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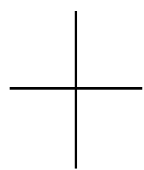

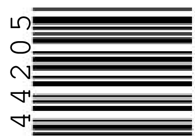

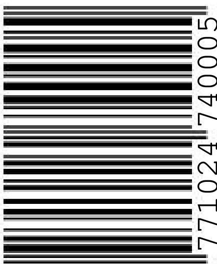

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from the editor

JACO VISSER

All the talk over the last couple of months in the markets has been about the US Federal Reserve's reaction to rising inflation. The Fed has indicated that it would start to scale back its asset (bond) purchases in the open market from this month to decrease money supply with possible interest rate hikes following next year. The reason for this: persistent inflation.

Domestically, we saw the petrol price jump above the R20/litre mark in some areas of South Africa at the beginning of this month. The price of diesel, an important industrial fuel, is not trailing far behind. We already saw in September's consumer price inflation data that fuel price acceleration was one of the key drivers of local consumer prices over the preceding year. The trouble with fuel price increases is that they feed into the whole supply chain of goods and services. Especially those businesses that rely on transport (such as hauliers, electricians, plumbers and others) to provide services to customers. In a bid to protect margins and remain profitable, businesses must increase their prices. This fuels inflation further.

With annual consumer price inflation coming in at 5% during September, and overshooting the Reserve Bank's tacit target of 4.5%, the question now is when local interest rates will start to increase? I want to argue that with an unofficial unemployment rate well exceeding 40% and South Africa's manufacturing base grappling for survival due to rolling power cuts by the state-owned electricity provider, now is not the time to act rash. Even if inflation expectations accelerate above the Reserve Bank's upper limit of its official target of 3% to 6%, Monetary Policy Committee members should consider tolerating some price increases – for the sake of SA's non-mining private sector.

A recovery from the economic depths to which the SA government took domestic businesses last year in reaction to the Covid-19 pandemic (with extended lockdowns) and the subsequent job losses won't happen overnight. It will inevitably be inflationary (coupled with rising oil prices when looked at from a global perspective). Ensuring that SA's manufacturing base is allowed to fire on all cylinders – including a quicker rollout and even subsidies for private power generation – will benefit the country in the medium term. It may also be beneficial for future inflation if local manufacturers can lessen their reliance on Eskom and its supercharged tariff increases.

This should have been the government's response in the wake of the pandemic. And the Reserve Bank needs to buy into it. Tolerating inflation up to 6%, and not 4.5%, whilst businesses rebuild from the pandemic is a lesser evil in SA's current economic environment. ■

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By Johan Fourie

TECHNOLOGY

The future of space

Space is the next frontier and even in South Africa, entrepreneurs are focusing on space technology.

In 2002, a 31-year-old South African immigrant to the US founded a company that is likely to transform the course of human development. SpaceX would, within two decades, become the first private company to send a spacecraft to the International Space Station (in 2012), achieve the first vertical take-off and vertical propulsive landing of an orbital rocket (in 2015), be the first to reuse an orbital rocket (in 2017) and become the first private company to send astronauts to the ISS (in 2020).

SpaceX also launched, by January 2020, the largest satellite constellation – Starlink – to provide commercial internet services. Although Elon Musk is an enigma, there are many who have caught on to his vision and who now see space as the next frontier. Jeff Bezos's Blue Origin and Richard Branson's Virgin Galactic are already flying paying customers to space. And even in South Africa, the opportunities of spacetech are attracting a new generation of entrepreneur.

I spoke to 32-year-old Mike-Alec Kearney, CEO of CubeSpace, based in Stellenbosch. What is it that CubeSpace does? "We significantly simplify the most complex part of a satellite, namely the altitude determination and control system (ADCS), and through doing so we enable more companies to build satellites and access space. The space industry is undergoing a change in approach to schedules, cost and risk, where time to launch and low costs are prioritised above mission lifetime and robustness. Companies wanting to get to space quickly now build satellites from off-the-shelf building blocks (like our system) instead of spending years to build a team and develop their own high-reliability satellite parts."

One challenge with investing in spacetech seems to be the long time horizon and the high risk. It took Musk's SpaceX several years to just have its first successful space flight, and it is still not profitable. What should investors look for when they consider investing in spacetech?

"The fact of the matter is, space is a future technology, and future technologies always carry risk. Investing in space because it is 'sexy', because it is the 'final frontier', and because it is cutting edge is not enough. These things usually cloud the judgement of investors. Not enough effort is put into properly analysing business plans. I usually label such companies as those digging for gold. Some will find the gold, and some won't. One thing that is certain is that they all need shovels. We provide space shovels and they all use them. This makes our company's risk profile completely different, and we have been profitable from the get-go."

Some might argue that there are way too many immense challenges on earth to be addressed – things like poverty and unemployment – before humans should consider going to space. This is especially true, they argue, in developing countries, where there are severe resource constraints. How would you respond to this claim?

"I agree with Musk that it is justifiable to spend a small fraction of our world's resources on exploring the solutions beyond our earth. In the process we push technological boundaries, we significantly push the limits of engineering, we train an insanely skilled workforce, and we inspire people. So much of the technology underlying modern transport, telecommunications and many other sectors come from research done during the first space race. Apart from these indirect benefits, it is easy to overlook more direct practical uses of space, since it is simply always there. Almost everything you do – from checking the weather to answering a WhatsApp message, to using GPS – relies on satellites. Constellations of satellites like those built by Astrocast enable global access to low bandwidth data transfer, at a low cost. This means revolutionary new applications for remote control as well as remote data monitoring in remote locations. Similarly, earth observation constellations will enable low-cost hyperspectral imagery of earth, which will give us the ability to monitor things like water content of soil, pests and disease, and other critical agricultural factors from space. This can enable huge improvement in agricultural yields in developing countries, having a very direct impact on their economies and the lives of their people."

To what extent is the space industry still tied to military budgets? There is, of course, a national defense argument for having a space industry, but increasingly the use is towards commercial operations. What is government's role in developing a space industry?

"The South African space industry has completely pivoted from government-funded projects. The entire industry is pushing towards commercial applications, and these demand lower-cost satellites at quicker lead times. These demands create opportunities such as the one that we rely on for our success. One should, however, not overlook or forget the critical role that government funding played pre-2000 in developing military and space technology in this country, and through doing so creating know-how and highly-skilled human resources. Without those roots, the South African industry would not nearly be where it is today."

Musk has shown that South Africans can change the world. Let's hope the next visionary 31-year-old has the opportunity to build the next SpaceX right here at the southern tip of Africa. ■

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Johan Fourie is professor of economics at Stellenbosch University and author of *Our Long Walk to Economic Freedom* (Tafelberg, 2021).

Mike-Alec Kearney
CEO of CubeSpace

It took Musk's SpaceX several years to just have its first successful space flight, and it is still not profitable. What should investors look for when they consider investing in spacetech?

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in brief

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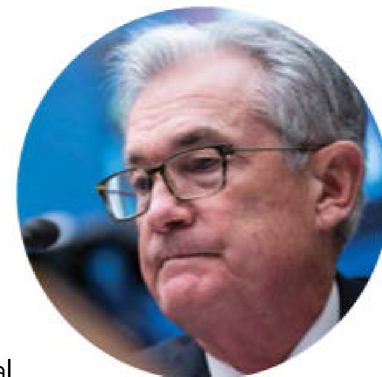
"I'M TALKING ABOUT MONTHS."

– **Rob McEwen, founder and former CEO of Goldcorp,** which merged with Newmont Mining, the world's largest gold producer, cautioned that investors will notice that global inflationary pressures are less transitory and more intense than central bankers and consumer price indices suggest, during a Bloomberg interview. He said when that realisation sets in, gold's inflation-protection appeal will probably send prices to $3 000 an ounce, from about $1 800 now. "The reaction tends to be immediate and violent when it does happen. That's why I'm quite confident that gold will achieve $3 000 an ounce in months, not years," McEwen said.

"It is time to taper."



– **Federal Reserve Chairman Jerome Powell** said he is concerned about higher inflation and that supply-side constraints have gotten worse, at a virtual conference hosted by the South African Reserve Bank (SARB) and the Bank for International Settlements. Powell said the Fed should begin reducing its asset purchases soon but should not yet raise interest rates because employment is still low and high inflation will likely abate next year as pressures from the pandemic fade. SARB governor Lesetja Kganyago cautioned that SA will need to watch for the realignment of exchange rates that can be expected when the Fed starts to tighten monetary policy.

"If you look at where the growth is from, a volume perspective, it is in the less affluent part of the business."

– **Pieter Boone, CEO of Pick n Pay,** said the group's plan to add 200 Boxer stores in 36 months is ambitious but he is confident as he believes the brand has above-market growth rates supporting the rollout. Boone told *Business Times* that the expansion plan for Boxer would include intensifying its presence in existing catchment areas, as well as seeking new greenfield areas where it hasn't got a big footprint, such as in the Western Cape.

"DONE IN A WAY THAT IS CONSCIOUS OF OUR UNIQUE SOCIAL AND ECONOMIC CHALLENGES."

– **Busi Mavuso, CEO of Business Leadership South Africa,** said there will be significant pressure at COP26 for South Africa to make firm commitments to carbon emissions targets, especially since the country is the 12th worst emitter of greenhouse gases in the world. Nevertheless, she warned that SA is vulnerable to global measures such as carbon taxes as they would disproportionately affect the nation's export-oriented industries with serious consequences for the economy. Therefore, any commitments to reducing SA's carbon output should be cognisant of the unique socio-economic challenges.

THE GOOD

The Southern African Development Community (SADC) bloc said Eswatini's King Mswati III – Africa's last absolute monarch – accepted the need for a national dialogue after pro-democracy protests intensified last month. Envoys from South Africa, Namibia, Botswana and the regional group visited Eswatini in mid-October and met with the king, the prime minister, civil society organisations, trade unions and others. "King Mswati III has accepted the need for national dialogue ... I appeal for calm, restraint, the respect for the rule of law and human rights on all sides to enable the process to commence," said President Cyril Ramaphosa in a statement in his capacity as chair of SADC's politics organ.

THE BAD

Confidential documents accessed by amaBhungane revealed that Investec was allegedly involved in suspect deals worth hundreds of millions of euros that resulted in European governments being defrauded through an infamous "cum-ex" withholding tax scheme. The massive leak of German prosecutors' documents showed how the investment bank took part in the scheme out of its small Irish office. Evidence also raised the possibility that senior staff, some of whom still occupy top positions, may have approved the bank's involvement in the schemes – laying themselves and the bank open to potential criminal and civil liability.

THE UGLY

The Covid-19 Working Group of the Actuarial Society of South Africa (ASSA) said in a statement despite the current low case numbers following the peak of the third wave, there is sufficient evidence to suggest that a fourth wave is likely to emerge in December going into January 2022. The group said the severity will most likely depend on whether the country achieves its vaccination targets and building immunity in most of the adult population. As of 24 October 2021, only 29% of the adult population was fully vaccinated against a target of 67% by the end of 2021.

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DOUBLE TAKE BY RICO

RETAIL SALES SLUMP

1.3%

Following a sharp riot-induced decline in July, the August retail sales disappointed and slid further by 1.3% year-on-year. This was against market expectations of a 2.6% year-on-year increase. This means that volume sales for the three months ending August 2021 are 4.1% lower compared to the three months prior. Siphamandla Mkhwanazi, senior economist at FNB, said it is concerning as it suggests that retail trade will likely have a negative contribution to third-quarter GDP. Going forward, however, improved rollout of income support grants, and some improvement in consumption credit, should be supportive of retail sales volumes, he said.

SA INFLATION CLIMBS

5%

Headline inflation rose to 5% year-on-year in September, from 4.9% in August, according to data from Stats SA. Motor vehicle insurance, public transport fees and rental costs were cited as largely responsible for the monthly increase. Fuel inflation continued accelerating from 19.6% year-on-year in August to 19.9% year-on-year in September. The 4c per litre fuel price hike in September translated to 0.1% month-on-month fuel inflation. In mid-October, data from the Central Energy Fund showed that November fuel prices look set to increase by nearly R1 per litre, suggesting further upward pressure on fuel inflation.

HOTEL OCCUPANCY PICKING UP

20%

The occupancy rate in the hotel sector increased by 7.6 percentage points to 20% month-on-month in August, according to Stats SA. Total income from all accommodation types (hotels, caravan parks, camping sites, guest houses and guest farms) increased by 119% year-on-year in August 2021, the result of a 133.6% increase in the number of stay unit nights sold and a 6.2% decrease in the average income per stay unit night sold. The Bureau for Economic Research (BER) reported that the tourism sector lost an estimated R164bn in spending by domestic and inbound visitors in 2020 due to the pandemic.

A2X GROWS

R5tr

The value of stocks and funds listed on the four-year-old A2X alternative stock exchange more than doubled to $336bn (R5tr) in the past 12 months, with Prosus and Investec among the latest companies to complete secondary listings on the bourse. A2X CEO Kevin Brady told Bloomberg that September's record trading levels were five times the all-time high set in August. "Most of the asset managers in South Africa are now starting to get executions on A2X, including Ninety One, Allan Gray, the Public Investment Corporation and others," he said.

The post-pandemic toolkit

How CFOs can use technology to support growth.

The last 18 months have forced finance leaders to become agile, make fast decisions, and reassess processes to keep pace and remain afloat. As businesses aim to flourish in the post-pandemic era, it's time for chief financial officers (CFOs) to consolidate their position as strategic leaders. This requires CFOs not just to stabilise their organisations, but lead them through recovery and spark financial growth. Consolidating this role successfully relies on capitalising on digital infrastructure to boost financial performance.

Finance functions becoming the 'go to' for data

PwC's March 2021 CFO US Pulse Survey indicates that the CFO's top priority for the finance function in 2021 is establishing finance as a business partner across the enterprise. To reach this goal, the CFO must create a more agile, efficient finance function, and one that can deliver value across the organisation to all stakeholders. Using technologies like cloud computing, automation, and artificial intelligence, finance teams can enable more efficient planning reporting and financial closes.

In addition to embracing the right technologies, the finance function must position itself as the trusted source for real-time data. Today, stakeholders demand fast and accurate insights to plan, report, and take action in response to rapidly changing challenges. The ability to share data through digital, cloud-based infrastructure enables the finance function to focus on strategy and analysis, rather than data collection and distribution.

For example, if a business runs all its applications off a unified data source, teams can operate from one single point of truth. The finance team can use dashboards in tight collaboration with departments such as sales and marketing. Why? To help realign resources around the business' strategic growth initiatives and fund efforts to deliver those objectives.

Harnessing effective partnerships

The CFO should also focus on building stronger relationships with the rest of the C-suite. Chris Dimuzio, PwC's finance transformation leader, noted that: "One of the most important relationships I've seen develop out of the Covid-19 crisis is that between the CFO and the COO."

Take supply chains as an example. For many businesses, supply chain constraints are intrinsically linked to revenue stability. To this end, collaboration between the CFO and COO was critical throughout the pandemic and will remain important. CFOs using cloud-based technologies and data to work with the COO can flag vulnerabilities before they affect profitability. The finance team is not just responding to supply chain issues, but sharing insights into the potential risks for a COO.

But the CFO's relationship with the C-suite must extend past the COO. Strong relationships between finance leaders and the CIO, CHRO and CTO are essential to accelerate companies' digital investments and generate strong results.

For example, a close partnership between the CFO and CHRO enables finance to better understand and plan for a business' workforce, locations, and employee experiences. Furthermore, partnering with the CIO enables the CFO to align on technology initiatives to meet the workforce and customers' changing needs. By building strong relationships amongst the C-suite, finance leaders can better utilise their digital capabilities to plan and adapt to market conditions. This continuous, collaborative planning process enables the CFO to operate as a strategic business partner in a post-pandemic era.

Maximising financial growth potential

Once finance leaders are committed to embracing digital capabilities and using them to build strong stakeholder relationships, the potential for financial growth is strong. In fact, PwC's Pulse Survey revealed that CFOs see significant growth opportunities in key areas around the digital economy. Nearly half (46%) predict high growth, and over a third (36%) expect moderate growth. Technologies like the cloud, predictive analytics, and automation make finance more efficient, and help place the finance function strategically as a provider of data-led insight across the business.

Workday customer Netflix is a prime example of how an organisation's finance function can innovate and set the standard through embracing digital. The tech giant's back-office systems had usability issues due to clunky workflows and limited visibility across teams. Led by the CFO, and investing in transforming the back office into one single, unified system, Netflix introduced an agile mindset across the business that was vital for addressing this challenge. Implementing the right technology resulted in more efficiency, more agility and increased collaboration among the IT, finance and HR teams. This highlights how important digital transformation is, and investing in the right technology structures so that businesses can experience results, in real-time.

A clear path to future success

Finance leaders already hold the secret to a strong future. The past 18 months have taught CFOs how to plan, adapt, and respond quickly to ongoing challenges thrown at businesses. It's now time for them to take these learnings forward. Embrace the right technologies, build strong stakeholder relationships, and unlock digital potential. CFOs who capitalise on technology will, in turn, capitalise on opportunities to become trusted strategic business partners. ■

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trend

By Wouter Kriel

Turning waste into 'liquid gold'

On a mission to create a legacy for his family, Orion Lee Herman found something much bigger: A solution to help save the planet's resources while creating an opportunity in the circular economy of human sanitation waste.

Orion Lee Herman is the founder and CEO of LiquidGold, a company with a mission to help save the environment through recycling and repurposing human urine. "I was at a personal crossroads in my career as an industrial psychologist and wanted to venture into something new. Initially I wanted to do something that would create a legacy for my family, but this has since become something much bigger. My passion is to help communities and save the environment," Herman says.

His research into social entrepreneurship and environmental issues highlighted that South Africa is a water scarce country, and especially poor and rural communities need sanitation solutions. "I saw the potential in waterless urinals in this regard, but this then led me to consider the entire circular economy. Why not repurpose urine?" Herman recounts.

The chemistry of urine has been done on an academic level. We know it contains high levels of phosphate and nitrogen, and the various methods of separating it from the other components are known, but there was no business case to exploit the knowledge yet, he says.

"This led me to start LiquidGold in 2016. The concept is deceptively simple: We collect urine and through a patented process separate the nitrogen and phosphate to create bio-fertiliser. This can then be utilised by the client or it can be sold. The water is put through a second process where it is purified from harmful pathogens and can then be repurposed at the collection site," Herman says.

The WeeStand was developed with a focus on women and allows you to urinate in a semi-squat position without making any contact with the urinal itself. This has health and sanitation benefits for the users. The urine is then collected and can be processed into water and fertiliser, he says.

Since 2016, they have refined their nutrient recovery methods, and it is now fully automated, resulting in better fertiliser yield and quality consistency, according to Herman. "We can now make 1.4kg of bio-fertiliser, which is certified with the department of agriculture, from 98 litres of urine. The South African agricultural sector is an importer of fertiliser, and here we can offer the import-replacing solution whilst at the same time saving water and preventing pollution associated with sewage.

"We made a significant breakthrough in 2019 when we were recognised by the Global Toilet Board Coalition, and we were also selected to work together with the Water Research Council on a project where our WeeStands were field-tested in rural schools in KwaZulu-Natal, with very positive results."

Since then, LiquidGold has been on a winning streak. "We currently collect and process between 6m and 8m litres of urine annually, from which we produce 100 tonnes of certified bio-fertiliser. We believe the concept of saving water and recycling urine into a valuable product is gaining traction.

"Our social entrepreneurial roots are still strong, so we are offering micro entrepreneurs the opportunity to become urine collectors from sites which are too small to justify a dedicated nutrient recovery system." Putting this into perspective, Herman says a typical school with 500 pupils, each producing between 0.8 litres and 1.2 litres of urine daily, will make enough urine to produce fertiliser to repay the capital layout of the dedicated urinals and recovery system hardware within a 12-month period. "We are negotiating the terms of each client individually in order to have a win-win solution for everyone involved," Herman says.

Herman says a typical school with 500 pupils, each producing between **0.8** litres and **1.2** litres of urine daily, will make enough urine to produce fertiliser to repay the capital layout of the dedicated urinals and recovery system hardware within a 12-month period.

