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ANAT: BUILT ON A FAMILY RECIPE

from the editor

ANNELI GROENEWALD

You're never going to win me over if you feel the need to mention that you've got a "very nice place in Franschhoek".

Maybe we can forgive celebrity-style entrepreneur Richard Branson's ignorance – he lives, in so many ways, in a world very far removed from South African realities. When you've built a business with an annual revenue north of $20bn, and you're one of the ten richest people in the UK, dropping by for a visit will be quite a different experience to surviving in SA.

And let's give credit where it's due: Branson built his empire over five decades, from scratch, with a combination of guts and perseverance (and, some might say, a bit of luck). There's a lot to learn from him.

With Branson recently sitting alongside local business leaders, including Investec co-founder Stephen Koseff, discussing business challenges in SA, the audience got treated with very frank talkers. (The locally-based panellists were probably a little more frank – especially when it came to SA-specific business frustrations.)

But let's get back to Franschhoek. Branson mentioned that he visited a school close to his very nice place, and found that kids were sitting on the floor as there were no desks.

Many would want to point out to Branson that, sadly, desks might feature relatively low on the list of needs for many rural schools in SA. But let's get practical. How does one address this? Wait for government? To quote Branson, "governments are not perfect anywhere in the world". And he feels business has "really got to step in".

Branson's suggestion is that every business owner or entrepreneur should "draw a circle" around their business and then ensure that they care for "all aspects within that circle". He specifically mentioned schools and clinics.

Of course, not all entrepreneurs are Richard Bransons, and not all businesses are Virgins – most entrepreneurs have limited resources to address immediate needs in their communities. Some entrepreneurs might be able to build a school. Others might be able to sponsor stationery for one child. Or provide a job-shadowing opportunity.

But, as Branson said, when all businesses do this, "then circles will start overlapping and neighbouring businesses can work together to uplift the local community".

Most entrepreneurs and business owners will know that a prosperous community will also boost business. Imagine the potential when the circles start overlapping in your community. ■

**This is my last editor's letter for a while, as I'll be stepping aside during 2020 to take up a teaching fellowship. During my absence,* finweek *will be left in the very capable hands of our managing editor, Jana Jacobs. To all our readers: Thank you for years of continued support. Please keep on reading!*

contents

Opinion
4 Why the wrong people often get promoted
6 Creating a major black property player

In brief
8 News in numbers
10 Will Wescoal provide shareholders with some festive cheer?
11 Waiting for an adventure

Marketplace
14 **Fund in Focus:** Investing in global real estate
16 **Killer Trade:** Barloworld, Vodacom
17 **House View:** Rolfes, Mr Price
20 **Invest DIY:** How to count your losses
29 **Investment:** Mid-cap stocks to consider
30 **Simon Says:** Aspen Pharmacare, Astoria, Dis-Chem, Famous Brands, Naspers, property ETFs, Santova, Steinhoff, Taste Holdings
32 **Invest DIY:** Not all shareholders are created equal

Fund Focus
21 Smart investors don't panic

Cover
34 Cash, cash, baby

In depth
40 Powering up a continent

On the money
44 **Spotlight:** A force to be reckoned with
46 **Entrepreneur:** Family recipe turned fast-food hit
48 **Management:** Reporting corruption is non-negotiable
49 Quiz and crossword
50 Piker

EDITORIAL & SALES

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By Johan Fourie

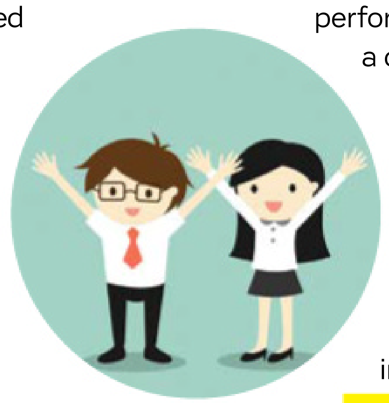
MANAGEMENT

Why the wrong people often get promoted

Let's say a managerial position needs to be filled. Who should get the job? A lower-level employee who is outperforming, or the 'correctly-qualified' candidate?

Sechaba is a salesman in a car dealership. He is incredibly good at his job. Each month, he outsells all his colleagues. The reason for his success is that he can assess the needs of his clients as they walk through the door, and he has a Schalk Brits-smile that fosters confidence in him and in the cars he sells. Sechaba is the Tony Robbins of car salesmen.

Then the position of manager of the car dealership opens up. What to do? Should Sechaba be promoted, given his excellent performance at the lower level? Or should his colleague Whitney be offered the role of manager? Whitney has a financial degree and is a conscientious and hardworking team player. She has all the attributes that would make her a better manager. But what will it do to team morale (and incentives for future salespeople) if Sechaba isn't promoted? Would it not seem unfair?



Usually, the theory suggests, that is why Sechaba will be promoted over Whitney, even though Whitney would be the better manager. The Peter principle, a hypothesis developed by Laurence Peter, states that an employee is promoted based on their success in their previous job until they reach a level at which they are no longer competent.

The problem with the Peter principle is that it's been difficult to find real-world evidence that such promotions are actually bad for firms. One argument could be that such promotions are in fact good for firms: It's the incentive of promotion that inspires salespeople to work as hard as possible. There might be costs involved in not appointing the best managers, but if one would remove promotion incentives, sales will collapse.

The counter argument is that salespeople could easily be incentivised through other channels, like rewarding them for each sale.

A new paper in the *Quarterly Journal of Economics* solves this conundrum. Alan Benson, Danielle Li and Kelly Shue trawled through a massive dataset of sales transactions for a panel of 38 843 workers, 1 553 of whom were promoted into managerial positions across 131 US firms, to search for evidence of the Peter principle. They found much evidence: Frequently, those staff members with the best managerial skills are overlooked for promotion; instead, those with the best sales records get the better job.

It would seem that the decision to promote managers is a careful trade-off between having the right skills for the job and rewarding good performance at a lower level.

This evidence could, of course, be interpreted in two ways. Either firms make mistakes and promote the wrong people, or it could imply that the incentive benefits of promoting based on sales performance justify the costs of promoting workers with lower managerial potential.

The evidence, according to the authors, seems to suggest that firms are not so foolish as to just be making mistakes – firms carefully consider the costs of the Peter principle.

In settings where salespeople are rewarded with strong pay for performance and where managerial roles entail greater responsibility, firms place less emphasis on the sales performance of new promotions. But often firms just appoint the best salespeople, without considering the other qualities applicable to managerial positions.

This seems somewhat surprising because of the significant costs in appointing the 'wrong' people.

To assess the magnitude of the costs associated with firms' existing promotion policies, the authors compare the managerial performance of promoted workers with the predicted managerial performance of workers who would have been promoted under a counterfactual promotion policy that maximises expected managerial quality. "We find that average managerial quality, measured by value added to subordinate sales, is 30% higher under this counterfactual policy."

Yet these costs should be weighed against the costs of lower morale and sales performance of promoting poorer performers. Returning to our example, if Whitney is promoted, Sechaba may simply find a different firm. And, indeed, this is exactly what the authors find: "Workers are much more likely to leave the firm if a teammate with worse sales performance is promoted."

The evidence suggests that firms are largely aware of the difficult trade-offs in appointments. If this were true, one would expect managers that have important roles to be more carefully selected than managers that aren't that important.

This is precisely the authors' finding: In one test, they compare firms where managers oversee larger teams versus those with small teams. If firms do indeed carefully consider the costs on both sides, then firms with larger teams should value better managers more than firms with smaller teams. And it is so: "[Our] findings suggest that when the costs of managerial mismatch are particularly high, firms are more willing to sacrifice the incentive benefits of performance-based promotion tournaments to promote better managers."

It would seem that the decision to promote managers is a careful trade-off between having the right skills for the job and rewarding good performance at a lower level. Sometimes it's best to promote the best person for the job; at other times, though, you'd rather promote Sechaba because failure to do so would come at the even greater cost of low morale and poor incentives.

These lessons apply not only to sales firms, of course. In any hierarchy where skills vary at different levels, the question of promotion based on capacity or performance depends on many factors. Yet one thing is true: In the competitive market, a firm that repeatedly miscalculates the trade-offs, will quickly be replaced by firms that make better decisions. The decision to promote either Sechaba or Whitney to manager is, ultimately, a profit-maximising (or cost-minimising) decision. ■

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By Andile Ntingi

BLACK EMPOWERMENT

Creating a major black property player

The proposed BEE merger in the property sector between Delta Property Fund and Rebosis Property Fund should be wholly supported to advance BEE.

There is no denying that black economic empowerment (BEE) has taken a huge step backwards over the last decade, slowing down the wealth accumulation by black people which started in 1994 under the presidency of Nelson Mandela and gained momentum during the nine-year reign of his successor, Thabo Mbeki.

In the years leading up to the global recession of 2008 and 2009, South Africa saw a string of headline-grabbing blockbuster BEE transactions being concluded, whereby a number of black consortia bought minority stakes in JSE-listed, white-led companies.

After the recession, JSE-related BEE deals dried up and organised black business switched its attention to state procurement to generate wealth. Occasionally, the lull in large-scale BEE deals has been interrupted by mergers between black firms themselves. Although these transactions are rare, they were hailed as a sign of BEE coming of age as a concept when we started seeing BEE mergers since 2010.

The driver of these mergers was necessitated by BEE companies' need to weather the storm to protect their revenues, while simultaneously positioning themselves to grow their market shares in the event the economy recovered. The reality is that the SA economy has not bounced back from the recession and the consolidation of BEE companies has continued, while other first-generation firms folded.

Given this backdrop, it is not surprising that we are seeing a proposed BEE merger in the property sector, whereby Delta Property Fund and Rebosis Property Fund are in talks to tie the knot and establish a combined entity with assets worth R25bn.

The two black landlords believe the merger will create a "significant player of scale" that will enable them to restructure their capital to reduce their debt levels, helping them to withstand the prevailing tough economic climate bedevilling the property sector.

The two black landlords believe the merger will create a "significant player of scale" that will enable them to restructure their capital to reduce their debt levels.

Despite the rationale for this transaction being compelling, it appears that Redefine Properties, the second-largest player in the property sector, is opposed to the merger.

In August, Redefine told Moneyweb that it was against the merger because it "carries some of the economic risk".

Redefine sold its 22.8% stake in Delta to a black shareholder, Cornwall Crescent, in 2017. Redefine financed the transaction for an amount of R1.46bn.

By the look of things, Delta and Rebosis appear to be determined to go ahead with their marriage, even though Cornwall and its funder, Redefine, have misgivings about the two tying the knot.

At the end of October, Rebosis released a Sens announcement to confirm that the process was still ongoing.

If the merger goes ahead, it will be a massive boost for BEE in the property sector. Historically, BEE mergers have helped strengthen the influence of BEE entities and solidified their places in their chosen markets.

In 2010, black-controlled investment holding firms Kagiso Trust Investments (KTI) and Tiso Group kicked off the BEE consolidation phase when they merged to offset the effects of the global recession and to grow their revenues. The tie-up, which was dubbed "a merger of equals", resulted in the two companies combining gross assets worth more than R12bn.

The BEE merger mania also spread to the accounting sector as blacks sought to gain more power in a sector traditionally dominated by the big four multinational accounting firms, Deloitte, KPMG, EY, and PwC.

In 2011, black-owned accounting firms SizweNtsaluba VSP merged with Gobodo Incorporated to form the largest black-owned and managed auditing and accounting firm in South Africa. A year later, SekelaXabiso was born after Xabiso Chartered Accountants and Sekela Consulting combined to compete head-on with the big players in their sector.

The legacy of the accounting mergers is that they paved the way for the black-controlled and managed firms to take on bigger assignments, which were previously the preserve of the big four. The SekelaXabiso merger enabled the new combined entity to participate in a Transnet accounting tender alongside Nkonki and KPMG worth R1.3bn. Around the time these accounting mergers were taking place, Sizwe Ntsaluba Gobodo was awarded an external auditing contract worth R450m by Transnet.

In 2015, we also witnessed another major tie-up in the BEE sector, whereby Phuthuma Nhleko's Pembani Group merged with Cyril Ramaphosa's Shanduka Group to create a company worth R9bn. It was announced at the time that Ramaphosa, currently SA's president, would exit the business as a shareholder to further his political career.

Many of these merged entities have gone on to do more strategic deals, helping them to grow their presence in SA and across the African continent.

Delta and Rebosis are also likely to benefit a great deal from their merger. It will place them in a better position to take advantage of opportunities in the public sector as the government is one of the biggest tenants in the country, paying healthy rentals to some of the biggest landlords in SA.

The proposed black-controlled property entity is putting down its marker about its plans to become a major player in the property sector, something that the government must support to advance black empowerment. ■

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Andile Ntingi is the founder of GetBiz.

Photo: Shutterstock

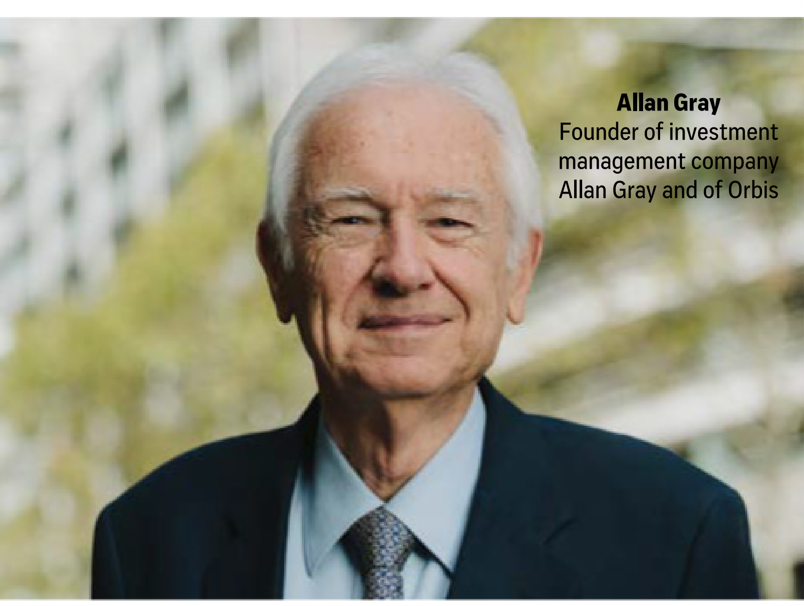
in brief

>> **Mining:** Wescoal desperate for some Christmas cheer *p.10*
>> Aquila Steel gets go-ahead for manganese adventure *p.11*

"RESPONSIBLE ENTREPRENEURS THINK OF OTHERS, AS OPPOSED TO PURELY OF THEMSELVES..."

– **The late billionaire and investor Allan Gray** calling for entrepreneurs to strive towards being role models in one of his last interviews, with author Vanessa Stoykov, as he shared his vision for E-Squared Investments last year. E-Squared Investments was set up to primarily fund and empower Allan Gray fellowship or scholarship holders to be responsible entrepreneurs, create jobs and tackle poverty in SA. In addition to donating the bulk of his wealth to charity, 'Papa G', as Gray was affectionately called by fellows, founded the Allan Gray Orbis Foundation with a personal gift of $130m back in 2005, according to Forbes. "I think that philanthropy and acting in the common good through business, is actually good business," Gray said in the interview.

Photos: Supplied | Archive | Shutterstock



Allan Gray
Founder of investment management company Allan Gray and of Orbis

"A TIE-UP BETWEEN CELL C AND TELKOM WILL MAKE SENSE WITH SIGNIFICANT SYNERGIES."

– **Alastair Jones, an analyst at New Street Research LLP**, wrote in a note that Telkom's proposed offer to buy debt-laden Cell C and combine SA's two smallest mobile network operators to better compete against larger rivals, could result in a network that has double the capacity of Vodacom and should be the driver behind accelerating data price declines. Cell C put the core parts of its business up for sale last month as it struggles with R9bn of debt and deepening losses. Though a takeover target was not mentioned, Telkom said in a market announcement that it was in talks around a potential acquisition. If the tie-up went ahead, Jones said it would create a business with about 22m subscribers and pose a threat to the dominance of Vodacom and MTN.

"There is still a real chance that Steinhoff could go to zero."

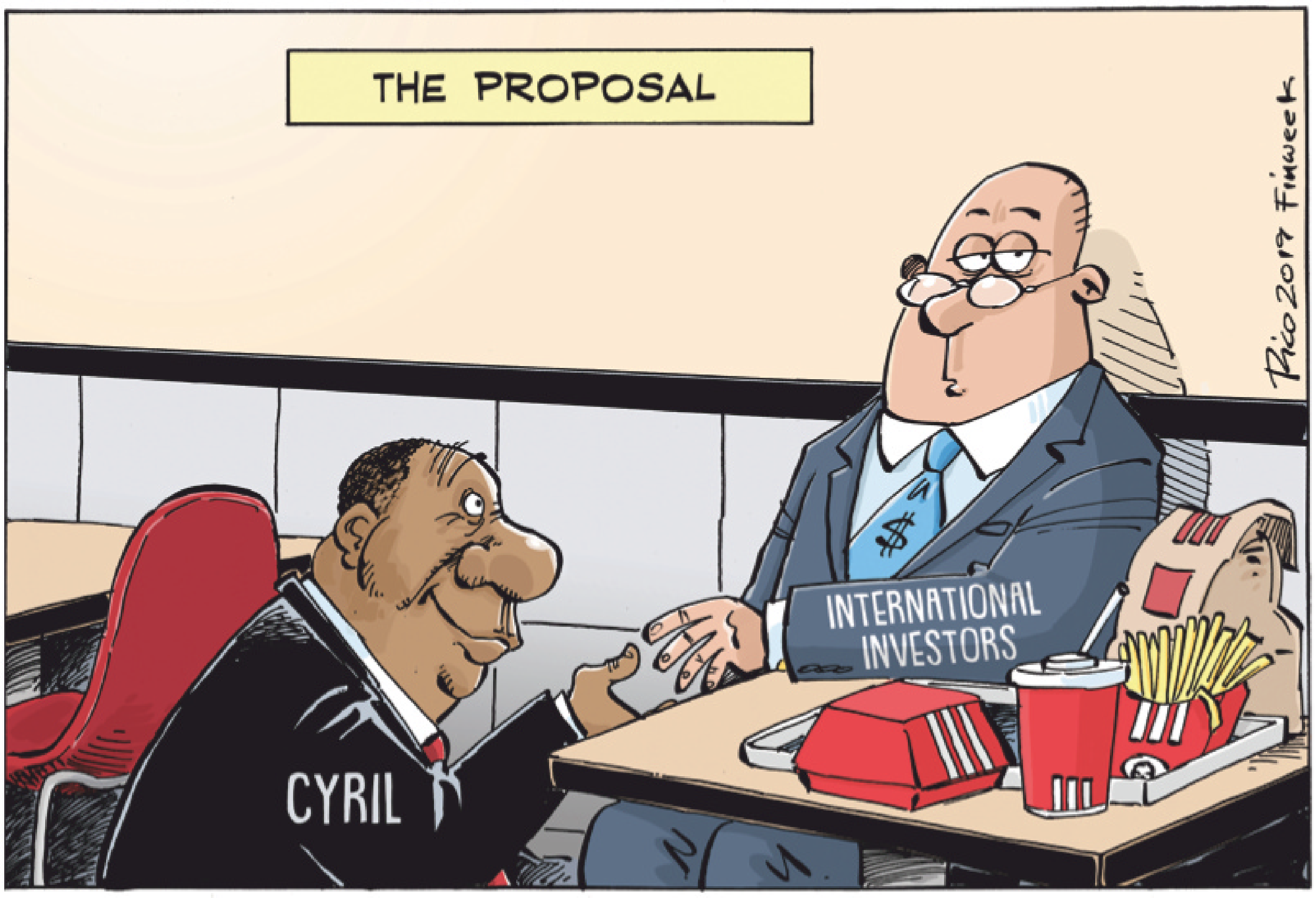
– **Portfolio manager at Vestact Asset Management, Michael Traherne**, said the appetite for Steinhoff's equity, should the embattled retailer issue new stock as part of efforts to resolve claims brought against it through lawsuits, would likely come down to the price of the new equity. Traherne told *Business Report* that issuing equity would mean that current shareholders would be diluted, which people never like. "The big question will be how big the dilution will be. Having said that, if this is what it takes for the business to survive, then it is what they need to do," he said.

