTY HOLDINGS AS AT 9 MAY 2019:		
1	Resolution Capital Global Property Fund	8.6%
2	Sirius Real Estate	7.1%
3	Stor-age Property REIT	6.7%
4	Fairvest Property Holdings	6.3%
5	Clearance Camino Fund	5.7%
6	Equites Property Fund	5.6%
7	Vukile Property Fund	5.4%
8	Irish Residential Properties	4.7%
9	Growthpoint Properties	4.7%
10	Echo Polska Properties	4.7%
	TOTAL	**59.5%**

PERFORMANCE (ANNUALISED AFTER FEES)

As at 31 March 2019:



Fund manager insights:

The listed property sector in South Africa grew significantly over the past decade, ballooning to more than R600bn. But 2018 saw the SA Property Index (SAPY) lose about 25% as a result of company-specific issues combined with local economic concerns. The Resilient group of companies, which made up about 40% of the SAPY, weighed the sector down, for example.

"Navigating the downward correction of the SA listed property sector in 2018 was very challenging," admits the fund's manager, Wim Prinsloo. True North's property fund offers investors exposure to commercial properties locally, but also globally.

The fund's investment selection process pursues well-managed companies, especially those specialising in modern real estate sectors such as logistics, data centres and self-storage — with up to 30% permitted to be invested in the offshore listed property markets.

Despite the dismal performance of the SAPY, which comprises 75% of its benchmark, the fund's absolute return for the past 12 months recovered to 9.9% for the twelve months ending 31 March 2019, 12.1 percentage points above benchmark.

"The fund had limited exposure to the Resilient stable which we regarded as overvalued, the local holdings in the fund performed well in the difficult market and the fund was overweight in offshore property markets relative to the SAPY," explains Prinsloo.

The portfolio will typically be highly exposed to the larger capitalised property stocks with added exposure to smaller property companies that offer better growth opportunities over the longer term. "We see real estate as a complementary addition to an investment portfolio. The asset class provides sound long-term returns, plus the investor benefits from a greater variety of eggs in his investment basket," he says.

Prinsloo expects the listed property market to continue experiencing headwinds in the near future, mainly due to the poor local economy. However, there are specific investment opportunities that should provide good returns for the astute investor.

UK-based Stenprop, currently in the process of a business transition from a diversified European property owner into a UK Reit specialising in the UK Multi-let Industrial (MLI) properties, is one example. True North believes there is a case for a small allocation in Stenprop, which will increase the fund's exposure to the industrial sector.

Why *finweek* would consider adding it:

The fund views property as a pro-cyclical asset, regarding capital appreciation and growth more highly than immediate yield. It reached R100m in assets under management in May and continues to target property shares with quality assets and proven management, especially specialists in alternative sectors. It's for investors who are prepared to accept a moderate to high level of volatility in seeking medium- to long-term growth and expanding their allocation to fixed property as an asset class. ■

editorial@finweek.co.za

By Moxima Gama

TFG

Expect further gains

Investment holding company TFG, with local brands such as @Home, Exact, Fashion Express, Markham, and international brands like Phase Eight, Whistles, Retail Apparel Group and G-Star RAW Australia, has been trading in a steady bull channel since 2005.

It commenced its acquisition ploy in January 2015 when it bought the holding company of British women's clothing retailer Phase Eight for approximately R4.1bn – at the time giving TFG access to 542 outlets in Europe, Asia, the Middle East, Australia and America. It subsequently expanded further into the Australian market.

52-week range:	R153.67 - R208.80
Price/earnings ratio:	8.08
1-year total return:	-2.8%
Market capitalisation:	R43.22bn
Earnings per share:	R22.61
Dividend yield:	4.11%
Average volume over 30 days:	1 102 295

SOURCE: IRESS

Outlook: After testing the upper slope of its long-term bull channel, and also reaching an all-time high at 24 040c/share, TFG retraced to correct within the channel. It then held firm support at 15 370c/share. Despite the UK being an incredibly difficult market to trade in – hit by the June 2016 Brexit vote – TFG managed to outperform its peers.

On the charts: TFG is regaining upside momentum after holding at 15 370c/share and reversing above the lower slope of its long-term bull channel.

Go long: After retracing from it's all-time high at 24 040c/share, TFG traded sideways between 18 385c/share and 15 370c/share. It has recently breached resistance at 18 385c/share, potentially commencing the ascending phase of a bottoming-up pattern. In which case, upside through 20 180c/share could see it surge further to 24 040c/share. Breaching that level should trigger further gains to the upper slope of the channel – possibly to 28 500c/share.

Go short: A negative breakout of the long-term bull channel would only be confirmed below 12 340c/share. Such a move would kickstart a bear trend towards next key support at 8 200c/share. Go short below 12 340c/share. ■

TFG

SOURCE: MetaStock Pro (Reuters)

SPAR GROUP

Positive breakout may be on the cards

South African-based SPAR Group Limited (Spar) is essentially a wholesaler and distributor of goods and services to independently owned Spar grocery stores, Build it builders' merchandise outlets, Tops at Spar liquor stores and other group retail outlets in Southern Africa, Ireland and England. Spar has retained its long-term bull trend since 2009. At the end of 2015 momentum steepened upwards when its key resistance trendline was breached.

52-week range:	R164.18 - R210.72
Price/earnings ratio:	20.86
1-year total return:	3.32%
Market capitalisation:	R38.1bn
Earnings per share:	R9.48
Dividend yield:	3.76%
Average volume over 30 days:	669 013

SOURCE: IRESS

Outlook: After testing an all-time high at 22 700c/share in February 2018, Spar pulled back to the support trendline of its long-term bull trend and held there – a reversal that could have been triggered by weak growth posted in its Southern African market, which experienced a significant slowdown in sales that, together with cost pressures, resulted in a margin contraction.

On the charts: Spar is now approaching the upper slope of its correction – which is in the form of a symmetrical triangle.

Go long: Currently trading in a triangular formation and pointing away from the upper slope, a positive breakout would be confirmed above 21 070c/share. Such a move would end the long-term correction and potentially kickstart a new bull phase. But to fully commence that phase, Spar would have to trade through its all-time high at 22 700c/share. The medium-term target of this triangular breakout would be at 27 610c/share.

Go short: A reversal below 18 285c per share could see Spar retest the support trendline of its long-term bull trend, which would be breached below 17 365c/share. A negative breakout – which would trigger a sell signal – would be confirmed below 16 160c/share. Downside to 15 020c/share and towards 13 635c/share could then follow. ■

editorial@finweek.co.za

SPAR GROUP

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.

STEINHOFF

BUY SELL HOLD

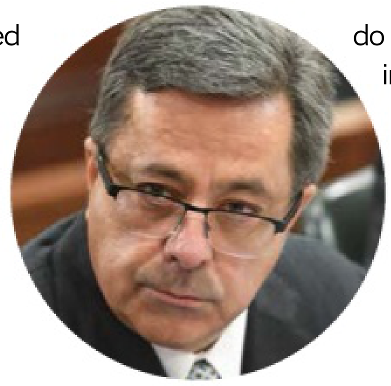
By Simon Brown

Heading for zero

We finally have the much-delayed Steinhoff results for the year ending September 2017 – the results that saw former CEO Markus Jooste quit and the share price collapse.

The bad news is that these results are as bad as expected, if not worse. Riddled with corrupt practices by senior management, they reveal a bankrupt company.

Assets (removing intangible and goodwill) come in at just over €10bn, while liabilities sit at just over €14bn – so technically the company is bankrupt.



Markus Jooste
Former CEO of Steinhoff

They do have some decent businesses, including a stake of more than **70%** in the local Pepkor, but litigation is going to destroy whatever is left.

Operationally they do have some decent businesses, including a stake of more than 70% in the local Pepkor, but litigation is going to destroy whatever is left as shareholders (including some who sold assets to Steinhoff in exchange for shares) pursue the legal route to try and recover some of their losses.

Ultimately, the company will be worthless as viable assets are offloaded to try and cover claims and losses that will exceed the assets. Those buying the share right now are purely speculating on short-term price movements and this is fine. But don't buy on hopes of a recovery. This stock will eventually go to zero. ■

Last trade ideas

HOLD **Coronation**
9 May issue

BUY **Platinum**
18 April issue

BUY **ADvTech**
4 April issue

BUY **Barloworld**
21 March issue

AB INBEV

BUY SELL CAUTION

By Moxima Gama

Beer price brings headache

Earlier in May the world's biggest brewer, Anheuser-Busch InBev (AB InBev), was slapped with a €200m fine for abusing dominance in the Belgian beer market.

"Consumers in Belgium have been paying more for their favourite beer because of AB InBev's deliberate strategy to restrict cross-border sales between the Netherlands and Belgium," ft.com quoted the EU competition commissioner, Margrethe Vestager, as saying.

According to the commissioner, AB InBev used its dominance to keep the prices of Belgium's popular Jupiler beer brand elevated. Carving up the single market to maintain high prices is illegal, reported ft.com.

"The investigation found that Jupiler is cheaper in the Netherlands and that the beer maker broke EU antitrust rules by restricting the ability of Dutch wholesalers and retailers to export or sell the beer into neighbouring Belgium," according to the report. AB InBev has broken EU antitrust rules from 9 February 2009 until October 2016.

AB InBev's share price gapped downwards a few days before the news broke. The share price is now a few points from the key support trendline of its short-term uptrend. Failure to hold and bounce there could trigger another sell-off towards prior lows.

How to trade it: AB InBev would have to trade above 122 980c/share to close its downward gap and extend its current short-term bull trend. Otherwise, the support trendline of the bull trend would be breached through 114 100c/share. A negative breakout of this trend would be confirmed below 110 800c/share, and such a move could trigger another sell-off towards 102 095c/share. Next support at 93 000c/share would be tested on continued selling. ■

editorial@finweek.co.za

Last trade ideas

CAUTION **Redefine Properties**
9 May issue

CAUTION **Remgro**
18 April issue

WAIT **EOH**
4 April issue

BUY **Woolworths**
21 March issue

Photos: Gallo/Getty Images | Shutterstock

By Simon Brown

CORPORATE GOVERNANCE

Why the members of a board matter

What does the board of directors of a company actually do? A lot – or at least they should be. That's why you need to make sure the board members of the businesses you are invested in are worth their salt.

One of the most important parts of any business is its board of directors. This is the group of people who shareholders elect every year at the annual general meeting to run the business.

It would be impractical for all shareholders to be involved in the running of the business, so the board does it on our behalf. Sure, the CEO and to a lesser degree the chief operating officer and chief financial officer actually run the company on a day-to-day basis. But long-term strategy, appointments and the like are a function of the board of directors.

So, while the directors are not necessarily hands-on, they do matter.

Yet, very little attention is given to the board, beyond the personalities and continuity of the board. And, of course, the departure of a big name always gets people talking.

A board will be made up of a chairperson and members – some of whom will also sit on the remuneration, auditor and other sub-committees. It will also have executive and non-executive members. Executive members actually work at the company on a day-to-day basis (such as the CEO) and draw salaries. Non-executive members only attend the board meetings – for which they are paid per meeting.

There are also independent and non-independent members of the board. Independent members should have no shares or other economic interests in the company beyond their board fees. The idea here is that they'll then make decisions that will only be in the broad strategic interests of the company and not just about profits that will boost their shares.

Yet, often, we see independent board members who served ten or more years. They may be economically independent, but they've surely become friends of (captured by ?) by the other non-independent members?

Diversity is the other very important issue. Sure, our boards are fairly diverse in terms of race, but not so much in terms of gender or age. I also suspect we have an overly large concentration of high-net-worth individuals sitting on boards.

For any group of people to really manage the future of a company and to be strategic they need a wide diverse set of lived experiences, otherwise we may as well just have a single rich (and probably white male) person making all the decisions.

Staff representation is also important as employees are significant stakeholders in a business. Locally, staff or unions have no representation on a board, with maybe a few exceptions. In Germany (and other parts of Europe) they have a dual board system with a management board and a supervisory board. The management board is more operational and stacked with staff members. They typically meet every few weeks.

The supervisory board is more of the style we have locally, with half the members elected by shareholders and meeting less frequently. The other half of the supervisory board members are elected by staff and are usually staff members. This means staff are deeply involved in the top-level running of the company.

What also matters is how often a person attends meetings. A board member is of no use if they hardly ever attend the meetings and, frankly, the board is better served with them being voted out and replaced with somebody attending regularly.

Another bug bear of mine is the professional board member who sits on so many boards so as to not be able to really put the required time into the meetings. A board meeting of a large listed company requires the reading and comprehending of thousands of pages of documents in order to be able to add value to the meetings.

If one individual has to attend more than 20 board meetings every quarter, the company is not going to be getting good value for money. ■

editorial@finweek.co.za

If one individual has to attend more than 20 board meetings every quarter, the company is not going to be getting good value for money.