He says there are many exciting opportunities for them to explore. "Green buildings and developers focusing on alternative solutions are all potential clients. The mining sector is legally required to employ 25% female staff, and they will need practical sanitation solutions. We will continue to work with the Safe programme for schools, which are dedicated to finding safe and hygienic sanitation solutions for especially girls. And then there are all the other sanitation service providers who are providing hardware solutions but need our urine processing infrastructure to close the loop." Herman points out that their nutrient recovery system is solar-powered, making rural and off-grid applications possible.

Orion Lee Herman
Founder and CEO of LiquidGold

LiquidGold has fantastic scaling potential, according to Herman. "We see potential in the fact that South Africa still has a huge housing backlog, and due to our water scarce environment, alternative sewage solutions will have to be considered. We would like to grow in South Africa to collect between 200m and 300m litres of urine annually, which will see us producing between 5 000 and 6 000 tonnes of bio-fertiliser each year. And then there is the entire African and Indian continent, where sanitation solutions are much-needed, and waterborne sanitation is often not available."

Herman says there is also untapped potential in sample and data collection from the urinals. "It holds the potential to identify health and disease data at source, which could be of great value to the public health sector.

"Ultimately we need to focus on the environment and how we interact with it. Sewage pollution is a global problem, and water sources are increasingly under threat as a direct consequence thereof. I am living my brand and we are using our waterless sanitation solutions at home as well," Herman says. ■

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Photo: Supplied

By David McKay

MINING

South32 buys into copper

It seems as if there are positive changes afoot at the company, with a newly-acquired stake in a copper mine in Chile.

South32, one of the lesser lights of the JSE's diversified mining category which has BHP, Anglo American and Glencore in its ranks, looks set to close out 2021 a transformed company.

In the last 18 months, it has disposed of its SA thermal coal mines (to local firm Seriti Resources) and increased its stake in its Mozambique aluminium business Mozal to 63.7% after exercising pre-emptive rights at a cost of $250m, to be funded from cash.

These are meaningful developments, but South32 CEO Graham Kerr has most meaningfully changed the look of the company with October's acquisition of a 45% stake in Sierra Gorda, an operating copper mine in Chile.

The deal not only dilutes the group's exposure to SA – seen as a positive among analysts – but adding copper production also improves South32's environmental, social and governance (ESG) exposure because the metal is crucial in the manufacture of electric vehicle batteries and therefore an agent of global decarbonisation.

"We also felt South32 was looking for an acquisition and therefore it removes some merger and acquisition risk," said JP Morgan Cazenove analysts in a recent note about the transaction.

However, the most critical aspect of all for South32 shareholders is that a stake in Sierra Gorda lifts South32's earnings before interest, tax, depreciation and amortisation (ebitda) margin to 36% proforma versus the company's reported 32% ebitda margin, according to JP Morgan Cazenove.

South32 was created in 2015 through the demerger of Australian company BHP's non-core assets that included manganese and aluminium in SA, along with the thermal coal mines. The group also mines metallurgical coal in Australia and nickel in Colombia.

Until the conclusion of the Sierra Gorda transaction, however, nickel and zinc comprised its base metal production to which it hopes to add future output from exploration assets in the US and Canada. While the exploration portfolio promises future riches, there's still a whiff of the offcut about South32, the BHP orphan.

Now, however, copper brings a new dimension to the group's investment offering. Take, for instance, the impact on overall earnings. Copper would have been the joint largest contributor to ebitda assuming performance in South32's 2021 financial year, along with aluminium and followed by alumina, the material that makes the former metal. And the signs are that copper will become an increasingly important earnings driver for South32.

UBS, a bank, recently adjusted its price expectations for copper over "the coming quarters" to $12 000 per tonne based on the "worrisome" signal that China inventories of the metal were around 64 days compared to a five-year average of 70 days. It doesn't take much of a supply interruption to reduce inventories to zero, hence there's currently a strong likelihood the market will incentivise a price hike.

The Sierra Gorda acquisition also sees South32 break form with its traditional conservatism. The company has kept a net cash balance sheet and has opted to buy back shares strategically rather than plough all its spare cash into dividends, although it did pay a special dividend at the conclusion of its 2021 financial year on 30 June.

After the Sierra Gorda deal, South32 takes on net debt to about $1.7bn from an end-September net cash position of $660m. This accounts for the initial acquisition cost of $1.55bn upfront and $150m net debt plus up to $500m of contingent payments, as well as certain capital management commitments South32 must bear.

In return, the company gains 200 000 tonnes a year of copper equivalent production (on a 100% basis). And although the mine is relatively low grade, it is a better investment than building a new one, which it is attempting to do if its exploration portfolio gathers pace, says JP Morgan Cazenove. According to it, Sierra Gorda has a net present value of just over $2bn, hence it believes at the acquisition price South32 has done a value-accretive deal in an overheated commodities market. ■

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Photo: Supplied

The deal not only dilutes the group's exposure to SA – seen as a positive among analysts – but adding copper production also improves South32's environmental, social and governance (ESG) exposure because the metal is crucial in the manufacture of electric vehicle batteries and therefore an agent of global decarbonisation.

By David McKay

MINING

The effect of Gilbertson's departure

With Ntsimbintle Holdings now the major shareholder of Jupiter Mines, it could change SA's manganese industry.

The ousting in mid-October of Brian Gilbertson from Australia's Jupiter Mines may have important consequences for South Africa's manganese industry as it hands management control to the company's largest shareholder, Ntsimbintle Holdings.

That's important because Ntsimbintle Holdings is 74% controlled by Safika Resources, a scion of Saki Macozoma's industrial empire. Macozoma, a Robben Islander with the late former president Nelson Mandela, has tended to operate away from the limelight, but in 2019 he nearly listed Ntsimbintle Mining in Johannesburg, only to pull the proposal at the last minute.

Market reasons, partly related to China's volatility, were cited for the withdrawal of the listing. It's a pity it didn't proceed considering the rollercoaster ride manganese prices have been on. Currently, the metal is much in demand both as a hardening agent for steel, but also for its potential use in electric vehicle battery production.

Ntsimbintle Mining owns 51.1% of Tshipi Borwa, a highly profitable mine in SA's Northern Cape province, home to about 80% of the world's manganese resources. The other 49.9% of Tshipi is owned by Jupiter Mines, which makes the ousting of Gilbertson even more interesting.

One line of speculation is that with Gilbertson and Jupiter's CEO and Gilbertson's long-time partner Priyank Thapliyal out of the company, Ntsimbintle has the listed vehicle it desires, and more to boot. Jupiter Mines is also developing a portfolio of mines in Australia's Yilgarn Valley. Ntsimbintle also has OM Holdings, a Singapore-based business with a smelter complex, Sarawak, in Malaysia, as a shareholder. Ntsimbintle also recently opened the Mokala mine with Glencore as a minority shareholder.

With an outward-looking management team, Jupiter Mines is a powerful force for consolidation in SA's manganese sector which is one of the reasons why Macozoma was first intent on a Johannesburg listing. "We are listing for the currency, not the cash," said Macozoma in an interview with *Miningmx* in 2019 before the company decided not to proceed with the initial public offering.

"The currency is for the purpose of consolidation. If we are going to do consolidation in the Kalahari manganese fields, the best way to do that is with paper which is listed. It provides a price, even if you like it or not," he said.

Under Gilbertson and Thapliyal, Jupiter was too much of a passive vehicle, according to one of its major shareholders, AMCI – the US-based minerals investor and trading house. Focused on paying out dividends and a bloated salary bill, the company didn't pay enough attention to the growth and expansion possibilities before it, its critics said.

Naturally, Gilbertson argued against this, albeit poorly. "The CEO has not taken proactive steps to address the diminishing value of the company ... and has failed to pursue ... any material shareholder value-creating opportunities," said AMCI director and Jupiter Mines board member Hans-Jürgen Mende.

Replied Gilbertson: "Those [remuneration] arrangements were set out and entrenched from the outset," he said. "I really have not felt that they needed to be changed." As an explanation, it seemed paltry especially as 95% of Jupiter Mines shareholders had voted against the remuneration report in 2021 and 93.4% voted against its predecessor in 2020.

Board statements aside, when the task of voting for the re-election of Gilbertson to the board came up at the general meeting, it was over, save the tears. About 78% of shareholders voted against it and for the removal of Thapliyal, which had been another of the resolutions.

It was a sad way for Gilbertson to bow out of public service, though it will do nothing to diminish his stature in SA mining. As former Gencor boss, he oversaw the creation of the modern Gold Fields, the development of Impala Platinum and the international listing of Billiton, the forerunner to BHP Billiton (now BHP), the world's largest miner. ■

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Photo: Albert Hyseni, Unsplash

With an outward-looking management team, Jupiter Mines is a powerful force for consolidation in SA's manganese sector, which is one of the reasons why Macozoma was first intent on a Johannesburg listing.

By Glenda Williams

PROPERTY

Big city living exodus

Mini cities like Waterfall City and Steyn City are redefining city-style apartment living.

City Centre apartments, with views over the lagoon or piazzas, offer a European village way of life.

Big cities have historically attracted residents who enjoy apartment living in the hustle and bustle of a major metropolis. But mini city developments offering smart, safe and sustainable community spaces and amenities outside of major economic hubs are tempting city dwellers to leave big city life behind.

Take Waterfall City, located between Johannesburg and Pretoria in the 2 200 hectare Waterfall precinct developed by JSE-listed Reit Attacq.

In the last two years there has been a big boom in residential in the Waterfall precinct's CBD area, Waterfall City. And the products with their built-in communal spaces and amenities are very different to the stand-alone houses or walk-up apartments in the broader Waterfall node.

On the Waterfall City drawing board are over 1 000 residential units split across two developments near the Mall of Africa, the core of the "CBD".

Attacq's first residential offering, Ellipse Waterfall, a luxury four-tower high-rise development of 620 units developed over three phases, has already netted R1.2bn in sales. Phase one of two towers is complete with 90% of units sold, and following the transfer of 196 Ellipse units, Attacq welcomed their first apartment residents to the city. Meanwhile phase two, priced from R1.725m to R14m, saw pre-sales of 90%.

Buoyed by the demand for its luxury residential development, Attacq expanded its residential offering of Waterfall City with the launch of its more affordable development, The Mix, a 14-storey, 391 unit residential development priced from R999 000 for a studio apartment.

Despite being launched during Covid-19, by mid-October pre-sales for The Mix totalled 146 units, a value equating to R231m. Ironically, it was the costlier (circa R5m) penthouses that were first to be snapped up.

City in the countryside

Things have been done somewhat differently at Steyn City, a 2 000 acre gated lifestyle estate set between the economic hub of Johannesburg and Midrand and close to Lanseria International Airport. Here, city-style apartment living has been imbued with a European village way of life.

Ranked by wealth intelligence firm New World Wealth as one of the top-ten lifestyle estates in the world, the accent at Steyn City is on luxury and the vast enclave with its freehold houses, clusters and apartments set in expansive indigenous parkland, offers world-class facilities. Among these are an 18-hole golf course, equestrian centre, school, restaurants, helistop and 300m lagoon.

The exclusive estate's latest offering is City Centre, which together with the helistop and lagoon represents a R5.5bn investment.

To date, R2.3bn has been expended to realise phase one of City Centre and 283 apartments have been completed.

When fully complete, City Centre will offer 739 one-, two-, three- and four-bedroomed simplex and duplex apartments, sized from 68m². Eleven penthouses averaging 439m² will also be available, equipped with features like private lift lobbies, glass garages and private plunge pools.

City Centre is built as a series of 38 small villages sprawling down a hillside, the four- and five-storey hilltop villages built around treed piazzas.

Giuseppe Plumari
Steyn City Properties CEO

Set in an entirely pedestrianised zone, the accent is on a communal lifestyle and ability to roam freely. Once the development is complete, the piazzas will be lined with several retailers and restaurants.

To ensure the vision of a pedestrianised zone, a 2 000 car capacity light-filled super-basement was constructed, and all service and delivery vehicles will traverse a truck tunnel constructed below the City Centre.

The apartment facades step forwards, backwards, up and down in true village architecture style, a design that Steyn City Properties CEO Giuseppe Plumari describes as "higgledy-piggledy."

Much attention has been paid to space, light and amenities to make the apartments truly liveable long term. No two apartments are the same. All have balconies, a view and are generously sized. Even the entry-level 68m² one-bedroom apartment is large by today's standards.

"It would have been more affordable if it was smaller, but it would not have been liveable long term," Plumari tells *finweek*. "We are long-term thinkers. These apartments are not stepping stones to home ownership. These are apartments that you can comfortably live in for the rest of your days."

Days after 185 apartments and two penthouses were made available for sale, 35 apartments and one penthouse had sold. Prices for the newly released apartments range from R2.3m to R35m with occupation scheduled for August 2022.

Construction on phases two and three of City Centre has commenced, expected to be complete during the latter half of 2024. ■

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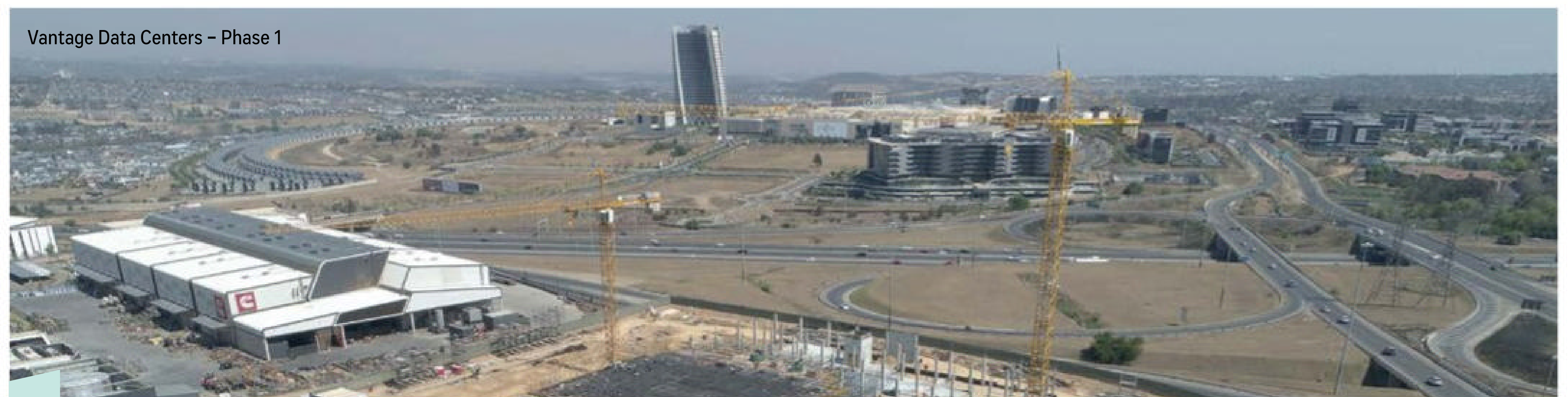
Photo: Supplied

By Glenda Williams

PROPERTY

Africa's largest data centre facility coming soon

Vantage Data Centers plans to invest over R15bn for its first African data centre facility in Attacq's Waterfall City.



Vantage Data Centers – Phase 1

The measure of how well a precinct is performing is often drawn from the number of construction cranes that loom over the horizon. In the case of the Waterfall precinct, it is eight. There are more cranes in the 2 200 hectare Waterfall node than there are in Sandton, Gauteng's financial hub.

Two of these cranes are constructing the 11 785m² first phase of US-based Vantage Data Centers' new data centre.

The Waterfall precinct has an established track record of attracting international businesses, among these BMW, Massbuild, Cummins and Cotton On. Vantage Data Centers, a global provider of hyperscale data centre campuses, is the latest international player attracted to the node.

It is another win for JSE-listed real estate investment trust (Reit) Attacq, developer of the Waterfall precinct (which includes Waterfall City and Waterfall Logistics Hub), who are partnering with Vantage to develop a campus that is tailored to meet the requirements of Vantage's global campus blueprint and their expansion into Africa's largest data centre market, Johannesburg.

Vantage's investment for this new data centre? More than R15bn. But that's just for phase one of the first facility, and phases two and three are significantly bigger data halls. Once all three facilities are completed, Vantage's total investment could theoretically be three times that, around R45bn, Attacq's chief development officer, Giles Pendleton, tells *finweek*.

When fully developed, Vantage's campus will be Africa's largest data centre facility.

A data centre is a dedicated space for servers and IT equipment. A hyperscale (wholesale) data centre scales this up to comprise hundreds of thousands of servers. Vantage's carrier-neutral Waterfall campus will include 60 000m² of data space across three facilities once fully developed, making it the largest on the continent.

"The world is going online at a rate of knots, and all that data has to be stored somewhere. Much of it is stored outside the country. This will start bringing large amounts of data storage capacity back into the country," says Pendleton.

"Vantage Data Centers plans to invest over R15bn in its first-ever African campus, which will be based in Waterfall City. The 80MW campus will help foster economic growth, stimulate job creation, and lead the way in energy-efficient design," Vantage Data Centers said in a statement.

Giles Pendleton
Chief development officer at Attacq

"Johannesburg is the data centre hub for sub-Saharan Africa due to its strategic location, IT ecosystem, fibre connectivity to the rest of Africa and the availability of renewable energy. Our first campus has a planned investment of more than R15bn, and it will add jobs to impact the local economy positively," said Antoine Boniface, president of Vantage EMEA.

Attacq is building the shell, but it is the fit-out, what goes into the building like the servers, that consumes the bulk of that R15bn investment, the building and land incurring less than R1bn, explains Pendleton.

"These," he says, "are some of the most expensive buildings in the country."

Vantage's Johannesburg campus will consist of three facilities across 30 acres in the Waterfall Logistics Hub. The first phase of the campus, slated for completion by the third quarter of 2022, will include a 16MW building. The campus will be powered by its own, on-site, high-voltage substation.

Pendleton says interest in Waterfall for data centres is driven by factors such as central location, good power, a privately-run fibre network and the benefits of a safe and well-managed precinct.

Online demand accelerated by the Covid-19 pandemic has sped up the growth in data centres. According to Turner & Townsend's data centre cost index of 2021, 95% of those surveyed predict that data centre construction demand in 2022 will be even greater than in 2021. And developing markets with their lower data centre construction costs compared to key primary markets have become attractive for prospective data centre investors.

There is strong demand for Waterfall as a node from international players, even from office tenants. Pendleton says they are currently in discussion with four international firms who want to make Waterfall City their African or South African head office.

Even SA Reit peers are drawn to the precinct. Recently, logistics specialist Reit, Equites Property Fund, concluded an agreement with Attacq to purchase two logistics properties as well as an undivided half share in a development opportunity in Waterfall for Cotton On, for R511m. ■

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Photos: Supplied

Golden innovation

Insuretech, spacetech, agritech, lawtech . . . and now goldtech. The application of technology to different industrial sectors or asset classes marches on.

What makes the application of technology to an eons-old asset class such as gold exciting, is the massive value unlock it brings about. Or, as Dane Viljoen, co-founder of Troygold with his brother Bastiat, a Stellenbosch-based technological company, puts it: "Goldtech brings the value of stored gold back into the light."

Billions of dollars worth of gold is kept in personal and bank safes around the planet. Monetising this asset class can be a tedious and unsafe affair, with the owner having to find a counterparty or exchange to sell his/her bullion to. The proceeds of this eventual sale are susceptible to opaque pricing and high transaction costs. At last, the gold seller has his/her cash in hand, which they can then use elsewhere.