ASPEN'S LIFEBOAT

€400m

Swiss drugmaker Novartis is buying JSE-listed Aspen Pharmacare's commercial business in the Asia-Pacific region. Aspen struck a deal with Novartis to sell the Japanese generics unit of Aspen for up to €400m, reported Reuters. Novartis' Sandoz generic business agreed to pay €300m initially plus a deferred amount not expected to exceed €100m, based on certain conditions being met. This year, for the first time in almost a decade, Aspen decided not to declare a dividend. The company is now selling assets to address debt levels after it moved close to breaching debt covenants. The transaction is expected to be concluded in the first half of 2020 (also see p. 31).

DOUBLE TAKE BY RICO



THE GOOD

State-owned freight-rail and ports company Transnet said it is in talks with the manufacturers of the 1 064 locomotives it acquired at a cost of R54bn a few years ago, to have the irregular contracts set aside as it attempts to also recoup some of the funds. Transnet's acting CEO, Mohammed Mahomedy, told Moneyweb that the company has already reached a settlement with Gupta-linked Regiments Capital, to get back around R180m in advisory and other fees related to the controversial multi-billion-rand locomotives contract. Costs of the contract spiralled from an estimated R38bn in 2014 to more than R50bn last year when Siyabonga Gama, who took over from Brian Molefe as group CEO in 2016, was fired, reported *Daily Maverick*. The executives have been implicated in state capture at Transnet, while several other executives have either resigned or been suspended as investigations continue.

THE BAD

In a bid to clamp down on money laundering and terrorism financing, Mozambique's central bank imposed sanctions on 20 financial institutions operating in the country, including three SA banks, for violations of the Anti-Money Laundering and Anti-Terrorist Financing Act. According to *Business Day*, Mozambique is grappling with terrorist attacks in its northern province of Cabo Delgado, which have left 100 people dead thus far. The Basel Institute on Governance, a non-profit think-tank specialising in combatting financial crimes, holds that Mozambique has one of the highest risks of money laundering and terrorist financing. Standard Bank, Banco Unico (controlled by Nedbank) and FNB were slapped with fines of R7.8m, R6.7m and R1.1m respectively.

THE UGLY

ArcelorMittal's SA unit announced that it is closing its steel operations at Saldanha Works because it can no longer compete in export markets, reported Reuters. In a statement, the company said that it has lost its structural competitive cost advantage to compete in the export market due to raw material and regulated prices, adding that the site is due to suffer severe financial losses. Trade and industry minister Ebrahim Patel was reportedly scrambling, at the time of writing, urging ArcelorMittal to reconsider the steel plant closure, which will place 900 jobs on the line, according to *Business Day*. The publication also reported that 944 jobs are to be cut at SAA in an effort to bring spiralling costs at the airline under control.

By David McKay

MINING

Will Wescoal provide shareholders with some festive cheer?

Community protests, a mining accident and a contractor stoppage haemorrhaged coal production at Eskom-supplier Wescoal. Will management have a good Christmas?

Reg Demana, CEO of Wescoal Holdings, could do with a blast of good cheer this Christmas.

Having taken over the reins of Wescoal in February, Demana, a former resources banker at Nedbank Capital, has run into troubled times, starting with a slide in the dollar price of thermal coal, down 37% year-on-year.

There were also pre-election disruptions around coal mining towns in Mpumalanga that continue to resonate (see box). In April, violent protests resulted in the six-week stoppage at Vanggatfontein Colliery, Wescoal's flagship mine.

A fatal accident at Vanggatfontein compounded the downtime, while a government-led investigation was conducted. Production from another mine in Mpumalanga, Elandspruit Colliery, was also interrupted after a contractor downed tools, saying it couldn't make money from the underground mine.

All these problems largely pre-dated Demana's arrival at Wescoal, but he is left holding the baby, as it were. Shares in the company recorded a three-year low in July, and nearly repeated the trick early in November.

The impact of lower production is that the company has been forced to buy in more than 500 000 tonnes of coal from third parties in order to make good on an Eskom supply contract.

Perhaps related, the company said in a trading update that it had spent R18m chasing two corporate deals that failed to materialise. This included the proposed takeover of Australia's Universal Coal, which operates mines in SA, and a bid for South32's South Africa Energy Coal (SAEC), eventually awarded to Seriti Resources. The proposed sale of Wescoal's non-core Leeuw Braakfontein Colliery also collapsed. So not a very productive six months on that front.

Reg Demana
CEO of Wescoal Holdings

This was reflected in a trading update published in early November. Lower production, perhaps a function of distracted management, will result in an interim loss when the company reports its numbers on 26 November.

"Production volumes have increased significantly during the quarter ended 30 September when compared to the preceding quarter so the need for buy-in of coal is largely dissipated," Demana told *finweek* via an emailed response to questions.

"We don't, with the production rate having improved, foresee any significant [number of] buy-ins in the second half of this financial year," he said.

> "The Moabsvelden project plan is still on track for start-up during the first half of calendar [year] 2020."

There will also be some good news on the new business front. "The Moabsvelden project plan is still on track for start-up during the first half of calendar [year] 2020," he said. "We expect to be announcing further details together with the results announcement later this month."

Moabsvelden is a new project that's been on Wescoal's drawing board since the company bought Keaton Energy in 2017. It's critical that the project, a stone's throw from Vanggatfontein, gets commissioned because Wescoal signed an agreement with Eskom to supply the utility with 3m tonnes a year from the venture. ■

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THE 'NEW GUPTAS' OF COAL INFURIATING MPUMALANGA

Several hundred protestors marched on the Glenhove offices of South32 last month bearing T-shirts declaring that Seriti Resources is "the new Guptas".

Seriti Resources is the black-owned company that successfully bid for the 28m tonnes a year South32 business unit South Africa Energy Coal (SAEC), of which roughly half is supplied to Eskom.

Once concluded, Seriti will also be Eskom's largest single supplier after Exxaro Resources. But news that communities purportedly at the SAEC mines are less than pleased with the deal makes for some ominous reading. The last thing Seriti needs is community disruption given the significant fundraising that lies ahead of it, not to mention the challenge of bedding down SAEC.

The way Mike Fraser, chief operating officer of South32, sees it, however, is that the march is part of a complex puzzle that ultimately has its roots in the larger economic doldrums in which SA finds itself, 50% youth unemployment included.

It's hard to know if the march is representative of a broad consensus in Mpumalanga, where most of South32's coal is mined. Community disruption in the region is often heavily politicised and sometimes consists of rogue criminal elements.

"It's still very fractious. We do expect the protests to continue," Fraser said in an interview with *finweek*.

Protests at coal mining communities earlier this year resulted in losses to the sector of hundreds of millions of rands in revenue. Disruption is not a feature of the protests now, but it's obviously a situation being closely monitored by South32.

"We are trying to get the police to help with this, but it's hard," said Fraser. "It's not a very savoury situation. The Minerals Council South Africa is working with ministers across the board to tackle the problem," he said. ■

Photo: wescoal.com

By David McKay

MINING

Waiting for an adventure

After a protracted legal process, Aquila Steel has finally been awarded the mining right for manganese prospect Gravenhage in the Northern Cape. If developed, the mine could prove a lucrative venture for the company.

For a startling example of how opaque, and even unfriendly, mining regulations have hampered economic development in South Africa, look no further than the case of Aquila Steel's Avontuur manganese prospect.

You have to go back about six years to a prospecting dispute involving Aquila Resources and the department of mineral resources (DMR), as they were then named, regarding Gravenhage – a valuable manganese prospect situated at the top portion of Avontuur in the Northern Cape.

The dispute was a complex one that eventually wound up in the Constitutional Court, pitching the rival claims of Aquila against Pan African Mining Development Corporation (PAMDC), a shadily-composed multi-government agency that alleged it had acquired the prospecting right over Gravenhage first.

As it turned out, the Constitutional Court found in favour of Aquila, now known as Aquila Steel, in which Chinese firm Baosteel has an 85% controlling stake.

The legal battle was a torturous process of twists, turns and delay.

A few reputations also got toasted in the process, not least of which was former minister of mineral resources, Ngoako Ramatlhodi. He was found to have incompetently overseen the dispute process, according to a High Court ruling. But that's another story.

Now, however, the mining right over Gravenhage has been finally awarded to Aquila, which is looking around for an adviser that can help it assess potential partners to assist it develop a mine on Gravenhage.

To put this into perspective, this is new investment worth $200m, based on Aquila's 2012 and 2013 feasibility study. Given that President Cyril Ramaphosa has just concluded his second investment conference, which is helping to raise funds as part of his $100bn, ten-year investment target, a new mining project in a relatively undeveloped province couldn't come at a more apposite time.

Martin Stulpner, a director of Aquila Steel, confirmed the mining right had been awarded, but he said mine development plans were only at early stages. He declined to comment further: there's many a slip 'twixt the cup and the lip... Market sources, however, suggest it's all steam ahead on Gravenhage.

The plan is to reboot the feasibility study on which Aquila Steel had spent a tidy R160m. The study scoped for a 1.5m tonnes a year manganese ore mine, operating for about 15 years with the opportunity for life extension.

Some 320 jobs would be created during construction of the project and a further 700 in the permanent operational phase.

"Gravenhage is near Transnet rail facilities and existing mines, so the infrastructure is good," a market source told *finweek*. He added that Aquila was happy to part with control of the project on the basis that it doesn't have much of a presence in SA anymore, and is not a project developer in any case. It's more an investor.

However, there are some considerations. The project's social and labour plans have to be implemented in short course by Aquila, which also doesn't yet have a water use licence for the project which it needs to process. Incoming partners may also find that Aquila's shareholder, Baosteel, will seek an offtake agreement for the manganese – a mineral used in steelmaking.

SA has an estimated 80% of the world's manganese reserves but only controls 33% of total manganese production, so it's a mineral that strategically ought to see more development in SA. The current market players consist of Anglo American, which is in a joint venture with South32, and Saki Macozoma's Ntsimbintle Mining, a company that almost listed this year and is known to be seeking opportunities for consolidation in the manganese sector. ■

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Manganese ore

SA has an estimated 80% of the world's manganese reserves but only controls 33% of total manganese production.

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market place

>> **Killer Trade:** Barloworld, Vodacom *p.16*
>> **House View:** Rolfes, Mr Price *p.17*
>> **Invest DIY:** How to use stop-losses to manage your risk *p.20*
>> **Investment:** Mid-Cap Index is looking up *p.29*
>> **Simon Says:** Aspen Pharmacare, Astoria, Dis-Chem, Famous Brands, Naspers, property ETFs, Santova, Steinhoff, Taste Holdings *p.30*
>> **Invest DIY:** One share, one vote, right? *p.32*

FUND IN FOCUS: FAIRTREE GLOBAL REAL ESTATE PRESCIENT FUND

By Timothy Rangongo

Investing in global real estate

This actively-managed fund invests primarily in listed real estate securities in developed markets across the globe.

FUND INFORMATION:

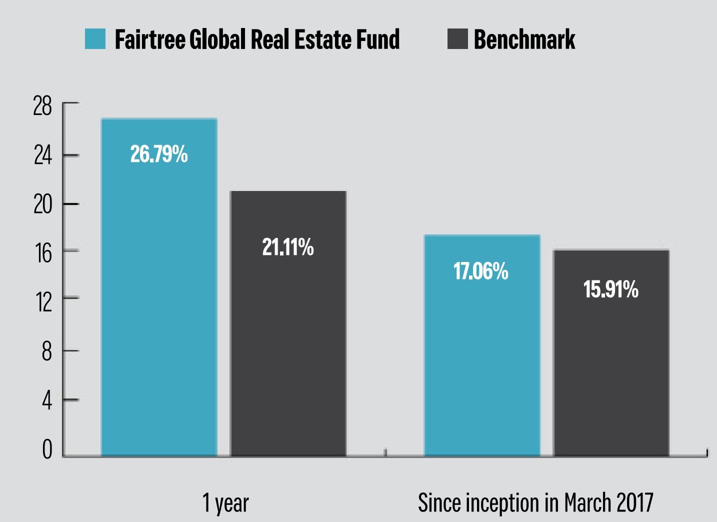
Benchmark:	TRNGLU Index
Fund manager:	Rob Hart
Fund classification:	Global – Real Estate – General
Total investment charge:	1.89%
Fund size:	R80m
Minimum lump sum/subsequent investment:	R50 000 lump sum/R1 000 per month
Contact details:	086 176 0760/clientservices@fairtree.com

TOP 10 EQUITY HOLDINGS AS AT 31 OCTOBER 2019:

1	Sun Communities (US)	5.51%
2	Essex Property Trust (US)	4.47%
3	Inmobiliaria Colonial Socimi (Spain)	4.36%
4	Prologis (US)	4.16%
5	Extra Space Storage (US)	4.1%
6	Invitation Homes (US)	3.93%
7	Mitsui Fudosan (Japan)	3.9%
8	Alexandria Real Estate Equities (US)	3.89%
9	City Developments (Singapore)	3.87%
10	VICI Properties (US)	3.48%
	TOTAL	**41.67%**

PERFORMANCE (ANNUALISED AFTER FEES)

As at 31 October 2019:



Fund manager insights:

Fairtree's Global Real Estate Prescient Fund aims to provide clients with access to high-quality, international real estate assets with capital appreciation potential, while also delivering solid dollar-denominated dividends.

Established in March 2017, the fairly young fund delivered a 3.38% total return in its maiden year, which leaped by 6.4 percentage points in 2018. With just a month to go, the fund is poised to end yet another year on a high note, now comfortably sitting on a 26.79% average annualised 12-month return thus far.

This all transpired despite an increasingly tough commercial property market. Furthermore, the fund launched just as US President Donald Trump assumed office, which has not been the smoothest of rides owing to his administration's decisions that shook global trade markets – including the trading environment for real estate shares.

Fund manager Rob Hart attributes 2019's sterling performance to, among other factors, the rise in the TRNGLU index.

"The index rose 22.81% in the year to October," he says. "It performed well because global interest rates moved down while the economy remained decent, which is the perfect combination for property stocks. Property markets continued to move higher, while bond yields fell."

The fund is poised to end yet another year on a high note, now comfortably sitting on a **26.79%** average annualised 12-month return thus far.

He explains that the outperformance has also been the result of their strategy of "three bites of the apple", where they try to choose the correct geographical region, then the correct global sector and, lastly, the correct stock.

"This has worked out well for us this year, and we have enjoyed outperformance from all three bites of the apple."

As the year wraps up, the fund is cautious on the market over the coming months because its recent strong performance has led to stretched valuations in several geographical areas and sectors. "We express this by holding more defensive property sectors, such as triple net leases, and through our 7% cash holding," explains Hart.

Why *finweek* would consider adding it:

The fund provides exposure to global companies involved in activities related to the real estate industry. It is sector-focused and has the potential to generate higher returns, although it carries a higher risk profile than a diversified multi-sector equity fund. Global real estate has generated more than twice the returns in US dollars than SA equities over the last ten years, according to Hart; pointing out that it remains a sector that produces consistent returns, is a good hedge against the rand and pays a 30% higher dividend than global equities. ■

editorial@finweek.co.za

Training must be an integral part of your organisation's strategy

In a climate where skills are in great demand, the chances of a well-trained individual leaving for greener pastures is a reality. But…what happens if you don't train your employees and they stay?

Read this story and more in the Industrial Buyer digimag
Visit https://www.industrialbuyer.co.za/subscribe/ to subscribe

Industrial BUYER

By Moxima Gama

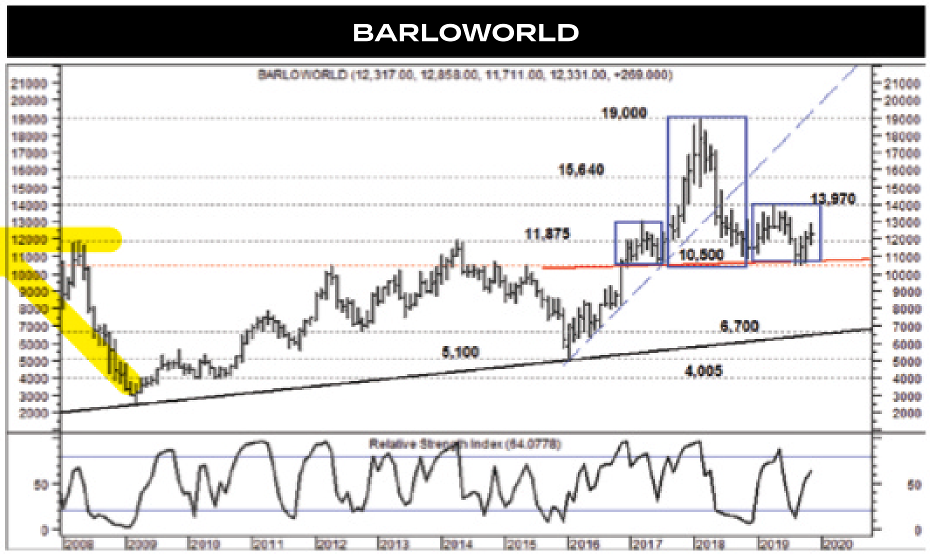
BARLOWORLD

Is the recovery temporary?

Barloworld, one of the world's largest sellers of construction-related equipment, has set its eyes on a Mongolian-based competitor to boost its international presence. The company divested its Iberian unit and now aims for more profitable world regions.

52-week range:	R105.29 - R139.69
Price/earnings ratio:	10.36
1-year total return:	8.87%
Market capitalisation:	R26.15bn
Earnings per share:	R11.87
Dividend yield:	4.01%
Average volume over 30 days:	608 191

SOURCE: IRESS



SOURCE: Metastock Pro (Reuters)

Outlook: The group is currently in the process of selling a R2.7bn chunk of its properties – equivalent to 14% of its total portfolio which mainly consists of industrial property – to fund a recently approved black empowerment scheme, called Khula Sizwe, worth R3.5bn. It has managed to raise R164m for the scheme. The public was invited to take up a 30% shareholding, a management trust will hold 38% and Barloworld employees will hold the other 32%.

Barloworld's results for the year through 30 September are due on 18 November.

On the charts: Barloworld has broken out of its steeper bull trend and is currently consolidating in bearish terrain. It has recovered slightly after retaining firm support at 10 500c/share.

Go long: Barloworld has ticked upwards but would have to trade above 13 970c/share to negate a potential head-and-shoulders formation. Otherwise, the bearish pattern would be confirmed below 10 500c/share and Barloworld could fall further to the next support at 6 700c/share in the medium term.