Photo: Shutterstock

By Schalk Louw

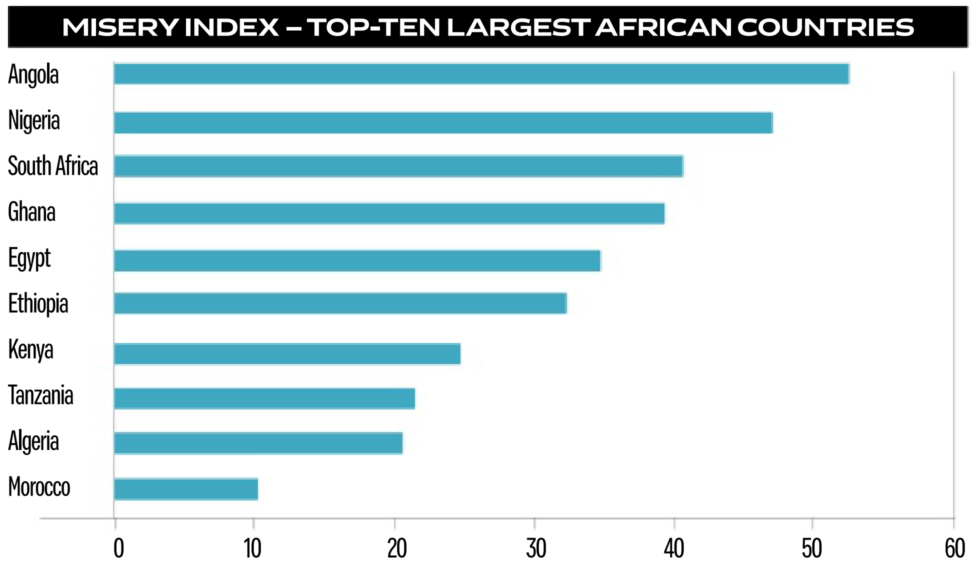
SA ECONOMY

Why we're so damn miserable

South Africa is one of the most miserable countries in the world, according to the Misery Index. That may not come as a surprise. But how do we fix this?

In 1962, well-known American economist Arthur Okun found that a 1% rise in unemployment figures had an approximate 2% adverse effect on a country's GDP. He developed the Misery Index by adding the US unemployment rate to the inflation rate, the result of which should point out just how miserable the country is. The higher the figure, the more miserable the country.

In the late 2000s, economist Steven Hanke refined this index for use outside the US by adding the country's prime lending rate to Okun's calculation and then subtracting the year-on-year per capita GDP growth percentage.



SOURCE: Schalk Louw & TradingEconomics.com

Measuring misery

1. It goes without saying that a country with a higher unemployment rate would be more miserable in general.
2. Inflation indicates how sharply the prices rise on goods that consumers buy and use. I therefore don't have to explain why I feel miserable for paying 350% more for electricity today than I did ten years ago.
3. SA personal debt levels as a percentage of personal income still stands at around 72%. The higher the South African Reserve Bank pushes the prime rate, the more miserable we will become.
4. GDP indicates the country's economic growth as a whole. The lower this rate, the bigger the struggle the country is facing (mainly influenced by points 1 to 3 above). Our current year-on-year GDP growth rate is 1.1%, while the African continent has grown by roughly 3.7% over the same period, and the top-ten emerging countries have grown by an average of 3.6%. Judging by these figures, the reason for South Africa's miserable situation is clear.

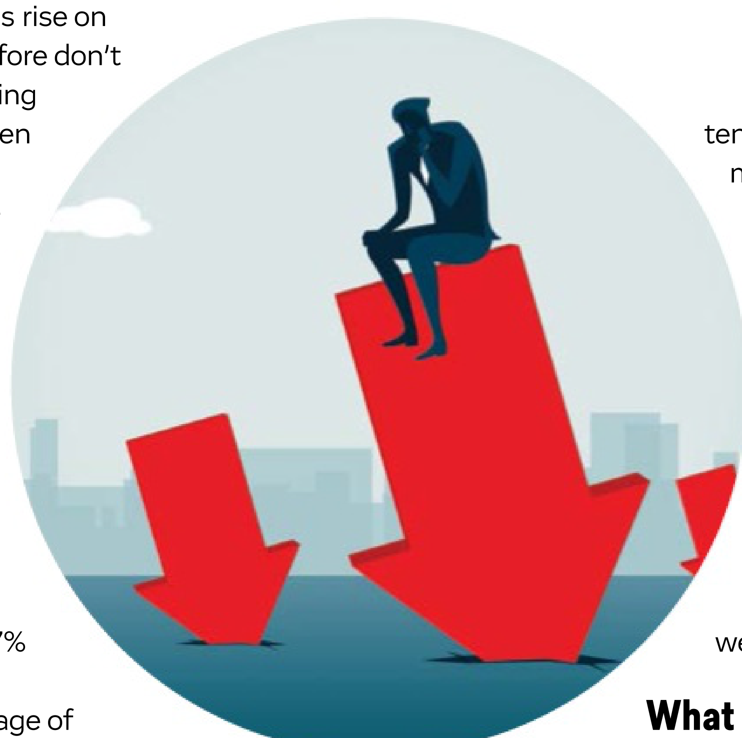


Photo: Gallo/Getty Images

How is South Africa doing?

So how "happy" is South Africa at the moment? At the end of 2014, we were in 10th position out of 108 countries on the Misery Index. Even countries like Sudan and Greece performed better.

Unfortunately, the most recent report paints an even grimmer picture as South Africa now finds itself in 7th place out of 95 countries on the Misery Index.

South Africa now finds itself in **7th** place out of 95 countries on the Misery Index.

To add to Hanke's report, I decided to compare the top-ten largest African countries (based on GDP size) and the top-ten emerging countries' misery figures to one another in order to gain more perspective.

The results delivered no good news. Out of these ten countries, South Africa is the 3rd most miserable, and the main reason for this misery is our high unemployment rate. South Africa has the highest unemployment rate of all ten countries. In fact, at 27.6%, our unemployment rate is more than double the average of the remaining nine countries' unemployment rate (13%).

It is also very interesting to see that when we compare the SA Misery Index to our currency, there is a massive correlation between the weakening of the rand and the weakening of our position on the Misery Index.

What do we do now?

The solution to our misery problem is a two-way street: as an investor, you can either go left or right. If our position on this index does not improve over the long term, both local and offshore investors would likely be better off finding salvation in other countries.

In order to improve these dire prospects, our government will have to focus intently on two aspects: job creation as a matter of urgency, and pursuing economic growth close to three times our current growth figures.

On the upside, we have identified these problems already, it's now just a matter of solving them. After all, South Africa loves to compete with the best of the best on the rugby, cricket and soccer fields. The time has come to do the same on an economic level. ■

editorial@finweek.co.za

Schalk Louw is a portfolio manager at PSG Wealth.

By Simon Brown

FUNDAMENTALS

Buffett on some of the basics

Simon Brown takes a look at some of the key takeaways from Berkshire Hathaway's famous annual general meeting.

Tens of thousands of people every year attend Berkshire Hathaway's annual general meeting (AGM) in Omaha to listen to its CEO and chairperson Warren Buffett and vice-chair Charlie Munger. This year was no different. For five hours, these two veterans of the trade answered investment questions at the AGM**, held on the first Saturday of May. These days the AGM is also streamed live, so I was able to listen in. As always, there are lessons aplenty for investors and companies.

Brand power

One lesson that struck me was the tension that exists between brands and retailers. Buffett suggested there has always been tension between the two. This is because brands want bigger margins, while retailers are trying to cut margins and lower prices for the consumer.

I have written about this happening locally with Tiger Brands as local retailers and consumers move towards cheaper house brands. Ultimately, a ginger biscuit is just a ginger biscuit and if a customer's wallet is under pressure, they will buy the cheaper biscuit.

Buffett's view is that this tension is healthy. More importantly, he says that the power on this matter will continue to swing between the two. Right now, retailers have the upper hand in the US, and I would suggest also locally.

However, he remains confident that brands will again have their day in the sun as customers in time return to brands for quality (perceived or real) and, importantly, status. So, while it is tough right now for consumer brands, it may pass over time, and they can get market share and margins back again. But this could take significant time.

Can value still be added?

Buffett and Munger were both critical of the "go-go" nature of business, especially when it came to listed businesses that continually have to grow profits at almost any cost. This drives solid, mature businesses to undertake mergers and acquisitions that have a track record of inferior returns. Directors overpay for assets, overinflate cost savings and synergies and, ultimately, destroy shareholder value rather than create it.

They use the example of See's Candies, which Berkshire Hathaway bought in 1972. Back then it was already a mature business with modest growth ahead of it. But rather than try and boost profits, they let it carry on as a defensive, highly cash-generative business making profits of some $4.2m and costing $25m to purchase. It now makes around $80m a year and has made over $1.6bn since the purchase. An attempt to grow the business by acquisition would almost certainly have seen the profit figures lower where bad deals were concluded.

Locally, an example could be Metrofile*, a company that mostly focuses on storing paper documents. The business is ex-growth, and really only grows at around the rate of GDP. It's a great cash generator and could be for many more decades.

Yet the business is trying to reinvent by going into digital channels and expanding into other markets. Sure, these new ventures may work, but if they don't, a great cash-generating business would have been lost due to the demands of go-go growth.

Another excellent point from Munger was that they like to buy a business that is already efficient. Buying a broken business and then fixing it will result in great profit. But what if the business cannot be fixed?

Management always thinks that it can be fixed but buying an already great business (at a great price) that is not in need of fixing reduces risks and generates great profits. This is because they can simply carry on doing what they do.

A last point is that a share trading at high valuations will almost always disappoint shareholders in time, as management will simply not be able to grow fast enough to justify the value. So, either they take outsized risks, or they will underperform. We've seen lots of examples locally. The lesson is that we have to be very careful about the price we pay for companies. ■

editorial@finweek.co.za

The writer owns shares in Metrofile.

***To view the two sessions oF the Berkshire Hathaway AGM, download them at the links below:*
http://joldownload.s3.amazonaws.com/BRK19pt2.mp3
http://joldownload.s3.amazonaws.com/BRK19pt1.mp3

Warren Buffett
Chairperson and CEO of Berkshire Hathaway

Photo: Gallo/Getty Images

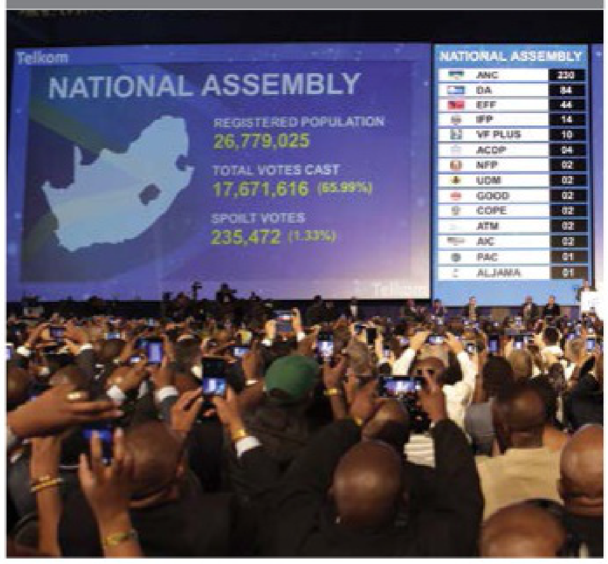
They like to buy a business that is already efficient. Buying a broken business and then fixing it will result in great profit. But what if the business cannot be fixed?

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.

ECONOMY



Life after elections

The national election is over and once again democracy was the standout winner. South Africans showed that while we are a young democracy, we do it well. This now opens the SA Inc investment strategy but, even with excellent elections, the recovery is not without risks. Firstly, the much-needed and hoped-for GDP growth may not materialise or it may be overly slow. Secondly, we are, as always, vulnerable to global risks. Slowing growth or falling markets in the rest of the world will hurt us, regardless of how well-priced our markets are. But at least we can now manage the things that are within our control.

MARKETS

Don't worry about 1987

2019 has been off to a great start with most markets having had their best year-to-date return to end-April since 1987. The 1987 date gets a lot of people all excited, because that was when the last severe crash happened, with markets losing over 20% in one day during October. However, the bigger picture here is that most markets across the globe ended 1987 green as the crash was preceded by a massive rally. The recovery from the crash was also swift. So, enjoy the great start to 2019 and don't worry about 1987.

VALUE GROUP

Don't overlook this one

Value Group has long been the overlooked logistics company on the JSE. But its recent results for the year to end-February show that it shouldn't be. Profits for this year were helped by a once-off R19m B-BBEE cost in the previous year. But even removing this factor, headline earnings per share (HEPS) would still have been up almost 30%. The group has been cutting costs and improving efficiencies and this clearly shows in the results. Operational leverage came through with an 11% increase in revenue, 23% increase in the dividend and an almost 30% increase in adjusted HEPS. Currently the stock sits on a price-to-earnings ratio (P/E) of under eight times and a dividend yield of just over 4%. Logistics companies perform best with growing GDP and Value Group is perfectly positioned as an SA Inc stock. And now that the elections are behind us, these stocks are expected to be the winners over the next few years.

Operational leverage came through with an 11% increase in revenue, 23% increase in the dividend and an almost

30%

increase in adjusted HEPS.

CONSOLIDATED INFRASTRUCTURE GROUP

Still at a standstill

Consolidated Infrastructure Group has again extended its "extended waiver and debt standstill" by yet another month – to end-May 2019. These monthly extensions suggest the company is struggling to agree on terms with its lenders. As such, the group is at risk of no deal or an expensive deal on its debt. Either way, not good news for the company.