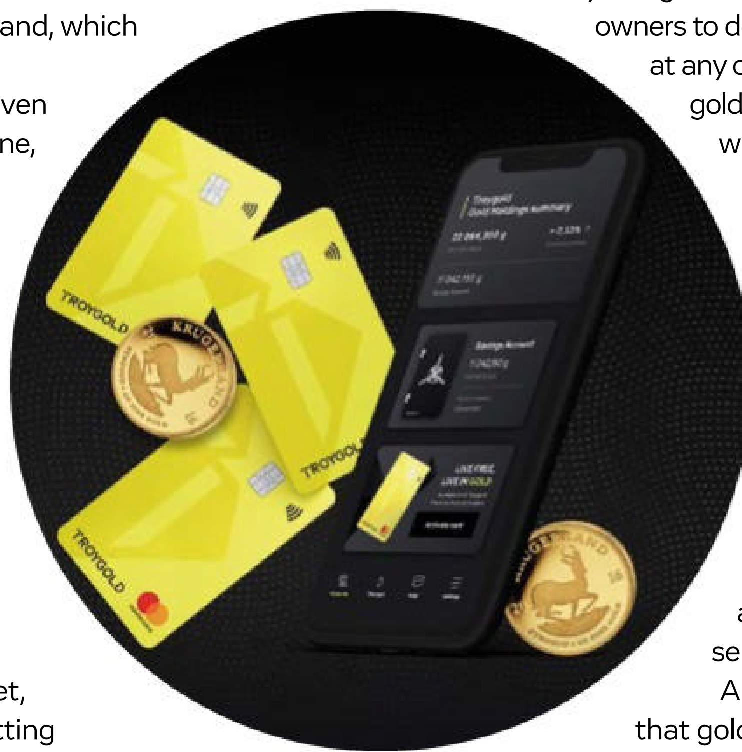
But what if a technological application, even downloadable on a gold owner's mobile phone, can give the holder of bullion immediate access to their gold's currency value? That is what Troygold aims for and it sits neatly within Viljoen's narrative of bringing the value of gold into the light – or more practically, providing instant access to and liquidity on gold.

"Gold is the best store of value, but it's also actually a money," says Viljoen. "Yet, it sits idly in many safes, without the owner being able to access products that one can with its fiat money counterpart."

Money has been the bedrock of the industrialisation of nations across the planet, says Viljoen, and to have a store of value sitting idly, is also inhibitive for economic growth. The latter relies on the provision of credit and lending by consumers and businesses, he continues.

"For centuries, the main function of gold was to back the value of fiat (touchable or tangible) currency," he says. "That changed when the US dropped the gold standard in the 1970s and fiat currency was left to the whims of the markets and central bank printing presses. Consequently, inflation has been hard on fiat currencies ever since, gnawing away at the purchasing power thereof year after year."

However, to overcome the problems with gold being a store of value and hedging against the impact of inflation, many bullion investors found that they don't have access to this valuable asset class. And that is where Troygold saw and grabbed the opportunity. The company was set up in 2018, after which it built its own proprietary gold digitisation technology – growing to more than 5 000 users ever since, says Viljoen.



"Our platform is aimed at gold owners whose physical gold is held outside the banking system. Many of these investors' gold are held at home or in safe-holding places, such as SafeGold. Investors can therefore safely store, but not readily monetise the value of these gold holdings," Viljoen says.

The process of monetising gold with the Troygold technology platform is fairly straightforward. In South Africa, Troygold allows gold owners to deposit their bullion (such as gold Krugerrands) at any of The Scoin Shop's nationwide outlets. The gold will be bagged and tagged and the depositor will receive a digital certificate of ownership before it is stored at SafeGold's world-class safe-storage facilities. The deposited gold will then be assigned to the depositor's Troygold account (which is accessible on the Troygold app). A bank account and Mastercard linked to the gold held in the vault is then issued to the depositor – providing access to a loan facility backed by the gold held as collateral.

"This is an extremely safe and neat process which also allows gold owners to access currency liquidity, without the need to sell their gold holdings," says Viljoen.

An important part of goldtech is the trust that gold owners need to have in the application to make use of it. "Trust is the holy grail for gold outside the banking system," says Viljoen. "Therefore, our gold holdings are fully reserved, segregated and allocated. We can't sell anything that doesn't exist in the vaults. Thus, if anything happens to Troygold, the client still has ownership of their gold."

What makes goldtech, and Troygold's, application more trustworthy, is that gold owners can redeem their gold through the application and have it delivered to their premises should the need arise.

Through this goldtech application and in cooperation with The Scoin Shop's network of bullion experts and outlets, Troygold has truly succeeded in "bringing gold's glimmer into the light" for owners of this asset class. ■

market place

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FUND IN FOCUS: ROOTSTOCK SCI WORLDWIDE FLEXIBLE FUND

By Timothy Rangongo

Focusing on global growth

The fund aims to maximise total return through a flexible portfolio invested in different asset classes and regions.

FUND INFORMATION:

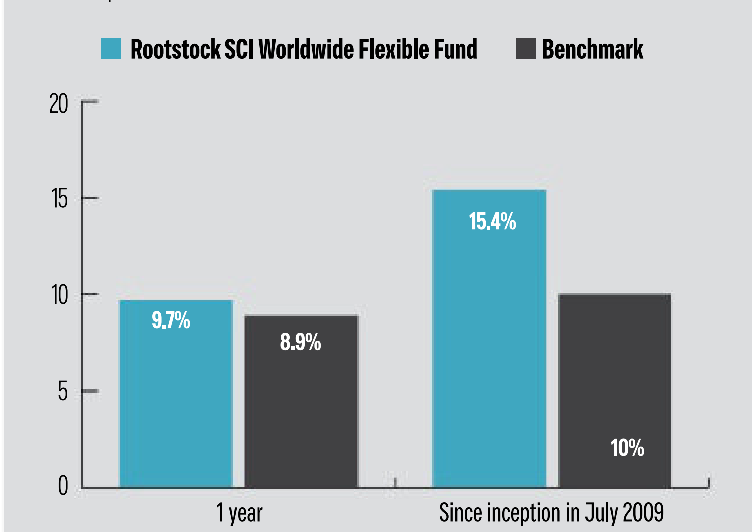
Benchmark:	CPI+5%
Fund manager:	Johan Barkhuysen
Fund classification:	Worldwide – Multi-Asset – Flexible
Total investment charge:	1.69%
Fund size:	R2.5bn
Minimum lump sum:	None (platform investor) R10m (direct investor)
Contact details:	021 883 9256/info@rootstockinvestments.co.za

TOP 10 HOLDINGS AS AT 30 SEPTEMBER 2021:

1	Facebook	6.8%
2	Alphabet	6.4%
3	Microsoft	6%
4	Mastercard	5.3%
5	Amadeus IT	4.8%
6	Amazon.com	4.7%
7	Electronic Arts	4.3%
8	Intuit	4.2%
9	Otis Worldwide	4.1%
10	Fastenal	4%
	TOTAL	**50.6%**

PERFORMANCE (ANNUALISED AFTER FEES)

As at 30 September 2021:



Fund manager insights:

The Rootstock SCI Worldwide Flexible Fund aims to maximise total return by investing in a globally-diversified portfolio with exposure to both developed and emerging markets across various asset classes. The fund's focus is not on any specific sector or industry. "We tend to look for companies that produce products or services which generate significant value for their users or customers," says fund manager Johan Barkhuysen.

They also try to find businesses that utilise advanced technology to improve their operational efficiency or capability, he adds. At present, 97% of the fund's asset allocation is in international equities, mainly comprising of a handful of the world's most valuable companies by market capitalisation, such as Microsoft, Amazon, Mastercard, Alphabet and Facebook. The fund is at ease with the latter holdings despite recurrent data and privacy transgressions, the most recent being whistleblower Frances Haugen's testimony before the US Congress detailing vast problems at Facebook, which is also reported to make a break with its past by changing its name.

"The mainstream media frenzy around the companies does not capture the trade-offs of managing enterprises at scale, nor the fundamental good the businesses do," says Barkhuysen. "The social ills ascribed to social media are a function of the human condition, not merely the delivery platform. Alphabet and Facebook's market position and distribution capabilities do require responsible management, but they cannot be the arbiters of truth or solve all human maladies."

Despite everything, Alphabet and Facebook continue to be dominant in the $400bn global digital advertising market, which continues to expand at a mid-teens rate. "Both companies allow advertisers, across the size spectrum, to reach their customers, often being the primary means of finding an audience. Their ability to efficiently connect customers to merchants produces incredible value for businesses, customers, and society at large," says Barkhuysen.

"Alphabet and Facebook are highly profitable, well-managed, have long-term growth runway and are incredibly capital efficient. Compellingly, both businesses remain strikingly undervalued relative to their long-term earnings power."

Barkhuysen says if one assesses the stock-specific market opportunities of the companies they own, they are of the opinion that its underlying growth supports its present valuation multiples. "We believe our returns will be primarily determined by earnings growth, rather than changes in broad-market or stock-specific valuation multiples."

Why *finweek* would consider adding it:

Apart from consistent outperformance (which is not indicative of future performance), the fund's flexible mandate allows the fund manager to seek out the best investment and growth opportunities across various regions. There's a great degree of diversification with investments spread over a broad range of strategies, styles and sectors. ■

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GRINDROD

BUY SELL HOLD

By Simon Brown

On a positive track

Grindrod has had a tough decade after peaking at almost 3 000c/share in 2007 and again in 2015. Since that 2015 peak they've spun out the shipping business into Grindrod Shipping and are in the process of selling other non-core assets.

The current net asset value (NAV) is just over 1 000c and since the results for the six months ending June, they've sold their remaining stake in Grindrod Shipping for R368m and their UK property operation for another R340m. Together these two sales are worth some 100c in cash per share, adding to the 250c cash per share they already have on the balance sheet.

There is also another attraction to this stock and that is their rail division which owns rail locomotives and wagons but no tracks. With Transnet struggling to support our commodity boom, there is opportunity for Grindrod to service this sector, but they'll need access to tracks and many of the Transnet issues are the tracks and power cable thefts.

Reports of a possible relaxing of regulations allowing Grindrod onto the tracks could boost revenue and profits. ■

Last trade ideas

- **BUY** Tsogo Sun Hotels — *22 October issue*
- **BUY** Caxton — *8 October issue*
- **BUY** Bidvest — *24 September issue*
- **BUY** Merafe Resources — *10 September issue*

NETCARE

BUY SELL HOLD

By Moxima Gama

Healthy results expected

Netcare is South Africa's third-largest private hospital operator by market value; it also operates the largest private hospital network in the UK. Established and listed on the JSE in 1996, the group owns and manages 57 hospitals in SA. Its additional divisions include Netcare 911, Medicross centres, Prime Cure Clinics and BMI Healthcare in the UK. Its history in the UK started in 2001.

Netcare, whose primary focus is on SA, said recently that it expects core profit to rise as much as 26%, about R665m, in its year to end-September. Though the group warned shareholders that it remains concerned about the new variants of the virus, it's content with how it has become better at managing the strain of the influx of Covid-19 patients – and its adaption to the Covid-19 conditions have provided for a steady improvement in its profits.

How to trade it:

Netcare has been on one long downward slide since April 2015. Eventually retaining firm support at 1 130c/share, the share has been trading sideways and is now a few points away from the resistance trendline of its six-year bear trend. Upside through 1 715c/share would mean Netcare has breached resistance.

However, a positive breakout that would officially place it in bullish terrain would only be confirmed above 2 135c/share. Thereafter, if the bull trend remains intact, Netcare could gradually complete a 100% retracement to its all-time high at 4 440c/share in the medium to long term. Long positions could be increased aggressively once resistance at 3 165c/share has been breached. The sideways trend between 1 715c/share and 1 355c/share would persist if Netcare should fail to trade through the resistance trendline of its long-term bear trend. Breaching support at 1 355c/share would extend the current downtrend towards 1 130c/share. In which case, refrain from going long. ■

editorial@finweek.co.za

Netcare expects core profit to rise as much as 26%, about R665m, in its year to end-September.

Last trade ideas

- **SELL** Kumba Iron Ore — *22 October issue*
- **BUY** Rand Merchant Investments — *8 October issue*
- **STAY SHORT** Naspers — *24 September issue*
- **SELL** Sibanye-Stillwater — *10 September issue*

Photos: grinshipping.com | netcare.co.za

By Moxima Gama

ARCELORMITTAL SA

Upside potential in the long term

ArcelorMittal SA is sub-Saharan Africa's largest steel producer with an annual production capacity (in 2019) of 7m tonnes of liquid steel and 5.5m tonnes of saleable steel products. It currently supplies 60% of the steel used in South Africa.

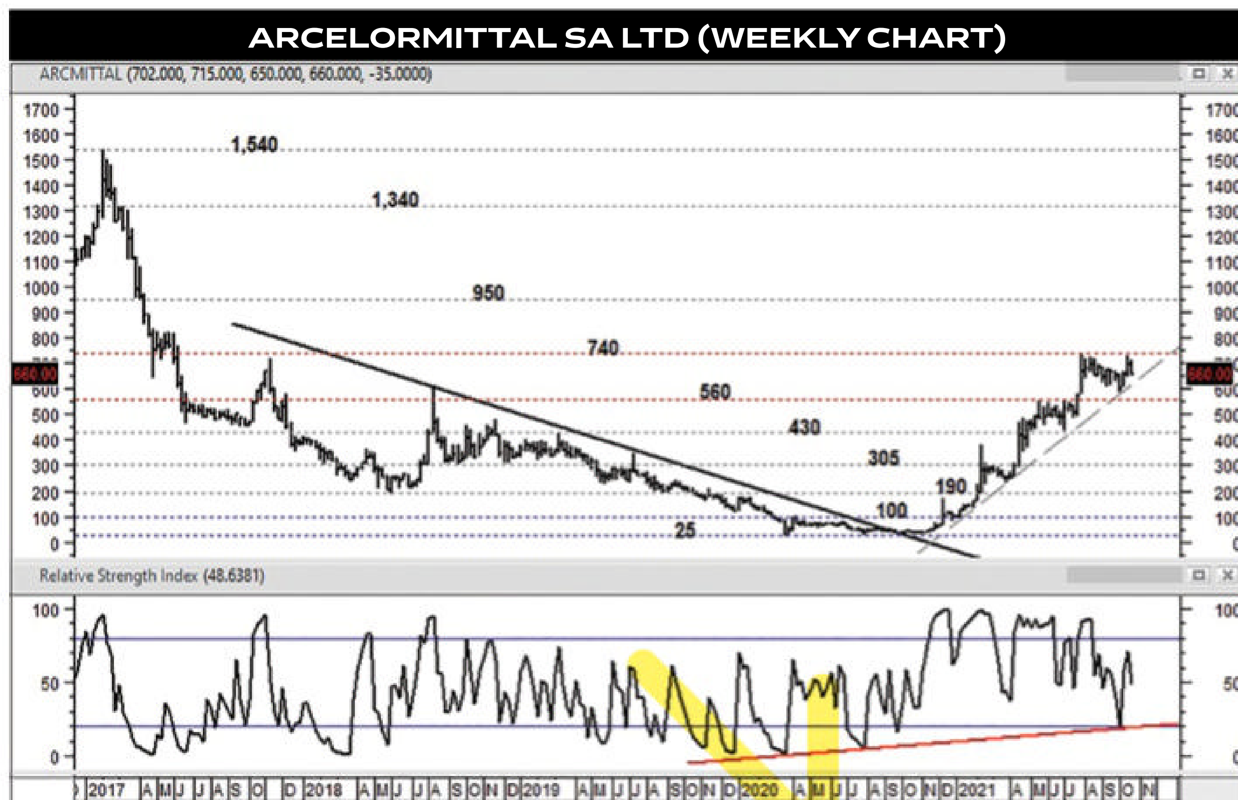
Share price history

ArcelorMittal SA once tested an all-time high at 26 500c/share in 2008, but the magnitude of the global economic recession soon after forced the company to slash production by 35%. This triggered a sharp fall in the share price, which continued to tumble in 2015, when cheap Chinese imports depressed the steel price, resulting in customers delaying purchases. ArcelorMittal SA lost $1.3bn in a short space of time as orders dried up significantly and wrote down the value of its steel stocks by $500m to reflect rapid falls in prices. The problem lay with the SA government, which failed to implement protection measures for the country's steel industries when China started dumping its surplus steel on world markets in 2015.

For a moment, it seemed as if ArcelorMittal SA was headed for closure, which would have affected other major companies like Exxaro, Kumba, Sasol, and even Eskom, who are the steelmaker's biggest customers. The steel baron Lakshmi Mittal even approached government to help rescue ArcelorMittal SA, by imposing a 10% import duty on steel, to prevent plants from being shut down and jobs being cut. In 2016 ArcelorMittal SA posted a full-year loss that was 23 times wider than its loss of the previous year due to the economic meltdown and glut of oversupply driven by China.

Current outlook

The 2020 pandemic caused demand for steel to plummet again – ArcelorMittal SA's share price dipped to a low at 25c/share. The company was forced to embark on stringent restructuring plans as operations continued to take strain from the economic shock caused by the coronavirus pandemic – in January 2020, 1 000 jobs were cut in a bid to rein in costs. On the brighter side, ArcelorMittal SA had been eyeing the manufacturing and production of structural steel and rail business of Highveld Structural Mill (HSM) and received unconditional approval by the Competition Tribunal to purchase the company for R300m in February 2020. HSM is the only company capable of producing "heavy sections of long steel" in SA and operates from its eMalahleni plant in Mpumalanga. HSM went into business rescue in April 2015 and ceased production due to weakened global demand. It supplies about 60% of the steel used in SA.



SOURCE: Metastock Pro (Reuters)

On the charts

ArcelorMittal SA's share price traded sideways between 100c/share and 25c/share for an extended period, and eventually breached the resistance level in February 2021 when the company announced that it had swung into profit in the second half of 2020. The company had been struggling to make ends meet amid rising costs and slower steel demand. Since 2014, its workforce has more than halved from 15 000 to 7 000 workers and in 2020 the company closed its Saldanha mill. Dubbing 2020 as a "highly transformative year", ArcelorMittal SA said the pandemic accelerated the implementation of the company's ongoing restructuring programme, which helped them realise sustainable cost benefits.

What to anticipate

ArcelorMittal SA confirmed a positive breakout of its steeper bear trend and nine-month sideways pattern above 100c/share in February this year. It has since then maintained a steady uptrend, as it retests prior significant levels. If this upside were to continue, ArcelorMittal SA's share price could extend its gains towards 1 540c/share – making it a good buy-and-hold for the long term.

52-week range:	R0.35 - R7.39
Price/earnings ratio:	2.44
1-year total return:	1 727%
Market capitalisation:	R7.69bn
Earnings per share:	R2.77
Dividend yield:	0%
Average volume over 30 days:	2 050 452

SOURCE: BLOOMBERG

How to trade it

Go long: Currently confined in a sideways band between 740c/share and 560c/share, if ArcelorMittal SA's share price continues to bounce in the support trendline of its current uptrend, then a buy signal would be triggered above 740c/share. Such a move could attract further buying towards 950c/share. Long positions could be increased above that level if sentiment remains buoyant, as next resistance would be at 1 340c/share. Buy more on continued upside towards 1 540c/share.

Go short: A negative breakout of the current uptrend would be confirmed below 560c/share, and the share price could retest support at 430c/share. If that level fails to hold, downside towards 305c/share could ensue. In which case, refrain from going long. ■

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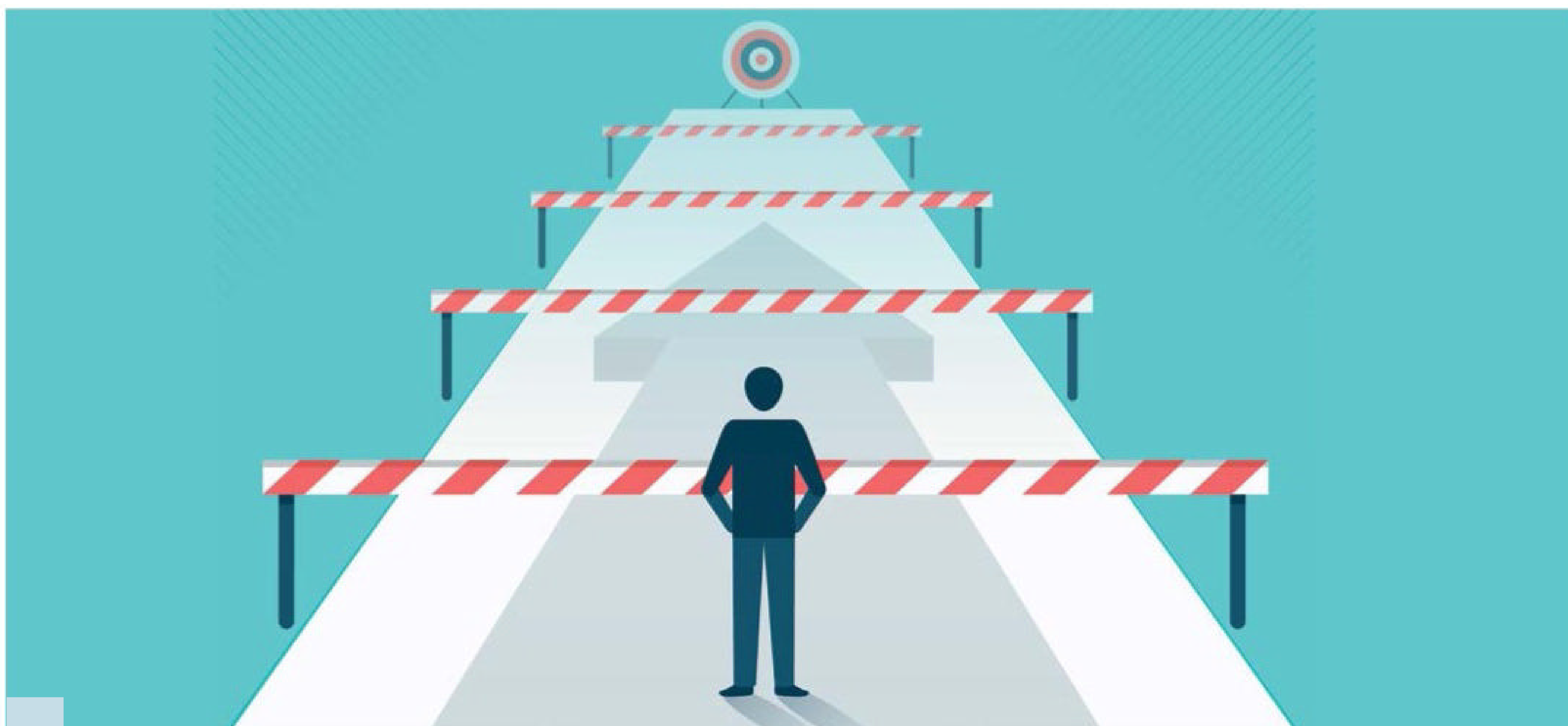
Moxima Gama is an independent stock market analyst at The Money Hub.