Go short: Upside through 13 970c/share could extend the recovery to 15 640c/share. Continued buying above that level could see the share price retest the 19 000c/share high. ■

VODACOM

Escaping bearish territory

Vodacom, South Africa's largest mobile phone operator, reported lacklustre revenue growth of 3.9%, mainly buoyed by increased service sales, for the six months through 30 September. Despite the meagre rise in turnover, the group delivered adjusted profit growth of almost 19% for the period. The company indicated that it will participate in the bidding and rollout of the SA government's high-demand spectrum which was announced recently. Vodacom also announced a R1.1bn special dividend on the back of a surge in international revenue.

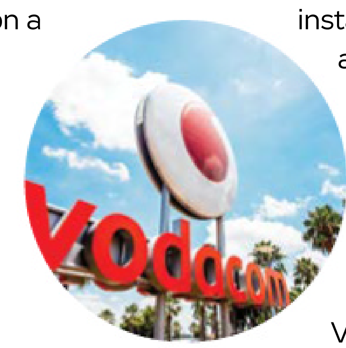
52-week range:	R109.40 - R137.29
Price/earnings ratio:	14.34
1-year total return:	16.65%
Market capitalisation:	R247.27bn
Earnings per share:	R9.43
Dividend yield:	5.77%
Average volume over 30 days:	1 982 264

SOURCE: IRESS

SOURCE: Metastock Pro (Reuters)

On the charts: Vodacom has now escaped its downtrend, which formed as a falling-wedge pattern, which is a bullish continuation pattern. This was triggered by a sharp growth in its M-Pesa mobile money service, which gained 797 000 customers in the six month period under review, and now clears $2.8bn a month.

Go long: Though recovering, Vodacom must breach major resistance at 14 000c/share to negate potential consolidation. Such a move should trigger gains towards 17 235c/share. The share would resume its previous primary bull trend above that level and, in this instance, it could retest its all-time high at 18 700c/share.



Go short: A sideways trend between 10 940c/share and 14 000c/share would extend if Vodacom should reach a ceiling at 14 000c/share. A downside break through 10 940c/share may well trigger a sell-off up to support at 8 900c/share. A continued downwards move could see Vodacom revisit its next key support at 6 495c/share. ■

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

ROLFES

BUY SELL HOLD

By Simon Brown

Cash in before the trek

Rolfes, a chemicals manufacturer, joins the long list of more than 15 stocks delisting from the JSE this year as very cheap valuations see a mass exodus from the exchange. All the better too, as a spat between Rolfes and the bourse is heating up following the company being placed under censure for mistakes on old financial statements.

In the case of Rolfes, the offer to minority shareholders is 300c/share and should be concluded, and hence paid, in the first quarter of 2020.

Some clever bids in the market could see one picking up the stock at under 280c/share, or even as low as 275c/share, offering a return of over 7% over the three to four months, which gives you a decent annualised return of over 20%.

The risk here is that the delisting does not go ahead or is delayed. As it is a friendly delisting, I would say the risk of the deal going sour is very small. That said, any delays that may happen would likely only postpone the buyout by a month or two, reducing the annualised return, but only marginally.

If the delisting does fail, then the stock could certainly revisit the 250c/share range. There is most definitely downside risk, even if it is small. ■

As it is a friendly delisting, I would say the risk of the deal going sour is very small.

Last trade ideas

HOLD Pick n Pay
7 November issue

BUY Grindrod Shipping
24 October issue

HOLD Capitec
10 October issue

BUY African Rainbow Capital
26 September issue

MR PRICE

BUY SELL HOLD

By Moxima Gama

Pivotal support breach may trigger sell-off

Mr Price, the apparel and homeware retailer, has been hit by unethical supply-chain management issues which it estimates will hit profits by R20m. In response, the company fired two senior managers. Mr Price plans to release its interim financial results by the end of November.

The stock has been trading outside of its long-term bull trend, which started 11 years ago. Market reaction to the internal problems was muted – the share price held firmly above 15 130c/share.

How to trade it:

Mr Price has been trading sideways within its bear trend for the past four months. It is presently encountering major resistance at 17 555c/share and has reversed towards its key support level at 15 130c/share. Having bounced there a few times before, the stock may hold firmly at the level and recover its losses – thereby extending its short-term consolidation.

However, breaching that pivotal point could trigger a sell-off, and the share price could topple to its last trough, which was tested in November 2016, at 12 555c/share.

Alternatively, Mr Price needs to overcome resistance at 17 555c/share to change the near-term sentiment that could push the share price up to the 23 000c/share resistance mark. ■

editorial@finweek.co.za

It is presently encountering major resistance at 17 555c/share and has reversed towards its key support level at 15 130c/share.

Last trade ideas

BUY Sasol
7 November issue

SELL Mondi
24 October issue

STAY SHORT Truworths
10 October issue

HOLD Pick n Pay
26 September issue

MultiChoice Group Limited
(Registration number: 2018/473845/06)
JSE share code: MCG
ISIN: ZAE000265971

Reviewed interim results announcement

CONDENSED CONSOLIDATED INTERIM FINANCIAL RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Executive review of our performance

MultiChoice Group (MCG or the group) delivered solid results for the period ended 30 September 2019

The group added 1.2m 90-day active subscribers, representing 7% year-on-year (YoY) growth, taking the overall 90-day active subscriber base to 18.9m households at 30 September 2019 (HY20). In the absence of specific one-off events in the prior year, subscriber growth rates reflected more normalised trends. The subscriber base is split between 10.7m households in the Rest of Africa (RoA) and 8.2m in South Africa (SA).

Revenue was up 4% (3% organic) to R25.7bn and included subscription revenue of R21.2bn, which grew at similar rates. Top line momentum was affected by the group's strategic decision not to increase Premium prices in SA. Hardware sales and advertising revenues were lower due to the one-off prior year events, while macro-headwinds in certain markets affected disposable income and thus consumer demand.

Group trading profit rose 22% to R4.8bn (33% organic) benefitting from a R0.7bn (R1.2bn organic) reduction in losses in RoA. A further R0.7bn in costs were eliminated from the base during HY20 as part of the group's cost optimisation programme. This resulted in overall costs being contained to a similar level as the prior period (-3% organic) and achieved the group target of keeping the growth rate in costs below that of revenue growth.

Core headline earnings, the board's measure of sustainable business performance, was up 24% on the prior period at R1.9bn, despite the impact of the additional 5% share in SA allocated to Phuthuma Nathi in March 2019. Excluding this once-off change in the SA non-controlling interest, core headline earnings would have grown 37% YoY.

Consolidated free cash flow of R2.4bn was up 32% compared to the prior period. This was achieved after an improvement in the trading result from the RoA and a lower investment in set-top boxes.

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

No interim dividend has been declared. The group remains on track to declare a dividend of R2.5bn for FY20.

The group continued its strategic focus on local content, increasing the number of hours produced by 12%. As a result, the total local content hours in the library now exceeds 54 000 hours.

Capital expenditure (capex) of R0.3bn was in line with the prior period.

As one of the largest taxpayers in Africa, MCG paid direct cash taxes of R1.9bn. This was 9% higher than the previous period mainly due to a higher final tax payment in SA.

Net interest paid amounted to R164m, slightly up on the prior period primarily due to the impact of reclassifying operating leases as finance leases under IFRS 16. The group balance sheet remains strong with R9.9bn in net assets, including R6.9bn of cash and cash equivalents. Combined with R3.5bn in undrawn facilities, this provides R10.4bn in financial flexibility to fund our business plan. This strong financial position is after providing R0.8bn for share buybacks (including R0.7bn to fund the MCG restricted share plan) and settling our R1.5bn dividend to Phuthuma Nathi.

We operate in 50 countries, resulting in significant exposure to foreign exchange volatility. This can have a notable impact on reported revenue and trading profit metrics, particularly in the RoA where revenues are earned in local currencies while the cost base is largely US dollar denominated.

Where relevant in this short-form announcement, amounts and percentages have been adjusted for the effects of foreign currency, as well as acquisitions and disposals to better reflect underlying trends. These adjustments (non-IFRS performance measures) are quoted in brackets as organic, after the equivalent metrics reported under International Financial Reporting Standards (IFRS). These non-IFRS performance measures constitute pro forma financial information in terms of the JSE Listings Requirements.

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

Directorate

On 5 July 2019, Mr Jabulane (Jabu) Albert Mabuza and Dr Fatai Adegboyega Sanusi were appointed to the board as independent non-executive directors.

Ms Donna Maree Dickson resigned as group company secretary on 30 September 2019. The group is currently in the recruitment process to find a suitable replacement.

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

Preparation of the short-form announcement

The preparation of the short-form announcement was supervised by the group's chief financial officer, Tim Jacobs CA(SA). These results were made public on 11 November 2019.

ADR programme

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

Important information

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

Further information

This short-form announcement is the responsibility of the directors and is only a summary of the information in the full condensed consolidated interim financial statements. The full condensed consolidated interim financial statements were released on SENS on 11 November 2019 and can be found on the company's website www.multichoice.com. Copies of the full condensed consolidated interim financial statements may also be requested from the company's registered office, at no charge, during office hours. Any investment decision should be based on the full condensed consolidated interim financial statements at https://senspdf.jse.co.za/documents/2019/JSE/ISSE/MCGE/11Nov19.HY.pdf published on SENS and on the company's website. The information in this announcement has been extracted from the reviewed interim financial statements on our website, but the announcement itself was not reviewed.

On behalf of the board

Imtiaz Patel
Chair

Calvo Mawela
Chief executive

Johannesburg
11 November 2019

SALIENT FEATURES

Period ended 30 September	2019 reviewed R'm	2018 reviewed R'm	2019 versus 2018 reviewed %
Revenue	**25 655**	24 782	4
Operating profit	**4 926**	4 144	19
Trading profit	**4 781**	3 918	22
Free cash flow	**2 360**	1 789	32
Core headline earnings per ordinary share (SA cents)	**437**	352	24
Earnings per ordinary share (SA cents)	**336**	79	>100
Headline earnings per ordinary share (SA cents)	**341**	78	>100
Net asset value per ordinary share (SA cents)	**2 291**	1 372	67

KEY PERFORMANCE INDICATORS

As at 30 September	2018 reported	2019 currency impact	2019 organic growth	2019 reported	2019 versus 2018 reported %	2019 versus 2018 organic %
90-day active subscribers ('000s)	17 645	**n/a**	**1 232**	**18 877**	7	7
South Africa	7 597	**n/a**	**566**	**8 163**	7	7
Rest of Africa	10 048	**n/a**	**666**	**10 714**	7	7
90-day active ARPU (R)						
Blended	200	**1**	**(12)**	**189**	(6)	(6)
South Africa	308	**–**	**(16)**	**292**	(5)	(5)
Rest of Africa	115	**2**	**(6)**	**111**	(3)	(5)
Subscribers ('000)	13 900	**n/a**	**1 152**	**15 052**	8	8
South Africa	7 206	**n/a**	**469**	**7 675**	7	7
Rest of Africa	6 694	**n/a**	**683**	**7 377**	10	10
ARPU (R)						
Blended	249	**1**	**(15)**	**235**	(6)	(6)
South Africa	326	**–**	**(15)**	**311**	(5)	(5)
Rest of Africa	166	**3**	**(11)**	**158**	(5)	(7)

GROUP FINANCIALS

Period ended 30 September	2018 IFRS R'm	2019 currency impact R'm	2019 organic growth R'm	2019 IFRS R'm	2019 versus 2018 IFRS %	2019 versus 2018 organic %
Revenue	24 782	**192**	**681**	**25 655**	4	3
South Africa	16 686	**–**	**266**	**16 952**	2	2
Rest of Africa	7 411	**132**	**253**	**7 796**	5	3
Technology	685	**60**	**162**	**907**	32	24
Trading profit	3 918	**(443)**	**1 306**	**4 781**	22	33
South Africa	5 378	**–**	**(222)**	**5 156**	(4)	(4)
Rest of Africa	(1 577)	**(405)**	**1 152**	**(830)**	47	73
Technology	117	**(38)**	**376**	**455**	>100	>100
Revenue	24 782	**192**	**681**	**25 655**	4	3
Subscription fees	20 422	**114**	**703**	**21 239**	4	3
Advertising	1 673	**20**	**(55)**	**1 638**	(2)	(3)
Set-top boxes	900	**1**	**(53)**	**848**	(6)	(6)
Technology contracts and licensing	685	**60**	**162**	**907**	32	24
Other revenue	1 102	**(3)**	**(76)**	**1 023**	(7)	(7)
Operating expenses	20 864	**635**	**(625)**	**20 874**	–	(3)
Content	8 223	**263**	**463**	**8 949**	9	6
Set-top box purchases	3 113	**84**	**(667)**	**2 530**	(19)	(21)
Staff costs	2 792	**64**	**222**	**3 078**	10	8
Sales and marketing	1 094	**11**	**(72)**	**1 033**	(6)	(7)
Transponder costs	1 288	**41**	**(11)**	**1 318**	2	(1)
Other	4 354	**172**	**(560)**	**3 966**	(9)	(13)

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

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

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

www.multichoice.com

Bastion

By Simon Brown

TRADING TIPS

How to count your losses

Following on from his previous column, Simon Brown offers advice on how traders should employ stop-losses to manage risk.

In the previous issue (7 November), I wrote about trading, and in particular about gearing via the use of derivatives, as well as what we should (or shouldn't) be trading. I promised to return to the other two parts of the equation: How to employ a stop-loss and how to manage risk.

Let's start with stop-losses, because without this a trader will go bust. It's as simple as that.

But, firstly, it is important to note that I am referring to trading and not to long-term investing. A long-term investor has a stop-loss, but it is a different beast based more on fundamentals rather than pure price.

For a trader a stop-loss is simply a pre-determined price at which they will accept that the trade is going wrong and then exit. This is done to preserve capital. It is very important that the stop-loss level is decided before the trade is entered into and that it is rigidly adhered to.

The only time you'd move a stop-loss is when you are moving it in your favour. When the share price moves up, you adjust the stop-loss upwards. But when the price turns downwards, you leave your stop-loss intact.

The really hard part is determining where to place the stop-loss. I typically use a 'dumb' stop-loss; one that is a certain percentage away from entry. You can also decide to be fancier and check chart levels before deciding the best price at which to put the stop-loss. One could even use technical analysis such as a MACD (moving average convergence divergence) cross or the like, albeit a technical stop-loss will usually be fairly wide.

On the point of a wide stop-loss: Ensure that you give your trade time to mature and move. I often see equity traders place stop-losses of between 1% and 2%. But a small dip in the price and they're out – only to see the trade then surge in their direction… without them.

Afterwards, they blame the concept of stop-losses, whereas the placement was in fact the culprit. I'll say it again: Without a rigid stop-loss process and execution, you will go bust. Every time. Sure, it's hard, but it is critical.

The second point is risk management. This element includes the use of a stop-loss, but it also includes position size. In other words, how big should the trade be?

What I usually see here is trades that are far too large for the capital being used. For example, a R10 000 account risking a R3 500 stop-loss in a single trade. Three losses in a row (which is very likely, especially for a beginner) and it's game over. All your capital is gone.

Here one needs to use the 2% rule. This rule states that you should only risk 2% of capital in any one trade. The R10 000 portfolio can risk 2% or R200 in a single trade. With trading costs added, it simply means that proper risk controls cannot be used. Sure, that means smaller trades, but it also means that a short string of losses won't wipe you out. Using the 2% rule, it'll take almost 50 losing trades before you will go bust. Importantly, smaller trades are easier emotionally as the money involved is not inducing stress.

Trading is easy but, like any other skill, it needs to be learned and that process will take years. Risk management helps to ensure that those years don't cost you a fortune.

The next step in the process is then to know your 2% amount as per above. Determine your stop-loss, say 800c. Then if entry is at 900c, you have 100c risk per share/contract for difference (CFD) and you divide that into the 2% value to determine how many shares or CFDs to enter into.

What the astute reader would have spotted by now, is that the 2%-rule means a small amount of capital. And that means you can't enter into proper risk. Correct. You need a decent amount to start. The cheapest place to start is the mini Alsi (Almi) with a minimum investment of R10 000. Shares or CFDs need a minimum of R50 000 (double this amount is better), while forex requires at least $5 000.

A final point. Trading is easy but, like any other skill, it needs to be learned and that process will take years. Risk management helps to ensure that those years don't cost you a fortune. ■

editorial@finweek.co.za

Using the 2% rule, it'll take almost 50 losing trades before you will go bust.

Photo: Shutterstock

finweek

FUND FOCUS

YOUR QUARTERLY REVIEW OF SA FUNDS

NOVEMBER 2019

SMART INVESTORS DON'T PANIC

By Leon Kok

OVERVIEW

Rising above in an age of turbulence

As this decade comes to a close, there is cause for celebration, despite the extremely difficult operating environment that investors have faced in recent times.

Much of the South African asset management industry has a considerable amount to celebrate at the end of the second decade of the 2000s.

True, it's been an immensely difficult period to navigate, yet for the most part investment houses highlighted by *FundFocus* have notched up inspiring returns given the difficult conditions they've faced.

If anything has been learnt, the quantitative assets that traditionally made countries and markets rich in the past are by necessity having to be replaced by qualitative features, such as good leadership, well-directed and efficient organisation, motivation and self-discipline.

As the experiences of Argentina and Venezuela show, it's difficult to maintain prosperity amid chaos. More bluntly, if countries wish to become wealthier, their leaders must learn to behave better. The economic damage already inflicted by corruption and gross mismanagement in SA is hard to overstate and has become endemic.

The flipside is that today you have the wider world at your fingertips. Three decades ago, you had direct access to few, if any, offshore, funds in SA. Now you have a host of these funds pushing beyond the frontiers of traditional asset classes like SA stocks, bonds and money market funds.

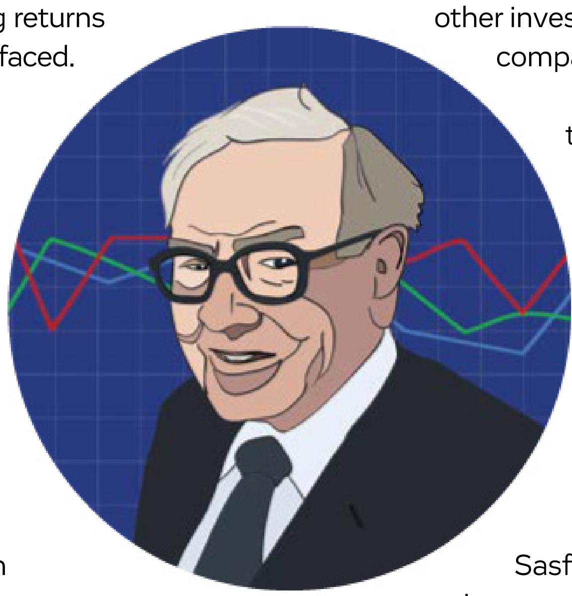
International assets improve your portfolio by diversifying economic, jurisdictional, industry and company-specific risks without necessarily reducing expected long-term returns, notes Coronation's Pieter Koekemoer in this edition.

"The more than 5 000 investible shares in the global universe allow access to growth opportunities, industries and geographies not available in the local market," he says.