UBER

The stakes are high

While Uber's initial public offering (IPO) was priced at the bottom end of the proposed range at $45 a share, the first day's trading did not go well. The share closed at $41.57 and never traded above the listing price. For me, Uber is an excellent product but a high-risk investment. They actually need to charge a lot more for trips. And while I would happily pay more, I am not sure how many other customers would. What we're seeing here with Uber is concern about whether it'll ever make profits. Another concern is that it is a very late-stage IPO, therefore leaving very little for the IPO investors. Another big IPO was that of Beyond Meat, which saw the stock trading over 200% higher than its listing price. This makes the Beyond Meat IPO one of the top-20-largest opening moves (of note: the other 19 on that list all happened in 1999 or 2000). While Beyond Meat has a business model that may work, valuations are exceedingly optimistic.

Photos: Gallo/Getty Images

MTN

Getting a grip on governance issues?

MTN has announced the appointment of a bunch of new board members, including Mcebisi Jonas as chair and a former governor of the Nigerian central bank, Sanusi Lamido Sanusi. Jonas is taking over from Phuthuma Nhleko, who returned to the company when the first Nigerian fine was levied against MTN and the group was in a corporate governance mess. This move suggests the company thinks it is now on top of its governance issues. This may indeed be the case, especially after announcing the appointment of an international advisory board packed with big names – starting with the chair, former president Thabo Mbeki. The purpose of this board is to "counsel, guide and support the MTN Group", but it really looks like a lobby grouping of eminent persons that should hopefully help MTN navigate some of its troubles in its many markets. MTN has also applied for the listing of its Nigerian shares on the Nigerian stock exchange, which is part of the clean-up after the most recent round of Nigerian threats of fines. This is a further indication that MTN is getting back on track from a governance perspective.

OCEANA

Attractive valuations

Oceana is a stock I have been watching for ages. Truthfully, I keep getting these fishing stocks wrong. But if you dig into the recent results for the six months to end-March, things look very good. On the surface, profit after tax was down some 20%, but Oceana experienced a once-off benefit last year from its US operations, as well as lower corporate tax rates in that market. This resulted in a tax receipt of over R46m last year, which has now returned to normal in this period and resulted in a R121m payment. Oceana also experienced a R21m currency movement gain in the previous year, compared with a loss of almost R5m in this period. So, there were lots of moving parts. The currency will hurt at times and will help at other times. But normalising the tax issue would have seen decent profit growth. The recent unbundling of the Oceana shares by Tiger Brands has created some weakness in the share price as some who received the shares are sellers. But the share is looking well-placed on attractive valuations and while a stronger rand will hurt US earnings, it'll reduce local diesel costs.

S&P 500

US President Donald Trump

Trump remains biggest risk

At the time of writing, the S&P 500* had closed at another all-time high, rising above the peaks from late 2018. These 2018 peaks were followed by a swift and aggressive sell-off into December, but the market has recovered, and the US economy is looking very strong. GDP for the first quarter came in at 3.2%, while the most recent jobs data showed 263 000 new jobs added in April. US unemployment is currently at 3.6% – the lowest since the 1960s. This large and very strong economy is in part what is driving world markets higher even while other regions such as Europe splutter along. Of course, Trump has since reignited Chinese trade wars and he remains the single biggest risk to markets.

CORONATION

Not so fast

Sometimes print deadlines and Sens announcements manage to make me look stupid, as was the case with Coronation*. In the 9 May issue I wrote about how the price action was looking good and I was holding. Then a trading update came out that had assets under management (AUM) better than I expected, but HEPS worse at 20% to 30% lower. This was in part because average AUM was 8% lower for the period. The result was that the stock got sold off. It has recovered to a degree and I continue to hold, with results due later in May.

Listed to try and capitalise on the hype around education stocks, they've never really got going and the auditors note 'material uncertainty' around the group as a going concern.

PEMBURY

Best left alone

Pembury Lifestyle Group issued late results for the year to end-December 2018 (they were due by end-March, yet arrived early May). The results show a company in deep distress. Listed to try and capitalise on the hype around education stocks, they've never really got going and the auditors note "material uncertainty" around the group as a going concern. The best response here is to leave the stock well alone. The group may survive, but there is a real risk that it won't. ■

editorial@finweek.co.za

The writer owns shares in Coronation and S&P 500.

By Maarten Mittner

OUTLOOK

Short-term views driving the market

If markets remain in growth mode until July, it will be the longest expansionary period in market history. But investors would be well-advised to remember warnings of a decline in global economic growth.

The surge in global equity markets since the beginning of the year, with the JSE All Share also benefitting, was based on two premises: That US interest rates will be cut and that the trade dispute between the US and China will be settled amicably.

Markets adopted an excessively short-term view, spelling danger for the average investor as it comes against the background of expected falling global economic growth.

With the middle of the year approaching, both these premises appear to be overly optimistic amid some strange anomalies developing in the markets.

On the day the S&P 500 hit its first annual high, yields on the US ten-year firmed six basis points. The All Share is up more than 10% for the year, yet there has been a R35bn outflow from foreign investors, offset by inflows of R13bn into the bond market, still leaving an overall deficit of R21bn. The British pound remains elevated against the dollar from post-Brexit lows, despite escalating evidence of a chaotic hard-Brexit outcome.

To some extent the rise in the Dow, S&P 500 and Nasdaq indices can be justified as nearly 80% of quarterly financial reports from companies exceeded expectations. And the US economy grew by a better-than-expected 3.2% in the first quarter. However, the IMF has predicted that growth in the US will fall to 1.6% in 2024 from 2.9% last year. Eurozone growth is set to drop to 1.4% from 1.8% over the same period.

US bond yields remain low as buyers keep on piling into the bond market. This is an indication that all is not well. "Irrational exuberance", to use then Fed chair Alan Greenspan's celebrated words to describe the markets in the 1990s, has seemingly reared its head again.

Locally, the market has priced in a favourable outcome for the ANC in the national elections.

The weaker rand has mainly been driven by the rampant dollar, despite the US budget and current account balances still being firmly in negative territory. The US GDP continues to enjoy strong growth, but wage growth in the US remains stuck at only 2%.

With US President Donald Trump again upping the stakes in the trade battle between the US and China, the hope is that higher tariffs slapped on Chinese imports will help improve the US current account deficit over time, with the US becoming a leading exporter again. However, this could be misplaced, based on history, as building a wall on trade has rarely ever been beneficial to any nation over the longer term. The US is no exception.

Even a relatively open trading community such as the EU is only growing at a tepid 1.2%, with the enviable German trade balance now at a robust positive number of 6.6% of GDP. Locally, the budget deficit stands at 4% and the current account deficit at 3.2% of GDP, though better than the 5% of a few years ago.

Cyril Ramaphosa
President of South Africa

The All Share is up more than **10%** for the year, yet there has been a R35bn outflow from foreign investors, offset by inflows of R13bn into the bond market, still leaving an overall deficit of R21bn.

Donald Trump
US President

Growth on the JSE this year has again mostly been driven by Naspers*, up more than 30% since January. But Naspers's performance remains strongly correlated with its Tencent stake. Naspers dropped 4% when Trump announced his new tariff plans against China, in line with Tencent's weaker performance on the day.

Growth among the other indices on the JSE remains uneven. The Resi 10 is up 12%, with Anglo American Platinum firming 39%. The Fini 15 is 7% higher. Capitec has risen 21% but Absa only 3%. Property remains in the doldrums, amid high valuations, although the SA Listed Property Index (Sapy) has again breached the 200-day moving average technical indicator for the fourth time since retreating from its January 2018 high amid then widespread "Ramaphoria".

With Nepi Rockcastle trading at a price-to-earnings ratio (P/E) of 38, and Redefine at 18 and Growthpoint at 17, the sector is not screaming value yet as dividend growth remains lowish at around 4% to 5%. Equites is the exception at 11.8% growth.

A strong election showing by the ANC is expected to support the overall market and the rand as President Cyril Ramaphosa can comfortably proceed with further reforms. This could support locally focused shares, including banks.

Despite higher US interest rates, global markets remain awash in liquidity as the eurozone and Japan remain committed to keeping rates near or at zero. This somewhat minimises the possibility of further sustained market setbacks. The rise in risk-on investments this year clearly illustrates this. Investors will react positively to any minimisation of risk.

However, this appears to be a firmly short-term view with risk-off bond yields remaining low.

Any predicted "melt-up" in equity markets may only be temporary as global economies retract. Not a recession, though, which should support ongoing short-term gains amid volatile trade, and the important month of July approaching. Should markets remain in growth mode until then, it will be the longest expansionary period in market history.

It was in July 2009 that global markets started to recover, thanks to a heavy dose of quantitative easing. This has been the case ever since. ■

editorial@finweek.co.za

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

Maarten Mittner is a freelance financial journalist and a markets expert.

Photos: Shutterstock

By Lucas de Lange

SHARES

How to avoid the next Steinhoff

Steinhoff's collapse caught most market players by surprise, inflicting serious damage. Lucas de Lange explains how to read the danger signs beforehand.

When Steinhoff International's shocking revised results for 2017 were published earlier this month, its formerly highly regarded board of directors as well as stockbrokers and asset managers were once again widely reproached because they were oblivious of the danger signals.

The results are far worse than expected, and speculation is rife about whether this company can survive.

After the results were released, the share price dropped immediately for the umpteenth time. At the time of writing, it was 98.6% lower than its high in March 2016, when it traded at 9 700c. The damage it caused in South Africa is widely felt.

Each time investors suffer such enormous losses when big, complex companies collapse owing to fraud, there's talk of new measures being introduced to protect investors. It has, however, been proven time and again that this is only partially successful.

Financial fraudsters are often highly intelligent people who succeed in circumventing rules and regulations. Of course there were people such as Jean Pierre Verster of Fairtree Capital who saw through the false good fortune of the share price and probably made large profits by selling short. Magda Wierzycka, CEO of Sygnia Asset Management, also decided that something major was amiss after analysing Steinhoff.

Unfortunately, as is often the case, there are always people with better information than the average investor. Despite the very strict rules forbidding them from using this information, it's impossible to stop it completely.

Smaller investors do, however, have a resource that will not mislead them: the careful study of the graph of a specific share's price. Of one thing you can be sure and that is that a diagrammatic representation of a share's price always tells the truth regarding the relation between demand (bulls) and supply (bears), which forms the foundation of deals in any market. If the bulls reign supreme, then the price will usually rise, and if the bears are in control, then the price will drop.

In the process, certain price patterns emerge which are not only an indication of the state of the demand and supply, but often also send out danger signals that something is wrong.

For example, look at the highs A, B and C in 2016 on the graph. B and C both retreated before they could equal or beat A. This indicates that there were large sellers who were getting out at those levels. The bears therefore beat the bulls' attempt to reach a new high, as was also evident in the area below D and E.

Then there were other indicators, such as Steinhoff's long-term moving average that gave up the ghost in October and started declining owing to sustained selling pressure. When such a long-term average reverses downward after a considerable period of strong growth, then it's always a major, flashing warning sign.

In Steinhoff's case, as well as with disappointing stocks such as Mediclinic and Aspen, the long-term average moved sharply down. It is very dangerous to try and buck its trend. Anybody who sold Steinhoff when the average reversed downward could have pocketed R75 to R80 per share.

There are also more technical signs that could have warned investors. Such as the head-and-shoulders formation that played out. It is regarded as one of the most reliable technical formations: To warn you at the top-end of a price graph that the risk is high for further declines; or at the bottom-end where an inverted head-and-shoulders can indicate that a share is on the point of recovery. The formation has a so-called neckline (XY). Should the price drop through that, then it is, as one experienced analyst puts it, like a gunshot that's gone off.

These price patterns are constantly repeated in the market. Technical analysis is not the be-all and end-all of investment. It is simply another aid (and somebody like Jean Pierre Verster does not hesitate to admit that he uses it). If Christo Wiese, the former Steinhoff chairman, had someone to warn him that many warning signals were flashing, he might have avoided having to admit that the whole swindle and Steinhoff's collapse "came like a bolt from the blue". ■

editorial@finweek.co.za

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

STEINHOFF SHARE PRICE MOVEMENT SINCE 2011

SOURCE: Lucas de Lange, Metastock

Magda Wierzycka
CEO of Sygnia Asset Management

Anybody who sold Steinhoff when the average reversed downward could have pocketed **R75** to **R80** per share.

Jean Pierre Verster
Portfolio manager at Fairtree Capital

By Peet Serfontein

FORECAST

Should you invest in Boeing?

Boeing has met with sharp criticism after the second air crash involving one of its 737 MAX passenger aircraft. These aircraft are still banned, which is creating uncertainty regarding the impact of the ban on Boeing's earnings.

The Boeing Company, together with its subsidiaries, is one of the world's biggest aviation companies. But what is the impact of the recent air crash in Ethiopia, where another one of Boeing's 737 MAX aircraft crashed, on this share's prospects?

At the end of April, Boeing announced that it has scrapped its earnings prospects for 2019 – its official prediction for its short-term profits and losses – owing to uncertainty surrounding the conditions for the return to service of the 737 MAX.

In a recent statement, Boeing also said that it believed that the ban on 737 MAX flights would be lifted by July. However, this is probably subject to approval by the American Federal Aviation Administration. Many aviation analysts believe that the ban will only be lifted by August.

Boeing, which is listed on the New York Stock Exchange, operates in four reportable segments: commercial aircraft; defence, space and security; global services; and Boeing Capital.

The commercial aircraft section manufactures and markets commercial aircraft and delivers marine support services, mainly to the commercial aviation industry, globally.

Is Boeing's current share price fair?