By Simon Brown

INVESTMENT

On barriers to entry

There are various ways in which a company or sector can achieve competitive dominance. They usually make for good investments.



I was hosting a webcast presented by Keith McLachlan of Integral Asset Management on an introduction to fundamentals and he reminded me of something I have written about before – barriers to entry for competitors. But he added some extra thoughts that are well worth repeating here.

Firstly, those traditional barriers to entry are often legal. This is when a license is required which the state doesn't hand out all that often. Casinos are examples. We could have dozens of them in any city, but to make them profitable and hence attractive for operators, the state limits the number of casinos and new competition in the same geography is unlikely.

Banks are also an example as they require not only a large amount of start-up capital (which is a barrier itself), but also a rigorous approval process by the South African Reserve Bank. This protects customers, but also protects the existing banks. Now sure, we have seen several new entrants over the last few years, but it is not a mad gold rush situation where a new bank opens every other month.

McLachlan also referred to other barriers such as intellectual property (IP). Here software companies and drug manufacturers come to mind. Microsoft is absolutely entrenched in the corporate world with their Office suite of software while competitive products are mostly free (such as Google Docs). But Office remains dominant not only because of their IP but also because they are dominant. It would take a very brave IT administrator to decide to abandon Office in favour of an alternative. Not only would staff need to be trained on a whole new suite of products, but any issues would fall straight into the IT administrators' laps, which would likely dent their bonuses.

In the case of drug manufacturing, the patent on the IP is for a limited period. But it is generally long enough for the company to do very well with a successful drug.

Another barrier that McLachlan raised was scale, or size. I had never thought of it this way before. Sure, I know that part of the attraction of Shoprite* as an investment is their scale. Such as the fact that they can run multiple distribution centres around the country and get more efficiency of their adverts by using national media.

When investing we need to look for businesses that have these barriers to entry and couple them with other investment metrics. But we also need to recognise the risks in these barriers in that they may disappear one day.

A drug patent eventually expires and the banking regulator certainly does allow new banks to emerge. The JSE was SA's only stock exchange for almost 50 years since the Union Exchange closed in 1969. But now they face not only local competitors, but also global exchanges. This is a very important point. We need to look beyond just the markets the company operates in.

With a stock exchange in the early 2000s, the new businesses listing were nearly always from the same country as where the exchange operated. This has now changed with companies selecting where to list based on many factors, of which country of origin is only one factor and likely not a high priority one at that.

A last point here is to avoid the idea that being the single supplier is attractive. As seen with the JSE, this attracts competition as new entrants see chunky profit margins and often a lazy incumbent which they feel they can displace, or at least take significant market share from. ■

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The writer owns shares in Shoprite.

Photo: Shutterstock

18+

WHAT IS AVAXHOME?

AVAXHOME -

the biggest Internet portal, providing you various content: brand new books, trending movies, fresh magazines, hot games, recent software, latest music releases.

Unlimited satisfaction one low price
Cheap constant access to piping hot media
Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
One site

AvaxHome - Your End Place

We have everything for all of your needs. Just open https://avxlive.icu

By Schalk Louw

MARKETS

Fear and greed in one index

To buck the trend, when markets are hot or cold, is a tough thing to do. However, it can deliver solid returns.

Warren Buffett remains one of the most famous investors out there, so it's no coincidence that his sayings are equally famous. One of my favourite Buffett sayings has to do with two key emotions in the investment world: "Two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics will be unpredictable ... We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

The genius Albert Einstein said that compound interest is the eighth wonder of the world. "He who understands it, earns it ... he who doesn't ... pays it." Now, I would never dare to disagree with a man of his calibre, but I would like to add that if compound interest is the eighth wonder of the world, then the "herd effect" must be the ninth. The herd effect is without a doubt one of the strongest forces out there, not only when it comes to consumer goods, but even stronger in the investment realm.

And this is exactly where the herd effect fits in so well with Buffett's advice on being greedy when others are fearful. But can we measure this effect and express it as a figure? With the help of historical data (which is no guarantee for future performance), I was able to find part of the answer in the Fear & Greed Index.

I've been following this index for quite some time and I have found that along with the fact that many short-term indicators use this index, it gives us a good indication of the emotional state of US markets. I did some investigating into the methodology of this index and decided to apply it to the South African investment market as far as I possibly could. The results were quite surprising.

In the South African version of the Fear & Greed Index, I used five indicators.

Market volatility

Here I looked at the South African Volatility Index (SAVI) and analysed how high (fear) or low (greed) it was trading above or below its 50-day moving average.

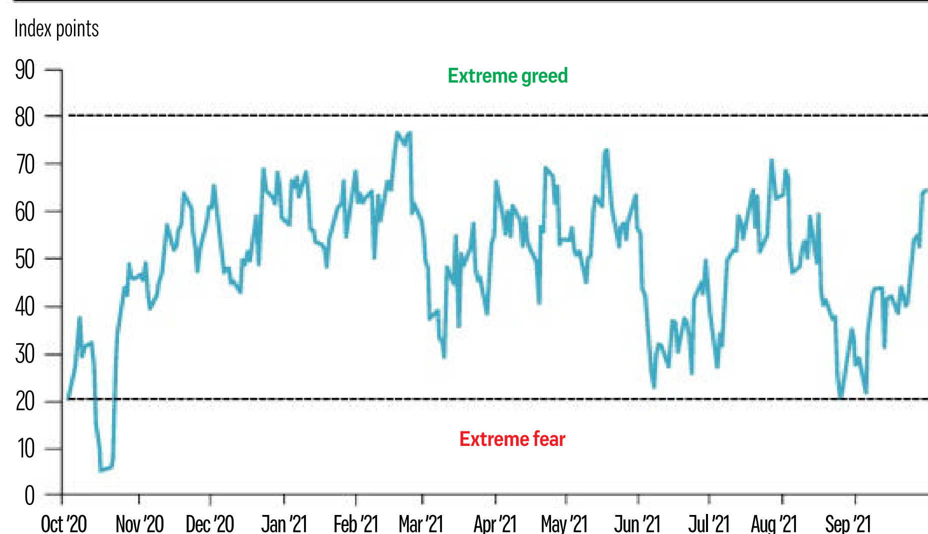
Running towards safety

This is one of the reasons why share prices go down when bond prices go up – the fact that so many investors choose to switch to "safer" investment options in times of fear. I used the FTSE/JSE All Share Index's 20-day average returns and deducted it from the 20-day moving average of the SA All Bond Index (ALBI). When share prices start to drop and ALBI prices start to rise, it can indicate fear.

Share price strength

Having a look at how many companies make it to the JSE 52-week highs against how many make it to the 52-week lows also gives us a good indication of the levels of fear or greed that exist in the market. To place this in context: there were seven more shares per day on the JSE 52-week highs compared to the 52-week lows over the last 12 months. This is a clear indication of the recovery we have experienced since 2020's lower levels.

FEAR & GREED INDEX IN SOUTH AFRICAN MARKET



SOURCE: @SchalkLouw, Refinitiv & PSG Wealth Old Oak

The breadth of the JSE

By using the McClellan oscillator, we can build an index by subtracting the daily total amount of shares that showed a net price increase from the total amount of shares that showed a net decrease. If this net result is positive, the graph will move upwards and this will give us an indication of greed. On the flipside, if the net result is negative, the graph will move downwards and give us an indication of fear.

JSE momentum

Sometimes, just by looking at an ordinary moving average, we can spot a trend on the JSE. I took the JSE's price levels relative to its 125-day moving average. If it trades above its 125-day moving average, greed is on the rise, while if it moves below this moving average, fear is on the rise.

By combining these five indicators (in equal parts) and indexing them (0-100), we can create a "barometer" which can measure greed and fear. Levels between 0 and 20 indicate extreme fear, while levels between 80 and 100 indicate levels of extreme greed **(see graph)**.

By mid-October, the index moved away from extreme fear levels closer to normal levels. Put into context, Warren Buffett was spot on when he said it's wise to be greedy when others are fearful.

I would like to conclude by making it clear that my message is not to try and use the index to trade speculatively over the short term. Rather, it is to be very cautious when it comes to following the herd, irrespective of whether it's related to shares, crypto assets or any other type of investment, for that matter. ■

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By Seleho Tsatsi

OFFSHORE

Making money from music

Why investors are increasingly drawn to the music industry.

The music industry is a fascinating subsector of the entertainment business for investors. The industry is unusually concentrated. Just a handful of companies dominate the distribution of recorded music. Similarly, one can count on one hand all the major labels on the content side of the business.

Given that the leaders in the industry are likely to have high returns on capital, low capital requirements and the ability to grow at decent rates, we believe the leading content and leading distribution music companies (UMG and Spotify) make for interesting investment cases for investors.

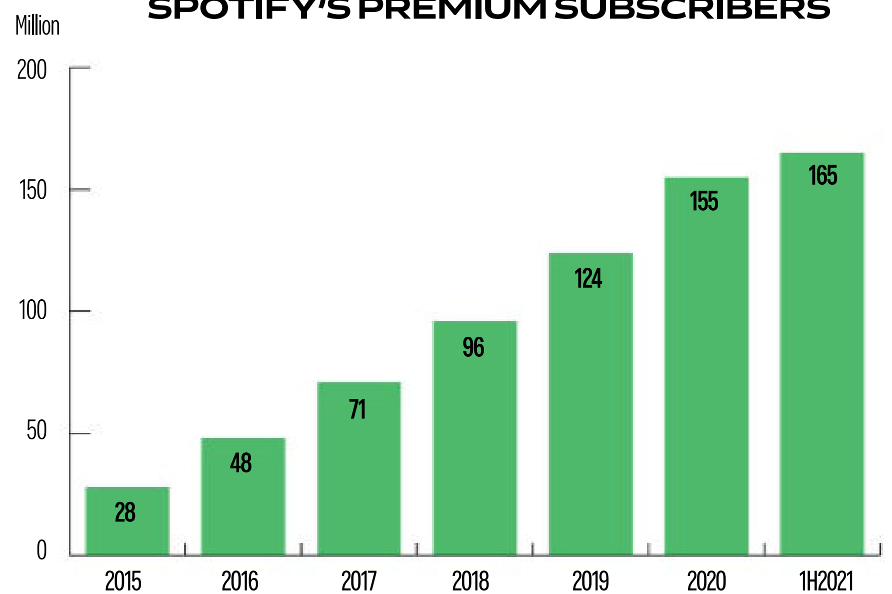
Universal Music Group (UMG), Sony Music Entertainment (SME) and Warner Music Group (WMG) are the three major music labels. Those three labels in addition to Merlin, which represents hundreds of independent labels, accounted for 78% of the music streams on Spotify in 2020. Public equity investors can invest in any of the three major labels. WMG's shares listed publicly last year. Vivendi completed a spin-off of its stake in UMG in September 2021. SME isn't available as a standalone entity but can be invested in via shares in the conglomerate, Sony.

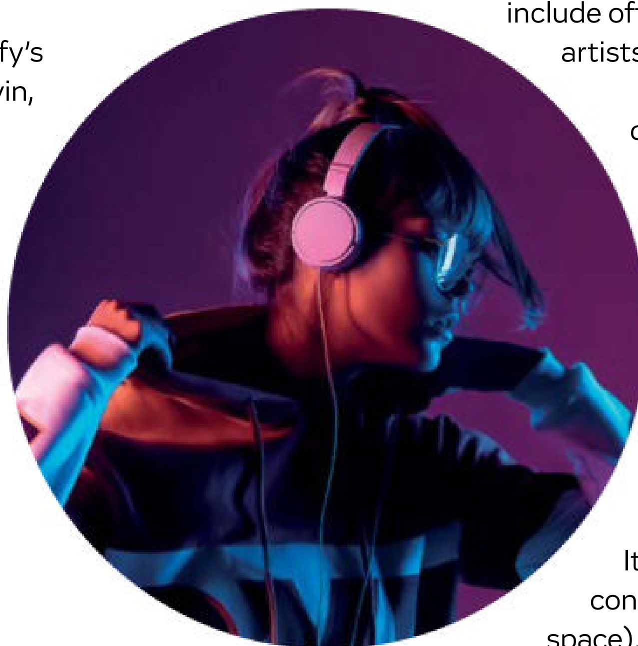
Of the big three, the recently-listed UMG looks most interesting as an investment. UMG is recognised as the industry's leading label, and for good reason. UMG has a 40% share of the recorded music market. Chances are that your favourite artist or band is signed to UMG. The company's dominance of recorded music content can be illustrated in several ways.

In 2020, four of the top-five spots in Spotify's global charts were UMG artists (Drake, J Balvin, Juice WRLD and The Weeknd). The number one song of the year ("Blinding Lights") belonged to an UMG artist (The Weeknd). Finally, two of the year's top-three albums were by UMG artists (*After Hours* by The Weeknd and *Hollywood's Bleeding* by Post Malone). Over the medium term, UMG is targeting high-single-digit revenue growth, presumably with free-cash-flow growth comfortably ahead of that.

For the labels, their moat is their catalogue of music intellectual property (IP). Music is perhaps the most evergreen type of content. Today's hits are obviously in high demand by listeners. But so, too, are those of yesterday. It's important for a music streaming service to not just have today's hits but also the classic catalogues of, say, The Beatles and Marvin Gaye. So, the major labels' bargaining power is helped by their stronghold on older content that is still very much in demand. Indeed, UMG has made a point of highlighting this to prospective investors. In 2020, 66% of industry-wide streams were streams of content older than three years.

On the distribution side of the business, Spotify is the clear leader. What Spotify lacks in original content, it makes up for in distribution dominance. Roughly 60% of music streaming revenue in 2020 went through Spotify. That market share is up strongly from 30% just four years prior in 2016. The Swedish company has 165m paid subscribers, well ahead of its peers.





Spotify may look to strengthen its moat in several ways. Firstly, as its user base grows, so does its competitive strength. If a content platform has hundreds of millions of paid subscribers, it can find multiple ways to further monetise that user base. This could include offerings like performance marketing to labels or artists so that they rank higher in searches.

Secondly, Spotify is moving to reduce its dependence on the major labels and increase its share of original, owned content on its platform. The company is investing aggressively in podcasts and other forms of alternative and spoken word content. Last year, 25% of monthly active users (MAUs) consumed this content. That figure is up from 16% in 2019.

For music streaming services such as Spotify, their moat comes down to scale. A larger user base allows a streaming service to better predict what content its users will enjoy. It also provides the funding for acquiring more content (either within music or in the broader audio space). This better listening experience leads to more users, reinforcing the flywheel.

A challenge for Spotify is that it competes with companies that can use cash generated in other parts of their businesses to fund their music operations. For Apple, Alphabet (owner of Google) and Amazon, there is more than enough capital to invest in their music services despite those services being smaller in scale than Spotify.

The content and distribution sides of the music business are interesting areas of study for investors. Both subsectors have leading companies with identifiable moats. We believe UMG and Spotify represent the most dominant businesses in the industry. At appropriate prices, these companies may represent compelling investments. ■

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Seleho Tsatsi is the co-manager of the Anchor BCI Global Technology Fund.

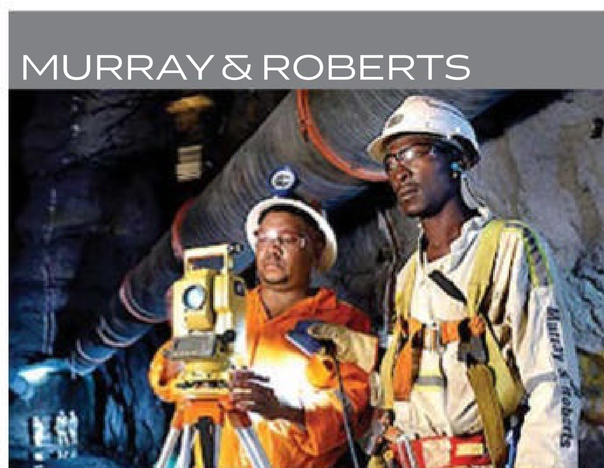
Photo: Shutterstock

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.

MURRAY & ROBERTS



US deal

Murray & Roberts* said it is buying a US construction company, JJ White, for about R430m. Murray & Roberts is paying cash. While JJ White has averaged around $5m in earnings before interest, tax, depreciation and amortisation (ebitda) a year (around R75m), this purchase is about expanding Murray & Roberts' energy, resources and infrastructure business in the US with new work boosting future profits. Currently, Murray & Roberts only has a presence in Texas and the new business operates in 11 states and has licenses to operate in a further 11. With President Joe Biden's administration wanting to pass an infrastructure bill worth trillions of dollars, this could become a major profit centre, but it's not without risk. The US is a hugely competitive market with many global companies vying for the same spending, so success is not guaranteed. But it's a small enough deal for Murray & Roberts, so failure won't massively hurt.

SATRIX

A new ETF

Satrix is listing a new exchange-traded fund (ETF) covering the FTSE/JSE All Share Index. This index is the largest 140 stocks on the JSE and so has a bunch of small and medium-cap stocks included. But importantly, it doesn't include the real small-cap stocks as the smallest constituents in this index have a market cap of R3.5bn and more. What is also important to note is that the returns of the all-share index and the FTSE/JSE Top40 Index are pretty much the same over time, so the smaller stocks aren't adding much to returns. The target total expense ratio (TER) for the ETF is 0.25% but Satrix will waive this fee for the first six months.

THARISA

Cashing in on chrome

Tharisa issued a strong production update for the year ended 30 September on 12 October, but perhaps more importantly, their Vulcan ultra-fine chrome plant was cold-commissioned and should be in production by the end of the year. Chrome is a by-product of platinum group metals (PGMs) mining, but in the case of Tharisa, the company focuses more on chrome with PGMs being the by-product. At current prices, Tharisa is earning very good income on the PGMs. The new Vulcan chrome plant will improve the amount of metal refined from 62% to 82%, which will boost revenue without much cost increase aside from the initial capital expenditure. This gives them a solid earnings base as PGM prices are more volatile.

Coronation pays out nearly all their HEPS as dividends. This puts them on a forward dividend yield of about

10%.

RENERGEN

Launching helium tokens

Renergen* announced that they've partnered with a US company to launch a helium trading token that will be underpinned by blockchain and will likely list on one of the large cryptocurrency exchanges. Currently, helium is priced by contracts between supplier and middlemen who sell the gas on to customers. This means there is no price transparency or discovery. We saw the shift happen with iron ore around 2008 when Brian Gilbertson did the same with iron ore, moving away from quarterly contract pricing to a spot market. This makes for a more volatile price, but it does mean proper supply and demand dynamics take place, which can boost or crash the price over time. The helium contracts may very well not succeed, but it is great to see an attempt to get real pricing with the product.