However, investing offshore is a question of how, not when, he warns. "For instance, while global markets have been generally flat in the third quarter of this year, the rand has weakened, and SA Inc. shares have remained under pressure. Yet Coronation's funds have turned in reasonable performances, with a more than 3% benchmark outperformance for the group's equity and Top 20 funds."

Investec Asset Management's Paul Hutchinson provides a host of tips to maximise your unit trust returns, ranging from choosing the right fund for your purposes to de-risking your portfolio. There is much research, he says, that supports the view that investor behaviour can be a destroyer of investment returns, and that investors should "stay the course".

Allan Gray's Radhesen Naidoo presents the case for contrarian investing or "swimming against the tide". This, for instance, means hunting for opportunities in areas other investors overlook. It leads to investing in companies long before they become popular.



Warren Buffett
Chairman and CEO of Berkshire Hathaway

"If you had the foresight and courage to invest in Apple shares back in 2007, your investment would now have risen over ten times," he says. "Investing in Nokia at the same point in time, when it was well-known and widely used, would have been an easier decision, but you would have lost a lot of money. Going against the crowd then would have been uncomfortable."

Talking about going against the grain, Sasfin's David Shapiro argues the case for investors establishing their own personal share portfolios instead of outsourcing them to another person or institution.

And for those who are willing to do so, he believes, now is as good a time as any. It may be thought that establishing a share portfolio cannot be done in a vacuum, but Sasfin Securities, for instance, conducts its own independent research and has a team of advisers to guide investors.

Starting up your own share portfolio, you could do no better than take a leaf from Warren Buffett's experiences. He purchased his first stock at age 11 and worked in his family's grocery store in Omaha. His father, Howard Buffett, also owned a small stockbroking firm, and Warren spent many days watching what investors were doing and saying. The rest is well-chronicled.

Two of Buffett's quotes that I particularly enjoy, are "Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1", and "Remember that the stock market is a manic depressive!"

Worth $85bn today, Buffett promised to give away over 99% of his fortune and recently donated $3.6bn to charity, much of it to the foundation of his friends Bill and Melinda Gates. In 2010, he and Gates launched the Giving Pledge, asking billionaires to commit to donating half their wealth to charitable causes.

Wishing all a blessed year-end, a jovial festive season and a marvellous 2020. ■

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

CONTENTS

23 Q&A
Frank views on local equities

24 Allan Gray
Are you comfortable swimming against the tide?

25 Investec Asset Management
When to sell

26 Sasfin
The smart way to make money

27 Coronation
Investing offshore is a question of how, not when

28 Last Word
The bottom line for fund investors

Photo: Shutterstock

By Leon Kok

JSE

Frank views on local equities

Given the current economic climate, where should local investors look for value on the JSE?

Investing money may seem daunting to many, but an enormous amount can be learned from Prudential Investment Managers' Cape Town-based equity team, which consecutively emerged as the Morningstar 'Best Fund House (Large Fund Range)' between 2016 and 2018.

We put several questions to head of retail distribution at Prudential Investment Managers, Hamilton van Breda:

The domestic stock market may look cheap now, but equally you wouldn't buy a new house in an impaired neighbourhood. What's different regarding the JSE? Any reason for confidence on returns going forward?

As a value-based manager, Prudential has reason for cautious optimism going forward. We regard the current valuations as an equity-buying opportunity for investors – especially those investing for longer-term goals like retirement. The South African equity market is valued at quite attractive levels by most measures, representing a discount of around 20% to 25% compared to its own history. It was last at such cheap levels in early 2009 as it was starting to recover from the global financial crisis.

Although many investors are arguing that "this time it's different", and that today's low equity valuations are merited, the current concerns over SA's low economic growth, corruption and budget deficit are certainly nowhere near as threatening as the conditions during the global financial crisis were. We believe investors would be adequately rewarded for taking on these risks. It is also important to keep in mind most earnings from JSE companies come from outside of SA and are therefore not directly linked to the SA economy and slow growth.

Should all things remain the same, with no change in valuations, we estimate that SA equities are priced to deliver a return of around 14% per year over the next three to five years. This is attractive compared to the risk involved.

Of course, we don't know how or when these prospective returns will materialise, only that, based on its past performance over decades, the equity market typically delivers excellent returns over the long term from such cheap valuation levels.

Warren Buffett describes the stock market as a "device for transferring money from the impatient to the patient". Does that hold locally?

Most definitely. Patience is currently one of the most requisite qualities for SA investors. Investors who have lacked patience with equity returns over the past few years and haven't maintained an appropriate exposure now have to decide when to lift their equity exposure again. With current attractive valuations, we believe they should start now.

Should all things remain the same, with no change in valuations, we estimate that SA equities are priced to deliver a return of around

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per year over the next three to five years.

Hamilton van Breda
Head of retail distribution at Prudential Investment Managers

Photo: Supplied

Although there could be more downside in the shorter term, history has shown that most investors miss the big rallies because they are out of the market; and then typically start to move back into equities only after the historical returns have started to improve, which means by definition they've missed out on a large part of the returns. Our research shows that missing the five best weeks on the JSE between 2000 and 2019 would have cost investors 44% in returns.

The Prudential Equity Fund is weighted towards the JSE's largest companies with an offshore flavour such as Anglo American, Naspers* and British American Tobacco (BAT). Why is this?

Prudential favours companies that have attractive valuation metrics and offer the potential for upside surprises to earnings, or where we believe the market may be too pessimistic. Anglo American's valuation metrics are attractive at prevailing commodity prices, for example. The group also has upside risk to consensus earnings expectations.

Over the last few years Anglo has had better fiscal discipline, has decreased costs and is now cautious in committing to projects. Its balance sheet has also strengthened over the last 18 months, with continued good cash generation at prevailing prices.

As for BAT, the company is trading at a very high dividend yield of 7% and we expect this to grow around 10% per year for the next five years – despite the risks that tobacco companies face. BAT is at the forefront of offering its customers alternative products that reduce harm and we expect this trend to continue. BAT is also aggressively reducing costs, which should improve future profitability.

Likewise, there's a strong weighting towards financial services companies at 25% of the equity fund's portfolio. Why is that?

We are broadly underweight retailers and overweight banks in the Prudential Equity Fund. While most of these shares are relatively cheap, we believe financial services companies face fewer headwinds than other consumer-focused companies like retailers. For example, Absa has been trading at attractive forward price-to-earnings ratio (P/E) and dividend yield valuations relative to its own history and to the market, and the business continues to offer interesting growth opportunities.

Meanwhile, Standard Bank offers access to a superior pan-African franchise. We expect significant cost-cutting as the business benefits from its recent IT spend, and we see this supporting an improvement in returns. While its forward P/E multiple remains closer to fair value, we think that the consensus earnings expectations are conservative. The forward dividend yield remains attractive and secure as the bank has some of the highest capital values in the sector. ■

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

INVESTMENT STRATEGY

Are you comfortable swimming against the tide?

'Contrarian' is usually defined as opposing or rejecting a popular opinion or current practice. Using this approach in investing could help to find value in an investment world which can be noisy and distracting.

The simple economics of supply and demand illustrate why following the crowd is not good for investing: If there is an increase in demand for an item, but supply is limited, prices tend to rise. But this does not necessarily mean the item is more valuable or that you are getting more value for your money; it simply means you are spending more.

This is the view of Radhesen Naidoo, business analyst at Allan Gray, who uses an example to explain the concept: If there is an item you really like, but you put off buying it and then find it on sale, don't you feel like you have scored?

"Similarly, when we think about investments, as a contrarian investor, we are cautious when prices are rising, as paying too much is the easiest way to lose money," he says.

Smart ideas

Naidoo says that Apple and Samsung smartphones weren't always popular. When Apple initially launched the iPhone in 2007, it was revolutionary and new. It arrived from nowhere to eventually unseat the market leader: Nokia.

Back in 2006, Nokia dominated the mobile phone market. At the time, it may have appeared to be an obvious company to back. But while Nokia was busy selling millions of phones, Apple was developing the iPhone, and Google was getting industry players together to build open-source technology for smartphones. Nokia wanted nothing to do with Google's venture, and within two years, the company was in crisis, losing market share and ultimately its brand status.

"If you had the foresight and courage to invest in Apple shares back in 2007, you would have benefitted from the value that has now risen over ten times. Investing in Nokia at the same point in time, when it was well-known and widely used, would have been an easier decision – but you would have lost a lot of money. Going against the crowd back then would have been uncomfortable," says Naidoo.

He explains that if you invest before the crowd starts to pay attention, you can benefit tremendously, but identifying the winners takes careful research, high conviction and a bit of luck.

How does this relate to contrarian investing?

Naidoo explains that contrarian investors hunt for opportunities in areas other investors overlook. This leads to investing in companies long before they become popular.

Radhesen Naidoo
Business analyst
at Allan Gray

Photo: Supplied

"We have found select companies in African markets that are not well-known and are under-researched. The countries themselves have a host of political, economic, liquidity and regulatory challenges, and these factors make investors nervous. As a result, there are fewer willing investors than in more developed markets."

Another application of a contrarian approach is investing in areas where levels of pessimism are above normal, resulting in share prices being unusually cheap, such as before and after the tech bubble in 2000.

"During the tech bubble, we avoided the very popular technology shares. They were the flavour of the month, with prices skyrocketing and investors piling in, afraid to be left out of the party. We were nervous: In our view, there was more to lose than to gain. The market did not agree with us, though, and our returns were under pressure. Eventually, it all came crashing down. While it was extremely uncomfortable at the time, our approach paid off," says Naidoo.

Following the crash, technology stocks, once the darlings, were given pariah status. Unloved and unwanted, they began to attract Allan Gray's attention. Some of these businesses would survive and eventually show their worth again.

"We initially invested in Dimension Data during 2002, following the tech bubble, and then again during 2005 and 2006. It added tremendous value to our funds and was eventually bought out in 2010. Again, taking a contrarian approach paid off."

What does this mean for investors?

"To get the benefit of a contrarian investing approach, you must remain committed during some very uncomfortable moments. You must be comfortable with a fund that underperforms at times, owning the unpopular companies, and not owning the popular ones when they are doing well," says Naidoo.

Today, several opportunities may appear to be out of sync with the market for contrarian investors and as a result, performance is under pressure.

"Generating client wealth over time requires contrarian investors to make unpopular decisions. Throughout these testing periods, we continue to apply the same approach. There is old wisdom which suggests tasks that require discipline are the most value-adding over time. Our investment approach is no different," concludes Naidoo. ■

By Paul Hutchinson

FUNDAMENTALS

When to sell

Changing your investment strategy is generally ill-advised. However, there are certain warning signals that should prompt you to re-evaluate a fund you might be invested in.

Generally, you should not alter your investment strategy or its execution – unless it was incorrect at the outset, or your personal or financial circumstances change.

Absent these changes, the basic rule is: "Do not let shorter-term market fluctuations and negative market commentary sway your commitment to your long-term investment goals." Research supports the view that investor behaviour is a destroyer of investor returns, and that investors should "stay the course".

Having said that, we believe you should re-evaluate a fund in which you are invested if one of the following warning signals is triggered:

Change in the portfolio manager or team of supporting analysts

The portfolio manager is the key individual responsible for delivering on a fund's investment objective. Prior to making your investment, you and your financial adviser should have evaluated the portfolio manager's ability to deliver on the fund's mandate. A change in the portfolio manager requires an evaluation of the new portfolio manager's ability to continue to deliver the fund's mandate.

In most instances, a portfolio manager is supported by a team of investment analysts. It is likely that these analysts play a significant role in the fund meeting its investment objective over time. Therefore, changes to the analyst team also necessitate a re-evaluation of the fund.

Evidence of investment philosophy drift

When selecting a fund to assist you in meeting your long-term investment objectives, you may have done so based on the portfolio manager's investment philosophy. This may, for example, include a focus on value, growth or momentum investing. It may be that after a period of underperformance, due to the investment style being out of favour, the portfolio manager starts to drift away from the fund's investment philosophy. This style drift will likely result in the fund neither meeting its investment objective over time, nor fulfilling the role for which you selected it.

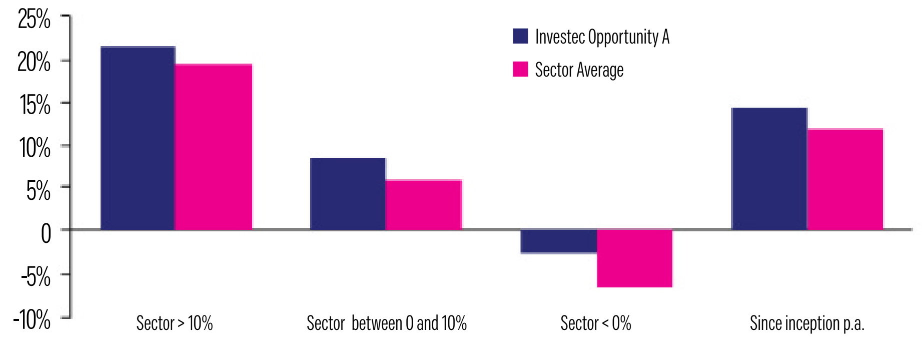
Asset manager corporate action

Change in the ownership structure, particularly where the asset manager has been acquired by a third party, can be very distracting to all staff, including investment professionals, if it is not managed properly. Portfolio managers and investment analysts are human, and a change in ownership could result in an inward focus. Independent and focused asset managers with significant staff ownership are well-aligned to deliver on client expectations over time.

A better alternative emerges

While the fund which was selected may continue to meet its investment objective over time, it may be that a better alternative emerged. It is important that financial advisers, and their support team or fund selection partners, continue to research the fund peer group. If an alternative fund consistently delivers better risk-adjusted returns, it may make sense to introduce this fund into your portfolio.

INVESTEC OPPORTUNITY FUND – RELATIVE STRENGTH WHEN MARKETS DECLINE OR MOVE SIDEWAYS



* Data since May 2000

SOURCE: Morningstar, dates to 30 June 2019, NAV based, inclusive of all annual management fees but excluding any initial charges, gross income reinvested, fees are not applicable to market indices, where funds have an international allocation this is subject to dividend withholding tax, in rand.

Value for money

You need to ensure that you are sufficiently rewarded over the long term for the investment management fee you're paying. A lower fee may not necessarily indicate a better fund performance. Similarly, a higher fee needs to be scrutinised to ensure that you get value for money.

Luck rather than skill

When making the initial investment, your analysis suggested the portfolio manager had a demonstrable skill. But over time it now appears that, for whatever reason, this outperformance proved to be based on luck rather than skill. A re-evaluation is warranted – luck isn't enduring over time.

Material changes to the economic and investment environment

Over time, economies are expansionary and investment markets deliver positive returns. However, at times both become over-heated. At this point it may make sense to de-risk your portfolio by reducing exposure to high beta funds, or those funds that follow a momentum investment philosophy, for example, and introducing more defensively-positioned funds to your portfolio – for example funds that follow a quality investment philosophy. Unfortunately, timing such a move is difficult and therefore it makes sense to include a defensively-managed fund to which you maintain exposure throughout the cycle.

While funds such as the Investec Cautious Managed, Opportunity or Global Franchise Funds meaningfully participate in strongly positive markets, they demonstrate the true strength and quality of the team's approach when markets decline or move sideways. The result is that they outperform throughout the market cycle, as illustrated in the above graph of the Investec Opportunity Fund. This enduring performance has proven beneficial to long-term investors.

While this list is not exhaustive, it provides some warning signals that should trigger the re-evaluation of your current fund holdings. Importantly, any change should be carefully considered in the context of your overall investment objectives and any potential capital gains tax consequences. Again, we would recommend that this be done in consultation with a qualified financial adviser. ■

Paul Hutchinson is sales manager at Investec Asset Management.

By Leon Kok

EQUITIES

The smart way to make money

Shares are among the best investments available for an ordinary person. Even if it may seem daunting to some, there are practical steps you can follow to help you identify good investments and manage your stock portfolio.

Most people are frightened of investing on the stock exchange. Especially if they're nearing retirement or are retired, as people often are when they have substantial sums of money that could be invested in shares.

Despite this, shares are among the best investments available for an ordinary person. We spoke to David Shapiro, deputy chairman of Sasfin Securities and a regular market commentator, on what is required to get into the stock market and become master of one's own fate.

A qualified chartered accountant, he started as a broker in 1972, has held several top portfolio positions, and has earned three Raging Bull awards during the past decade alone.

He believes success comes to those who are success-driven and target-orientated: "Failure comes to those who are indifferently intolerant of disappointment and allow themselves to become failure-conscious. But if you subscribe to the former, little by little the truth unfolds itself and your ideas and actions convert to financial gain."

He provided some practical insights.

What is the biggest benefit of owning your own portfolio?

You don't abdicate the responsibility of managing it to some other person or institution who may or may not make a good job of it. If you're personally in control, you're well-positioned to maximise exposure to the best opportunities available.

Is now a good time to start a new portfolio?

It's always a good time to start a new portfolio. There will always be companies doing well because they're well-managed, are well-resourced, and are tapped into excellent economies and sectors. As a growth investor, I find companies every day that offer enormous promise.

How do you identify them?

You've got to do your homework, but there is almost no limit to the extent that you can garner information and knowledge. This can range from the domestic financial press, to the likes of the *Financial Times,* the internet, webcomics, AGMs and personal meetings with management.

Is your firm able to advise clients?

Absolutely. We don't consider ourselves geniuses – you just need to be smart! We do our own research and we seek out top businesses domestically and globally. These companies need to fit the criteria we consider important, such as management, sustainable earnings, strong cash flow and dominance in their market.

How important is liquidity?

It is paramount. I will never buy a company whose shares I can't dispose of. It can become a terrible value trap. We believe that you should only buy those companies in which you can acquire as many shares as you want to and be able to sell them immediately if need be.

David Shapiro
Deputy chairman
of Sasfin Securities

Photo: Supplied

Does that suggest that you're largely a large-cap investor?

Yes, especially those that are dominant. Invariably, they have proven management, good balance sheets and can overcome occasional misfortunes.

How would you spread your portfolio globally? Are you copying the MSCI World Index, for example?

We seek out only those companies that we like. We're oblivious to geographic location.

What is your penchant for major global technology stocks?

We still like the big ones such as Facebook, Alphabet, Amazon, Apple, Microsoft, Google and Tencent despite regulatory and other challenges. True, it would've been hard to hold these stocks through their big ups and downs over the last 15 years. But had you bought Apple after the bust (around 2001 to 2004) and held your shares until today, you'd be sitting on a gain of over 20 000% right now. Amazon would've handed you gains of over 30 000%.

Any stocks, besides the above, that have major appeal?

It is probably a Dutch company called ASML, which is the world's largest supplier of photolithography systems for the semiconductor industry. Having 23 000 employees, it operates across Europe, Asia and the US with annual revenue in the region of €10.9bn.

Thematically, what crosses your mind?

From a global perspective, my starting point would be "who has the money and where are they spending it?" I consider travel, such as aircraft manufacturers, and luxury goods as important sectors. In the health sector, we tend to go for medi-tech stocks such as Philips, which is involved in the manufacturing of diagnostic medical equipment.

Financial services, particularly banks?

I'm very cautious of them. In SA, for instance, it's a tough area to operate in given the state of the economy and the difficulties of selling financial products. True, high yields are on offer, but capital growth is limited. The big banks domestically will provide you with a certain amount of investor stability, but they won't shoot the lights out.