Boeing currently trades at a price-to-earnings ratio (P/E) of 21.9. However, the one-year pre-estimated P/E is 23.3. As the pre-estimated P/E is higher than the current P/E, this implies that analysts are expecting a decline in earnings.

The current earnings per share (EPS), an indication of the company's profitability, is at $17.48.

Boeing is currently trading at its weekly average. The two blue lines in the graph are the top and bottom two standard deviations. A standard deviation is determined statistically and shows how the price of a share varies or is distributed to determine an average (the red line). It is generally accepted that prices trend towards the average price over time.

If a share is trading near the bottom line, then the share is oversold and you can expect an upward correction. When a share is trading close to the top line, it's overbought – you can then expect a downward correction in the price.

As mentioned, the red line is the average and serves as a basis to determine whether the share is trading at a fair price. However, it is shares like these that usually recover gradually over the medium term, provided you are patient and wait for them to develop internal strength.

But should you buy?

The long-term trend of Boeing's share is more bullish by nature, so you can expect the problems surrounding the 737 MAX to be only temporary. It's also interesting to mention that when the news of the crash in Ethiopia broke, the price dropped only to its average – the fair price (red line).

Had market expectations generally been more negative, the share would probably have traded down close to the bottom blue line of the standard deviation. The movement is therefore reassuring.

Boeing will probably consolidate between $350 and $400. The trading strategy is to buy as closely as possible to the support level of $350 and to increase positions when the share breaks through the $400 resistance level.

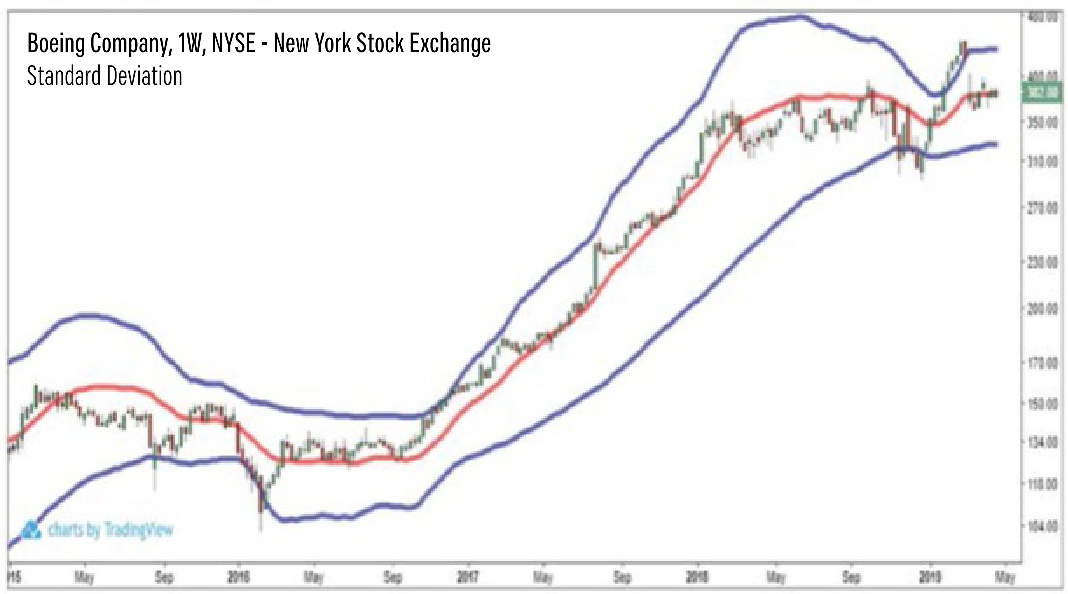
The first resistance trendline will be above $415 and a break through the upward potential to $435 seems possible. At these levels, the share price will already be close to its oversold levels, which could lead to a possible correction. It will then be an indication to take profits.

However, should the price drop below the support level of $350, it could then easily decline to $330. If that happens, stay away until the share again shows signs of a bull trend. ■

editorial@finweek.co.za

Peet Serfontein is a director of Phoenix Investment Analytics.

BOEING SHARE PRICE MOVEMENT



Published on TradingView.com, 26 April 2019, 16:18:34 EEST

52-week range:	$292.47 - $446.01
Price/earnings ratio:	19.44
1-year total return:	1.92%
Market capitalisation:	$190.13bn
Earnings per share:	$17.38
Dividend yield:	2.43%
Average volume over 30 days:	6 183 453

SOURCE: IRESS

Boeing will probably consolidate between $350 and $400. The trading strategy is to buy as closely as possible to the support level of

$350

and to increase positions when the share breaks through the $400 resistance level.

Photo: Shutterstock

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ANGLOGOLD	K Dushnisky	10 May	Sell	94,147	16589	15,618,045	14 May
BAT	J Abelman	8 May	Purchase	9	£28.33	£254	14 May
BAT	J Abelman	8 May	Purchase	217	£28.33	£6,147	14 May
BAT	J Bowles	8 May	Purchase	888	£28.33	£25,157	14 May
BAT	J Bowles	8 May	Purchase	6	£28.33	£169	14 May
BAT	K Claeskens	8 May	Purchase	112	£28.33	£3,172	14 May
BAT	L Comin	8 May	Purchase	9	£28.33	£254	14 May
BAT	L Comin	13 May	Purchase	206	£28.33	£5,835	14 May
BAT	A Davy	13 May	Purchase	167	£28.45	£4,751	15 May
BAT	A Davy	13 May	Purchase	8	£28.45	£227	15 May
BAT	A Davy	13 May	Purchase	4	£2845	£113	15 May
BAUBA	NM Phosa	30 April	Sell	50	54	27	14 May
BAUBA	NM Phosa	9 May	Sell	1,000	53	530	14 May
BAUBA	NM Phosa	10 May	Sell	1,020	53	540	14 May
CURRO	CR Van der Merwe	6 May	Sell	100,589	2694	2,709,867	13 May
CURRO	CR Van der Merwe	7 May	Sell	248,055	2610	6,474,235	13 May
CURRO	CR Van der Merwe	9 May	Sell	73,200	2565	1,877,580	13 May
CURRO	CR Van der Merwe	10 May	Sell	78,156	2520	1,969,531	13 May
EXXARO	T Tsengwa	10 May	Sell	12,364	16350	2,021,514	13 May
EXXARO	MR Walker	14 May	Exercise Options	11,996	16478	1,976,700	15 May
FIRSTRAND	T Winterbroer	7 May	Purchase	15,000	6919	1,037,850	13 May
GEMFIELDS	BP Gilbertson	14 May	Purchase	645	172	1,109	15 May
GEMFIELDS	BP Gilbertson	14 May	Purchase	14,300	171	24,453	15 May
GEMFIELDS	BP Gilbertson	14 May	Purchase	10,359	170	17,610	15 May
HAMMERSON	D Atkins	14 May	Purchase	17,000	295	50,150	14 May
KAAP AGRI	S Walsh	10 May	Purchase	1,600	3300	52,800	13 May
LIGHTCAP	SE Delport	14 May	Purchase	1,250,000	700	8,750,000	15 May
MONDI PLC	J Hampshire	7 May	Purchase	18	£16.65	£299	13 May
MONDI PLC	A King	7 May	Purchase	18	£16.65	£299	13 May
MONDI PLC	J Lindahl	7 May	Purchase	18	£16.65	£299	13 May
MONTAUK	SF McClain	14 May	Sell	56,495	4601	2,599,334	15 May
SIBANYE-STILLW	NJ Froneman	10 May	Exercise Options	375,852	1535	5,769,328	13 May
SIBANYE-STILLW	C Keyter	10 May	Exercise Options	184,025	1535	2,824,783	13 May
STADIO	CR Van der Merwe	6 May	Sell	478,946	349	1,671,521	13 May
STADIO	CR Van der Merwe	7 May	Sell	521,054	350	1,823,689	13 May
TREMATON	A Groll	9 May	Purchase	18,276	275	50,259	13 May
TRUWORTHS	DN Dare	10 May	Purchase	70,000	3718	2,602,600	13 May

All data as at 12:00 on 15 May 2019. Supplied by IRESS.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
E MEDIA N	280	32.08
JASCO	38	26.67
ELBGROUP	625	25.00
YORK	210	16.67
ISA	150	14.50
WORST		
KIBO	36	-40.00
FRONTIER	259	-35.09
4SIGHT	15	-31.82
SEPHAKU	150	-23.47
STEINHOFF	156	-22.39

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
REBOSIS	51	37.8
FORTRESSB	197	19.9
MERAFE	22	17.6
ARROW	63	16.3
ACCPROP	55	16.1
INTUPLC	243	13.6
EXXARO	2070	13.6
DIPULA B	92	13.2
GEMPROPB	70	12.6
SA CORP	44	12.6

DEBT: COMMON METRICS DON'T TELL THE FULL STORY

Good debt, bad debt, no debt? Very few South Africans can live debt-free, and utilising debt facilities like home and car loans are not necessarily poor financial decisions. However, there's a reason it's called a debt spiral. And millions of South Africans are struggling to stay out of that spiral.

By Brendan Peacock

Gallo/Getty Images

Photo: Gallo/Getty Images

The most common metric used by monetary policymakers like the South African Reserve Bank to assess the indebtedness of South African consumers is the household debt-to-gross income ratio, which stood at 71.9% through 2018.

This figure remained unchanged from a year before, some way off an all-time high of 86.4% in 2008, before the global financial meltdown. It is above the long-term average since 1969, which is 57.9%.

By comparison with especially developed countries, South Africa's debt-to-gross income ratio is relatively low, with consumers in the Netherlands wielding an astonishing 209% of debt-to-gross income.

So just how indebted are South African consumers and is this worth worrying about?

The old aphorism that there are lies, damned lies and statistics is probably worth repeating here because the cost of living – rising fast as the economy struggles to absorb Eskom's balance sheet woes – is not reflected in the number above, and neither is sluggish wage growth in a stuttering economy. The makeup of this debt is also not reflected, which means a rise in unsecured lending at higher interest rates, which can pressurise consumers' cash flow, is also not reflected.

Another aspect to consider is that debt metrics have typically only measured bank-originated debt, which means both formal sector credit from non-bank lenders and the informal lending sector are not fully taken into account when compiling these figures.

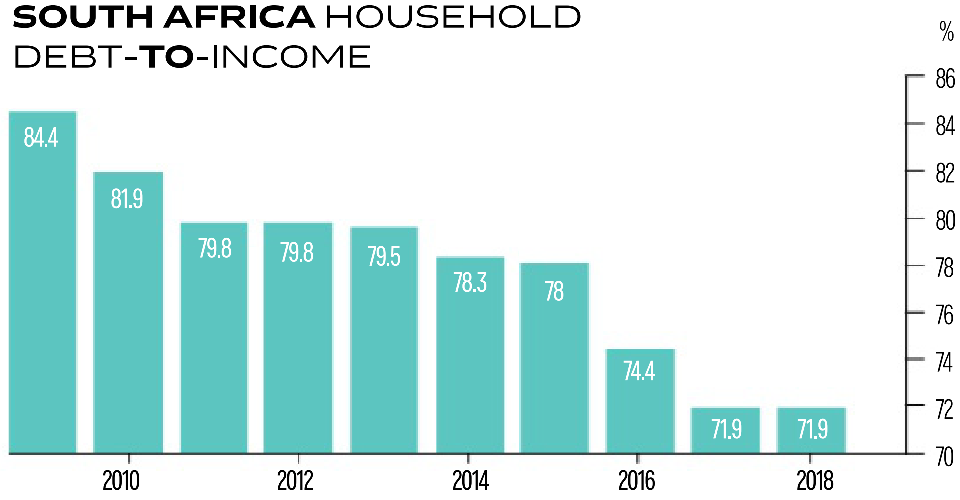
The gap in measurement is narrowing for lenders who access credit bureau data to make lending decisions. Although, according to Experian South Africa's chief data officer, David Coleman, most of the data credit bureaus like Experian receive comes from the South African Consumer Risk and Reporting Association.

"That association consists of banks, telcos, insurers, retailers and financial services companies, so we have a wide network of providers who send us this information. For two years we've been working to get new credit providers onto the database in a standardised format, once they're registered with the National Credit Regulator."

According to Coleman, the latest quarterly consumer default index shows 14.3m South African consumers who hold credit cards, personal loans, vehicle loans and home loans hold R1.56tr in outstanding debt as of December 2018.

David Coleman
Experian South Africa's
chief data officer

SOUTH AFRICA HOUSEHOLD
DEBT-**TO**-INCOME



SOURCE: TradingEconomics.com | South African Reserve Bank

The data from this consumer default index shows that there is pressure building in the private sector credit market, with the number of consumers who had previously never defaulted on debt repayments increasing from 3.1% to 3.4%. Default levels in total now sit above 44%.

The problem is most likely the mix of debt. While consumer confidence and major purchase statistics remain muted, fewer South Africans are deciding to take out secured debt like home loans and more people are taking out loans of various types to maintain lifestyles. Coleman believes this type of debt growth is outstripping wage growth so that certain segments of the credit-active market are coming under significant pressure.

Ariel Eliasov, head of credit at FNB Loans, says the bank has seen "a slight deleveraging in some sectors", meaning the household debt-to-income ratio which has been declining steadily since 2008 indicates that fewer South Africans are taking up significant debt like home loans. In response, FNB's personal loans division has focused its activity on those customers in the credit market who are credit worthy and meet their affordability requirements. These credit scoring and affordability assessments serve as upfront mechanisms to protect both the customer and the bank.