CORONATION

Keeping shareholders happy

Coronation Fund Managers* released a strong trading update for the year ended 30 September on 14 October which saw their assets under management (AUM) hit a new record of R633.83bn. This after several years of little or no growth in AUM. Coronation also expects headline earnings per share (HEPS) to increase by between 20% and 30%, which should see the dividend increase by the same amount. That is because Coronation pays out nearly all their HEPS as dividends. This puts them on a forward dividend yield of about 10%, which is largely why I hold the stock. Sure, price appreciation is great, and the stock is up by about 25% since I bought it. But that large dividend is a great cash flow for my portfolio.

LONG4LIFE

Delisting on the cards

Long4Life is throwing in the towel and has an offer on the table to buy out and delist the company. There are no more details at this stage. It is likely that the offer price will be equal to the company's net asset value of around R4.6bn. Despite the share price having run hard after the buyout news, Long4Life's market capitalisation is about R3.6bn. This has been the problem with Long4Life. Brian Joffe, founder and CEO, would have wanted to do deals and buy assets using Long4Life's shares, but that makes no sense if you're using shares that trade below their NAV.

PICK N PAY

Riots dent sales, but ...

The Pick n Pay results for the 26 weeks ended 29 August, released on 20 October, are extremely difficult to compare. Last year, the company had the pandemic stockpiling that boosted sales, but also no tobacco and alcohol sales for months at a time, which hurt. The current interim results saw the July riots denting sales and profits. Trying to decipher all this means we can't really get very useful numbers such as operating margins and the like. That said, they're very strongly focusing on the lower end of the market, seemingly leaving the wealthier market to competitors for now. My preference in this sector remains Shoprite* with their far better margins and a strong foothold in both the less wealthy and wealthier markets. The risk for Shoprite is that Pick n Pay takes significant market share in the less wealthy markets which, while operating at lower margins is a larger market. I will be watching results between the two grocers to see how this plays out.

COMBINED MOTOR HOLDINGS

Sterling results

Combined Motor Holdings released excellent results for the six months ended 30 August on 19 October with HEPS up 65% on the 2019 numbers to a new all-time high. They have slashed costs in the business and shortages of new vehicles mean they've also been able to push through some price increases, improving margins even further. This set of results also includes the July riots, which cost the company an extra 12 percentage points of HEPS growth. Motus has also been doing well but Combined Motor Holdings is the better-positioned stock right now and when vehicle production returns to normal (although nobody knows when), we'll see better pricing and a wider offering for consumers, and this will further help the company. On a forward price-to-earnings ratio of under 5 times and a forward dividend yield of over 8%, Combined Motor Holdings is as cheap as it'll ever be.

Motus has also been doing well but Combined Motor Holdings is the better-positioned stock right now and when vehicle production returns to normal (although nobody knows when), we'll see better pricing and a wider offering for consumers, and this will further help the company.

CEMENT PRODUCERS

Benefit to SA remains to be seen

The government announced that local government spending on construction will only use local cement, and this sent both PPC and Sephaku's share prices flying on the news. Sephaku has retreated about a third of the run while PPC has mostly held on to its higher price. I'm not so convinced; the private sector can still buy cement from wherever they want, and cheap imports will continue to land in the country. The issue with the imports is that bulk commodities are shipped into Asia and the ships have no cargo to bring back, so they offer steeply discounted pricing for the return journey as some income is better than nothing. This means cement, which is usually expensive to transport due to its weight, suddenly becomes viable to move. This transport situation is not going to change without tariffs on cement and what the industry needs more than anything is increasing demand. This we should be seeing as infrastructure spend is picking up, but PPC seems to already be pricing this in. ■

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**The writer owns shares in Coronation, Murray & Roberts, Renergen and Shoprite.*

Photos: murrob.com | pnp.co.za | Shutterstock

By Brendon Wright, Justin Boyce and Paul Marais

INVESTMENT

The quantitative easing pandemic

What will the effect be of quantitative easing and how will South Africa respond to it this time around?

During the 2008/2009 global financial crisis, the US Federal Reserve responded with a combination of ultra-low interest rates and quantitative easing, the latter of which involved purchasing securities from the market, typically in the form of newly-issued US Treasury debt instruments.

This has the effect of further lowering interest rates by increasing the supply of money. Lower interest rates improve the income statements of households and businesses that already have debt and make it easier for those who wish to accumulate additional debt.

Clearly the preference is for debt to fund the acquisition of long-term productive assets, but even debt that funds current consumption behaviour adds to the economy, albeit only in the short term.

For providers of capital – remember that debt taken on by one market participant must be provided by another – lower interest rates reduce their economic returns, which has typically been offset by risk-seeking behaviour, either in the form of increased duration, increased equity exposure or increased exposure to non-home market assets, with emerging markets being a prime beneficiary.

Everything comes at a cost, including quantitative easing. Characteristically, quantitative easing occurs in the very near, almost immediate term, resulting in an expanded money supply chasing an essentially fixed supply of goods and services, which is inflationary.

Even over time, as goods and services expand toward this new upper bound of money supply, quantitative easing can be inflationary if other countries' central banks don't respond with a similar monetary policy. A greater supply of one country's money, particularly if other markets' central banks don't adopt the same strategy, implies that the value of that newly-expanded currency must fall on a relative basis, which is itself inflationary.

Quantitative easing can, theoretically, go on forever but the limit is reached when the currency being eased has fallen to zero. At some point, therefore, quantitative easing must be withdrawn, and preferably in an orderly fashion. The market term for this is tapering.

Given the extraordinary extent to which quantitative easing has been deployed in response to Covid-19 – currently at a rate of $120bn a month – and the extent of the markets', and global economies' almost slavish reliance on it, an orderly withdrawal has come to include beginning with communicating the intention to withdraw, followed by a reduction in the rate of easing, in turn followed by the withdrawal of the quantitative easing programme itself and, ultimately, arriving at a point at which previously purchased assets are allowed to mature and are not recycled back in the system.

In 2013, South Africa was led by a very different president, 10-year interest rates were somewhere between

6.5% and 7.5%

and the country was running trade deficits.

Photo: Shutterstock

The amount of quantitative easing in the system subsequently gradually falls. The first time this was attempted, by Ben Bernanke, the erstwhile chairman of the Fed, in 2013, markets were perhaps not quite ready to receive the message and a disorderly response ensued. Hence the taper tantrum.

To avoid a repeat of 2013's taper tantrum, this time round the Fed has gone to extraordinary lengths to reassure markets of their tapering intentions. Minutes of the Fed's Open Market Policy Committee meetings have been carefully, even artfully, drafted to ensure that the message is being clearly transmitted, even if these are only distributed a month after the meeting itself. Tapering in the US begins in November with very moderate interest rate increases to follow in 2022. These increases will gradually be stepped up in 2023.

If investors display risk-seeking behaviour in times of compressed interest rates, they must naturally become risk-averse in times of rising interest rates.

In 2013, South Africa was led by a very different president, 10-year interest rates were somewhere between 6.5% and 7.5% and the country was running trade deficits.

This time around, although there have been challenges to his presidency, most notably in the form of Covid-19 and the slow pace of governance reform, SA arguably has a far better president in Cyril Ramaphosa.

Added to this, 10-year interest rates are at a more attractive 9.5% and the country is running trade surpluses, even if these are temporal due to the commodity markets tailwinds and even if the country's economy is smaller than it was two years ago with its resultant negative effect on unemployment.

A well-telegraphed withdrawal of quantitative easing should therefore be more easily borne by SA relative to some, particularly non-commodity-related emerging market peers.

The risks to this outlook include unexpected non-transitory inflation forcing the Fed into an accelerated taper and that quantitative easing has become a worldwide developed market central bank phenomenon, withdrawal of which is not guaranteed to be a contemporaneous, coordinated or harmonious exercise.

As the high levels of global liquidity begin to reduce and emerging markets become vulnerable to capital outflows, the question is whether this time SA can turn the US tapering into an opportunity or whether it will suffer the consequences of a potential taper tantrum? ■

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By Peet Serfontein

ANALYSIS

The fear of missing out

An ETF that gives investors exposure to 'meme' assets and all the popular investments social media offers.

The first time I heard the expression "the fear of missing out", I had to figure out what it actually meant. FOMO sounded more like a new brand of washing powder to me.

Let's think about what FOMO in fact means. The fear of missing out refers to the feeling or perception that someone is having more fun than you are, or is leading a better life or experiencing better things than you are. It involves a deep sense of envy and affects one's self-esteem. This is often aggravated by social media platforms.

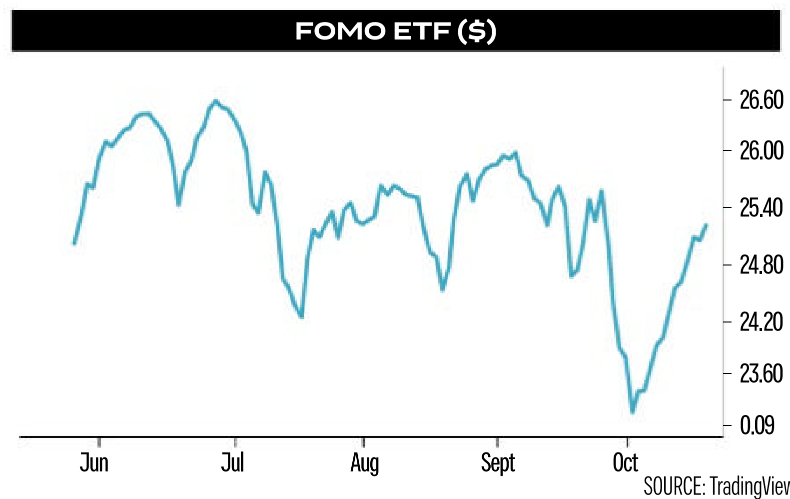
Nowadays, the feeling of "normality" is distorted and it seems as if one person is doing worse than another. Those party photos on Facebook where your friends are having a good time suddenly take on a different meaning, especially when you see they were without you.

The enforced isolation brought about by the Covid-19 pandemic affected the well-being of individuals dramatically, because there were naturally fewer opportunities for socialising, resulting in a greater use of social media platforms to maintain your relationships. And, of course, this only made things worse.

The pandemic therefore also encouraged investors to look further than the traditional market capitalisation-weighted index investments. The "normal" that we were all accustomed to has changed in the financial world too.

FOMO can lead to investors making more risky choices than they would have otherwise. When you see and hear how someone else has made a lot of money in certain shares, you feel sort of obliged to get on the profit bandwagon too – even if the logical part of your brain tells you the biggest run is over already.

The volatility of "meme" shares and cryptocurrencies and the speed with which their prices can change dramatically, make them even more risky than traditional investments, because in less than 30 minutes your portfolio can turn around from a huge loss to a huge profit.



52-week range:	$23.08 - $26.79
Year-to-date return:	-
1-year total return:	-
3-month return:	-0.71%
Expense ratio:	0.91%
Indicated dividend yield:	0%
Assets under management:	$6.92m

SOURCE: BLOOMBERG

Now, an ETF that offers exposure to "meme" assets and all the popular investments social media offers has arrived on the scene. The code of the ETF is based on the "fear of missing out" acronym, FOMO.

This ETF provides exposure to the broad sentiment of traders and investors who air their opinions on social media, such as Reddit, Twitter and Discord. FOMO can therefore shift the exposure to what is important in the markets at the moment. The ETF is rebalanced weekly so that it is in line with market trends and consequently give weight to what is important. FOMO is listed on the New York Arca platform.

What makes this ETF attractive as an investment option?

The sudden rise and clear power of traders have created a new market dynamic, with social media activities now being used by some as a forecasting tool for the movement of shares and other assets. Think of names like GameStop (GME) and AMC Entertainment (AMC).

So, what does the ETF include? Apparently just about everything: shares all around the world, as well as SPACs, other ETFs, derivatives, volatility products and leveraged and reverse ETFs.

So, what does the ETF include? Apparently just about everything: shares all around the world, as well as SPACs, other ETFs, derivatives, volatility products and leveraged and reverse ETFs.

But should you buy?

It all depends on your risk appetite. Do your homework very well to determine which underlying shares are in the ETF.

The graph charts FOMO's short-term (daily) share price. Since the ETF is new (it only started trading in April of this year), there are no long historical price data available yet.

Remember the ETF can shift exposure to everything that is currently trending in the market. In doing so, the ETF uses its own tactical model that evaluates market trends in different asset classes over different time frames.

FOMO also uses multiple models that combine the market's trends and opposite trends. So it is an actively-managed fund. The fund can also short-sell shares.

So, make sure what your goal is with this ETF. It could possibly make the traditional investor gasp for breath. ■

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Peet Serfontein is an independent market analyst and a strategist at Unum Capital.

Photo: Shutterstock

By Simon Brown

INFLATION

The impact of higher inflation

How will the current trajectory of price increases impact on stocks, bonds and cash?

I have written before how the South African Reserve Bank (SARB) governor Lesetja Kganyago has always referred to the inflation target as 4.5%. He never mentions the 3% to 6% range which the bank officially targets and there is a simple reason for this: inflation expectations.

Expectations of consumer price inflation is almost as important as the actual rate. If you think inflation is going to be much higher in the year ahead, you will buy big ticket items now (if the budget allows), rather than waiting a year. This then sends inflation higher as it pulls some of next year's demand into this year and more demand relates to higher prices.

Bringing this to the now, in the US the big debate is whether the current higher-than-5% inflation is transitory or not? My initial expectation was that it was transitory due to the base effect as well as some distortions such as used vehicle prices skyrocketing due to less new vehicles pushing up demand for used vehicles. Of course, the fear of rising used vehicle prices also pulled forward some demand, pushing prices even higher.

But now we've seen six months of higher-than-4% inflation in the US and the reference to "transitory" by the Fed is the same as what our governor is trying to achieve; keeping inflation expectations low. But is the Fed losing the battle?

In the US, the latest cost of living increase for 2022 for US social security recipients has been set at 5.9% – the highest in 40 years. This creates more expectation of further large price increases and is baked into the system as a new high price base has been set.

Add to this US workers no longer keen to fill low-paying menial jobs, especially in the hospitality sector. One way to get around this for businesses is higher wages, which adds to inflation as those staff have more to spend, so more demand and higher inflation.

Another driver of higher inflation right now is the oil price with Brent crude oil back at 2014 and 2018 levels (the latter was a brief peak). Higher oil prices are a large driver of inflation and our local September inflation saw fuel almost 20% higher, adding markedly to the September inflation figure of 5%.

The world has enough oil, but supply chain issues are pushing prices higher, adding to inflation and while oil will likely start to fall in the next few months, how much will it have impacted those inflation expectations?

Usually by now central banks the world over would have started raising interest rates to combat this inflation peak, but we're not seeing that, especially in the US. This is due to concerns about the strength of the economy and its ability to absorb higher inflation.

So, how will this end? I don't expect US inflation anywhere close to the 2% target within the next six months even if we see oil prices lower. That said, I don't think we'll see interest rate increases in the US or the EU any time soon either. So higher inflation is certainly likely with an average 5% not out of the question.

This means higher interest rates (eventually), which is bad for bonds and to a degree also equities. This balancing act from central banks that has included largely ignoring inflation targets is finally getting to the pointy end.

This all said, there is no need to panic. Inflation is not the end of the world, but it is a different world we'll need to adjust to. We'll earn more on cash and businesses can potentially expand margins. But we'll also start seeing more investments in cash which leaves less for the stock market. So, good for cash, average for stocks and bad for bonds. ■

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Photo: Shutterstock

But now we've seen six months of higher-than-4% inflation in the US and the reference to "transitory" by the Fed is the same as what our governor is trying to achieve; keeping inflation expectations low. But is the Fed losing the battle?

By Andrew Bahlmann

POLICY

Budget wish list

Andrew Bahlmann shares what he would like to see in the upcoming Medium-term Budget Policy Statement.

I have several top wishes for the upcoming Medium-term Budget Policy Statement (MTBPS). Any number of local small and medium enterprises (SMEs) are in real distress and would welcome being approached for a merger and acquisition (M&A) deal. On the other hand, many foreign investors are keen to gain a foothold in Africa with a base in South Africa – but are strongly deterred by investment-unfriendly policies. There are several which I would like to see addressed.

At a fundamental level, the incumbent government needs to urgently improve the ease of doing business, or none of their tinkering with tax rates will be significant. The ultimate outcome of the speech must be improved economic prospects.

In the upcoming MTBPS, we hope that finance minister Enoch Godongwana provides a clear and positive direction that creates an investor-friendly environment, which is first and foremost about instilling trust and confidence in SA.

In our work as a cross-border M&A firm, we match local businesses with foreign or other local acquirers. One factor comes up more than any other from private foreign firms as a deterrent to them investing in SA and rather investing elsewhere in Africa. That is broad-based black economic empowerment (B-BBEE). This is a topic in SA which corporate directors are rarely willing to publicly speak about as it appears to be an unmentionable topic.

The B-BBEE way of looking at things is not helpful to local manufacturing. For example, our Chinese manufacturing competitors can be excluded from the B-BBEE score of our mutual customers while local producers cannot.

No matter how many times the benefits of B-BBEE are explained to foreign investors, they continue to see it as an enrichment scheme. The foreign privately-held owner of a local subsidiary is not prepared to sell a stake. It doesn't matter to them if one's colour is black, white, green or blue, they will not sell a stake to anyone. Therefore, the local subsidiary is immediately at a disadvantage in any market throughout the world.

As a result, many privately-owned companies in important industries in Germany and Italy will not come to SA because of B-BBEE restrictions. This must be changed in legislation. Two ideas are:

1. If you are an importer, you get the worst ranking on B-BBEE, a 10, while a local manufacturer can start with an eight and thereafter improve; or
2. In some fashion B-BBEE must be rearranged to benefit rather than penalise foreign companies investing in SA.

Photo:Shutterstock

Cement producers are but one industry unable to compete on international markets due to the high local cost of doing business. The steel industry may be next – but how long before there is a recognition that the entire economy, and especially exporters, need such relief?

A company recently investing a further several hundred million rand in its SA operations was informed by the department of trade, industry and competition that if it wished to improve its B-BBEE rating, it would have to invest a further R150m directly in BEE initiatives.

B-BBEE is but one cost to SA companies that foreign firms do not bear, making the playing field highly unequal. Government's recent decision not to use imported cement on public sector infrastructure projects is a tacit admission that SA companies cannot compete internationally due to a raft of administered costs which are beyond their ability to control.

Cement producers are but one industry unable to compete on international markets due to the high local cost of doing business. The steel industry may be next – but how long before there is a recognition that the entire economy, and especially exporters, need such relief?

SADC is another area that I would like to see policy changes to in the MTBPS. For example, Chinese companies trading in SADC have an unfair advantage over SA companies. This is because these SADC countries have free-trade agreements with China whereby their products enter duty-free while similar products from SA attract a 20% duty. This means there is no benefit to foreign investors from manufacturing in Africa.

I would like to see the government remove trade barriers rather than, as in the case of cement, give protection. SA businesses – as well as many foreign investors – believe in Africa and would like to build their hub in SA. But foreign investors want to build local businesses for sustainability reasons – not to take advantage of government subsidies to move into a special economic zone, for instance.

Finally, there has been much talk of a SADC regional free-trade zone with free movement of people and rapid border transit. In fact, borders continue to be a major bottleneck to regional trade. Intra-African trade remains below 20% – well below that of other regions such as Europe (68%) and Asia (59%). This comes despite years of trade facilitation, the existence of a raft of free-trade areas and customs unions and high growth in many economies.