Abroad, it's also difficult given the negative interest rates. If I'm forced to, I'll buy JP Morgan or Bank of America. I also like Allianz in Europe. And the best of all are Visa and MasterCard, which for all intents and purposes are licenses to print money.

Mining stocks?

If you're looking to the JSE alone, BHP and Anglo American are perhaps worth considering for the long term but, remember, that much will depend on the growth of the global economy. That said, while the local sector has been deemed to be a sunset sector, investors have reaped good dividends of late. ■

By Leon Kok

PORTFOLIO MANAGEMENT

Investing offshore is a question of how, not when

As recently relayed by our finance minister, the economic outlook for South Africa is rather bleak. However, investors should remain measured when making decisions about their investment portfolios.

Finance minister Tito Mboweni, in his recent medium-term budget policy statement, provided a difficult outlook for investors over the short and medium term, but investors need to be measured in their reaction to the worse-than-expected economic outlook delivered by the minister when making investment decisions.

This is the view of Pieter Koekemoer, head of Coronation Fund Managers' personal investments business. A qualified chartered financial analyst, he joined Coronation two decades ago, and has participated in its fund development throughout.

He explains that the debate about the appropriate fund allocation to international assets is closely associated with weak domestic confidence.

Pieter Koekemoer
Head of personal investments at Coronation

"With much better returns from global markets, especially US equities, over the past decade, you often hear the argument that you should sell all your local investments and only invest offshore," says Koekemoer. "This is a sentiment-driven view that assumes that the future will play out exactly as the most recent past. A more reasoned response would be to implement a well-considered, long-term investment programme, informed by your own circumstances, that appropriately diversifies your risks across jurisdictions, geographies, sectors and companies."

Coronation understands that many local investors may feel unsettled at present. Yet, he says, it's not a question of when to invest offshore, but rather how.

"International assets make your portfolio better by diversifying economic, jurisdictional, currency, industry and company-specific risks without necessarily reducing expected long-term returns," says Koekemoer. "The more than 5 000 investible shares in the global universe allow access to growth opportunities, industries and geographies not available in the local market."

The flipside, he warns, is that no specific or geographic-specific assets win all the time. "While it's true that global markets have performed better than local markets over the past decade, this has not always been the case," says Koekemoer. "Over the past 20 years, local markets materially outperformed global markets, as the outcomes through most of the 2000s were very different to more recent performances. And there is no guarantee that any specific outcome will be repeated over the next decade."

In Coronation's context, you already have considerable international exposure if you're invested in one of its multi-asset class funds, he says.

This allocation consists of direct and indirect offshore exposure, with the effective rand-hedge exposure of their long-term growth-oriented Balanced Plus and Market Plus funds typically being more than 50% of the portfolio. For the more conservative Capital Plus and Balanced Defensive funds, this allocation is somewhat lower, at 30% to 40%.

Each of these funds provide the easiest way to gain hassle-free international exposure, as the client mandates to Coronation the scope of international allocation on his or her behalf.

In addition, says Koekemoer, it's easy to top up your investment or to draw an income from these funds, as they are accessible with low minimum investment requirements, and can be used in tax-efficient investment vehicles such as retirement annuities and tax-free investments.

But if you want more international exposure, you can also invest in rand-denominated international funds, according to him. "You may want to do this with your discretionary (non-retirement) savings in order to further diversify your risk," Koekemoer says. "The reality is that by living, working and owning a home in SA, you already have significant country-specific risk, suggesting perhaps that you ought to have additional international exposure."

"The reality is that by living, working and owning a home in SA, you already have significant country-specific risk, suggesting perhaps that you ought to have additional international exposure."

This can be achieved by investing in, for example, the Coronation Global Managed and Coronation Optimum Growth funds. Their top stocks include, among others, Google's owner, Alphabet Inc., British American Tobacco, Charter Communications, The Blackstone Group, Airbus SE and Citigroup Inc.

Koekemoer says that while these funds provide economic diversification, they still operate under the laws of South Africa and therefore do not diversify jurisdictional risk, such as exchange controls which limit the amount that asset managers can invest outside of SA on behalf of clients.

"If you have a substantial amount to invest offshore, you can externalise your rands and invest in a fund incorporated in another country, most often in the EU," says Koekemoer. "In this case, the laws of the country of incorporation govern your investment."

Coronation offers a range of funds incorporated in Ireland with the same economic exposure as their rand-denominated international funds, but with the added benefit of jurisdictional diversification. These offshore-domiciled funds have a minimum investment amount of $15 000.

The downside of investing through this route is more complex administrative requirements due to cross-border banking, and you must apply for South African Revenue Service clearance if you want to invest more than the R1m annual offshore allowance for individuals. ■

Photo: Supplied

By Leon Kok

OUTLOOK

The bottom line for fund investors

The reality is that the prospects for South Africa's economy remain lacklustre and investors should prepare accordingly.

In the shadow of weak economic growth during the past five years, many South African investors have become pretty fed up with being told that we ought to be grateful for a scenario that isn't as bad as it's often made out to be.

Finance minister Tito Mboweni's good work notwithstanding, the negatives are well-documented. This includes reported high-level corruption, higher fiscal deficits and a precarious government debt profile. Approximately R70bn in foreign investment funds have departed SA this year.

Here's the bottom line for fund investors. Stocks could slump further, whether the economy slackens on its own, or is driven by further inept administration, significant outflows of capital, disappointing earnings reports and global vertigo.

The situation will only turn once the global scene improves, the current corporate earnings downturn is over, credit ratings agencies adopt a more positive view, foreign investors pile into funds again, and a bull market is reignited.

Is this likely to happen in 2020? I doubt it. We're probably in for more of the same. It's imperative, therefore, that you cover your back by investing in top-quality SA multi-asset equity funds.

The best-performing sub-sector during the past three years, not surprisingly, has been low-equity funds. Among big-name annualised performers are Absa Inflation Beater Fund at 8.33%, Sasfin BCI Stable Fund at 7.3%, SIM Inflation Plus Fund at 7.01%, Investec Cautious Managed Fund at 6.85%, Old Mutual Real Income Fund at 6.78%, and Allan Gray Stable Fund at 6.42%.

Besides small equity allocations, these portfolios invest in a mix of assets, including money market instruments, bonds, property and commodities. They may also invest a maximum of 30% of their funds offshore, with an additional 10% allowed for investments in Africa outside of SA.

Though ranked at the bottom end, the Allan Gray fund has boasted a cumulative return of 742% since inception 22 years ago, and an annualised return of 11.8% over the same period.

Funds leading in the medium-equity range over the same period include Sasfin BCI Balanced at 6.55%, Absa Multi Managed Passive Accumulation Fund (Class B) at 6.06%, Stanlib Absolute Plus at 5.98%, Foord Conservative at 5.77%, and Old Mutual Moderate Balanced at 5.42%. Their primary objective is to provide investors with moderate levels of income and capital growth over the long term.

The Sasfin BCI Balanced Fund is managed by Philip Bradford, whom we reported on extensively in our June edition. A Raging Bull Award winner, he also manages the highly successful Sasfin BCI Flexible Income Fund.

Among the riskier top-end, high-equity funds are the Investec Managed Fund with a 6.8% annualised return over three years, followed by the Sasfin BCI Prudential Fund at 6.13%, Investec Opportunity Fund at 5.72%, and Old Mutual Balanced Fund at 5.28%.

The R16bn Investec Managed Fund and R44.2bn Investec Opportunity Fund are managed by two of that group's most experienced portfolio managers, Gail Daniel and Clyde Rossouw, respectively. The Managed Fund's annualised performance over the past 20 years is around 13.3%, its highest annualised return 47.9% in April 2006, and the lowest annualised return -22.7% in February 2009.

Among the pure general equity funds, I'm comfortably inclined towards the Prudential Equity Fund with a 4.68% three-year annualised return, Prudential Dividend Maximiser Fund at 4.36%, and the PSG Wealth SA Equity Portfolio at 3.65%.

Some general tips

A long-term programme of steady investment in high-quality funds is the best way to reach your financial goals. Thus, you need to base your ratings on more than just a short-term outlook for the year ahead. You also need to consider the soundness of each fund's strategy, its long-term record, management continuity and expenses.

If it turns out to be a sub-par performer, you will obviously want to replace it. However, give a fund at least a year to prove itself. And if you're in, say, a low-equity, multi-asset fund, you might give it two years. Some well-managed funds can drop below their sector averages occasionally. You must be patient.

After two years, however, it's time to take your money out of the fund if it languishes its peers or benchmark, such as the inflation rate or the JSE All Share Index.

And if the fund itself changes, think back on the reasons that initially led you to investing in it. If it no longer fits those criteria, you should consider looking for a replacement. Asset management groups, for instance, seldom notify investors that a portfolio manager has left. But if you notice changes in performance, volatility or investment style, a new hand may be at the helm. To find out for sure, ask the fund. ■

After two years, it's time to take your money out of the fund if it languishes its peers or benchmark, such as the inflation rate or the JSE All Share Index.

Photo: Shutterstock

By Schalk Louw

EQUITIES

Mid-cap stocks to consider

Until recently, the Mid-Cap Index was delivering a lacklustre performance. However, the tables have turned and currently there is good value to be found in this segment of the local market.

With the Rugby World Cup behind us, we can proudly say that we are the world champions. We destroyed England in the final. This when, in March 2018, there was absolutely no excitement about this year's World Cup on a local front. Few South Africans would have expected a performance that would see us win.

The most important lesson we learnt from the whole experience, is how quickly momentum can spin in your favour when the wheels start to turn.

When you take a look at the local stock exchange, you will see that we had a very similar experience with mid-market capitalisation shares (mid-caps). The FTSE/JSE Mid-Cap Index consists of shares listed on the JSE that fall outside of the 40 largest shares, but within the top 100. In other words, mid-caps account for the top 41 to 100 largest companies listed on the bourse according to market capitalisation.

When you work your way through these 60 companies, you will see that most of them generate their earnings within the borders of South Africa. Therefore, most of them feature as so-called "SA Inc." companies.

These stocks, unsurprisingly and with a dark cloud obfuscating their outlook, underperformed the major stock index in the three months to the end of July. The FTSE/JSE All Share Index with its 5.6% return, and underperformance of even the local money market, still beat the mid-caps with their -1.4% return over the three-month period.

Not unlike the Springboks, these mid-cap shares were pretty much a write-off at the time.

However, a mere three months later and the tables have turned. Of course, we don't want to get ahead of ourselves. But not only did the JSE recover nicely, mid-caps also managed to run away from their opponents at warp speed.

As at the end of October 2019, the All Share Index was trading positively at 10.5% for 2019, growing by 3.1% in October alone. Mid-caps managed to more than double that performance, at 7.2%, over the same one-month period, and currently trade at 9.7% for 2019, not far behind the JSE's year-to-date performance. The fact is that value opportunities can only hide for so long before they start to emerge again.

PJ van Niekerk, equity analyst at PSG Wealth Old Oak, identified four mid- and small-cap shares that seem to be on the cheaper side, especially for those investors who believe that this recovery is still in its infant phase.

Photo: momentummetropolitan.co.za

Not only did the JSE recover nicely, mid-caps also managed to run away from their opponents at warp speed.

Momentum Metropolitan Holdings

Momentum Metropolitan Holdings engages in long- and short-term insurance, asset management, savings, investment and employee benefits. Good progress has been made with the company's "reset and growth" strategy, which is a three-year plan created in September 2018, to improve earnings to R4bn in the 2021 financial year. The group recently reinstated dividends after the completion of a R2bn share buyback programme.

AECI

AECI is an SA-based explosives and chemical speciality company. During the first six months of 2019, the group went through a process of restructuring its water processing and mining solutions segment. The benefits of the realignment projects, better rainfall in the Western Cape, and improved conditions in the mining sector could support earnings in the second half of its financial year.

Hudaco

Hudaco is involved in the importation and distribution of branded automotive, industrial and electrical consumable products for the local market. Group earnings will be dependent on economic growth and local business confidence. Despite challenging trading conditions, the group managed to deliver a satisfactory set of interim results. Hudaco is trading at a trailing price-to-earnings ratio of 9.15 and a dividend yield of 5.18%.

Coronation Asset Management

Coronation is a leading brand in the SA investment industry, with total assets under management of R571bn as at 30 September 2019. The group's returns are correlated to the performance of equity markets. At the time of writing, the All Share Index had delivered an annualised return of 8.45%. Should current market levels hold, management expects an improvement in their results for the second half of the current financial year. ■

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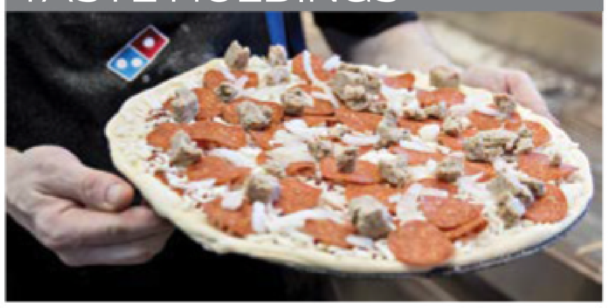
Schalk Louw is a portfolio manager at PSG Wealth.

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.

TASTE HOLDINGS



A fair price?

The sorry saga of Taste Holdings is coming to an end with a decision to exit the food business and keep its jewellery unit, a division they tried to exit two years ago. The news is also that Starbucks is being sold for R7m, which raises the first question. Surely, just the equipment and furniture in their 13 stores is worth more than that? Now, we have no idea what debt sits within the local Starbucks and the road to profit is long and, frankly, uncertain. Taste detailed this long road in a Sens announcement in February, which stated it would take R700m to get Starbucks and Domino's Pizza to break even at earnings before income, tax, depreciation and amortisation (ebitda). Taste is getting a "fairness opinion by an independent expert, acceptable to the JSE", who I will bet a coffee will give the R7m deal the green light. If I was a Taste shareholder, I would push back on the price – looking for at least an extra zero to be added to the purchase price.

...but for who?

The second issue with this deal is who's the buyer that's getting the bargain, even if it's a distressed bargain? Well, the Sens announcement mentions a company K2019548958, which CIPC shows has only one director, Adrian John Maizey. Shareholder details are not disclosed on CIPC. Maizey is a partner at Protea Asset Management LLC and sits on the boards of Taste and Conduit Capital as a non-executive director. This is important as Protea Asset Management LLC, along with Conduit Capital, own 64.5% of Taste. Taste confirms that "Rand Group Limited, which is a member of the consortium of shareholders of the Purchaser, is owned and controlled by Adrian Maizey". This makes the R7m proposed deal very much an insider buying Starbucks and, as such, a related party. Hence the importance of the fairness opinion that will need to be scrutinised.

FAMOUS BRANDS

The picture remains bleak

The Famous Brands* results for the six months to 31 August continue to be bleak. It does, however, seem that Gourmet Burger Kitchen in the UK now has the worst behind it. What strikes me, is operating margins at 11.3%. At its peak, Famous Brands' operating margin was over 20%. This means shareholders are suffering not only from bad deals and revenue that's under pressure, but also from less profit per rand of revenue. That said, part of the margin squeeze is due to aggressive pricing in order to keep customers coming through the doors and spending. Essentially, they're using margin to protect market share.

This makes the

R7m

proposed deal very much an insider buying Starbucks and, as such, a related party.

SANTOVA

Great little business

Santova's* results for the six months to end-August saw revenue up 21% while headline earnings per share (HEPS) dropped by 13.3%. Local operations struggled, with local revenue down 64% and now making up only 13% of earnings. Santova has for a while been positioning itself as a more global player and revenue generator. This has now happened, but more as a result of the collapse locally than organic offshore growth. With a net asset value (NAV) of over 320c, I continue to hold what I consider to be an excellent little business, well-positioned offshore and for when our economy starts improving.

DIS-CHEM

A pricey stock

Dis-Chem Pharmacies' results for the six months to 31 August are all right – if we strip out all the one-off costs of almost R200m. If added back, it would have seen HEPS slightly higher than the previous period. Yes, they are actual costs, but in adding them back we get an idea of how the business is doing on a day-to-day basis. The business is also suffering from the new IFRS16 reporting standards. It especially hurts them as the leases for stores are mostly new and the result is therefore a dent in earnings. But the important and real picture is that the stock remains very expensive on a price-to-earnings ratio (P/E) of almost 40 times, or with the one-offs stripped out, around 30 times. Important is that we're not seeing the growth spurt through new store openings which the company promised. As such, I do not currently consider Dis-Chem an attractive investment, even at levels below 2 500c.

Photos: Gallo/Getty Images | dischemgroup.com

PROPERTY ETFS

Reshuffle at CoreShares

Holders of the two CoreShares property exchange-traded funds (ETFs) PTXTEN and PTXSPY, would have noticed recently that these two ETFs are gone and have been replaced by a new ETF, called CSPROP*. This is because CoreShares is cleaning up its portfolio and merged the two property ETFs into one property ETF that focuses on yield. Three years' historic yield is used for the weighting in the ETF, making up 75% of the weighting with the remaining 25% being the traditional market cap of the stock. I do continue to like property as the valuations are cheap, albeit they remain under pressure. I also like the yield focus as yield is one of the core reasons for holding property. Note that property yield is taxable as interest, and not as dividends. This means that holding a property ETF in a tax-free account is most effective, unless your tax rate is below the 20% dividend withholding tax rate.

NASPERS

Too big for its indices

The JSE is looking to try and resolve the Naspers** and Prosus index weighting matters. This is especially an issue within capped indices where, for example, Naspers was, say, capped at 10%. But now Naspers remains at 10% and Prosus has slipped in at between 3% and 4%. This means that these capped indices now effectively have more exposure to Naspers than before. Broadly, I support the idea to address this issue, but I hope these aren't changes being made to a specific problem that may create other issues down the line. But, reading through the proposed changes, they do seem to be robust enough to work well over time.

STEINHOFF

A glimmer of hope

An update from Steinhoff confirmed that the company is considering listing Pepkor Europe separately as their one seriously viable business unit. It wouldn't leave much behind but would give existing Steinhoff shareholders some glimmer of hope with a separate listing away from the troubles of parent Steinhoff. This would leave Steinhoff with the 70% stake in locally-listed Pepkor Holdings, the other major asset, but that stake is more complex as it only trades locally. Therefore, any sale would see the money potentially trapped in South Africa when it's needed in Europe for legal claims and costs. However, also tucked away in the update was an admission that Steinhoff may do an "equity issuance" to help pay for the litigation against the company. In short, they mean a rights issue and I can't see shareholders being happy to have to put money in to settle legal issues.

Digging into the results, Aspen's debt looks manageable, assuming asset sales. But concerns about HEPS growth over the next few years remain.

ASTORIA

Opportunity to exit

RECM & Calibre, via its subsidiary Livingstone, is making a mandatory offer to minorities of Astoria at 240c a share. This is a legal requirement as they already hold more than 35% and 240c is the highest price they've paid for the Astoria shares. The premium is, frankly, zero but with very slim volumes being traded this may well be an elegant exit for shareholders of Astoria, a listing that never lived up to expectations.