Secured loans offer lower interest rates than unsecured debt as the lender has the ability to repossess collateral in the event of default. However, according to Eliasov, there has been a market shift towards unsecured lending.

"Secured lending is more beneficial to both the borrower and the lender, but there are barriers preventing certain customers from accessing this market. For example, some consumers who don't own assets may not have collateral to borrow against."

This means tighter and more rigorous credit and payment history checks. In a weak economy, what used to happen is that consumers under pressure would default on store credit first, and attempt to make payments on crucial debt like mortgages and vehicle finance.

> There is pressure building in the private sector credit market, with the number of consumers who had previously never defaulted on debt repayments increasing from 3.1% to 3.4%. Default levels in total now sit above
>
> 44%.

But Coleman says even this is changing as consumers become more savvy about credit products. "The first thing people stop paying is insurance policies. The interesting trend is that pressurised consumers try to keep their credit cards afloat to finance their lifestyles, then car, then house because the collection cycle on a house is much longer."

Eliasov says legal costs of collection have not increased materially during the shift from secured to unsecured credit, but that only 40% of applications for credit are typically granted, as a protection mechanism upfront.

Benay Sager, chief operating officer of Debt Busters, says the household debt-to-income ratio is also restricted in telling the whole story of South African debt because it is spread across those who do and do not have significant debt. "And not everyone is paying at the same rate. When you factor in non-bank lending and the cost of credit, which includes credit life insurance which can add substantially to monthly repayment amounts, the amount of debt is underrepresented. The picture is more frightening than it looks." ■

editorial@finweek.co.za

Photo: Supplied

How to get out of trouble

When used wisely, debt can be used to create wealth. But the red flags should go up when debt is used to fund short-term lifestyle expenses or consumables.

Identifying when a person is over-indebted can have quantitative and qualitative aspects. Stress and a lack of sleep over monthly finances, payments and possessions would be the easiest signs to read on the qualitative side. Remarkably, however, the most obvious quantitative red flags are often ignored.

For experts in dealing with individual finances, like Ryan Winter, a wealth manager at Netto Invest, the signs are easy to read. "Using debt for consumables like food and clothing is concerning, because you can be paying for that years after those goods disappeared. Taking out further credit with different providers to settle existing debt will keep one creditor happy but simply kick the can further down the road."

Winter says not being able to make monthly payments should be motivation to scale back on credit. Beyond essential credit for most people, like house and car, one credit card and perhaps a store card should be sufficient. Multiplying lines of credit show an individual is not coping with managing their salary and lifestyle.

Ariel Eliasov, head of credit at FNB Loans, says many South Africans tend to compartmentalise their financial management, managing credit and saving separately. "Most people tend to compartmentalise credit and savings, but this could be wealth-destructive. The interest rate on a credit card will likely be much higher than what you can earn as interest on savings. If you have any free cash flow at the end of a month, that should go towards paying down your most expensive debt."

The best way to avoid debt problems is, of course, to not enter into new credit agreements, but Eliasov says this may be impossible if emergencies occur, like a car breakdown or a property boundary wall collapsing. "It just shouldn't be used to fund a lifestyle beyond your means, because there is a cost associated with debt. A rule of thumb is that the benefits of the money you're borrowing should outlast the period of repayment, like taking out a loan to fund a child's or your own education."

Winter says although being debt-free is the ideal, it's usually impossible for most people, in which case expensive debt should be paid down first, followed by house, car and investment property debt. "That's actually a debt you can leave in place for a while, if you have it, because the interest on that debt is tax-deductible."

"A rule of thumb is that the benefits of the money you're borrowing should outlast the period of repayment, like taking out a loan to fund a child's or your own education."

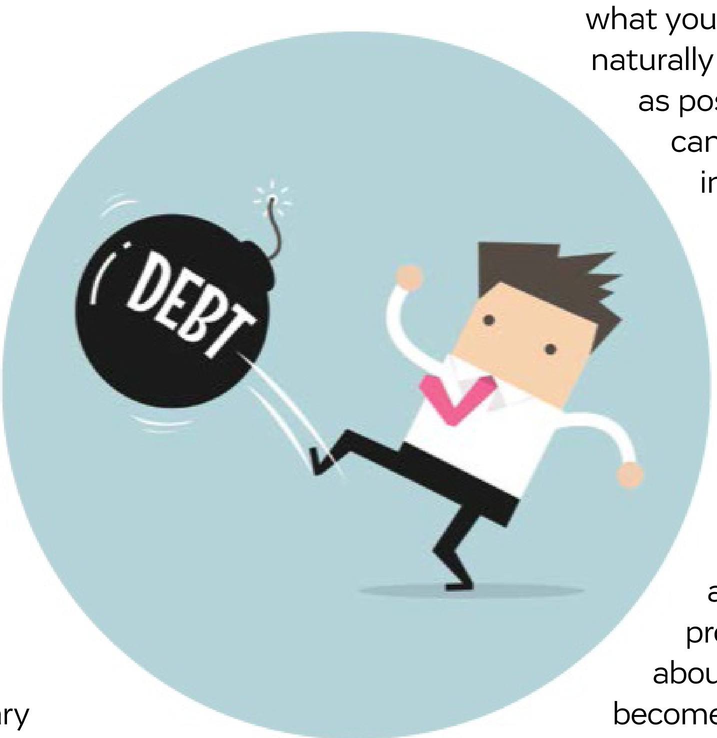


Photo: Shutterstock

Galileo Capital director Warren Ingram says "good debt" is for assets that appreciate in value over time, by at least the rate of inflation, or which provide income that appreciates. "With shares, residential property, listed property – it takes time to look through the cycle. You need at least seven to ten years to see whether you did well or not. But bad debt is easily recognisable because it's consumables with little to no resale value, like appliances, furniture and holidays. While I'd advise always having an emergency fund, my advice is to pay down all that bad debt to zero before you start saving."

He says debt is like a powerful medicine: "It can kill you or make you much better, so treat it carefully. It can be used to build wealth under controlled and limited circumstances. Make sure your repayments are no more than a third of what you take home every month. If you aren't naturally disciplined, just pay off your debt as fast as possible. If you have no assets and you can't back your monthly repayments, you're in trouble."

Most importantly, over-indebted consumers should engage with their creditors before defaulting on repayments. Eliasov says banks have been encouraged to become more amenable to debt restructuring since debt counselling has been legislated as an alternative to default. The bank is open to negotiate payment holidays and altered terms before the point of default, provided that the customer is serious about meeting their debt obligations and has become over-indebted due to circumstances beyond their control (for example a pay cut, death or illness of a spouse straining the household finances).

Ingram says a good debt counsellor can make a massive difference. "It's a difficult, uncomfortable process, but a good debt counsellor is like a good personal trainer. You may not like them very much, but you'll see results in a few years' time." ■

Debt counselling has changed everything

About 1m South Africans have signed up for debt counselling over the last 12 years, but millions more should probably also be in debt management programmes. This is how debt counselling works.

Debt counselling was legislated in the National Credit Act in 2007, and has provided an avenue for treatment of over-indebtedness which did not formally exist before that point.

Benay Sager, chief operating officer of Debt Busters, says currently 230 000 consumers are actively paying restructured debt loads through debt counselling, and over the last 12 years some 1m South Africans have signed up for debt counselling.

"Of the overall population, there are 25m credit-active consumers and 10m to 12m have impaired credit records. I believe there are 2m to 4m people in the country who should be in debt counselling or some other debt management solution," he says.

What these consumers should do, he says, is first understand their credit situation. "Get a free credit report, and if it is negative, search the internet for debt counsellors. Often people would prefer to speak to someone over the telephone, and many offer a call-back service from internet forms. Just cross-reference their registration with the National Credit Regulator."

From here, Sager says an application form needs to be signed to say the person wants to move forward with the debt counselling process. The debt counsellor assesses the person's level of indebtedness and then – if the person's combination of monthly expenses and debt repayments exceed net income – registers the individual with the credit bureaus as someone who has applied for debt counselling. This prevents any further extensions of credit being granted until the process is complete.

"Once you're found to be over-indebted, in exchange creditors agree to restructure your debt to allow you a cash flow improvement on a monthly basis. Most people who apply end up paying a much smaller monthly amount, maybe a third to 40% of previous cumulative payments, which continues through the duration of the programme, typically two to five years."

"I believe there are **2m** to **4m** people in the country who should be in debt counselling or some other debt management solution."

The debt counsellor negotiates with creditors on the individual's behalf, and then all credit payments are consolidated into a single monthly amount. "As long as you continue to pay your debts, your debt will get smaller each month. Once all your unsecured debt is paid, you receive a clearance certificate and you can again borrow money. The debt counsellor informs the bureaus and there will be no flag against your name," Sager says.

A negative stigma around debt counselling is purely a result of misconceptions about what the process is, says Sager. "There is no such thing as blacklisting. It doesn't work like that. You're simply agreeing to pay back your debts at a rate you can afford. In exchange, you aren't allowed to take out new debt. Creditors agree to take haircuts on repayment rates to the benefit of the consumer. Leaving debt counselling before the process is over would mean you forego all the benefits and protection and the calls from collection agencies will start again because then debt agreements revert to what they were originally."

In terms of how debt counsellors get paid, Sager says the first few months' repayment amounts are largely taken by the debt counsellor as fees, after which a payment distribution agency (PDA) makes repayments to creditors according to restructured agreements and the counsellor takes a monthly fee for their work. Between the PDA and the debt counsellor, probably 6% to 10% of repayments are taken as fees, in total.

It does happen that some individuals' debt burdens are so high that they can still not be addressed through debt counselling, in which case sequestration – which is essentially the liquidation of assets where creditors repossess and sell off possessions in order to recoup outstanding debts – may be unavoidable. This is an expensive treatment avenue as it involves the high court and only works if suitable assets can be sold off. ■

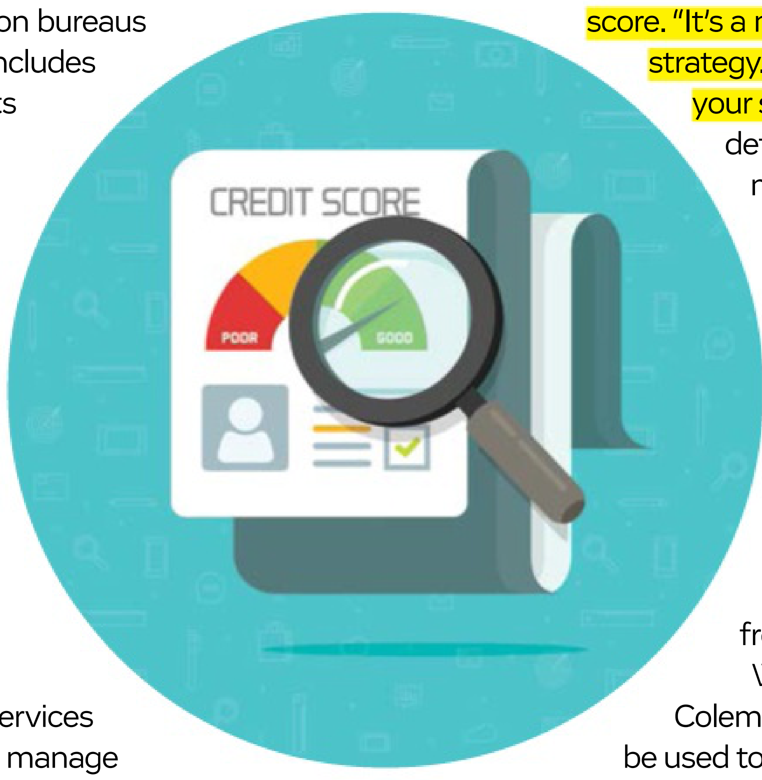
How to improve your credit score

Your credit score is what lenders use to determine whether or not you are 'good for the money' and how much you are able to borrow. It's essential that you manage this metric.

The main role of a credit bureau is not actually to provide credit reports to individuals. Raw data collected by credit bureaus is turned into valuable insight and scores which help lenders determine risk.

David Coleman, Experian South Africa's chief data officer, says credit providers need to know which customers they can lend to and how much. "Those are the two critical questions any credit risk manager wants answered. Depending on a lender's level of sophistication, they combine their in-house risk assessment models with our inputs."

When it comes to what information bureaus collect, Coleman says positive data includes repayment data, monthly instalments and outstanding balances. Negative data includes legal action taken by lenders which must be reported. "But this contributes to a stronger financial system. If other providers have early warning signals that a consumer is overexposed or has a propensity for not repaying debt, then that plays a role in not granting further debt."



It is this serial rejection of applications by lenders, based on payment behaviour, which is interpreted by borrowers as "being blacklisted". Credit bureaus provide services that can help consumers assess and manage their debt loads.

"By law you're allowed one free credit report once a year, so I encourage everyone to check their credit report with all bureaus, since different institutions may use different bureaus to check information. The more frequently someone does that, the more they're liable to know whether fraudsters have used their details to unlawfully access credit under their name or used their credit card details on the dark web," Coleman says.

He says once a consumer lodges a dispute about information on a credit report, the bureau reports it to the credit provider involved, which has 20 days to prove it's accurate. If it can't, the bureau always acts in favour of the consumer and removes the information. Credit reports and information can be accessed via credit bureau websites or call centres, and Coleman says all information is easy to interpret and understand.