Our fundamental wish is that the outcome of the MTBPS bolsters the economy, which will in turn create a more conducive environment in which business can operate. ■

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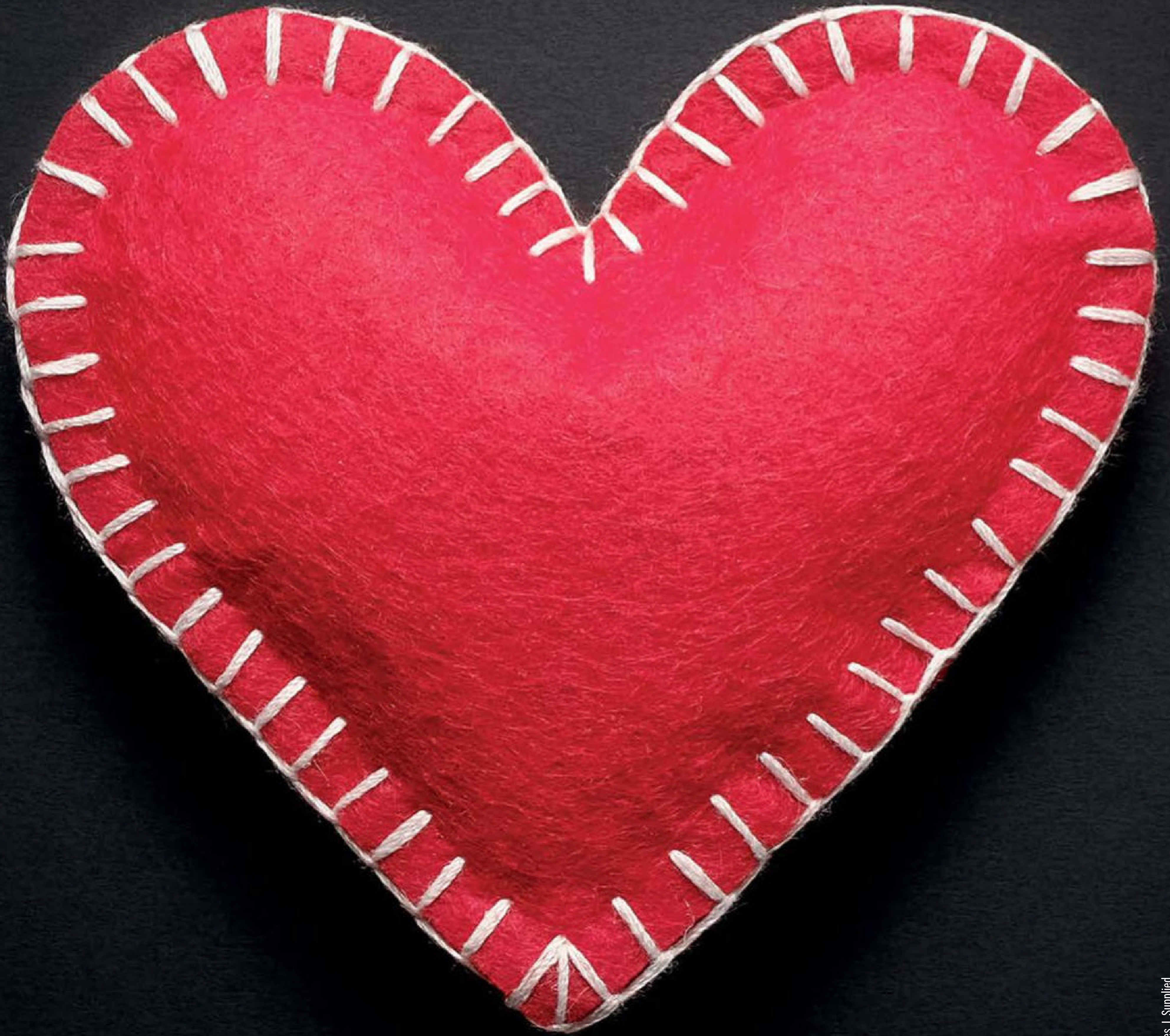
Andrew Bahlmann is the chief executive of Deal Leaders International.



Photos: Gallo/Getty Images | Supplied

THE HEALTH OF SA'S MEDICAL SCHEMES

As the Covid-19 pandemic abates, *finweek* takes a look at the financial performance of some of the largest players.

By Timothy Rangongo

Every now and then, some global phenomenon or event thrusts a sector into the spotlight. It was the oil and gas industry with the first oil crisis in 1973. The local construction, travel, tourism, and hospitality sectors immediately after South Africa won the bid to host the 2010 Fifa World Cup. The finance industry when the global financial crisis of 2007/2008 hit.

In 2020, the world looked to the pharmaceutical, healthcare and insurance sectors for solutions. Both the local and global healthcare systems underwent significant pressures following the outbreak of the novel coronavirus. Medical schemes were caught off-guard with good reason, as just about everything about the ongoing pandemic was, indeed, novel.

Impact on listed medical schemes

Assessing the impact of this virus on overall claims experience, considering the incidence or infection rates, severity levels, treatment costs, duration and levels of premium member benefits that apply, were among key areas of challenge for medical schemes, says Ashleigh Theophanides and Rachaad Omar, directors at Deloitte.

Other challenges included assessing the impact of claims on solvency levels, which are linked to initial assessments and ongoing assessments around increased claims levels. Theophanides and Omar also flagged the challenge of communication to members around costs and benefits related to Covid-19 tests and where this will be funded from. This included the number of tests to be funded (from risk or savings pools, for instance), which medical schemes had to get right for claims containment purposes.

For example, some of the first South Africans diagnosed with Covid-19, were members of the Momentum Metropolitan medical scheme, according to Damian McHugh, chief marketing officer at Momentum Health Solutions. "So, being able to ensure that all the members covered by our solutions were being communicated with and felt supported and adequately covered during the trying times", was among some of the challenges they had to grapple with.

Momentum Metropolitan

Momentum Metropolitan was impacted by all three waves of the Covid-19 pandemic, which had a material negative impact on the group's earnings. Normalised headline earnings declined by 34% to R1bn, including a decline of 93% in operating profit. The decline was largely attributed to the SA life insurance businesses having paid R10.7bn in mortality claims (gross of reinsurance and tax) during the 2021 financial year, compared to an average of R5.6bn per year over the three years preceding the pandemic.

The health (medical schemes) portfolio generated an operating profit of R214m in 2021, up 35% from 2020. Normalised headline earnings increased 37% in 2021, to R213m, mainly driven by an increase in

Damian McHugh
Chief marketing officer at Momentum Health Solutions

administration fee income, growth in Health4Me and public sector membership, lower claims on insurance products and effective expense management.

The group's Health4Me low-income offering provides cover to the employed but uninsured in SA. It grew by between 3 000 and 4 000 new members on average every month during 2021. Total lives under management currently stand at about 2.5m.

"We are the first healthcare business in SA that is labour-aligned. We believe in making quality, affordable healthcare accessible to all those who need it and affordability should not hinder this prospect," says McHugh.

He explains that through the Health4Me solution employer groups (companies and small businesses) can offer cost-effective healthcare cover to their employees earning less than R30 000 per month. Employers can choose the combination of benefits most suitable to their employees' needs and income.

"Through Health4Me we offer healthcare solutions that are usually reserved for individuals who can afford expensive medical aid, through the form of an affordable health insurance solution."

The increase in overall membership was a good result given the increased competition for corporate and mining members and the current strained economic environment, according to the group.

Momentum Metropolitan declared a final ordinary dividend of 15c per ordinary share in 2021. Together with the interim ordinary dividend of 25c per ordinary share that was declared in March 2021, the total dividend for the 12 months ended 30 June 2021 is 40c per ordinary share and represents a dividend cover of 1.7 times normalised headline earnings. The payout is slightly below the target dividend cover range of two to three times normalised headline earnings.

AfroCentric

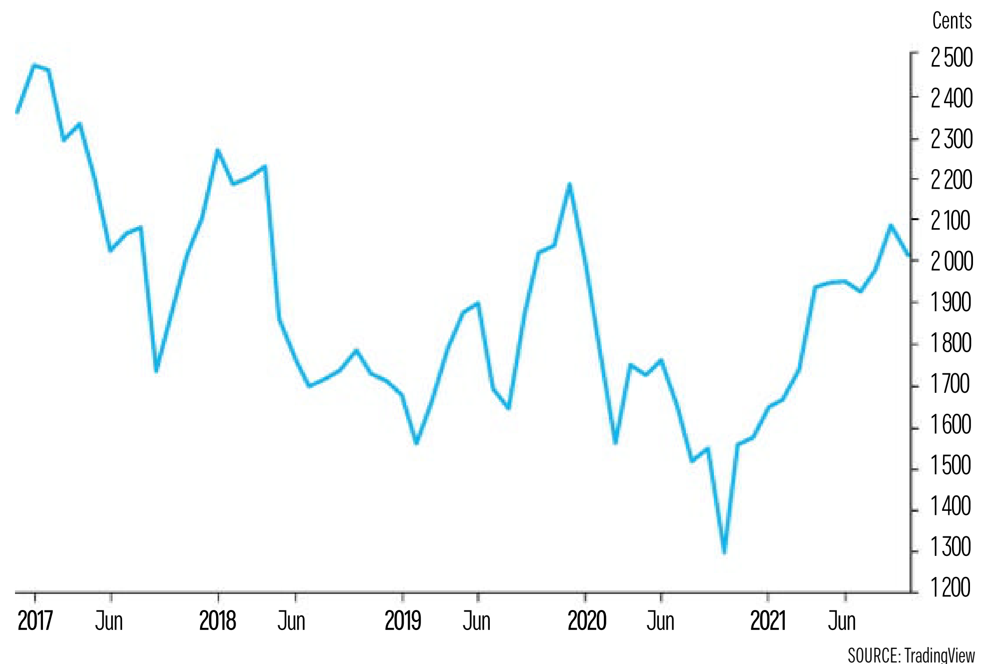
With 3.8m lives under management, the AfroCentric group holds a market share of 39% through a wide range of businesses in medical aid administration, risk management, technology and pharmaceuticals. AfroCentric are the owners of Medscheme, which administers Bonitas, Fedhealth, and Polmed, among others. They are also the largest distributor of chronic medicine to government hospitals and clinics.

The group is focused on acquiring, developing and integrating businesses that enable the company to optimise the healthcare value chain comprising primary care, medicine, specialist care and hospitalisation solutions.

Despite the current circumstances, AfroCentric made great progress towards its strategic plans for growth and expansion, says Ahmed Banderker, CEO of AfroCentric.

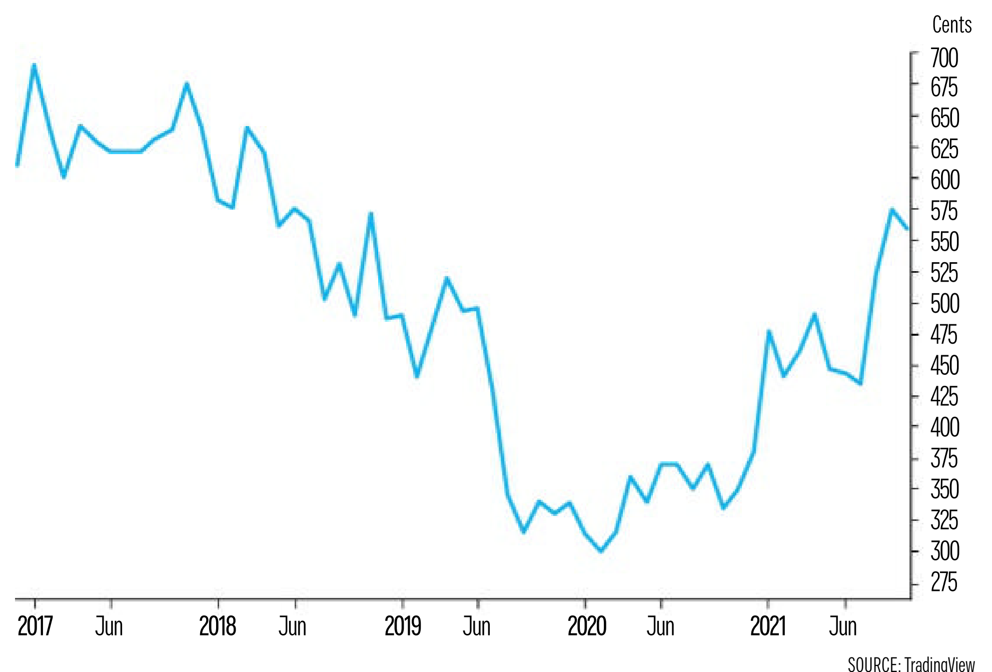
"Our financial results for the most recent financial

GRAPH 1: MOMENTUM METROPOLITAN



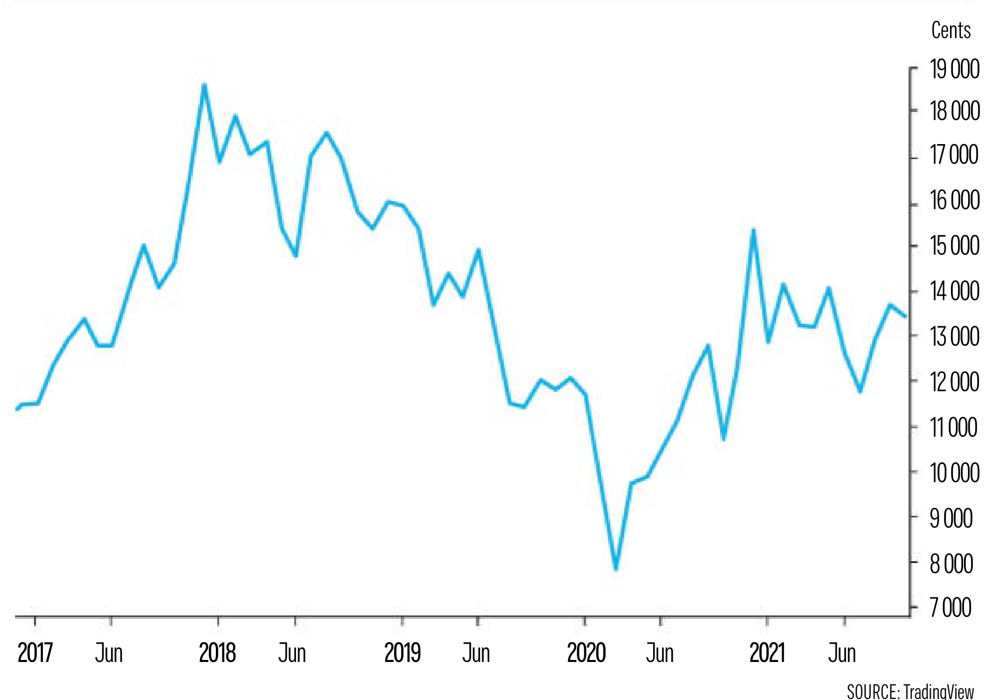
SOURCE: TradingView

GRAPH 2: AFROCENTRIC



SOURCE: TradingView

GRAPH 3: DISCOVERY



SOURCE: TradingView

Analysis: SA's listed medical schemes

Warwick Bam
Head of research at
Avior Capital Markets

The common thread shared amongst the three listed health insurance companies, AfroCentric, Momentum Metropolitan and Discovery, is that of a favourable financial performance, despite the negative impact of the pandemic.

Medical schemes, listed and unlisted, benefitted from reduced elective procedures and a decline in general healthcare utilisation in 2020, says **Warwick Bam, head of research at Avior Capital Markets.**

Nevertheless, he cautions that the larger concern in the industry is whether the reduction in preventative consultations and check-ups will result in more severe forms of chronic conditions, cancer or heart disease in future periods.

As was witnessed, the pandemic, most especially in South Africa, exposed the lack of capacity of most medical systems and led to shortages of medical supplies, lack of support for medical staff and delayed treatment of emergencies and chronic diseases.

While the financial figures make for a compelling investment case, there is some investment risk worth considering. Medical schemes can benefit from increased investment in healthcare systems and services by the scheme administrator, says Bam.

"However, the policy uncertainty relating to the National Health Insurance (NHI) has reduced the appetite of administrators to reinvest into more effective solutions as regulatory changes could be imminent. The initial NHI framework implies that medical schemes may not exist in their current form when NHI is fully implemented." ■

year (year ended June 2021, at the height of the pandemic so far), confirmed the group's deliberate diversification strategy. This was particularly evident when measuring the impact of our pharma cluster, which is now productively integrated as a principal unit of group operations within AfroCentric."

The group generated a turnover of R8bn in its 2021 financial year, 53% of which was generated by the pharmaceutical cluster, representing 30% of operating profit. Operating profit increased by 17% to R1bn in 2021. Revenue for the medical schemes cluster increased by R600m to R3.7bn and operating profit increased by R186m to R790m. Overall group normalised headline earnings per share rose to 61.56c from 56.04c in the previous year. Notably, cash reserves increased to R198m from R177m in 2020.

Additionally, Banderker tells *finweek* the company won new contracts, that scheme membership was stable, and that they were more efficient in how they served their members. Though the Sasolmed contract was lost, Medscheme was awarded the GEMS managed care contract while the Polmed contract was renewed, for instance. "This, together with increased volumes in Pharmacy Direct and Activo Health, were also notable contributors," he says.

The group optimised the healthcare value chain by leveraging their market presence and size to reduce costs for clients and their scheme members. Membership on larger schemes between 2016 and 2021 grew by 3%. R2.7bn in claims costs were saved for schemes in the 2021 financial year.

Similar to their counterpart Momentum Metropolitan, AfroCentric is eager about the development of affordable health insurance solutions. Banderker says the emergence of lower-cost healthcare options that offer more flexible and economical solutions for the majority of uninsured South Africans will be crucial for growth within the sector.

Ahmed Banderker
CEO of AfroCentric

Discovery managed to deliver a strong operating performance in the 2021 financial year despite the material impact of the pandemic, except for its life division, in which operating profit dropped by

55%

to R1.3bn due to the negative Covid-19-related mortality impact.

"We can already see this with Sanlam Health Solutions," Banderker says. "Of course, the irony is that the existence of Covid-19 does drive growth within some areas of the health sector too, although it may be that this pandemic only opened people's eyes to the myriad of health risks that are out there, as well as the high cost of quality healthcare."

After a series of acquisitions in recent years, Banderker says AfroCentric is not actively looking for new ones, "but we know that opportunities may arise due to the current tough operating environment."

Discovery

Discovery managed to deliver a strong operating performance in the 2021 financial year despite the material impact of the pandemic, except for its life division, in which operating profit dropped by 55% to R1.3bn due to the negative Covid-19-related mortality impact. Despite this challenging economic landscape, Discovery's medical scheme, which has about 3.3m beneficiaries, was able to grow market share by 1.2 percentage points in 2020.

The group's normalised profit from operations increased 7% to R6.4bn. Normalised headline earnings decreased by 9% to R3.4bn. Discovery Health's total revenue increased by 5% to R8.8bn, while normalised operating profit increased by 7% to R3.4bn, demonstrating continued operational efficiency gains.

Total new business annualised premium income increased by 6% to R6.4bn, despite the challenging economic climate.

Non-medical scheme retail products (Discovery Primary Care, Gap Cover and Healthy Company) grew by 29%, and now account for around 193 000 lives under Discovery Health's administration. New business levels showed signs of recovery with net growth exceeding 20 000 lives for the second half of the financial year. ■

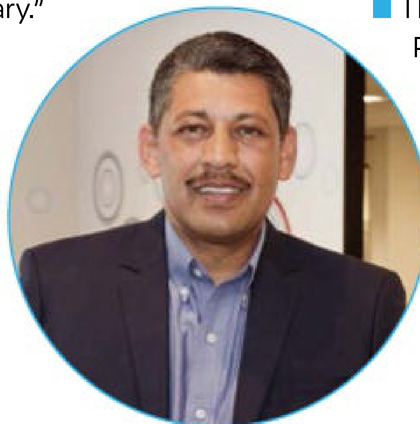
Photos: Shutterstock | Supplied

Redefining healthcare in 2022

Together with a new product line, Bonitas Medical Fund also has a renewed focus on preventative care, virtual consultations and plans which enable more South Africans to have access to affordable, quality healthcare.

The 2022 product line-up from Bonitas Medical Fund includes the use of reserves to keep contribution increases lower, a Benefit Booster to stretch day-to-day benefits, a revised international travel benefit with payment for Covid-19 tests and a contribution towards quarantine costs.

Lee Callakoppen, principal officer of Bonitas, said: "The scheme performed well in a volatile market, attributable to proactive risk management and prudent board decisions. A positive offshoot of the pandemic was an increased appreciation of the importance of medical aid cover, that resulted in better-than-expected member retention and a 2.3% membership growth since January."