ASPEN

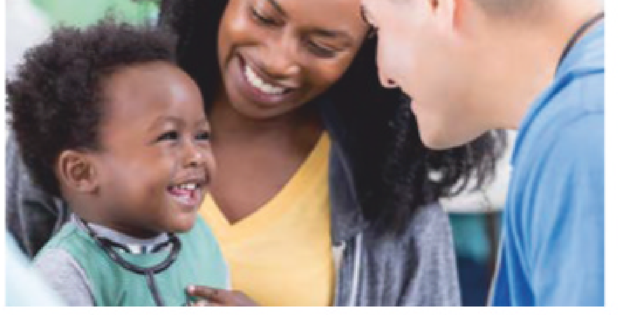


Photo: aspenpharma.com

Waiting for signs of growth

Aspen continues to struggle as seen in its results for the year to 30 June. Revenue is up a modest 1%. HEPS is down by 11%. A recent Sens announcement also states they are looking to sell another Asia Pacific region business as they continue to try and pay down debt as quickly as possible. Digging into the results, debt looks manageable, assuming asset sales. But concerns about its HEPS growth over the next few years remain. That said, the market is excited as the share has rallied to over R110 after a low of 6 400c in August. On a P/E of under ten times, the stock looks cheap. But without clear growth in the next few years, I would be nervous holding the stock. If we do start seeing some growth, then valuations look decent. But I would want to see some evidence of growth first. ■

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*The writer owns shares in Famous Brands, Santova, and CSPROP.

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

By Simon Brown

COMPANIES

Not all shareholders are created equal

One share, one vote, right? Not necessarily. With certain voting structures some shareholders will be more equal than others.

One of the core tenets of being a shareholder is that at a company's annual general meeting (AGM), every shareholder is equal. You get one vote for every share you hold. So yes, the larger shareholders get more votes, but that's because they have a larger economic interest and their voting is directly linked to this interest via the number of shares they hold.

However, this is not always the case. Via one of two different structures, some shareholders will be more equal than others.

The first is via the holding company structure that Pick n Pay used to have. In this example, Pick n Pay was held by the listed Pick n Pay Group. But then another separate entity, Pick n Pay Holdings, owned just over 50% of Pick n Pay Group.

That meant that Pick n Pay Group was effectively controlled by the holding company, of which the founding Ackerman family held just over 50% of the shares. So, the Ackerman family had effective control of Pick n Pay, but only held just over a quarter of Pick n Pay (through its holding of half of the holding company that held half of the group). This holding company structure, which is often called a pyramid structure, was undone in 2016 and a new controlling structure was put in place.

This new structure is an example of the second way of keeping control without actual control. Here the Ackerman family was given special B-shares that have no economic interest, but do have voting power.

This second method is the more common method of voting control without economic control. In the US, both Facebook and Alphabet Inc., parent of Google, use this structure to ensure the founders continue to have control even while they hold less than 50% of the shares after listing.

Locally, Naspers* also has high-voting A-shares that are not traded on the JSE, but afford the holders thereof control. In some cases, such as with Alphabet, both classes of shares trade, but the higher-voting shares have more votes; say, for example, 1 000 votes per normal share. Founders will therefore hold those shares to retain control over the company.

Most often these control structures don't cause any real issues. But the recent Shoprite** AGM saw it come to a head when ordinary shareholders effectively voted Christo Wiese off the board.

When the voting was done, 61.2% of shareholders had voted against Wiese returning to the board. That effectively meant that he no longer had a board seat.

Yet Shoprite also has shares with little economic value, but high voting rights that are held by Wiese. You'll remember he tried to get the board to buy them back from him late last year for over R3bn, but fortunately the idea was scrapped.

So, when ordinary shareholders voted him off the board, Wiese used his non-economic shares to vote in his favour and thus managed to remain on the board.

Then, a day later, the Shoprite lead independent director, Professor Shirley Zinn, resigned from the board with immediate effect. Of course, I have absolutely zero insight as to why she would suddenly quit the board. The Sens announcement on her resignation also made no mention of her reasons. But I think one could propose a very possible chain of events.

Could it be that, when Wiese used his shares to effectively override the wants of ordinary shareholders, Zinn considered this untenable and quit? With her being lead independent director, to my mind, this would make sense.

That said, Wiese is a significant shareholder in Shoprite, and he'd claim he was protecting his rights. Fair enough.

But at the end of the day, I would like to see a world where it really is just one share, one vote, with no special shares that can be used to the disadvantage of ordinary shareholders. ■

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*finweek is a publication of Media24, a subsidiary of Naspers.
**The writer owns shares in Shoprite.

Photo: Shutterstock

I would like to see a world where it really is just one share, one vote, with no special shares that can be used to the disadvantage of ordinary shareholders.

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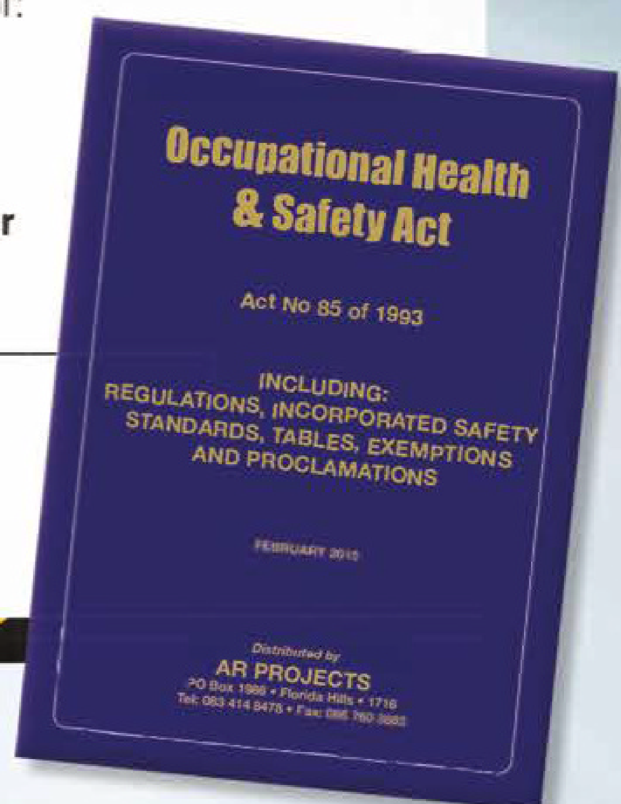

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CA$H, CA$H, BABY

Fixed-income assets, such as cash and bonds, have outperformed most equity returns over the medium term as South Africa's economic and policy woes weigh heavily on listed companies. A slew of corporate governance failures didn't inspire confidence in the once returns-lucrative stock market. Will cash continue to have the edge?

By Jaco Visser

Photo: Shutterstock

Pensioners and retail investors are turning to fixed-income investments to protect their invested capital against the lacklustre performance of equity investments. The FTSE/JSE All Share Index returned 11.49% over the 12 months ending 31 October. The All Bond Index returned 12.96% over the same period.

Retirees, who rely on capital growth in order to withdraw an annual income and ensure their capital lasts until they die, are especially hard-pressed when equity returns slump.

No wonder investors shifted their capital from pure equity funds to either fully interest-bearing funds, those invested in cash and bonds; or those with a sizeable allocation to these assets, also called multi-asset funds.

Data from the Association for Savings and Investments SA (Asisa) which, among others, monitors flows into and between funds, showed that interest-bearing collective investment schemes – typically your income, money market and bond funds – saw a net inflow of R87.55bn over the 12 months through the end of September.

Pure equity unit trusts saw outflows of R2.3bn, and multi-asset funds, which include balanced funds, saw inflows of R32.35bn over the same period.

"Several factors contributed to bonds' performance in 2019," says Londa Nxumalo, portfolio manager at Allan Gray. "These include falling global bond yields, consistently benign inflation prints in SA and local investors rotating out of equities into bonds."

Importing cheap rates

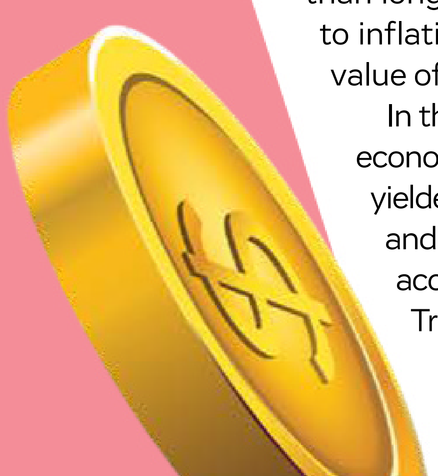
Much commentary was expensed this year as bonds' yield curve inverted in the developed markets. What does it mean, though?

The yield of a bond is inversely related to its price. This means that when the price of a bond increases, its yield drops. When the price of a bond falls, its yield increases. Bonds are issued with different maturities (the time until they are repaid). Short-dated bonds, usually called Treasury bills, have a maturity of 30, 60 or 90 days.

Longer-dated bonds range from 12 months to 30 years and in some countries even 50 years. Draw a graph of these bonds with their maturities on the horizontal axis and yields on the vertical axis and plot the yields, and you'll get a yield curve. Bear in mind that in this article the yield curve is specific to the bonds issued by a specific country's government.

Traditionally, the so-called short end of the curve – those bonds with the shortest maturities – had lower yields than longer-dated bonds. This is due to inflation, which erodes the capital value of the bond over time.

In the US, the world's largest economy, 1-month Treasury bills yielded 2.44% at the end of 2018, and 30-year bonds 3.02%, according to data from the US Treasury department.



On 5 November, the 1-month bills yielded 1.56% whereas the 30-year debt yielded 2.34%. The US yield curve inverted in mid-August, when the 30-year bonds yielded lower than the 1-month notes. An inverted yield curve points to the possibility of a recession. This inversion was gone by the second week of September.

Londa Nxumalo
Portfolio manager
at Allan Gray

Wikus Furstenberg
Head of interest rates
at Futuregrowth

"The local bond market is caught up in a sort of twilight zone," says Wikus Furstenberg, head of interest rates at Futuregrowth, about the SA yield curve. "At the short end of the yield curve, yields were forced lower by a combination of global monetary policy easing, very low – in some cases even negative – bond yields in many developed markets, strong disinflationary forces and weak economic growth."

As about 37% of SA's rand-denominated government bonds are held by foreign investors, the local issuance of bonds and the level of the Reserve Bank's repo rate is influenced by the international interest-rate market.

German government Bunds, viewed by investors as one of the most secure asset classes in the world, have negative yields. Bunds that mature in two months' time yielded -0.72% on 5 November, according to Bundesbank data. Bunds maturing in 20 years' time yielded 0%.

As investors started to look for yields, SA's government debt became attractive and lured buyers. This pushed up prices and delivered a return of above 8% to investors.

Reducing the repo

The Reserve Bank's decision to decrease the repo rate by 25 basis points earlier this year, in a bid to boost economic growth amid relatively low inflation, contributed to the positive performance of local bonds, explains Furstenberg.

"The downward movement of bond yields, the roll-down effect in light of the steep positive slope of the yield curve, as well as the interest accrued from bi-annual coupon payments, mostly benefitted bonds in the three to seven, and seven to 12-year maturity bands," he explains. The steep positive slope of the local yield curve refers to higher yields, and thus lower prices, of longer-dated bonds.

"The rising uncertainty and concern about the slippery SA fiscal path had the biggest negative impact on long-dated bonds, specifically those with a term to maturity longer than 20 years," says Furstenberg.

Photos: Supplied

18+

WHAT IS AVAXHOME?

Treasury, in a bid to plug the government's budget deficit, has been issuing new bonds on the longer end of the market and switching out shorter-dated debt with long-dated bonds, says Nxumalo.

Even if the prices of bonds don't rise any further, investors in longer-dated bonds will continue to benefit from yields far in excess of inflation.

In a low-inflation scenario, investors in inflation-linked bonds suffer low returns. These bonds – which pay an interest rate, or coupon, linked to consumer price inflation (CPI) – differ from nominal bonds, which pay fixed coupons, in that they offer some protection against the eroding effect of inflation over the long term.

"Low inflation and high nominal bond yields made inflation-linked returns relatively less attractive," says Nxumalo. Headline CPI never breached upwards through 4.5% since the beginning of the year, data from Stats SA shows. In September it was 4.1%, the second-lowest level this year after January and July's 4%.

"If inflation continues to remain low, investors may find better value in nominal bonds," says Nxumalo.

Furstenberg reckons the outlook for inflation-linked bonds, also called linkers, is better than their performance this year. They may, however, still lag the performance offered by nominal bonds and cash, he says.

Moody's mulling

Moody's Investors Service warned SA's government to lay out plans to contain its surge in debt by the February budget speech next year. Predicting the outcome of a possible downgrade in the country's sovereign debt is impossible, says Furstenberg.

During his medium-term budget policy statement, finance minister Tito Mboweni told the market that government will spend 5.9% of gross domestic product more than it will raise through taxes. National debt, he said, will jump by 50% to R4.5tr over the next three years. Thus Moody's, the last credit rating agency viewing SA's debt as investment-grade, warned government.

"One should keep in mind that a Moody's rating downgrade would be anything but a surprise to a well-informed market," says Furstenberg.

The once-off impact of a potential downgrade

Albert Botha
Head of fixed income portfolio management at Ashburton

"One should keep in mind that a Moody's rating downgrade would be anything but a surprise to a well-informed market."

is unlikely to be significant in the current global environment where there is still significant interest in emerging-market assets and a move towards risk-taking, says Albert Botha, head of fixed income portfolio management at Ashburton Investments.

"Should this change, and we get a downgrade while in the midst of a global slowdown, the effect will be more significant and long-lasting," he says.

Nxumalo sees potential for opportunity should foreign investors sell SA bonds.

"Some foreign investors would become forced sellers, which would result in yields rising and a rand sell-off, all else remaining equal," she says. "However, in reality, the sell-off would be countered by demand from local investors bargain-hunting and/or being forced to repatriate funds from offshore."

The question is whether the necessary capacity exists among funds to absorb growing issuances and a simultaneous sell-off by foreigners.

"Local investors, in combination with offshore investors, will find capacity if yields get high enough, but we can expect increased volatility in the market until a clearing level is established," says Botha.

Investment-grade rating by a credit rating agency sees a country's debt being included in indices such as Citigroup's World Government Bond Index, which has 20 sovereign nations as constituents. Many large tracker funds, including ETFs, passively follow these bond indices and need to sell underlying bonds when they're not included. Other funds are obliged to put their money only in investment-grade debt.

"It is worth noting that not all foreign investors are benchmark-cognisant or, put differently, whether SA is investment-grade or not," says Furstenberg. "The surprise would be for these so-called unconstrained foreign investors to fill the void left by the passive or benchmark-driven foreign investors."

Nishan Maharaj, portfolio manager at Coronation Fund Managers, estimates that passive investors benchmarked against the World Bond Index hold between $5bn and $7bn worth of domestic government debt. That translates to about R103bn.

"The SA bond market's turnover is between R20bn and R25bn a day," he says, to compare the possible outflow.

Money market mellow

Money market funds, which attract interest payments, yielded healthily compared with equities, despite the interest rate decrease earlier this year.

Money market returns are influenced by short-term interest rates, set by the Reserve Bank, and the demand from banks and other corporates for short-term funding, says Nxumalo.

The reduction in the repo rate benefitted money market investors who held longer-dated instruments, explains Furstenberg.

"Similar to the bond yield curve, the slope of the money market curve had been and still is fairly steep," he says. The yields of 12-month instruments are offered at significantly higher levels than cash, he explains.

The SA economy's lacklustre growth and dearth of consumer, and subsequently, business confidence, dampened demand for bank credit over the past couple of years.

"We had a very low-growth environment for a very long time," says Maharaj. "This led to low demand for corporate credit."

The lack of demand for money market funds, which supply wholesale funding to the commercial banks, has placed pressure on the spread, or difference, between the interest rates at which borrowers can borrow and the three-month Johannesburg interbank rate, also called Jibar. This is the benchmark rate at which commercial banks lend to each other.

Those money market instruments with a maturity of five years, saw their spreads decline from 140 basis points to 105 basis points over the past five years, says Maharaj. At the same time, instruments with a duration of less than a year are trading at a spread of about 80 basis points, he explains.

"We are not active in the five-year space," says Maharaj. "With a delta of 80 basis points for a year and a delta of 105 basis points for five years, the difference of 25 basis points over five years isn't worth the risk. Much can go wrong in five years for 25 basis points."

Most of the money market funds' return for the year was a function of the yields at which these fixed-rate instruments were issued earlier this year, says Furstenberg.

"Of course, funds that held these instruments also received a kicker when the repo rate was reduced by 25 basis points earlier this year," he explains.

Whereas the JSE returned compounded growth of **7.9%** over the period, the benchmark S&P 500 index of US stocks returned 16.1% in dollar terms and 20.1% in rand.

Jean Pierre Verster
Founder and CEO of Protea Capital Management

Etienne Roux
An equity researcher at Truffle Asset Management

Lazy stocks

The divestment from equities and investment in fixed-income assets highlights the recent pernicious performance of stocks in SA.

"Remember that equities are growth assets and you should look at them over a period of more than one year. Admittedly, equities have underperformed fixed-income assets over the past four to five years," says Jean Pierre Verster, founder and CEO of Protea Capital Management.

SA's economy did play a role in the underperformance of local equities, he says. "Also keep in mind that most of the FTSE/JSE All Share Index's look-through earnings are generated offshore. That leaves the performance of SA-focused companies dependent on company-specific issues and on the domestic economy."

Etienne Roux, an equity researcher at Truffle Asset Management, says there are four factors that drove local stocks' underperformance over the past three years. Whereas the JSE returned compounded growth of 7.9% over the period, the benchmark S&P 500 index of US stocks returned 16.1% in dollar terms and 20.1% in rand.

"Three years ago, the starting valuations of the JSE were high, that is they were expensive against their historic median level," says Roux. "This, combined with an SA economy that hasn't really grown for the last number of years and administered price increases from the state, which have been increased at a rate way above inflation, have put significant pressure on SA-focused corporate earnings."

The recent spate of buyouts of small-cap stocks serve as proof that some equities may have become very cheap, says Verster. These buyouts will turn out to be bargain purchases if the companies can grow their earnings on the back of a recovery in the SA economy. But, if the economy stays in the doldrums, they can end up being expensive purchases, he says.

SA was also subject to significant political uncertainty, such as the sovereign credit rating downgrades, elections, the land expropriation debate and the financial issues at Eskom, Verster says. "This resulted in investors derating our market given the increased risks."

These uncertainties led to foreign investors becoming net sellers of local equities, which added further pressure on SA share prices, says Roux. In

addition, the slowdown in global growth with "the increased noise" from the trade war between the US and China have steered investors away from emerging markets into safer havens, he says.

Finally, SA has a concentrated stock market, Roux explains. "Thus, big moves in certain companies have a disproportionate impact on our overall market returns," he says.

Hedging in a lacklustre market

Declining stocks should theoretically boost hedge funds that follow an equity long-short approach to investing. That entails the hedge fund manager buying stocks which they believe will rise in future and shorting those they think will decline.

"In general, equity long-short strategies should have an advantage when share prices decline," says Verster, who manages hedge funds. "Since the beginning of this year, hedge funds following an equity long-short strategy have slightly underperformed the All Share Index. However, over longer periods, equity long-short hedge funds have outperformed the market."

A hedge fund will perform well when markets have a high dispersion of returns, explains Verster. That means share prices don't move in tandem during shocks, such as geo-political or macroeconomic events. When markets exhibit low dispersion of returns, or move more closely together in times of shocks, equity long-short strategies will struggle to generate returns for investors, he says.