"It has a natural flow, including personal details and employment status, as well as judgements logged against your profile, legal collection action, or debt being written off. Information retention periods vary, so lenders taking legal action will be retained on your profile for one year, judgements are retained for five years and payment profile history like payment history may be retained for five years."

That means there's no quick fix to improving a credit score. "It's a manifestation of your financial management strategy. If you're responsible in your uptake of credit, your score will reflect that. If you consistently default, defined as missing payments for three months or more, your score will take a beating because it reflects probability of default."

Once there is no activity on a record, either in the form of payments or collection by the lender, that record is considered prescribed and is automatically expunged. "It's a mechanism for us to remove stale information, and there's no further need to penalise a consumer if the lender has not acted on collection in that time. After three years such information automatically falls off from the negative profile."

Where a credit history is not available, Coleman says transactional banking behaviour can be used to build a credit score. Elsewhere in the world, and only with consumer consent, he says credit bureaus can even build inferred credit scores to provide lenders with a picture in absence of a payment profile through mobile device usage patterns, such as how people engage with devices or the apps they use. "We're regulated on data protection, though, so there are lots of checks and balances on such information." ■

editorial@finweek.co.za

Check your credit score here:

https://www.clearscore.com/za/
https://www.transunion.co.za/assistance/free-credit-report
https://www.experian.co.za/consumer-services/index.html
https://compuscan.co.za/services/credit-bureau-services/

Photos: Shutterstock

on the money

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SPOTLIGHT

By David McKay

Finding the sweet spot in the sugar industry

Mamongae Mahlare, managing director of Illovo Sugar SA, discusses the economic challenges in the sugar industry, and how government legislation is impacting business.

Hot potatoes have become Mamongae Mahlare's thing. Having worked for years in the alcohol industry helping manage the Tanzania and Mozambique businesses of industrial giant SAB Miller, Mahlare has – since March last year – been managing director of Illovo Sugar SA.

As with its intoxicating brethren, as well as tobacco, sugar has been fingered as one of society's evils. Clearly, it's a subject Mahlare gets asked about a lot. "The excessive use of any product is bad for you," says Mahlare, brushing off the criticism that 'drinking responsibly' – the most infamously oxymoronic of industry paylines – has its parallel in similar-sounding sugar campaigns.

"The sugar debate is very complex, and it's become highly politicised. So, it becomes a very dangerous platform to say, 'it's healthy for you'; it's 'better for you'. It is just a natural product and what we do encourage is responsible consumption of the ingredient," she says.

Societal questions aside, there are presently also a raft of economic pressures in the world's sugar industry which has made its farming, refining and marketing a bitter pill.

Sugar prices internationally are terrible, having fallen to about R1.74 per 500g from R4.93 per 500g previously.

Mamongae Mahlare
Managing director of Illovo Sugar SA

Sugar prices internationally are terrible, having fallen to about R1.74 per 500g from R4.93 per 500g previously.

This price decline is a function of enormous amounts of excess product that's available in the export market – itself a function of the declining consumerism.

"There has been a trend towards less sugar consumption, particularly in Europe and most of the developed market for now over 15 years," says Mahlare. That has hit global demand heavily. "Now what is also an important function of what we call the global price is that most of the sugar-producing countries have highly protected markets and therefore it is difficult to export into those countries.

"What it means right now is every tonne that we export as SA is basically being exported at a loss," says Mahlare. In fact, about 30% of world production is effectively dumped on international markets.

"Nobody makes money, not even Brazil [one of the world's largest producers], from the export market, and so it is net value dilutive for us as a sugar industry because we make money out of total proceeds," says Mahlare.

In addition, international competitors, such as Brazil, produce significant amounts of ethanol from sugar, an additional revenue stream that gives its sugar industry a lot of protection.

That's not a benefit SA's sugar industry has, notwithstanding the potential upside of

Photos: Supplied | Gallo/GettyImages

Fields of sugarcane surround the Sezela Mill, operated by Illovo Sugar in Sezela, KwaZulu-Natal.

bagasse, the remnant of crushed cane that can be burned to produce energy.

The pressure in the market at the moment has important social ramifications for agribusiness, especially for certain parts of SA at a time when making profitable use of the land is the hottest of hot potatoes.

"What we sell [in the domestic and export markets] is as 'one pool' that then gets distributed to all the players," says Mahlare. This includes the growers from the vast cane fields that stretch from north to south along the KwaZulu-Natal coastline to the farmers in Mpumalanga province, and Lesotho.

Illovo SA only grows about 5% of its own sugarcane after having sold most of its property portfolio several years ago. It is now, however, working with farmers to help them sustain themselves amid the difficult market conditions.

For instance, the company assists where it sees opportunities to consolidate farmer interests, provided it is among the black growers themselves. What was a profitable package of land ten years ago now needs to be larger in order to cope with what's going on in the international market.

"A large majority of black farmers are small scale because a lot of the land they have is communal land and those parcels are by design not large," says Mahlare. "So, one of the big things is how to facilitate the expansion for those that are wanting to scale up.

"Having planted the seed and started the journey in the last year, we've seen some people that are more receptive, who say they've got the message and they're quite interested to sell to another black farmer or maybe combine into a larger partnership," she says.

Illovo SA only grows about

5%

of its own sugarcane after having sold most of its property portfolio several years ago.

The big taboos

The sugar and tobacco trades have run parallel courses in economic history. They became valuable commodities that helped drive the Dutch economy during the so-called Golden Age of the 15th and 16th centuries, for instance.

Four hundred years later and the notion of lighting up a cigarette in a space inhabited by other people is anathema. As for pipes, best they are kept to the kind of bricked yards the Dutch master Johannes Vermeer was fond of painting (although 'hemp', as cannabis was historically known, is now vying with cryptocurrencies for the economic limelight). The more things change...

Recent government legislation – the Health Promotion Levy – is helping to discourage sugar usage in our daily diets further by making sugary drinks more expensive to buy.

Mahlare says the standard average sugar

content is about ten grams to 12 grams per 100 millilitres of soft drink produced.

What this means in respect of the so-called 'sugar tax' is that soft drink manufacturers pay an additional 5% over 4 grams per 100ml. Using, for simplicity, a litre of drink containing 120g of sugar, that's 5% for each 8g of sugar used.

The legislation worked pretty well for government economically. It collected approximately R2.1bn in taxes compared to its expectation of R1.8bn last year.

"So, when you have a sugar tax, when you have imports, all you do is drop the revenues of an industry completely to very low levels and that becomes unsustainable," says Mahlare.

"It's one of the big reasons why protecting our market is important."

The criticism is that government hasn't done enough, having failed to negotiate a high enough import tariff of its own.

In fact, it's been argued that government failures to negotiate a decent sugar pact with buyers is the real reason the industry is struggling, not the imposition of the Health Promotion Levy.

"The SA sugar industry was excluded from preferential trade agreements with the European Union that saw sugar production move to other southern African countries who received the EU benefits," Nick Stacey, an economist at Wits School of Public Health, was quoted as saying.

He added that: "The country's sugar industry is not internationally competitive. The removal of the levy is not going to address these structural challenges and the industry will continue to reduce production and lose jobs."

For Mahlare, the job at Illovo Sugar is largely inwardly focused on controlling the things that can be controlled.

"Fundamentally, you are always managing your cost base, so there's a bit of focus around driving productivity and efficiency," says Mahlare. "You also work very closely with the Sugar Association because we're part of it in terms of the lobbying and ensuring that there is optimisation of the levers that protect the industry.

SA's share of total regional production dropped to 40% in 2012 from 60% in 1992.

"It becomes a cost game, just as it would be for a mining company where your revenue is commoditised. How do you get more for your input costs?" she says.

According to some media reports, sugar production in SA has dropped about 33% between 2002 and 2012 while Illovo Sugar has dropped employment numbers a quarter in that time. Successive droughts have also hit the sector hard. Today, Tongaat Hulett, a competitor to Illovo Sugar, and Illovo source more cane from other sub-Saharan countries than SA because labour costs are cheaper.

Regional production of sugarcane totalled 36m tonnes in 2012 and South Africa's share of total regional production dropped to 40% in 2012 from 60% in 1992.

For the drinks industry, meanwhile, the sugar tax has forced manufacturers to roll out the now ubiquitous 'sugar-free' products which are, in fact, sweetened artificially because, as Mahlare observes: "South Africans still want their sugar." This raises the very moot point as to whether the Health Promotion Levy is actually helping to promote a healthier lifestyle.

"Are artificial sweeteners healthier for you? I don't want to venture on to the health debate, but we believe that sugar is a natural product and therefore – just like having a fruit juice – it is better than having an artificially created juice-flavoured drink."

There's also fierce debate as to whether the introduction of a sugar tax hits the poor harder than any other economic segment in SA. "I think what you will find is that on average South Africans consume products quite responsibly.

"When you're seeing the expansion of the beverage market, it is a big market. People are drinking Cokes and Fantas for energy because they have highly physical lives.

"And so, when you're on a building site at about 12h00 when you're having your lunch you want that pick-me-up and that's part of what is driving the expansion of the beverage industry. So, you have to always be careful not to look for simplistic answers to what are complex issues." ■

editorial@finweek.co.za

Essential Transaction Cost Analysis

Algorithmic and High-Frequency Trading are the new buzz-words – always more, faster and better. Even though speed is essential, execution performance weighs heavily, and with pressure from all sides to comply with **MiFID Best Execution** requirements, it is becoming crucial to measure and report transaction costs. Capturing the correct magnitude of transaction costs is very important for trading strategies and portfolio allocations.

S-Software Design has been providing **transaction cost analysis (TCA) for equities** on the JSE to major role players in the financial markets since 2006. With our combined expertise, we have spent the last twelve years researching and improving our suite of services.

The goal of such a TCA is to break down the costs according to the brokers and execution means. Their efficiency is challenged and ways are identified to improve the practices of the execution desk. The results of the TCA analysis are then shared with the portfolio managers of the investment firm. The outcomes are used for review of the state of market liquidity and also used for the allocation process. The compliance function also uses the results for the regulatory requirements.

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In contrast to many other TCA providers, we analyse your portfolio on a **trade-by-trade** basis. Our measurements include an arrival price benchmark (implementation shortfall), the execution interval volume-weighted average price (VWAP) and a best execution volume benchmark. We also measure and compare the performance of the various role players active throughout the execution interval.

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The original version of our TCA system was developed in 2006 in collaboration with the Centre for Business Mathematics and Informatics of the North-West University. In 2015 we became independent from the NWU. The original ideas are now expressed in a new and versatile software system.

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

HANLIE STEYNBERG is a scientific programmer, database specialist, systems designer and validator.

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By Glenda Williams

Unmistakably Maserati

Distinctively Italian down to its boot straps, the Levante – Maserati's large, luxury SUV – is surprisingly practical and supremely comfortable.

Large SUVs are now a dime a dozen, but not all of them have loading spaces that equate to their size. My benchmark for any large SUV, therefore, is how many of our large family dogs can comfortably fit in the boot.

Big, beautiful and macho-looking, the Maserati Levante is probably not the breed of SUV that you would expect to be ferrying pets around in. But my test is essential to level the playing field – even for a heritage Italian brand renowned for its luxury machines. The Levante easily passed the test, with all three burly dogs fitting comfortably into the boot. (The difficulty was enticing them out.)

It's doubtful that boot size would put off the average Maserati buyer – they are more concerned with the desirability factor, or the pedigree that comes with an Italian brand with a rich racing history.

Maserati's SUV adds to that heritage stable. Like it's luxury sport performance stable mates, it is thoroughly Italian down to its boot straps – the petrol variants as well as the three-litre V6 diesel, tested by *finweek,* all built in Italy.

The Maserati Levante oozes Italian flair.

Stylish form

The Levante is a real looker. Unmistakably Maserati, it is muscular, yet elegantly so. Maserati's signature large concave grille with its outsized Trident badge, sizeable air intakes, purposeful front wings and large sloping bonnet adorn the front end. The Levante has a coupé-esque roofline, big powerful rear haunches, red brake calipers and imposing rump with hefty quad exhausts. It's a design language that suggests power and a touch of menace.

Swanky cabin

The beautiful exterior styling is echoed inside. Plush and supremely comfortable – whether decked out in sumptuous GranLusso trim or the more sporty GranSport trim of the test car – there's leather everywhere in the Levante cabin; from the sporty, embracing power leather seats with their Trident stitched headrests, to the soft leather steering wheel. Even the dashboard is stitched leather.

Aside from its cocooning character, intuitive switchgear and smooth-working panoramic sunroof, one of my favourite aspects of this cockpit is the seamlessly integrated touchscreen. It's nicely sized at 8.4 inches and non-intrusive with the screen not disrupting the overall flowing style of the dashboard.

The touchscreen is very responsive, so actions like navigation setting or smartphone syncing are swift and harmonious. Smartphone syncing (Apple CarPlay and Siri commands activating automatically) is accomplished via bluetooth or USB plug-and-play.

Standard Levante equipment includes a formidable audio system with eight speakers, hill descent control and rain sensor wipers. Keyless access, front and rear park distance control, reverse camera, navigation system and electric seats are also standard. So too is blind spot monitoring and Maserati's sublime air suspension.

Components for autonomous driving are in place, but most of these 'nanny' items, like lane departure warning, radar cruise control, forward collision warning and active steering, come at an additional cost.