Lee Callakoppen
Principal Officer of Bonitas

Contribution changes

"We have taken a strategic decision to utilise approximately R600m of reserves to ensure that 82% of members receive a below-CPI contribution increase for the 2022 benefit year. The innovative Benefit Booster equates to an increase in day-to-day benefits for members ranging from 16% to 32%, depending on the member's plan. We believe it is the largest increase in benefits ever seen in the medical aid industry as the scheme is providing members with R446m worth of additional day-to-day benefits that can be used to fund acute medication, specialist consultations or even non-surgical procedures."

The average weighted contribution increase across all plans is 4.8% with the BonStart premium decreasing by 7.9%, which can be attributed to the low cost versus benefits ratio and the younger membership profile on the plan. The decrease in contribution is an industry first – as was the decision to offer BonFit Select at a 0% increase in 2021.

Plans

There will be a total of 15 plans for the year ahead comprising traditional, savings, hospital, edge (virtual), network and income-based plans, each carefully crafted with a specific mix of benefits to appeal to various target markets.

Increases range from -7.9% to 6.5%. Bonitas has opted to increase its options which are currently in a growth phase, BonSave, BonFit and BonEssential, by only 3.6%.

Sustainability and affordability

The Council for Medical Schemes (CMS) recommended increases in line with CPI of 4.2% with the caveat that financial stability and sustainability of schemes must remain a priority. We feel that the use of part of our reserves to cushion members against increasing costs is an appropriate strategy.

Top-line changes

- An additional virtual plan, BonStart Plus, aimed at attracting a new profile of member through this diversified distribution channel and attractive pricing. Virtual care has proven a sound and reliable solution, locally and internationally, for improving access to quality healthcare and is now offered across all 15 Bonitas plans.
- The introduction of a new Oncology Management Programme that utilises a partnership between Medscheme Managed Healthcare and the South African Oncology Consortium (SAOC), to improve the coordination of care of oncology patients.
- Offering the back and neck programme – which has a 93% success rate – on a digital platform. The eDBC app is a technology-driven channel offering digital coaching solutions and home-based care to help improve pain and mobility. It includes a self-assessment, baseline progress checks and outcomes evaluation.
- Enhancements on the existing international travel benefit which includes a Covid-19 PCR test pre- and post-travel as well as a contribution of up to R1 000 per day for enforced quarantine.
- A new personalised wellness and lifestyle programme, AMP, is now available on the new Bonitas app. It allows members to access their health information. Biometric data, claims and wearable data are used to regularly update their health score while an avatar nudges them on best steps to boost their health. In addition, through a partnership with Avo by Nedbank, members can do life differently with great deals across groceries, tech, professional home services, takeaways, prepaids and so much more.

The way forward

We have two interdependent priorities as a scheme: To make quality healthcare more accessible and affordable, while ensuring the financial sustainability and longevity of the scheme. Our members remain at the heart of our interactions and we actively strive to find ways to amplify value and drive business development.

Our core focus is on three key principles – namely care, capability and reliability – which encompasses not only providing our members with the tools and preventative measures to guard against chronic conditions, but to help us redefine healthcare for a new world. ■

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Medical Aid for South Africa

Bonitas

The N-word

The National Health Insurance (NHI) Bill has come about to address universal access to healthcare in South Africa. To support this aim, the bill paves the way for establishing an NHI Fund, which will purchase services from accredited public and private healthcare providers. Uncertainty surrounding implementation of the NHI is real and could impact investor perception.

Although AfroCentric believes that access to healthcare is an issue of national importance, its CEO, Ahmed Banderker, says they are worried about the uncertainty created by the bill in its current form, together with the unfavourable quality and management of public health as it stands.

"The rationale of the upcoming NHI is a no-brainer. Having medical coverage makes people healthier and enables them to get the care they need when they get sick or injured. However, when the conversation on the NHI bill remains vague and short on implementation, this produces anxiety, worries and sometimes hostile and combative responses."

He says NHI cannot be implemented by the government or the private sector alone and that it will need participation of both, but more important, of the people.

"We believe that it is possible for a framework to be provided that could allow for the introduction of benefit options that could potentially increase scheme coverage to a third of the population.

"Simultaneously, the national fund could focus on the indigent, infrastructure development and resource planning and we could then align those to have a national system that provides quality care to the country."

Momentum Metropolitan would like to influence the NHI debate by supporting a multi-funder system, where both the private and public sectors execute to increase access to care for all South Africans at affordable levels. "Our market-leading low-income solution, Health4Me, and our good union relationships put us in a position to win."

Discovery is supportive of an NHI system that represents structural change to the healthcare system that leads to better access and quality of healthcare for all South Africans, however, their view is that limiting the role of medical schemes would be counterproductive to the NHI because there are simply insufficient resources to meet the needs of all South Africans.

"Limiting people from purchasing the medical scheme coverage they seek will seriously curtail the healthcare they expect and demand."

Discovery says it poses the risks of eroding sentiment, and of denuding the country of critically needed skills, and is impacting negatively on local and international investor sentiment and business confidence. ■

Relief for medical scheme members

The unexpected surplus generated by medical schemes in the 2020/21 financial year enabled schemes to defer contribution increases or levy reduced price hikes for 2021.

"We announced the deferment of contributions to September 2022. In addition our September 2022 increase will only be 6%, which results in an effective increase of 2%, thus giving back over R200m in value back to our members," says Damian McHugh, executive at Momentum Health Solutions.

"We have furthermore introduced other benefit enhancements which bring additional value for our clients; such as no increase in co-payments and additional maternity cover ranging from additional health checks to monitor mother and child's health throughout the pregnancy, to online support and guidance sessions from trained professionals that afford expectant mothers the peace of mind to fully focus on their wellbeing post-delivery."

Dr Ryan Noach
CEO of Discovery Health

The Discovery Health Medical Scheme (DHMS) also implemented a delayed contribution increase strategy for 2021. DHMS announced that it would, again, delay the implementation of its annual contribution increases.

After delaying the annual contribution increases for 2021 by six months to 1 July 2021, the Scheme announced that the annual contribution increases of 7.9% for 2022 would only be implemented from 1 May 2022, providing contribution relief to the value of more than R4bn to its members.

"With lingering Covid-19 economic effects, the deferred contribution increase provides much-needed contribution relief for members," says **Dr Ryan Noach, CEO of Discovery Health.**

"The deferral of the increases for 2021 and 2022 means that members will have an actual effective increase in total contributions of 2.9% in 2021 and 5.3% during 2022. At the same time, the scheme's contributions are keeping pace with the medical inflation anticipated once Covid-19 becomes endemic in the healthcare system and avoids the need for increase 'shocks' at that time."

As to whether the medical schemes will feel the pinch of deferred increments, Warwick Bam, head of research at Avior Capital Markets, says there is uncertainty about whether the industry will experience a higher frequency of more advanced cancers in future. "The cost of treating a stage-4 cancer is multiples of a stage-1 cancer. Capacity restrictions for elective surgeries will limit the effect of pent-up demand," he explains.

"However, the surplus generated in 2020 should comfortably offset the lower premium increases for 2021. Lower interest rates will reduce the return on invested assets for 2021, but the utilisation of healthcare remains the largest consideration for the sustainability of lower premium increases." ■

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BAD NEWS

Medical aid contributions will **increase in January.**

GOOD NEWS

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Fedhealth members will enjoy a **contribution increase holiday until 1 April 2022.**

In 2022, Fedhealth will put **R105 million of Scheme reserves towards contributions** so that members can pay 2021 rates for the first three months, but already enjoy 2022 benefits from 1 January.

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on the money

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>> **Motoring:** The Haval Jolion and the MINI Cooper convertible *p.42*
>> **Personal Finance:** When your personal banker is a robot *p.44*

CEO INTERVIEW

By Wouter Kriel

Conviction is key

Sandy Rheeder plays a critical role in Mukuru's mission to open up financial services to the emerging consumer market in Africa through tailor-made technology solutions and platforms.

Sandy Rheeder
Chief information officer at Mukuru

With her skills of deconstructing complex IT challenges into its basic component parts, together with her personal journey with the Mukuru founders, Sandy Rheeder finds herself in the position of chief information officer (CIO) at Mukuru.

Mukuru is a fintech company that provides financial services to the emerging consumer in Africa. The company started out by facilitating money flows for traditionally unbanked individuals into and across the continent's borders. Today Mukuru's orange booths are part of the landscape in several African nations, and it is providing additional retail services such as Mukuru Groceries, Funeral Cover and the Mukuru Money Card.

"Although I officially joined Mukuru five years ago as business architect, I was involved right from the start as my then future husband and one of the founders of Mukuru studied at Rhodes University at the same time I was there," Rheeder says.

"Mukuru's founders were living in the UK in the early 2000s when Zimbabwe was going through a very difficult period. Fuel basically dried up, and the university group of friends were trying to develop a system of sending fuel vouchers from the UK to family back home. It was practically impossible to send money back home, and this was the problem that gave birth to Mukuru in 2004," Rheeder says.

After completing her degree at Rhodes, Rheeder went on to work for 16 years as an IT consultant. She says her ability to take complex problems and break them down into its component parts, and then understand how they interact, were honed in those years. "IT systems tend to snowball into complexity as you get them into code. If you can find the simplest solution at the design level, chances are good your technology solution will be manageable.

"These skills are very useful in my current work

as CIO at Mukuru. Because we are helping mostly unbanked individuals to transfer relatively small amounts of money, our main competition is the huge informal market, where someone gets on a bus with cash to be delivered. This system works on trust, and we can only succeed if we can create the same level of trust with our clients. Simple, robust, and secure systems that are presented with conviction is the only way to compete in this market," Rheeder says.

In late 2017, the same year that Rheeder joined Mukuru, Zimbabwe's economy re-entered a phase of chaotic inflation, resulting in a shortage of cash. "With the banks not having dollars, our traditional payout mechanisms stopped functioning. We then came up with the Orange Booth concept, where we managed to build the technology, put in place all the systems and people in order for clients to collect cash through this booth network. Due to the pressing need at that time, we managed to do all of this in just four-and-half months," she says.

It was a bold move, but the right one. Street corner booths are well-accepted in many African countries, and their services took off after that, Rheeder says.

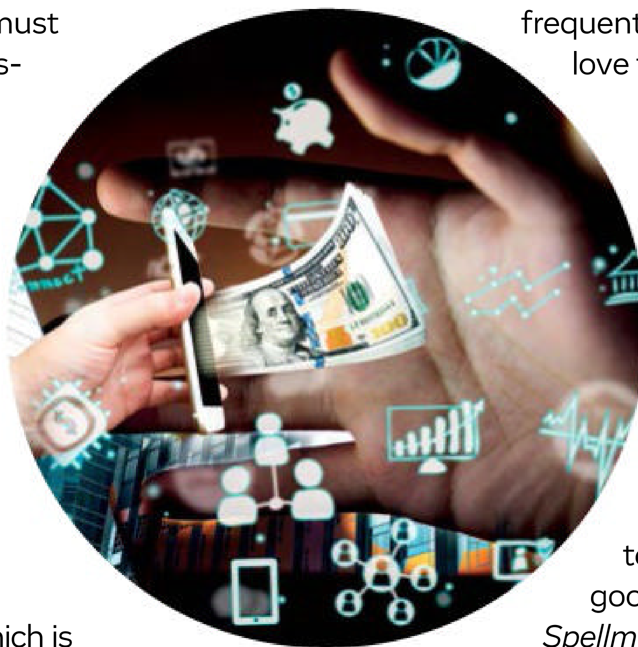
The CIO position requires oversight over all of the different Mukuru IT systems and platforms, all of which are, and have been, developed in-house over the past 17 years. The financial platforms must be secure and robust to deal with any cross-border issues, so there are constantly new challenges to manage.

To say that the past five years were hectic would be an understatement. "We have grown exponentially from providing services in 25 African corridors, to 200 corridors now. This also coincided with an expanded service offering in most of these markets," Rheeder says.

In 2017, Mukuru launched its Orange Booths in Zimbabwe. 2018 saw salary payments enabled on the Mukuru Card in South Africa. 2019 saw the introduction of WhatsApp as a platform for transactions, which is now responsible for 35% of all transactions managed through Mukuru. 2020 saw the link being established to China to facilitate remittance transfers from Chinese nationals working in Africa to family back home.

"And then there was Covid-19, which effectively stopped the informal money market as travel was suspended. Although March and April 2019 were terrible months for the business, since then the trust in the Mukuru brand has meant more business and growth, as customers move to formal options for cross-border flows of money," Rheeder says.

"Simple, robust, and secure systems that are presented with conviction is the only way to compete in this market."



The Mukuru Orange Booths have since been rolled out to Malawi, Botswana, Lesotho, Mozambique, and Zambia, and with the developments in China and other Eastern countries such as India, Pakistan and Bangladesh, the company is now a pan-African financial services platform company, Rheeder says.

All of these new developments and growth are dependent on Mukuru's ability to provide systems and technology that can support it. "At the core of everything we do is the belief that we have to execute with conviction, or not do it at all."

Rheeder says she manages the stress associated with the CIO role through a balanced work-life approach. "With so much going on, it is easy to become overwhelmed. I tend to fall back on my mantra of simplifying things to a manageable level. Instead of spinning, stop and calmly identify the core of a problem. Once you have done that, you can start to find potential solutions.

"Family is incredibly important to me. My two boys are in primary school, and I enjoy all the energy and excitement that goes with the package. As a family we love traveling; our last trip was to Namibia. Due to my husband's connections to Zimbabwe, we frequently go there, and I have developed a special love for the country and its people.

"I get a real sense of satisfaction from seeing how we can open the door to formal financial services for people who have been previously excluded. Our experience has shown that once such a new client uses Mukuru three times, they stay in the system for life, and it opens a new world of financial possibilities for them," she says.

"I read a lot for my work, as it is essential for me to stay on top of new developments in the world of information technology. I also read for relaxation. I love a good novel. Currently on my bedside table is *The Spellman Files* by Lisa Lutz," Rheeder says.

Being a woman in IT has never made Rheeder felt exposed to any glass ceilings or gender discrimination. "I suppose that is partly due to the amazing people I have worked with in the past and lately the team at Mukuru, but I also believe that the information technology sector at large holds great opportunities for any young girl who has an interest in and a fascination with this exciting environment," Rheeder says. ■

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Photos: Shutterstock | Supplied

By Jacques Claassen

Lending a helping hand during tough times

Pioneering earned wage access in South Africa turned out to be a challenging business.

Earned wage access (EWA), defined as providing employees with "early access to already earned wages", came to South Africa just before the Covid-19 lockdowns commenced.

Having been in the international fintech segment for almost a decade, Deon Nobrega decided the time was ripe to emulate the EWA trend in SA. Nobrega approached his former roommate from university, none other than retired Springbok rugby player Bryan Habana, as well as two of his former banking and IT colleagues, Willem van Zyl and Gerry Potgieter, to become founding partners of Paymenow.

In 2019, Nobrega and Habana flew to London for talks with Hastee Pay and Wagestream to explore the possibility of collaboration. However, they soon realised they couldn't simply duplicate the EWA models from a developed market in a developing country such as SA where millions of people are entangled in a vicious lending and debt cycle.

According to Nobrega, SA has 25m active credit customers of whom more than 10m are in arrears. Building an app or product that would be good for corporate SA was their vision and became their mantra, while their declaration of intent was that Paymenow should be a scalable and fully automated business.

In the back from the left: Gerry Potgieter and Deon Nobrega **In front from the left:** Willem van Zyl and Bryan Habana

"We decided to do financial literacy training among participating employees through gamification," says Nobrega. Therefore, they devised a points system that encourages responsible money management and savings. It comes with advantages such as reduced fees and access to a bigger percentage of already earned wages. However, EWA normally has a limit of 25%.

"Despite our dream of a new product for SA, we still needed to establish a business. The only way any fintech company can work is to become part of an ecosystem of collaboration. Paymenow needed market validation. We started talking to every man and his dog, initially approaching friends, family and our networks to pilot our minimum viable product.

"You only get an opportunity of 30 to 45 minutes to convince a potential client," says Nobrega. "Following a business-to-business model, we get companies on board. Whenever their employees make use of our services, the employees pay transaction fees to us. However, we first have to fund the transactions upfront before getting paid at the end of the month. In educating the SA market about EWA, Bryan (Habana) has been an incredible trump card for our team."

Fortunately, Catalyst Fund, an international accelerator that supports inclusive tech innovators in emerging markets, heard about Paymenow. Catalyst slipped Paymenow into its seventh cohort which provided them with £80 000 (almost R1.7m at the time) in grant capital as well as venture building support for six months. The support included marketing, design and business elements, which Paymenow could not manage on its own at that stage.

Despite this proverbial "manna from heaven", Paymenow had to run it lean, which entailed bootstrapping for the founding members during the first six months.

To get an angel investor, Paymenow strategically networked with leading mobile content services provider VIAMedia, a subsidiary of DNI Invest. After six months of completing a due diligence process, the latter was ready to take Paymenow on board. Subsequently, Paymenow outsourced its financial management, reconciliations as well as legal functions to DNI.

Given his background in banking, Nobrega also acquired the services of MWR InfoSecurity, a cyber-security consultancy which is now owned by Finland-based F-Secure. Subsequently, Paymenow has passed two of F-Secure's penetration tests – validating a bank-grade technology stack.

"Although SA has a high unemployment rate, this is our launch pad. We are proud to have rolled out to Bidvest Services, one of the largest employers in SA. When we succeeded to get Smollan on board after a hotly contested competitor analysis, we gained good traction. It really was our king maker." Paymenow already has plans to expand beyond SA's borders during 2022.

"It's a volume game," says Nobrega. "We also sell airtime, data and electricity. Because we partnered with Shoprite, Pick n Pay and Boxer, we also enable people to buy groceries by using Paymenow. We aim to provide the best service at the cheapest rates."

Paymenow has already managed to break even. However, Nobrega regards operational break-even as relative. "As you continue scaling, the business costs increase again."

Due to the Covid-19 lockdowns and remote working, establishing Paymenow has been especially challenging. Apart from expertise, Paymenow hired its personnel based on their attitude. "To win in the marketplace, you first have to win in the workplace. We all have to roll up our sleeves with the willingness to help out in various fields wherever it might be necessary. We all have to be agile." ■

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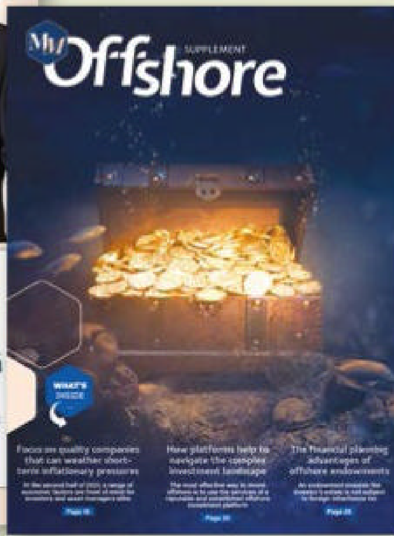

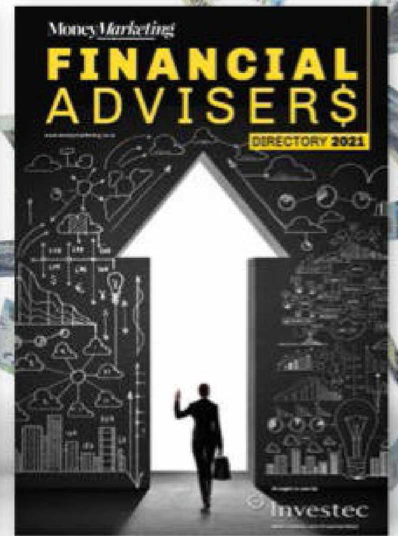

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By Glenda Williams

Big compact, big value

Handsome, with a hefty level of standard specification, the roomy Haval Jolion compact crossover is a great value proposition.

The stylishly appointed and roomy Haval Jolion delivers a refined ride.

The strength of the new passenger car market is rooted in the SUV/Crossover segment as well as price point. Chinese motor manufacturer Haval, who opened its doors in South Africa in 2017, have ticked both these boxes and more with the car that has succeeded the H2, the Jolion, Haval's compact crossover.

Offered in five variants, two of them manual, the top-of-the-range Haval Jolion 1.5-litre Super Luxury tested by *finweek* is well-priced with a swathe of standard features at its price point.