"Hedge funds (as represented by the HedgeNews Africa South African Single-Manager Composite Index) underperformed the market in 2017 when the return dispersion was low," says Verster. "In all the other calendar years since 2015, they outperformed the market."

What is the outlook?

With no light at the end of SA's tunnel of economic woes, pensioners and retail investors may scratch their heads as to whether and, if needed, how they should allocate their assets in the nearby future.

The performance of the bond market will be reliant on differing factors, depending on where on the yield curve an instrument is situated.

"Since we have an expectation of a sustained benign inflation outlook, on average a little higher than this year, and weak economic growth, the short end of the yield curve is likely to remain well-anchored, with a risk of a repo rate cut or two," says Futuregrowth's Furstenberg.

The fortune of longer-dated government bonds will, to a lesser extent, be in the hands of global bond yields, but mainly dependent on the outcome of the local fiscal path, he explains.

In addition to a reduction of the budget deficit, the outlook for government bonds depends on whether necessary actions can be implemented to increase economic growth, says Allan Gray's Nxumalo.

Ashburton's Botha says a cooldown in the US-China trade war would support nominal government bonds, as would an improved local outlook. "But even in the absence of factors that could lead to a bond rally, the very attractive starting yields make bonds an attractive asset class," he says. "Should inflation remain contained, bonds will return between CPI + 4% to 5% even in the absence of rallies."

The outlook for stocks is a little less enthusiastic.

We need to see an improvement in GDP growth, combined with resolutions to some of our country-specific issues, specifically Eskom, says Roux. Improved GDP growth will drive corporate earnings, while an Eskom solution will significantly improve global investor sentiment towards South Africa, he explains.

An improvement in global growth and/or a positive outcome in the US-China trade situation will also increase investors' risk appetite and thus improve appetite for emerging markets, he says.

In the absence of these benign variables, which sectors offer some light in the tunnel of returns?

"Even though we've already seen a spike in the platinum companies' share prices, we think there is more upside given the global deficits of palladium and rhodium," says Roux. This will further be exacerbated by the Chinese and EU diesel emissions regulations coming into effect in 2021, while no new mineral supply is expected in the foreseeable future, he explains.

"We specifically think Impala Platinum and Sibanye-Stillwater still look very cheap, given where prices are trading currently," Roux says. ■

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Photos: Supplied

By Jana Jacobs

POWERING UP A CONTINENT

Africa might be a continent rich in oil and gas resources, but nearly half of its people still don't have access to electricity. Countries like Senegal serve as a reminder of the potential for growth when these resources are effectively utilised to develop the energy sector.

South Africans have become unsettlingly familiar with being plunged into darkness at a moment's notice, but dependable electricity supply isn't a problem unique to SA.

In March 2019, the World Bank released its *Electricity Access in sub-Saharan Africa* report, according to which more than 600m people on the continent live without electricity, including more than 80% living in rural areas.

In 2016, only 42.8% of Africa's population had access to electricity, far less than any other developing region (see Graph 1). Only two countries in the region, Mauritius and Seychelles, have near universal electricity coverage. SA is one of only six countries in Africa that has more than 75% of households connected to power (see Figure 1).

According to the *General Household Survey* released by Stats SA in May 2019, the percentage of SA households connected to the country's electricity grid stood at 84.7% in 2018.

These stats by no means lessen the crisis facing SA, with power supply remaining unreliable at best. There is also the question of how clean and affordable that energy is. What it does show, is just how big the deficit of access to energy on our continent is. Based on the aforementioned World Bank figures, nearly half of the entire population on the continent is living without electricity.

Guillaume Doane
CEO and co-founder of Africa Oil & Power

Gabriel M. Obiang Lima
Equatorial Guinea's minister of mines and hydrocarbons

DEVELOPING AFRICA'S POWER

This issue of access to energy in Africa formed the backdrop to the 2019 Africa Oil & Power (AOP) Conference, which was hosted in Cape Town in October.

As Africa lags the rest of the world with energy supply, despite being an immensely oil and gas-rich continent, the key theme of the conference was how to make energy work for the continent. Africa certainly doesn't lack gas and oil resources, but exploration and utilisation of those resources is not keeping apace.

During his opening address, AOP CEO and co-founder, Guillaume Doane, said that in 1982 "oil and gas exploration in Africa was at its absolute height. There were 209 rigs in operation, even more than the rig count of the entire Middle East."

The rig count matters, according to him, because it is a very dependable measure of gas and oil exploration activity. And, exploration "is the precursor to production".

Tellingly, oil production in Africa has fallen by 20% since 2012 and is expected to continue declining until 2025.

Not least of the hurdles to progress are some of the "toughest investment terms in the world, especially in the oil

GRAPH 1: ACCESS TO ELECTRICITY

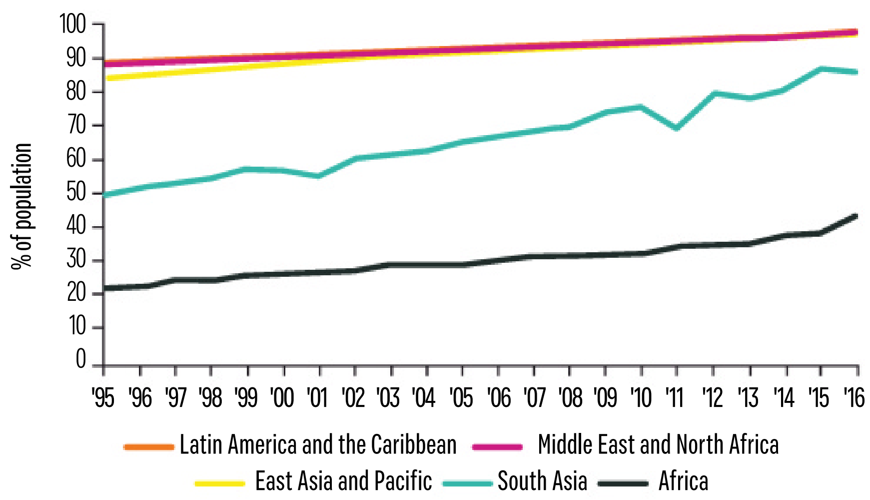
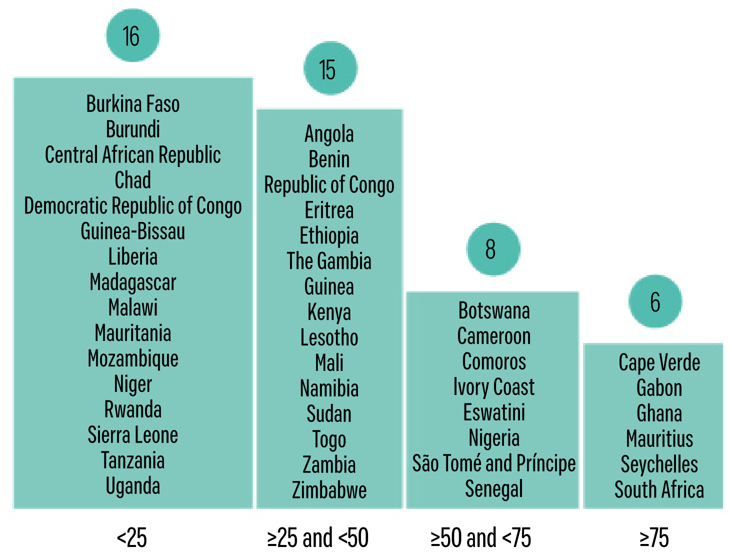


FIGURE 1: HOUSEHOLDS WITH ELECTRICITY, LATEST AVAILABLE DATA (%)



SOURCES: World Bank World Development; Demographic and Health Surveys; Multiple Indicator Cluster Surveys; National Surveys.
NOTE: In Graph 1, high-income countries are excluded. In Figure 1, recent data are not available for Equatorial Guinea, Somalia, and South Sudan. Latin America and the Caribbean and Middle East and North Africa have a near perfect overlap on figures.

and gas industry", according to Doane. The AOP conference aimed to showcase countries in Africa that boast potential for exploration to encourage investment, highlighting those who had developed successful industries and those that are on the frontier of future success.

Of course, campaigning for increased oil and gas exploration while a climate crisis rages, and activists like the inimitable Greta Thunberg crusade for a world that will be home to net zero carbon emissions, will undoubtedly raise questions and concerns as to how this will play into a future of adopting cleaner energy.

This is a question which Equatorial Guinea's minister of mines and hydrocarbons, Gabriel M. Obiang Lima, has certainly been asked before, but he is unapologetic about the way in which his country has moved forward by utilising its oil and gas resources: "What we've achieved with infrastructure in our country in the last 15 years, we didn't do with the World Bank or IMF. We did it with money from oil and gas."

According to the African Development Bank (AfDB), Equatorial Guinea's economy has been one of the fastest-growing in Africa over the last decade. After the discovery of large oil reserves in the 1990s, it became the third-largest producer of oil in sub-Saharan Africa, after Nigeria and Angola. More recently, substantial gas reserves have also been discovered. In November, US oil company Kosmos Energy made an oil discovery at its S-5 well offshore of Equatorial Guinea, according to Reuters.

Lima argues against Africa converting to a green economy before developing infrastructure with oil and gas, reasoning that "an electric car won't last two days here because the infrastructure is missing".

Although perhaps not an uncontroversial stance, when 600m Africans don't have access to electricity, it is understandable that net zero carbon emission goals seem a little tone deaf. That isn't to say clean energy creation should be scrapped from the agenda entirely, but the agenda should be realistically tailored to a continent that isn't on the same energy playing field as the developed world, argues Lima.

He believes that the "future resource for Africa is gas" and he points to discoveries in Mozambique and Senegal as exciting prospects for the future. A future in which, globally, "the natural gas market will continue to see growth and will likely overtake coal by 2030 to become the world's second leading fuel", according to PwC's 2019 *Africa Oil & Gas Review*.

SENEGAL'S POTENTIAL

Looking to the future of energy generation in Africa, the AOP spotlight was sharply focused on Senegal. This West African

"What we've achieved with infrastructure in our country in the last 15 years, we didn't do with the World Bank or IMF. We did it with money from oil and gas."

Photos: Supplied

Mouhamadou Makhtar Cissé
Senegal's minister of petroleum and energy

Dr Martyn Davies
Managing director of emerging markets and Africa at Deloitte

nation has hosted eight major oil and gas discoveries since 2014 and "is moving closer to becoming a large-scale oil and gas producer", according to AOP's Doane. As indicated in PwC's review, oil company BP's Teranga asset in Senegal was one of 2018's top ten oil and gas discoveries in the world. Its estimated resources stand at 539m barrels – 98% of which is gas.

Prior to Senegal's oil and gas discoveries, President Macky Sall launched the Plan for an Emerging Senegal (PES) in 2012, which is a comprehensive development plan aimed at making Senegal an emerging market by 2035. With the vast oil and gas discoveries and exploration yet to be done in the MSGBC Basin (off the coast of Senegal and Mauritania), energy is currently viewed as one of the primary drivers of growth and realising the PES vision, according to Mouhamadou Makhtar Cissé, Senegal's minister of petroleum and energy.

Senegal remains one of the top ten fastest-growing countries in Africa, with an annual growth above 5% since 2014.

"Senegal has been one of the most stable countries in recent years, and with the advancement of an accelerated reform agenda to modernise public administration and a welcoming attitude towards foreign investors, Senegal is likely to meet the performance requirements of the PES. These projects under PES should help improve the local business climate by reducing transport and power costs, thus supporting sentiment," says Dr Martyn Davies, managing director of emerging markets and Africa at Deloitte.

Davies does, however, caution that if the Senegalese government becomes unable to sustain such high levels of public spending, falls behind in paying back debt, and fails to stimulate greater private sector participation, it could prevent them from reaching middle-income status by 2035. According to the AfDB, Senegal's total external debt-to-GDP ratio was 62.9% in 2018.

Although the PES didn't initially include Senegal's sizeable oil and gas discoveries, much hope for economic growth is being pinned on developing this industry. Relying so heavily on a sector, particularly a commodity, to stimulate economic growth doesn't come without risks, as in the case of Nigeria (see sidebar).

However, Davies believes that Senegal has made provision to diversify its economy. "High levels of oil dependence are risky, mainly due to the fluctuation of oil prices. However, in the case of Senegal, oil dependence may be of low risk due to the country's level of stability, investment attraction and its commitment to implementing structural reforms."

Further, he says that the Senegalese presidency has made progress in diversifying its plans to reshape the economy from being traditionally reliant and shifting towards a more industrial economy.

What about Total's Brulpadda find in SA?

At the beginning of 2019, there was much fanfare about Total's 'massive' gas find in the Brulpadda field in the Outeniqua Basin off the coast of Mossel Bay. But will this discovery really be a gamechanger for SA's energy sector?

When French energy company Total announced in February that it had discovered a potential 1bn barrels of "wet" gas off the coast of Mossel Bay, some dubbed the find a gamechanger for South Africa's energy sector.

Steve Clark, a PhD student in the mechanical engineering department at Stellenbosch University, studying renewable energy, says that the 1bn barrel capacity would not come from Brulpadda alone. "If you look carefully at what Total was saying, they were talking about Brulpadda and four other prospects in the direct vicinity. And if you take all those prospects together, they could add up to the 1bn barrels of oil equivalent. Brulpadda by itself is not anywhere near that based on the info Total provided.

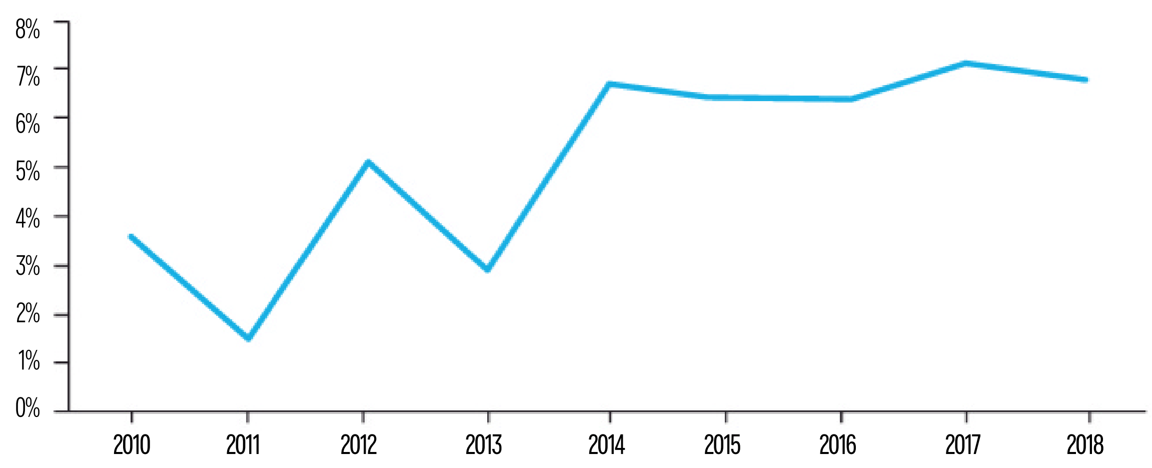
"It would be enough to produce about 1GW of energy for about 20 years if you just put it all to power, and it would probably be enough to run PetroSA's gas-to-liquids refinery at about 50% of it's capacity for 20 years," Clark says.

Even if all the fields are successful, it's not going to change the power production business, according to Clark. "Sure, you can produce a couple of GW in that area, but you can't do much more than that – piping it to somewhere else, even Cape Town, is overly expensive and there isn't enough (gas) to justify piping it or turning it to LNG to send it somewhere else."

He thinks it will be interesting to watch how Total attempts to develop it, as the company will likely have to work with PetroSA to commercialise the resource.

If production were to be in the pipeline, Clark estimates that "it would take five to ten years – more likely ten than five ... Total's announced that they're going to go back and do exploration work, so I don't think we are anywhere close to them making a decision to develop," says Clark. ■

GRAPH 2: SENEGAL'S ANNUAL GDP GROWTH RATE



SOURCE: World Bank

He also credits the country's accelerated reform agenda to develop Senegal's public administration for making the country an attractive destination for investments.

It is this commitment to implementing structural and sector reforms, particularly in energy and oil, that placed Senegal front and centre at the AOP conference. Speaking to the tough investment environment that AOP's Doane cited as one of the barriers to progress in Africa's oil and gas exploration, Senegal has made the overall investment environment attractive for foreign direct investment.

"There's no legal discrimination against businesses owned by foreign investors and there are no barriers to full ownership of businesses by foreign investors in most sectors, therefore foreigners can have a 100% stake in a company," says Davies.

From a regional perspective, Cissé's Equatorial Guinean contemporary, minister Lima, emphasises that in the drive for progress, leaders in African countries need to "engage your neighbours, your African brothers". This is something which Senegal has been doing, as evidenced by its agreement with Mauritania to develop Tortue gas field, where production is expected to begin in the first half of 2022.

Given Senegal's geographical location, it also has the potential to unlock growth in other countries, primarily because of access to ports. Senegal has already developed roads and bridges connecting it to its neighbouring countries (The Gambia, Guinea, Guinea-Bissau, Mali, and Mauritania), thus boosting regional integration and granting port access to those states, says Davies. Of course, there is still room for improvement and "further transport infrastructure should be developed to increase trade and regional integration, particularly the Dakar-Bamako railway".

Although Senegal boasts one of the highest rates of access to power in Africa, with over 61% in 2017, according to Cissé, he says that much work is still needed. In his call to investors, he said that among the four key objectives of the PES was universal access to electricity: "A goal we hope to achieve by 2025, while the initial goal was 2030." ■

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Nigeria's relationship with oil

Nigeria has been described as oil-dependent and not oil-rich. But the country's reliance on this commodity is not the main reason for its economic struggles.

Any turbulence in the Nigerian economy is often ascribed to it being too reliant on oil. Oil, however, accounts for only 9.8% of Nigeria's economy, according to Richard Ladbrook, portfolio manager at Investec Asset Management. The issue, according to him, is not that Nigeria is dependent on oil, but that the Nigerian government is dependent on oil revenue.

"The government hasn't figured out how to tax their economy and how to raise taxes and, consequently, more than 80% of government revenue comes from oil and gas. So, the issue is not a lack of diversification of their economy, its more government reliance on oil revenue."

The Nigerian economy is projected to grow at 2.3% in the medium term and 2.5% in 2020, driven by both the oil and non-oil sectors, says Martyn Davies, managing director of emerging markets and Africa at Deloitte. He attributes this low growth to "insufficient policy adjustments, a large infrastructure gap, low private investment and banking sector vulnerabilities – stemming from the recent introduction of a requirement for banks to achieve a minimum loan-to-deposit ratio which could significantly weaken banks."

In 2017, the country launched its Economic Recovery and Growth Plan, which is focused on industrialisation, and Nigeria's growth outlook partly depends on the pace of that growth plan, says Davies. "Nigeria also needs to consider introducing additional structural policy reforms and strengthen its macroeconomic reform." ■

Photos: Supplied

>> **Entrepreneur:** From food stall to national franchise *p.46*
>> **Management:** Imperative to report corruption *p.48*

CEO INTERVIEW

By David McKay

A force to be reckoned with

Jeanette Marais, the deputy CEO of Momentum Metropolitan Holdings, has carved out a formidable career in the financial services industry. She spoke to David McKay about her ambitions for the company – as well as her own.

Whenever the office phone rang, Jeanette Marais wanted to answer it. That was how she realised a career as an actuarial scientist wasn't for her.