Active safety features include the Maserati Stability Program, a safety and driver assistance system that detects unusual handling behaviour and then acts on the brakes and engine to restore control. It also comes with six airbags and the front seats are equipped with anti-whiplash safety equipment.

Five metres in length, the cabin of this exclusive SUV is one of the roomiest in its class, with five adults able to comfortably adorn its ample interior.

Plenty of space for lifestyle gear too, and loading is made easy with standard powerlift tailgate and foot waving opening. There's no stretching either in order to reach the closing button, which is practically placed within the boot's interior.

Boot and passenger doors are supremely soft-closing and silent. But the internal locking mechanism that engages when moving off is not by any stretch of the imagination soft and silent. That noisy clunk gave me quite a start on my introductory ride.

Main event

I was not even behind the wheel when I started the Levante diesel. I was some distance away using the remote starting feature on the key. This feature allows for a toasty warm cabin prior to entering. And those sporty heated leather seats warm up quickly.

Even the vertically challenged will find entering and exiting this high-riding SUV effortless. The Levante's self-levelling air suspension takes care of that. The adjustable steering wheel and seat ride height ensure you are comfortably settled and good all-round views are provided before you hit the engine start button.

It's a diesel, so on the face of it, the exhaust note is not quite as spine-tingling as the petrol variants. But that changes with the push of a button, the soundtrack mechanically enhanced to give the car more of a V8 exhaust growl. In true Maserati style it's loud; the throaty rumble enhances in sport mode with the audible whistling at high revs of the single turbo engine.

And it's quick. It is a Maserati after all, so no ordinary car. But this diesel SUV is more about efficiency and practicality than it is about straight-line speed. Consumption and range make this a car that can easily do long hauls without any stops. The 80-litre fuel tank gives this formidable SUV a range of 1 000km.

The turbodiesel mill does not have to be worked hard to release meaningful thrust. That said, low-down acceleration response was somewhat heavier than anticipated, likely a consequence of the single turbo that is less able to spool as quickly as a twin-turbo.

Still, even if low-end power is somewhat sacrificed, a single turbo trumps when it comes to high-end power and carrying weight. And this lifestyle SUV is no lightweight, weighing in at over two tonnes.

It may take just a tad longer than its twin-turbo petrol siblings to get going really quickly, but when it does, it pulls powerfully in the upper revs, that mammoth torque giving it the edge over its petrol siblings. This V6 turbodiesel is certainly no slouch. It's mating with the same eight-speed automatic gearbox as its Quattroporte and Ghibli sports car siblings, means shifting in the Levante is textbook.

Four drive modes are on offer: manual, ICE (Increased Control and Efficiency), sport and off-road, each mode adapting throttle response.

In the economical ICE mode the ride is sublime. The car is able to absorb potholes and road blemishes with scant effect on passenger comfort. In sport mode the suspension stiffens, handling is improved, and steering tightens... particularly in the corners.

Sport mode enhances the Maserati signature exhaust note and performance. But what makes it really feel like a Maserati is when you slip it into manual, press the sport button and use the gearshift paddles to push the revs high, all the while keeping your foot planted firmly on the accelerator. The exhaust snarls and the car surges forward, bringing all that Italian performance to the fore.

Consumption and range make this a car that can easily do long hauls without any stops. The **80**-litre fuel tank gives this formidable SUV a range of 1 000km.

This plush SUV's active all-wheel-drive Q4 system is an intelligent AWD system that will shift power to where it is needed. That comes with great grip and balance, especially in the twisty bits when traction is sent to the front wheels.

It has all the performance-enhancing aspects one would expect from a Maserati. But then it is built like a classic Maserati sports car. It's rigid and its chassis (modelled on the Ghibli) delivers grand tourer on-road dynamics.

For a SUV as large as the Levante, it's pretty tight in the corners. And there is no evidence of body roll, courtesy of the Levante's 50/50 weight distribution and low centre of gravity.

Handling is extremely polished and composed. Part of the reason for that is the Levante's air spring suspension, which comes with a variable ride height. At 110km/h the aero mode kicks in, and suspension automatically lowers to make the SUV even more planted on the road.

With its off-road drive mode providing permanent all-wheel-drive as well as extra height off the ground, Maserati has not forgotten the more adventure-seeking sector of the market.

Maserati's SUV comes with a strong arsenal of offerings. It's refined, yet that thrill and enjoyment that comes with driving a Maserati is still intact. This very large but dynamic SUV is effortless to drive, armchair comfortable and extremely well-specced. Engineered for luxurious comfort and excellent handling, the Levante diesel delivers on both counts.


The Levante boasts red brake calipers.

The brand's status and its offerings are proving to be major drawcards for buyers with no prior bond to Maserati but who now appear to be the bulk of Levante customers. Not surprising, given that it is a statement car competing against other high-end statement rivals like the Porsche Cayenne.

But for a good many buyers of this heritage Italian brand, a Maserati is a passion purchase, and Maserati's racing legacy and Italian flair remains a strong emotive pull. ■

editorial@finweek.co.za

Photos: Supplied

TESTED: Maserati Levante Diesel

Engine: 3-litre V6 single turbodiesel
Transmission: Automatic 8-speed; all-wheel-drive
Power/Torque: 202kW/600Nm
Top speed: 230km/h
0-100km/h: 6.9 secs
Load space: 580 litres
Fuel tank: 80 litres
Fuel consumption (combined cycle): 7.2 litres/100km
Co_2 emissions (combined cycle): 189g/km
Safety: Six airbags
Warranty: 7-year/105 000km warranty and full maintenance plan
Price: R1 650 000 (incl. VAT; excl. CO_2 emission tax)

By Timothy Rangongo

Digitising small-scale farming

Khula is digitising small-scale farming by allowing emerging farmers to connect to the formal market with the tap of a screen.

Khula is revolutionising small-scale farming by taking it digital. This award-winning app allows farmers to send fresh produce to the formal market with the tap of a phone.

As a crowd-sourcing platform, Khula is essentially one big virtual farm comprising over 2 000 active small-scale farmers who collectively supply fresh produce in bulk to large enterprises such as Pick n Pay, RocoMamas franchises and hotels.

Farmers can list their produce and track real-time inventory levels on the app, and can also share logistics costs. This benefits local truck owners who can register on the app and get notified when a delivery job is available, Uber-style.

Clients can also use the platform to order produce.

The two-year-old Khula was crowned the MTN Business App of the Year 2018. It also won Best Agricultural App at the same awards.

Khula was co-founded by Matthew Piper, who focuses on product design, strategic vision and direction; Karidas Tshintsholo, who leads business development; and Jackson Dyora, the brains behind the technical aspects of the app.

finweek spoke to Piper about the business.

Where did the idea for Khula come from?

We were inspired while on an entrepreneurial trip to Israel. We did research and found that 60% of the world's arable land is in Africa and over half of all small businesses are agricultural-related, yet we don't know anything about these farmers. We don't know where they are, and we don't know how to efficiently connect them with clients. The system is very inefficient.

We found a lot of meaning and purpose in solving this problem and decided to start the business. Most farmers on the continent are not connected to any kind of e-commerce or digital platforms, which would allow these businesses to scale and get connected. This gap is something we found to be a big problem that we could solve.

How did you secure funding to get Khula off the ground?

I started a financial education business in my first year at the University of Cape Town with Karidas, which allowed us to save up a bit of money. We both put some of the money we had saved over time towards kick-starting Khula. We also used some equity in the business to get more members on the team and to get things going initially.

Our major overheads are our people. Much of our model is focused on a shared economy, and we are software-focused, so we don't have many large overheads.

How did Khula's first-time use go?

With our first minimum viable product we partnered with a school for farmers at the University of Johannesburg. We ran a pilot with a focus group of 300 farmers, while also beginning our first trades on the marketplace.

The first step was to spend time on the ground to find the core problems faced by farmers. The first two problems we discovered were market access (farmers don't have a consistent or reliable client base to grow their farm) and logistics (farmers don't have trucks to get large volumes of product from A to B).

Secondly, we designed a prototype of the product and started to put a team together with complementary skills. I was from an economics and finance background, with a few design skills, so we needed more IT and software talent, which is where Jackson joined.

Karidas Tshintsholo (left) leads business development; **Matthew Piper (centre)** focuses on product design and strategy; and **Jackson Dyora (right)** is the brains behind the technical aspects of Khula.

What sort of challenges did you encounter?

The biggest challenge in the food industry is ensuring the quality of the produce sold on the platform. And building trust with clients. We have worked very hard over two years to vet and profile farmers, and on building a rating system that ensures all our farmers follow food safety regulations and have good-quality produce.

How tough is the competition and what sets Khula apart?

There are no dominant platforms in Africa that have gained any significant market share. Most competition in the future will come from traditional food distributors. Khula, however, has built quite a diverse ecosystem which includes a marketplace that is more than a workplace. We have built an ecosystem that helps farmers grow, with other ancillary services which make the business more defensive.

What's the biggest lesson the founding team has learnt about business thus far?

When we started Khula, we came from

&A:

finance and economics backgrounds and didn't know much about agriculture or about building the software ourselves. We just had a vision and a plan which we thought would work. From the outset we knew we needed to build a great team with complementary skills to make it happen, but we didn't have money to hire anyone.

By sharing our vision and challenges with everyone we met, over time we started attracting the right people and having the right conversations. We now have a complementary team [Khula currently employs seven people] who are shareholders in the business and have taken us far without having to raise funding.

What's a typical day at Khula like?

We are based in Johannesburg but spend a lot of time travelling to all nine provinces. Our day is typically spent on the road visiting new farms, or debating new features to be added to the app.

What's the best business advice you've ever received?

'It's very cheap and easy to get married, but very expensive to get divorced.'

Finding business partners is almost exactly like a marriage, yet many people take this lightly and end up with many expensive divorces.

What is the long-term goal for Khula?

We want to become a very big B2B [business-to-business] marketplace, with billions in transactions. We see ourselves as an ecosystem that works to support this marketplace in other ways, supporting businesses in the sector to grow and thrive. We see ourselves being in all major African countries in the long run, and in other emerging markets. ■

editorial@finweek.co.za

Photos: Supplied

By Timothy Rangongo

A keeper!

The wine: De Toren's Book XVII 2017 vintage

The blend: 50% Cabernet Sauvignon, 25% Malbec and 25% Cabernet Franc

The price tag: Sold exclusively from the cellar at R2 750 per bottle.

In a befitting tribute to the viticultural wisdom and research (as documented in chapter 35 of the 17th book by ancient Roman philosopher Pliny the Elder), the De Toren team of wine preservers – and not makers! – as they boldly refer to themselves, has created a delectable Bordeaux blend that keeps on giving.

The Book XVII 2017 vintage is a beacon of what research and development in the winemaking process can accomplish – an instant collectible that will also prove quite difficult to keep.

The minute you put South Africa on the front label of a wine bottle, the stock is moved from the Bordeaux blends section in wine stores across world cities to the 'rest of the world' section, explains Albie Koch, managing director of De Toren Private Cellar.

De Toren wants to show the world that South Africa can make world-class wines that can be pitted against Bordeauxs. And they seem to have gotten it right. The full-bodied 2017 vintage is silky smooth with an opulent crème de cassis, fruitcake and fig-scented bouquet.

De Toren singled out specific vines for its Book XVII 2017 vintage using state-of-the-art infrared aerial imaging (and an aeroplane).

Little to no machinery is used in the winemaking process — de-stemming the grapes is done entirely by hand to ensure the best berries are selected. It's an eight-hour shift to de-stem 4kg to 6kg of grapes by hand.

The commitment is witnessed in assistant winemaker Martin Fourie's stained hands. He jokes that he's probably washed his hands nine times to get the ruby colour off, but with no luck.

The Book XVII 2015 vintage was the first SA wine to be rated 96, the highest 'superb' honour by the Wine Enthusiast. Koch confidently says the 2017 vintage raises the bar even further. "Our journey is to raise the rating to 100 points."

The Book XVII 2017 vintage can be aged for up to 40 years, which shouldn't be hard as all 1 200 bottles come enclosed in a locked wooden box with a key. Fourie says it forces one to question oneself whenever you reach for that key — do I have the perfect company for this bottle? Will the food be seamlessly paired with it?

The Book XVII 2017 is a keeper. ■

editorial@finweek.co.za

By Amanda Visser

When things just don't fit

Finding yourself in a new job that just doesn't feel right? It is important to read the signs of a job mismatch – and to learn how to respond to them.

The most obvious way to find the "right person for the job" is to have a proper job description, right?

Wrong.

It seems that this common-sense approach to recruiting may be the single biggest obstacle to hiring the best person for a job, say Todd Rose and Ogi Ogas, authors of 'The End of Average', in an article published by *Fortune Magazine.*

The reason for this is that most of these job descriptions are rooted in a flawed and obsolete way of thinking about employees. "That is, they look at candidates as averages instead of individuals."

It all began in the 19th century when the notion of an "average man" came about and people were typecast – a soldier type; administrative type; or accounting type, for example. "It steers attention away from what is relevant and informative about an individual candidate," they say.

During the recruitment process, the consequence is often that new employees either feel they are not really the right fit for a job, or they may feel they have been misled about what a specific job entails.

When the fit is not right

It has been said that one of the reasons for presenteeism (where employees are present at work but underperform), is that individuals feel misplaced in an organisation – they have the skills, can do the job, but the role just does not fit them as they thought it would.