Good looks

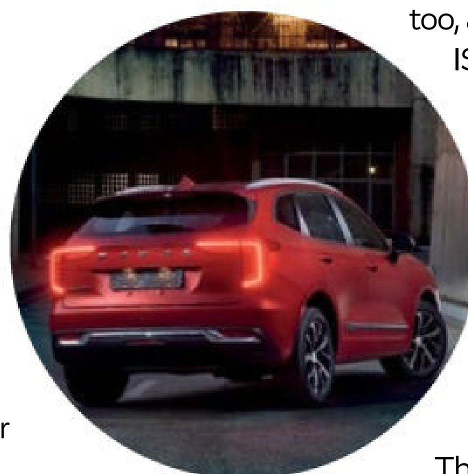
Adorned in vivid green, the Jolion test car drew admiring glances. It's a handsome car, the overall look marked by a sporty, contemporary design. The facia is dominated by a large chrome mesh grille, chrome-finished diffuser and side garnish, and split-design daytime running lights.

As with the headlights, the rear LED tail lamps extend into the styling lines, lending an elegant silhouette and refining the rear. Chunky 18-inch takkies and a wide body stance enhance the sporty look.

Not too shabby within

The interior delivers super-sized proportions, the space more in line with what one would expect in a mid to large SUV. Boot space too is good. Space is not its only stand-out quality. This car comes with a raft of features and is packed with technology.

There's an unexpected level of sophistication and build quality. The modern cabin is stylishly appointed and comfortable with quality materials and stitching on items like the leather steering wheel, leather seats and dashboard.



In place of a traditional gear lever is a rotary gear selector and the rectangular infotainment touchscreen sits high on the dash. But the infotainment system is not that intuitive and the software setup can be difficult to wrap one's head around.

So, too, is the quirky dashboard setup; not as driver-focused as it could be. The angle, biased somewhat towards the passenger, seemed odd. The penny only dropped that this was likely the result of a left-hand-drive to a right-hand-drive conversion, by chance. It was the tyre pressure decal located on the passenger side B pillar rather than the driver's side, that gave the game away.

Still, the Jolion's many features, which include a host of driver aids, USB ports both front and rear, wireless smartphone charging, head-up display, and panoramic sunroof fast dull any of those initial irritants.

There are many safety features too, among them six airbags, ISOFIX, electronic stability and traction control, anti-roll, secondary collision mitigation, tyre pressure monitoring, and park sensors with superb camera quality.

Refined road performance

The front-wheel-drive Jolion is the first to feature Haval's new L.E.M.O.N platform that allows more strength at a lower weight. And weighing less enhances performance and economy.

The 1.5-litre 4-cylinder turbo petrol engine is paired with a 7-speed dual-clutch automatic gearbox and delivers a smooth and keen performance, although it is somewhat less perky at low revs on hilly parts. Using the paddle shifters and sports mode (one of its four drive modes) remedies that somewhat.

The ride is surprisingly refined as is the handling. Steering is true, it feels stable

TESTED:

Haval Jolion 1.5-litre Super Luxury

Engine: 1.5-litre 4-cylinder turbocharged petrol
Power/Torque: 105kW/210Nm
Transmission: 7-speed dual-clutch automatic
0-100km/h: ≤11.2 secs
Top speed: 185km/h
Fuel (claimed combined): 7.5 litres/100km
CO_2 emissions: 186g/km
Fuel tank: 55 litres
Ground clearance: ≥132mm full load, ≥163mm no load
Boot space: 337 litres (expandable to 1 133 litres)
Safety: Six airbags
Warranty/service plan: 5yr/100 000km; 5yr/60 000km
Price: R398 900

and connected to the road and handles blemishes well, in large part I believe due to a pretty good suspension. It was an agreeable ride on gravel, too, and at no point did it feel like the car was getting away from me.

This compact SUV acquits itself extremely well on the road. It's a comfortable commuter in the city and suburbs and an effortless highway cruiser. The Jolion delivered an impressive and polished performance overall, posting fuel consumption of 8.8 litres/100km.

It's just the technology that requires some tweaking. The lane keeping aid is overly sensitive, the adaptive cruise control can be somewhat hesitant, and some of the warnings – one of them an overspeed warning when you are travelling below the speed limit – are a bit arbitrary.

Gripes aside, it's a great buy with a boatload of features that prevail over niggles.

The Haval Jolion ticks plenty of boxes and then some. I think this car has the potential to elevate the Chinese brand. For those shopping in the Jolion's price bracket, this car should be on their radar. ■

Photos: Supplied

Captivating little convertible

Experiencing the thrill of open-top driving in the MINI Cooper convertible.

The sporty, sure-footed and engaging little premium convertible responds crisply and predictably to inputs.

When you get the design spot-on right from the get-go and continue to tap into emotion, there really is little need for change. Just a tweak here and there will do to an iconic, different design, as *finweek* discovered at the launch of the updated MINI range.

The latest models have been decluttered and dechromed, the chrome bits replaced with more black detail. There's more focus on the hexagonal grille, its round hallmark headlights, and new vertical air inlets. The rear apron has been redesigned, new light-alloy wheels have emerged, and LED Union Jack-designed rear lights are now standard. Typical MINI proportions and short overhangs continue to define the silhouette. It is a fresher, more modern design. But it is unmistakably MINI.

MINI's unique trademark round instrumentation, toggle switches, redesigned multifunction leather steering wheel and low-slung, figure-hugging seats adorn the trendy cockpit. The operating system is now more advanced with new graphics display and more vehicle functions and connectivity options, and driver and safety functions like active cruise control and lane departure warnings have been added.

The memory of the previous generation test was still fresh as I stepped into the updated MINI Cooper Convertible. The latest iteration evoked that same thrill and emotion that only an open-air driving experience can deliver.

Road presence

There is something about driving a small car that makes you feel more connected to the car and everything around you. And with the roof unshackled there's an added sense of liberation. The MINI Cooper Convertible, the more affordable of the convertible options, sports a nippy 1.5-litre, 3-cylinder engine mated to a slick 7-speed Steptronic transmission.

The underlying go-kart feel is discernible; low ride height, sporty suspension, wheel position and light weight defines that hallmark feeling. It is sure-footed and corners like it's on rails.

An adaptive suspension provides a nice balance between sportiness and ride comfort with a distinct improvement in the comfort factor over the previous model. Most impressive about driving with the roof up was the lack of rattle and good level of noise insulation. And how quickly (around 10 seconds) it takes to open or close the power-folding soft-top. But seats four adults? It's a stretch.

This stylish compact convertible with its iconic design language taps into your emotions. It is a true driver's car; sporty, engaging, agile, uber fun to drive, and a doddle to manoeuvre in tight spaces. And it's a true head-turner. ■

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TESTED:

MINI Cooper Convertible

Engine: 3-cylinder 1.5-litre
Power/Torque: 100kW/220Nm
Transmission: 7-speed automatic
0-100km/h: 8.7secs. **Top speed:** 205km/h
Fuel (claimed combined): 6-litres/100km
Fuel tank: 40-litres
Safety: Driver, passenger, head and side airbags
Boot space: 160-litres
CO_2 emissions: 137g/km
Warranty/Maintenance: 5-years/100 000km
Price: R563 000

By Johan Steyn

My personal banker is a robot

The smart technology era is changing how clients interact with their banks. A new generation of banking clients, growing up in a digital world, regard banking relationships differently. Will relationship bankers be able to adapt fast enough?

"Alexa, how should I invest my money?" The 20-year-old recently started her first job. Tracy, fresh from graduating from university, is looking for financial advice. And not just the typical one-size-fits-all kind of advice. She is looking for information tailored to her personal life and financial profile. She is looking for instant feedback in the digital channel of her choice.

Her father urged her to visit the local bank branch. His relationship banker has been a friend for many years. This is what relationship management conjures up: one-on-one meetings between a relationship banker and a client, offering advice on financial matters such as cash management or other requirements. When it comes to relationship management, the high-touch strategy has long been regarded as relying heavily on the abilities and relationship skills of the individual banker.

However, as clients become more demanding and self-reliant, and banks seek higher levels of productivity, these kinds of relationships are fading. Therefore our story starts with the young lady speaking with her smart speaker. She and her friends are used to interacting with smart technology. Their idea of personal relationships is different from that of their parents. Comfortable living in the virtual world of social media, learning from a young age to use technology, they do not always seek human interaction.

Photo: Shutterstock

Digitally connected banking

Client relationships, which relationship bankers have spent decades cultivating, are what they live and die by. The trend towards more digitally connected banking is unavoidable when it comes to loans, deposits, or other services in the banking industry. Retail and business behaviours are driving this change, and banks are being compelled to move at a rate they are not used to.

In the digital age, relationships will not disappear; rather, they will undergo changes due to technology. As future generations become more tech-savvy, financial institutions must analyse what makes a leading digital relationship. At too many banks the service culture has been replaced by a compliance culture, one in which the customer comes second.

Virtual assistants are more than just a new way to gain access to various services. The creation of new social standards concerning privacy and security, work and leisure, as well as the intimacy and empathy of human-technology relationships, are necessary to meet these challenges. What is it like to be a part of such systems? What kind of behaviour do they expect them to have?

Insightful digital banking

Customers prefer it when banks fix problems for them instead of creating new ones. By utilising data analytics, bankers can gain insights into customer account activity and future demands that are superior to what can be provided by a single banker alone. Both large and small business consumers should benefit from improved bank insights.

Customers want omnichannel access as they now expect internal systems to communicate with one another. Many banks continue to rely on antiquated systems that necessitate manual data entry or have poor internal communication. Traditional banks must adapt their analogue procedures to the new global order, which is a difficult task. Because of outdated systems, many banks are unable to go digital. Numerous financial institutions have been hindered from embracing digital transformation due to obsolete systems.

Behavioural banking

Because of the high stakes and uncertainty associated with financial decision-making, technology-enabled, self-service channels are particularly challenging to optimise for financial services. Money causes anxiety and people who are apprehensive want reassurance from other human beings. This can result in reduced levels of satisfaction as well as decreased trust.

A bank's ability to upsell or cross-sell to a customer in the future will be based on actionable data and customer behaviour intelligence. The ability to predict when and where a customer will need your bank to solve a problem or meet a need will be the catalyst for a real-time, or near-real-time, highly relevant cross-sell or upsell engagement.

Who knows how the future of technology will unfold in banking. One thing that seems sure is that technology will drastically change the way clients choose to interact with their banks, and therefore the way banks interact with clients will have to change too.

Differentiation will be determined by your data pools, partners, and insights that lead to the right trigger at the right time, as well as your ability to deliver that contextually with the least amount of friction.

Although some will look at this as a continuation of database marketing, behavioural models will prove more important than segmentation and targeting. It is a dramatic change since marketing departments lack these skills. It is a matter of modelling data, not targeting and market research is not the same as data science.

Voice-user interfaces and augmented reality displays for information and feedback are both technologies that can move banking away from day-to-day interaction and sales. The bigger difficulty is that in this new era, the capacity to acquire, cross-sell, and upsell depends on fundamentally different skills than before.

No one left behind

Banks should not limit their attention to digitally savvy, internet-connected customers. Consider developing compelling "low-tech" solutions for pay-as-you-go phone users or consumers living in areas with poor broadband connectivity. Look for ways to improve member communication via email, text messaging, or social media direct messages.

Human interaction will not disappear

Identify technology-enabled strategies to better utilise and enhance your customer-facing workforce. Instead of replacing human service encounters with automation, how can you give customers a map to help them navigate your website and digital systems? To maximise limited time, how can technology prioritise customers who require face-to-face contact with bank employees? What dashboards or back-office solutions can you offer your employees to help them better serve your customers?

Minimise branch visits

Do you support digital signatures for loan applications, or do members still need to visit your branch to complete a transaction? Accelerate the development of technological solutions to reduce visits. Facilitate remote conversations ahead of required visits to reduce contact time while maximising relationship-building opportunities to impress and even delight customers. With the pre-work done online, the branch visit can be more personal and caring, rather than clinical.

Financial well-being is a priority

Place a premium on financial well-being in your service value proposition. People require tools to assist them in planning and preparation during times of uncertainty and flux, and the finest solutions offer both customisation and contextualisation. As a result, demand for personal financial management services will continue to increase in the future. It offers consumers a financial well-being toolkit that includes budgeting and cost-tracking technology, income smoothing and savings apps, bill negotiation, loan repayment and credit management and repair, as well as investment and portfolio optimisation.

Human bankers in the loop

Remote channels have the advantage of allowing customers to choose how much engagement they want to have with their bank. They may choose to avoid involving a human if they so desire. Mobile banking's seclusion and perceived anonymity can be a welcome alternative for customers who don't want to have awkward encounters with customer support employees. The most essential step in your service value chain is the shift from automated to human interactions. Getting it right will increase loyalty while getting it wrong will result in lower engagement and higher turnover.

Maybe not a robot, but a robot-supported banker

Who knows how the future of technology will unfold in banking. One thing that seems sure is that technology will drastically change the way clients choose to interact with their banks, and therefore the way banks interact with clients will have to change too.

Perhaps Tracy, featured at the start of this article, will learn the value of human interaction in managing her financial affairs. We are hard-wired for human interaction. I wonder if a robot will ever be able to be a trusted financial adviser. Humans need to accept that smart technology is here to stay, that it advances drastically and that it can support us in ways previously unimagined. ■

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Piker

On margin

Call for help

This issue's isiZulu word is *biza. Biza* is call, summon or request. It is also cost or expensive.

Because South Africans have been up to nonsense for years now, I am developing an app that will help remedy the situation. It's called "Ubra..."

The ellipses (...) are intentional because they hold space for the name of the big brother who comes and sets you straight, when you *biza* him. As such, if the nearest big brother who can set you straight is Tshepo, the app says "Ubra Tshepo is 2 minutes away".

Let's say you are about to spend money on luxuries, before paying school fees – *biza* Ubra... to get you the nearest big brother to set you straight. You feel like drinking tequilas mid-week: *biza* Ubra... You want to tell your boss how you feel about them: *biza* Ubra... You want to bunk work: *biza* Ubra... You want to blow all the tender money without doing any of the work: *biza* Ubra... You want to leave your house without brushing your teeth, bathing or applying lotion on your elbows – *biza* Ubra... You want to make empty elections promises – *biza* Ubra ...

Biza-ing Ubra on my app will not *biza* you anything. It will be free. But that's not all – my team is also working on another app, called uSis'... which you can use to summon a big sister to set you straight.

NB: No big brothers and big sisters were harmed in the writing about my fictitious apps.

– *Melusi's #everydayzulu* by Melusi Tshabalala

"Good morning and welcome to module one of our *'Returning To The Office After Working From Home For More Than A Year'* re-orientation course."

Test your general knowledge with our first quiz for November, which will be available online via fin24.com/finweek from 1 November.

1. **True or False?** The South African government has banned the use of imported cement for state infrastructure projects.
2. What incident recently broke out at Richards Bay Bulk Terminal, Africa's largest coal export facility and one of seven commercial ports operated by Transnet?
   - Flooding
   - Fire
   - Theft
3. Pick n Pay said that the civil unrest experienced in July resulted in an estimated R930m in lost sales. How many of its stores were damaged by looting and destruction?
   - 112
   - 212
   - 312
4. **True or False?** Vodacom has launched an online school for school children from grades R to 12.
5. Fill in the missing country: The Caribbean nation of ___ elected its first-ever president to replace the UK's Queen Elizabeth II as head of state.
6. **True or False?** Australian airline Qantas is resuming commercial flights to and from SA in January 2022.
7. Tiger Brands recently listed on alternative exchange, A2X Markets. Which of these brands are not owned by the grocery manufacturer?
   - Bokomo
   - Koo
   - All Gold
8. The Airports Company SA's passenger figures for the 2020/2021 financial year fell by ___% from 21m.
   - 28.2%
   - 58.2%
   - 78.2%
9. **True or False?** Former US president Donald Trump announced plans to launch a new social media network, called TRUTH Social.
10. How many wickets did the Proteas beat Pakistan by, in a T20 World Cup warm-up match in Abu Dhabi on 20 October?

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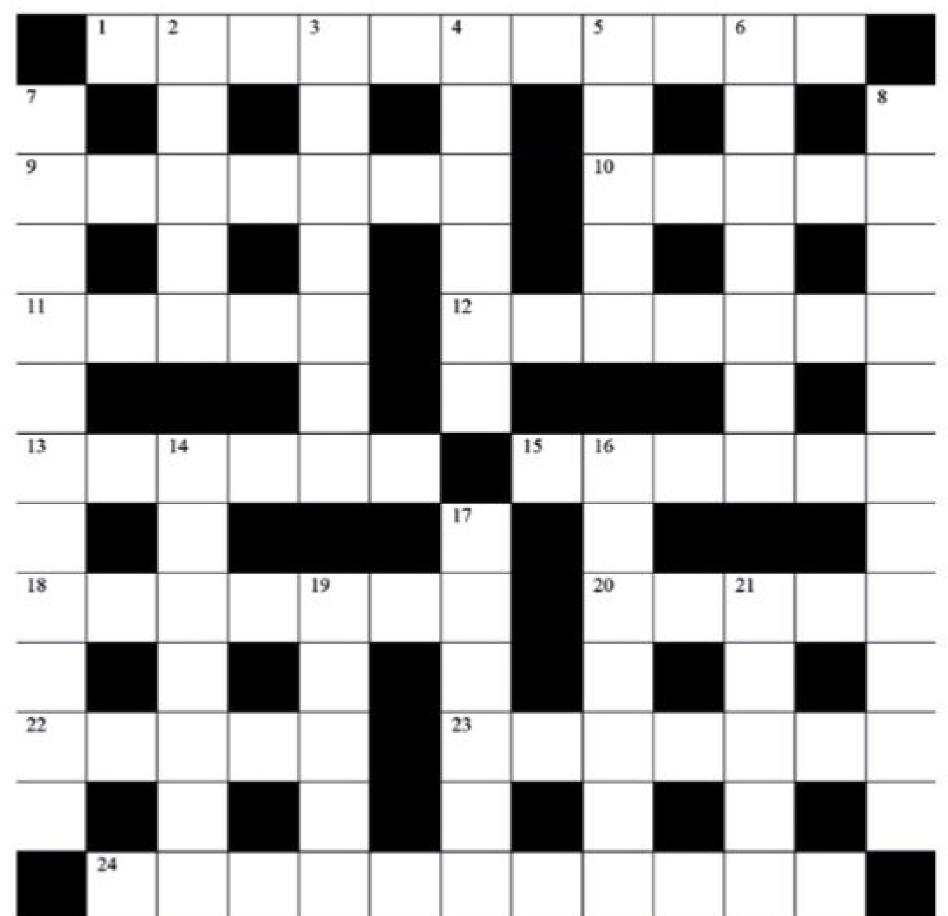
ACROSS

1 Any initial procedure at intensive care is disorganised (11)
9 Feeling admitted to by Mr Bean? (7)
10 Baldwin's quiet plea brushed aside (5)
11 Unimaginative acting, albeit in an exceedingly boring part (5)
12 See 18
13 Issues about T-square (6)
15 Leave when things go poorly? (3-3)
18 & 12 A lesser panda, he accepted, is uncommonly mentally acute (5,2,1,6)
20 Residence not intended, we hear, to be detached (5)
22 Cover from the start of the cold season (5)
23 A question at one contest first played on water (7)
24 Concede sales are designed for teens (11)

DOWN

2 Is pea green? Certainly. Dark brown? Perhaps (5)
3 & 16 Point to Roman nose, for example (7,7)
4 English names differ for laxatives (6)
5 Mitigate a bad temper (5)
6 Put paid to editor's claim to being pedestrian (7)
7 National office to reveal subject's status (11)
8 Stalk a dipper (6,5)
14 Did something previously but got out of it (7)
16 See 3
17 Jack's always in for tests (6)
19 Fear of grass? (5)
21 Affected by Charlie's behaviour (5)



Solution to Crossword NO 785JD

ACROSS: 1 & 13 Stretcher-bearer; 8 URL; 9 Attractions; 11 See 10 Down; 12 Crypt; 13 See 1; 15 Create; 17 Rhyme; 18 Annulet; 20 Irish bridge; 22 Eft; 23 See 16 Down

DOWN: 2 Tot; 3 Tiara; 4 Hutzpa; 5 Reoccur; 6 Bushy-tailed; 7 Allotment; 10 & 11 Across The lady with the lamp; 11 Tubercles; 14 Elegiac; 16 & 23 Across Father Christmas; 19 Norms; 21 Goa

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