One then has to listen to the energy in your body, says Aviva Baran-Rothschild, coach, facilitator and founder of Fields of Change. If you are feeling sluggish or feel that there is no spark in what you are doing, or you are feeling bored and tire easily, it may be a sign that you are not in the right place.

Another sign that you might be in the wrong job is if you find yourself questioning yourself and often experience an internal conflict: You know that you currently have a good job, but you still feel envious of other people who are happier than you.

"A lot of people avoid thinking about it," says Baran-Rothschild, "and because of this internal battle they procrastinate." This can result in individuals losing confidence in their ability. They start doubting themselves because they have not taken the time to get clarity about their strengths. Many people become complacent or start minimising their strengths.

Marlet Tromp
Life, executive and business coach

"A new job can be stressful, and you should allow sufficient time to find your feet and to make sure you get to grips with what the job requires of you before going to the boss."

Aviva Baran-Rothschild
Coach, facilitator and founder of Fields of Change

It is, of course, normal to feel insecure when you start a new job.

"A new job can be stressful, and you should allow sufficient time to find your feet and to make sure you get to grips with what the job requires of you before going to the boss," says Marlet Tromp, life, executive and business coach.

Tromp says it is critical for individuals first to be honest with themselves. When doubting your new job, ask these questions:

- Are you sure you are not simply overwhelmed by what is expected of you?
- Did you misunderstand your responsibilities?
- Did you allow yourself enough time to adjust?

It is not what you were promised

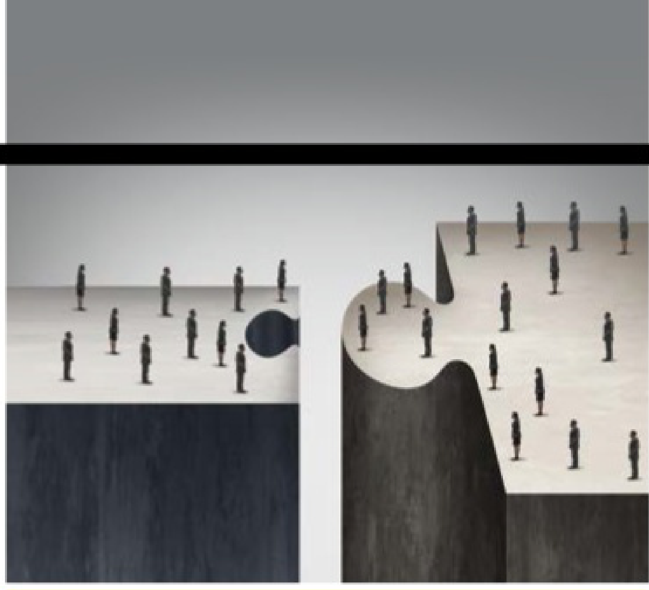
In some instances, a new job simply does not live up to what it promised to be, and the individual feels misled. If not dealt with, it can lead to disengagement and someone just giving up.

This is a good time to prepare for that talk with the boss, says Tromp. "You should be assertive, without being aggressive. The focus should be on what you do compared to what has been promised to you. Show your willingness to seek a workable solution."

One of the solutions is to stay in the post while the two of you work towards what you were promised and work on how it can be realised. As a last resort the employee may wish to seek legal advice in terms of their rights and to establish how the labour law can protect them. "However, you have to be convinced that this is the route to follow as it can be emotionally draining," warns Tromp.

In the end, one needs to hold on to a little bit of hope that if you do something differently and you think about things differently, something positive will come out of it, says Baran-Rothschild.

Photos: Supplied | Shutterstock



When you're the boss

Should an employee approach their manager with concerns about their role within the organisation, the manager:

1. Needs to show care – show a bit of vulnerability to share how things were when you started. It builds trust and makes it easier for staff to ask for help;

2. Needs to create a safe space where people can share their vulnerabilities and to look at mistakes in a positive way;

3. Needs to be the role model – show that you believe in a work/life balance;

4. Needs to show some flexibility – allow people to achieve the results you want in their own way; and

5. If there are mentoring and coaching facilities or skills development opportunities, offer that to employees to show you are supporting them.

SOURCE: Aviva Baran-Rothschild, founder of Fields of Change

The conversation

It may be difficult to have a conversation on the matter with your boss, especially if you feel they will not tolerate mistakes, or that they don't "do" vulnerability and expect you to jump in and get the job done, says Baran-Rothschild.

However, it is important to have the conversation. "Ask the questions: what is my role, what are my resources, what is the deadline, what is the priority and how much support is on offer?"

Often it could be that the expectations are not clear, or a project has not been spelled out clearly in terms of role clarifications and expectations.

It might not be necessary to completely change jobs or roles. If you can have an authentic conversation with your boss, hopefully they will be willing to listen and to find a better fit for you and the organisation.

Most importantly, says Baran-Rothschild, don't wait too long before having the conversation or seeking help. ■

editorial@finweek.co.za

Fancy yourself a general knowledge whizz? Then give our quiz a go! You can complete it online via fin24.com/finweek from 20 May.

1. Which ride-hailing service was the first to list on a stock exchange?
2. How many parliamentary seats did the ANC lose in the recent national elections?
   - 28
   - 19
   - 11
3. On 6 May, Britain's Duke and Duchess of Sussex welcomed a son, Archie Mountbatten-Windsor. Where does the baby fall in the royal line of succession?
4. **True or false?** The Vodacom group reported an increase in earnings before interest, tax, depreciation and amortisation (ebidta) from South Africa in its latest full-year results.
5. Which football team finished third in the 2018-19 English Premier League?
6. **True or false?** Actor Rami Malek will be playing the new 'Bond villain' in the 25th James Bond film, scheduled for release in 2020.
7. Name the chief financial officer of Steinhoff.
8. Which one of these global tech companies doesn't have operations in South Africa?
   - Amazon
   - Twitter
   - Microsoft
9. **True or false?** Maria Ramos is still the CEO of Absa.
10. Supply the missing date:
    The Met Gala, an annual fundraising event for the benefit of the Metropolitan Museum of Art's Costume Institute in New York City is held on the ____________of May annually.

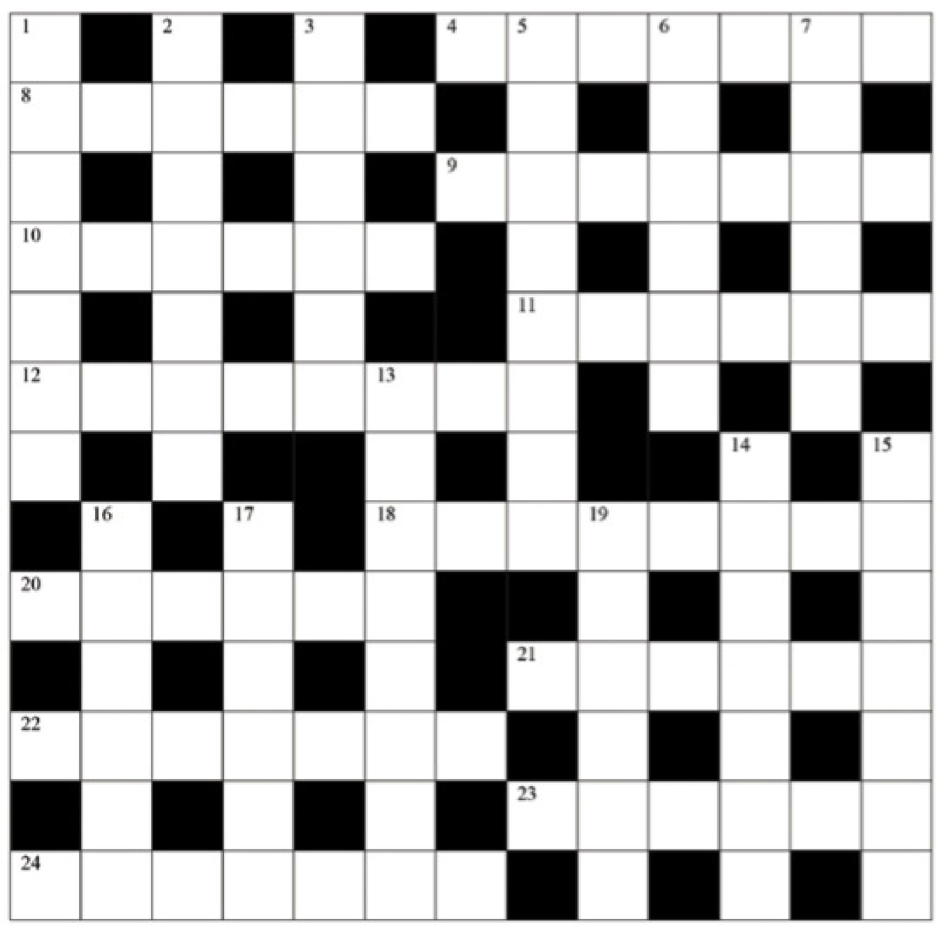
CRYPTIC CROSSWORD NO 732JD

ACROSS

4 Van available, begin a journey (4,3)
8 Popular racket with Russian (6)
9 Notice a point editor made differently (7)
10 No longer practicing, Des and friend have backtracked (6)
11 Stay away from the rest, you hear! (6)
12 Overconfidence from the start's a mistake (8)
18 Herb is incredibly arrogant (8)
20 Two men on Thursday making toast (6)
21 Throwing in a divine gin cocktail (6)
22 The French horse, a right distance in front of the slowpoke (7)
23 Managed some three-quarters of life payment (6)
24 Spell of good fortune to begin for climber (7)

DOWN

1 Duck underneath, walk away (7)
2 Order house member to sit (7)
3 Discredit faculty head about writer (6)
5 Get behind registered signatory (8)
6 Bank IT is off, engineering break (6)
7 At university aims to get tips (6)
13 Here I rot chewing over an unavoidable choice (6-2)
14 On the other hand holy man is not in favour (7)
15 When only a few men are left on board (3-4)
16 Fix up army siren (6)
17 Cunning knock-out of English lightweight (6)
19 US railway porter in Russian headgear? (6)



Solution to Crossword NO 731JD

ACROSS: 1 Pastoral; 5 Used; 9 Soaps; 10 Terrain; 11 Stun; 12 Obstruct; 13 Sent from class; 18 Rotatory; 19 None; 20 Not deep; 21 Stall; 22 Shed; 23 Cynicism

DOWN: 2 Apostle; 3 Topknot; 4 Autobiography; 6 Scapula; 7 Donates; 8 Critic; 13 Sprints; 14 No title; 15 Father; 16 Lunatic; 17 Singles

On margin

The time I called a spade a spade

This issue's Zulu word is *ama*. *Ama* is a plural prefix.

I remember how I almost lost my job because of this prefix. I was a junior creative at an advertising agency and, well, it was the best of times; it was the worst of times. But making the worst of times even worse was a bully on the management team.

This one time, I found a chance for revenge. She'd sent out a mail to the whole agency, asking, "What is *ama*? As in *amaBokoboko* and *amaGluglug?"*

In my infinite wisdom, I figured if I deleted my e-mail address on my end, my response would be sent anonymously.

I did just that and responded to the whole agency with, "When a stupid person asks a lot of stupid questions, you say *AMA-MORON!*" A few seconds later, I heard laughter ring around the agency and knew I'd hit the spot.

Then a mail came in from the MD, summoning me to his office. My heart almost stopped. I called my mother to tell her I'd lost my job. Then I walked to various offices to say my goodbyes to my friends. That's when I learned that there is no such thing as sending mails anonymously.

Eventually, I mustered the courage to walk into the MD's office. As soon as I walked in, he got up and walked past me to close the door. Then he covered his mouth with his hand and started laughing into it. For a really long time. I was confused.

When he finally managed to catch his breath, he spoke: "Man, you're brave. You know she's a board member, right?"

Me (hesitant): "In my defence, I thought ..."

MD: "It's okay, man. Everybody hates her. I'm just going to pretend I've reprimanded you and you are going to walk out of here looking really sad, and you are going to say you're sorry to *Ama-Moron*."

As I was walked out, I could hear him laughing again.

– *Melusi's #everydayzulu* by Melusi Tshabalala

"They replaced my PA with a drone... can I offer you some coffee... water?"

Verbatim

The African Voice @teddyeugene
South African man arrested for eating at KFC free for a year by saying head office sent him to taste if they are up to standard.

Downtown Josh Brown @ReformedBroker
Facebook opened at 40 and spent its first year being cut in half down to 18. Then it went to 216. LEARN: *The first year of an IPO doesn't matter either.

ghaleb cachalia @GhalebCachalia
Politics 101. NEVER blame the voters...

Qaanitah Hunter @QaanitahHunter
Pretoria is traumatic. A guy stole my wheel caps (which has happened 10 times in PTA) so I went to him and stole it back. He was so shocked he didn't even fight when I put it in my boot. That stuff is like R600 a pop.

George Carlin Stan Account @Tioranta
Game of Thrones feels like one of those essays you write in an exam, where you spend time building the story and laying the foundations for a killer ending, only to look up at the clock and there's five minutes left.

Michael Batnick @michaelbatnick
In the long term, the market is a ride-hailing machine.

Michael Jordaan @MichaelJordaan
Some e-mails deserve immediate deletion. If you cannot delete a mail without thinking twice, you're wasting important time.

"The golden rule for every businessman is this: Put yourself in your customer's place."

– Orison Swett Marden, American author (1848 - 1924)