"I'll tell you exactly how it happened," says Marais, deputy CEO of the R30bn life insurance and investment group Momentum Metropolitan Holdings, since March last year. "I worked in actuarial product development at Momentum in 1991. I very soon heard that the phone was ringing all day with advisers and clients asking technical questions about products and things, and trying to understand them. Whenever the phone rang, all the actuaries went 'agh'… and I was saying: 'Yes, give it to me, please. Can I speak to people?' "

It was at that point that the prospect of "going deeper into the spreadsheet" finally lost its appeal. Marais was halfway through a second degree in actuarial studies, but the die was cast. Give or take the odd hiatus – including a sabbatical that lasted a mere month – she's run a high-octane career putting people at the centre of investment and life insurance companies.

At one point, Marais was executive assistant to Hillie Meyer, then managing director of retail at Momentum prior to its 2010 merger with Metropolitan, and who has been CEO of the merged entity since 2018. The obvious question is whether she'll step into Meyer's shoes one day?

I'm cautioned not to make a big deal about this. Firstly, Meyer recently had his contract extended. Secondly, it's just sensitive: There's a number of people who'd treasure being the group's future CEO.

Having said all that, Marais – who is unflinchingly direct – makes it clear: "Of course I have ambition, otherwise I would not have been here."

Jeanette Marais
Deputy CEO of Momentum Metropolitan Holdings

"Whenever the phone rang, all the actuaries went 'agh'… and I was saying: 'Yes, give it to me, please. Can I speak to people?' "

In the case of Momentum Metropolitan, being "here" means the company's Centurion head office. It requires a weekly commute from Cape Town.

"I'm happy to make that sacrifice for two reasons: One is my ambition. I have the ability to be CEO. Secondly, and the most important, is that I have a deep love for this organisation, for this brand, and what it stands for."

Marais is arguably one of the most senior women in SA's financial services sector, following the recent resignation of Maria Ramos from Absa, but it all began at Momentum. The route to her current position, however, has not been entirely linear. In fact, it was while working away from Momentum Metropolitan that she came to realise her purpose might be to return.

Marais had been head of Allan Gray's distribution and client services from about 2009 when she heard and saw things at Momentum post the merger that suggested business wasn't going well.

"I could see how it was slipping through their fingers. I said: 'Guys, what are you up to?' And I guess that's when the call came."

When Marais picked up the phone, it was Meyer inviting her back.

Back at Momentum Metropolitan, the job was simple: To stop a deterioration that had its roots in the structural misconception of previous management – a piece of centralised planning that damaged all that was best about Momentum, says Marais.

"The problem really started in 2014 and 2015 … they adopted a whole new operating structure that was a matrix model. It completely removed product houses," she says. "If you asked me any time in the 18 years what Momentum's brilliance was; it was its obsession with advisers, [its] incredibly strong relationships with independent advisers.

"The second thing was its product excellence, but a product excellence because the people behind the product were close to the market.

"This new operating model destroyed all of those. It took the people who were supposed to be client-facing far away from them. It took all the product houses and it said: 'You guys run in the background; we have a segment model in-between and those people will tell you what to develop.' It was a disaster."

The impact of the switch extended to all corners of the organisation. For instance, specialist brokers who were now being unsuccessfully asked to work as generalists, were leaving in droves.

Client service plummeted.

"In the investment business, our lost call rate was 35%, which meant we only answered the phone for 65% of the time," says Marais. "The average waiting time – people who just left the music on and went about their business – was often up to seven minutes."

But perhaps worst of all, Momentum Metropolitan lost accountability.

"You would walk into a room and there would be 16 people in the room and you would ask what decisions were going to be made that day, and they would say, no decisions ... Or sometimes, they made decisions but in trying to implement them it was just too hard, too complex, and too political."

To appreciate the problem, it's worth dwelling briefly on the scale of Momentum Metropolitan as a business.

"Let me draw you a picture," says Marais, hauling out a notepad as she draughts pages of illustrations consisting of boxes in boxes, boxes with arrows coming out of them, boxes in circles to highlight their importance, titles triple-underlined ... it goes on for about 15 minutes.

It boils down to a portfolio of brands offering life assurance, short-term insurance, asset management and investment services. There's a wellness programme – Momentum Multiply, the group's data-play that anticipates and even modifies client behaviour – and then some bespoke enterprises, such as short-term insurance management company Guardrisk (described by Marais as a "jewel in the crown"), and a property company.

We didn't really get on to what Metropolitan does.

Meyer and Marais set to a three-year plan, known as 'reset and grow' – more checklist than strategy, says Marais – that started with the removal of 'the matrix system'. Next was to reinstall an end-to-end business structure which was in Momentum's DNA all along, she says.

Hillie Meyer
CEO of Momentum Metropolitan Holdings

Meyer is shooting for
R3.6bn
to
R4bn
in profits by 2021, and the company is eyeing market share growth again.

"All of us are now responsible for our own human capital and we all have our own finance, risk and everything else. So, you could take my business today – this floor and that floor – and you could sell us and we could carry on and function."

Brands backed by experts and champions were returned to the front of the organisation and, to use one example of the change, led to almost immediate improvement in lost call rates, down from 25% to 1% at Momentum Retail. There have been hiccups, though.

One was the headline-grabbing episode last year in which Momentum Metropolitan declined to pay a policy on the life of Nathan Ganas, who was shot dead. An autopsy discovered Ganas had not disclosed his raised blood sugar levels.

It didn't matter the ombudsman supported Momentum Metropolitan's decision; by the time the court of public opinion had stepped in – involving influential voices such as Thuli Madonsela and Redi Thlabi – Momentum had a giant-sized reputational crisis on its doorstep.

Marais says the brand was harmed, but in creating a policy that would pay an amount equal to the death benefit (limited to a maximum of R3m) in the case of violent crime, irrespective of previous medical history, the company changed the way the industry looks at similar future incidents. It's tricky, though: insurance companies don't want to encourage non-disclosure.

At least policyholders don't pay: pay-outs made in future events come from Momentum Metropolitan profits, not policyholder funds.

For now, the market seems to have liked what it's seen since Meyer and Marais took over. At the time of writing, the share price eased through a new 12-month high and recent financial numbers produced a 53% increase in normalised headline earnings.

Meyer is shooting for R3.6bn to R4bn in profits by 2021, and the company is eyeing market share growth again. The purchase of Alexander Forbes' short-term insurance business was a coup for Marais. For R2bn, the group improved market share in the high LSM that would have taken years to build organically.

There may also be other opportunities cropping up among smaller insurance companies, especially as the economy crimps margins.

Some R500m is going into aYo, a mobile insurance joint venture with MTN, and India, where the group has another venture partner in a development described by Marais as "one that could become an absolute jewel in our crown" in the long run.

And the phone is being picked up quicker than ever. If in waiting for a Momentum adviser, clients are subjected to an AI-driven keypad walkabout: "Where Jeanette works, you get a human being." ■

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Photos: momentummetropolitan.co.za

By Glenneis Kriel

Family recipe turned fast-food hit

Despite swearing she would never follow her father or grandfather's footsteps into the falafel business, Anat Apter ended up doing just that – and with great success.

Anat sells Middle Eastern fast food.

Anat Apter has gone from selling food at the Bruma Lake flea market in Johannesburg to owning a national franchise with over 20 outlets. This is thanks to her unique Middle Eastern fast food and a focus on quality. She talked to *finweek* about her business journey.

What did you do before you started Anat?

I was mainly a housewife taking care of my three children. I made money on the side, baking for functions. For a while, I also imported and sold leather handbags from Europe. I completed a travel agent course just before I decided to open a food stall at the Bruma Lake flea market. In the end, I opened the food stall as I reasoned that selling food would generate income faster than selling airline tickets.

Why did you decide to start Anat Falafel in 1991?

My grandfather, Solomon Barzilai, worked in a falafel shop in Egypt as a teenager, where he learnt to make falafel. He later started his own falafel business after getting married (and having 12 children). My father, Jacob Barzilai, took over the business when my grandfather decided to retire.

I swore I would never follow the same path, but when our family struck financial difficulties, it seemed like the best way out. My mother, Mazal Barzilai, always used to tell me: "If you ever need money, open a falafel shop." In retrospect that must have been the best business advice I have ever received.

Why did it seem like a great idea at the time?

Falafel is a unique product and nobody else was selling it anywhere in South Africa at the time. Furthermore, I was confident that my falafel recipe was nothing short of excellent, as it is based on the original way my grandfather used to make it. The thought never crossed my mind that I might fail.

How did you start selling your product?

I obtained a stand at Bruma Lake flea market thanks to my unique offering. I started out selling falafel at R5 a portion from a branded trailer, with the help of an assistant from Ghana. The people loved it! I sold 50 portions on my first day at the market.

Where did you get start-up funding?

I maxed out my credit card, which at the time had a limit of R10 000.

What did you do to keep costs low and prevent cash flow problems?

I would go to the market early in the morning to get fresh, good-quality vegetables instead of using a set supplier. Besides that, I prepared everything from my kitchen at home and had only one employee to assist me at home and at the flea market.

What were your biggest challenges when you started out?

Firstly, money. But, fortunately, I had a bank manager who believed in me. Secondly, I didn't know what to do with my children over weekends, which were the busiest days at the market. I had a helper who had just started working for me, and I paid her extra to look after the

Q&A:

We didn't get any advice. My husband and I just used our common sense, which kind of backfired and created all kinds of new business challenges.

Anat Apter
Founder of the Anat fast-food chain

children on Saturdays and sometimes on Sundays. Alternatively, I took the children with me to the market or arranged play dates for them.

I shared the workload with my husband, Manachem. He would work in the mornings, and I would join him at lunchtimes, which were extremely busy, and after lunch one of us would go home to be with the children. In this business you make most of your money while everyone else is on holiday.

What was your biggest breakthrough?

When people started approaching me to buy franchises, around 1998.

Tell us more about how you started out with the franchise business.

We didn't get any advice. My husband and I just used our common sense, which kind of backfired and created all kinds of new business challenges. Since then I have invested a lot into the training and teaching of franchisees. Franchise holders now know they need to copy what I did when I started out: They must work hard and always supply high-quality fresh produce if they want to be successful.

How has the business grown since then?

It grew from a food stand into a franchise business with 22 outlets. We also have a bakery that supplies fresh pita breads and wraps to our franchisees as well as supermarkets, coffee shops, restaurants and other food franchises, and a kitchen that prepares most of the raw material used in our falafel, which we supply daily to our outlets to ensure a constant fresh and high-quality product.

To what do you ascribe this growth?

To the uniqueness and quality of the product, and my big passion and honesty towards the food I sell. Besides this, I was determined to succeed. Nothing could stop me.

What are some of the business skills that you had to develop to ensure your success?

Skills to develop, maintain and grow your business, such as account management, product development, innovative thinking, people skills, social media and the use of technology.

What are currently your biggest challenges?

With the current state of the economy and price increases, the biggest challenge is to find ways to keep prices for the franchisees and customers sane. To address this, I do what I always do: I constantly look for new suppliers with better prices, make use of promotions to boost sales, and introduce new budget meals. All while being as thrifty as possible without reducing quality.

How did you market the company when you started out and how has this changed over time?

The outlets I opened at the beginning acted as marketing for the business. People saw the queues and came to ask for a franchise. Times have changed due to the poor economic conditions in the country. People are currently scared to invest. Everyone is waiting to see what will happen.

Were there times that you felt like closing the shop?

Yes, there were a few times. There are many reasons why, but mainly because it is such hard work for low returns. Last year, we unfortunately had to close a few shops. Fortunately, the size and sustainability of the business have kept me going through these difficult times.

How has competition in the fast-food market increased since you started out?

At the beginning I had no competition. A lot of shopping centres, however, opened since 1991, with a lot of food outlets from SA and overseas. Some of them have huge budgets that allow them to operate on the back foot for a while, so they can afford to keep prices down.

In today's economy the customer looks at pricing first. There is almost no place for luxuries. Our market advantage, however, is – and will always be – the uniqueness of our products.

If you could do anything differently, what would it be?

I would keep selling vegetarian falafel only, as I did when I started out. This would have made life a lot easier. I started selling meat a few months after I opened the stand, because my husband and I thought it would be popular with the customers in SA. We were right, but meat needs much more maintenance and work and it is expensive.

I also wish I'd studied economics to help me run my business better.

What are your plans for the future?

The plan is to keep it up – develop more products, open more outlets, keep franchisees happy, and strengthen the brand. Due diligence and maintenance are key in continuing a business that is already established. ■

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Photos: Supplied

By Amanda Visser

Reporting corruption is non-negotiable

Unfortunately, South Africa is all too familiar with allegations of corruption in various spheres. Understanding exactly how to report and investigate it effectively is thus of the utmost importance.

In many other countries, the reporting of corruption or suspected corruption is at one's own will. In South Africa, it is a crime not to report it.

The potential reputational damage when a company gets an investigation into corruption wrong, can be brutal. A case in point is the investigation by law firm Hogan Lovells into suspicious transactions by a senior South African Revenue Service (Sars) official.

Despite several recent examples, insufficient attention is still being given to the important starting point of any investigation, namely determining the scope and mandate of an investigation, according to Matthew Purchase, partner at law firm Bowmans.

"We have seen in SA that when there is criticism about an investigation, it is often as a result of the mandate and the scoping of the investigation being too narrow or excluding matters that should have been investigated," Purchase said at a recent Pan-African anti-corruption compliance summit in Johannesburg.

The conference looked at best practices for anti-corruption investigations, as well as the rights of employees during the investigation. Besides having a robust mandate, it is key to be able to collect and preserve evidence expeditiously, says Ahmed Mokdad, associate in law firm Covington's compliance and investigations practice in Johannesburg.

First and foremost, though, companies should have a policy in place that will address issues around the reporting of corruption, and guidelines in terms of evidence preservation, witness statements and dealing with privacy and confidentiality.

Information gathering

Issues such as privileged and confidential information, as well as privacy, should be considered carefully, especially in terms of employees' communication (emails, messages and WhatsApp's) on their private devices.

Purchase says some information – such as corporate emails – is more easily obtained. However, there is a "natural tension" when it comes to personal devices and what the company is allowed to obtain to be reviewed.

In SA many people use their personal devices for work purposes.

Mark Finucane, partner at Covington, says the US department of justice has issued some guidance about how this should be approached, but it is not "particularly specific".

Matthew Purchase
Partner at Bowmans

Mark Finucane
Partner at Covington

Ahmed Mokdad
Associate at Covington

One "risk-based" answer is to prohibit employees from discussing work on personal emails or messages on their personal devices that are entirely outside of the company's communication platforms.

"The question is how do you figure out what employees are actually doing on their personal devices. If it is company-owned, the company is allowed to confiscate and get access to it, but when you confiscate a phone that belongs to an employee ... that can raise legal issues in a lot of jurisdictions," says Finucane.

Covington has had success in obtaining consent from employees to review the contents of private devices by explaining that it is a standard practice in investigations and that only work-related emails or work-related communications will be reviewed.

However, in SA it is not that clear-cut. Mokdad points out that privacy is one of the rights enshrined in the Constitution and must be protected.

He refers to the legislation that regulates the monitoring and accessing of personal information, namely the Regulation of Interception of Communication and Provision of Communication-related Information Act (Rica).

The constitutionality of this act has been challenged by the investigative journalists at amaBhungane and Sam Sole, its co-managing director, in the North Gauteng High Court. The court found in their favour.

Certain legal principles in terms of dealing with the interception and access to information have been laid down in the case lead by Dario Milo from Webber Wentzel.

However, Mokdad points out that Rica does not prohibit an employer "entirely" from accessing information. There has to be a "business need" or a "reasonable business need" for doing so.

In SA – which scored 43 out of 100 in Transparency International's 2018 Corruption Perception Index – the role of whistleblowers is critical to uncover corruption.

finweek has previously referred to the limited protection that our current legislation (the Protected Disclosures Act) offers whistleblowers.

Purchase says that there is often a misunderstanding about the reporting of corruption – the obligation is not on the company, but on the individual.

Investigators will have to ensure the protection of

Photos: www.bowmanslaw.com | globalinvestigationsreview.com | cov.com

> "Disciplining an employee may not necessarily reveal the results you are looking for and may even lead to a more obstructive witness."

whistleblowers, but they will also have to deal with "uncooperative employees" – in many instances because of fear of retribution.

The employee's rights and obligations

SA's common law provides that employees have a duty of utmost loyalty owed to the employer, and our labour legislation goes as far as to say that an employee-witness' failure to cooperate may be seen as insubordination.

This could lead to disciplinary proceedings being instituted against the "uncooperative employee".

Mokdad says this highlights the imbalance between labour legislation and the obligation owed by the employee to the company. "Disciplining an employee may not necessarily reveal the results you are looking for and may even lead to a more obstructive witness."

This also begs the question of the right to legal representation during an investigation. According to Finucane, separate counsel is often "proactively" offered to certain individuals when there is an investigation at the company. "The general reason for separate counsel is conflicts of interest."

The company may need to argue that an individual acted outside of company policies and an individual may be incentivised, depending on the circumstances, to pursue a more lenient deal by providing information about the company or other executives at the company.

But the presence of conflict and whether to have separate or joint counsel is not always that clear-cut. "It is an important decision because if you make a wrong decision, it is possible that the counsel is compromised and is disqualified from representing anybody," says Finucane.

He says the fees are typically paid for by the company, but if it becomes clear that an employee has stepped outside of their employment responsibilities, or deliberately engaged in misconduct, the obligation to pay the fees may end.

Mokdad says one aspect that needs to be considered with great sensitivity during an investigation is cultural differences. SA has 11 official languages and several different ethnic groups, and trying to apply a single standard in assessing someone's trustworthiness may jeopardise an investigation. ■

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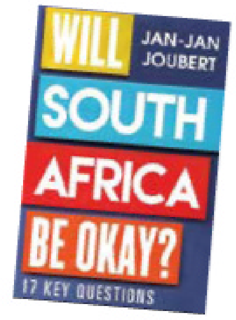
Congratulations to Keabetswe Mojapelo, who won a recent book prize! To win a copy of Jan-Jan Joubert's *Will South Africa be Okay?* enter our quiz via fin24.com/finweek, from 18 November.



1. Which resources company is South32 selling its South African thermal coal business to for R100m upfront, and R1.5bn in deferred payments?
2. Supply the missing two words: Billionaire businessman Michael Bloomberg is the former mayor of __________ City.
3. **True or false?** Springbok rugby player Tendai Mtawarira announced his retirement from international rugby.
4. Taste Holdings announced the sale of its food business in early November. Which one of the following is not part of Taste's food business:
   - Debonairs Pizza
   - Starbucks
   - Fish & Chips Co
5. **True or false?** Trudy Makhaya is President Cyril Ramaphosa's economic adviser.
6. What is the name of Zulu king Goodwill Zwelithini's newly launched cellular network?
7. **True or false?** Anat is a Portuguese fast-food national franchise business.
8. **True or false?** Finance minister Tito Mboweni revised SA's economic growth for 2019 in the medium-term budget policy statement to 0.5%.
9. Which former SA president lost a court appeal against a ruling that it was defamatory to call former tourism minister Derek Hanekom a "known enemy agent"?
10. **True or false?** Tiger Brands is exploring the sale of its processed meats business, which was temporarily closed in 2018 after being hit by the world's largest-ever listeriosis outbreak.

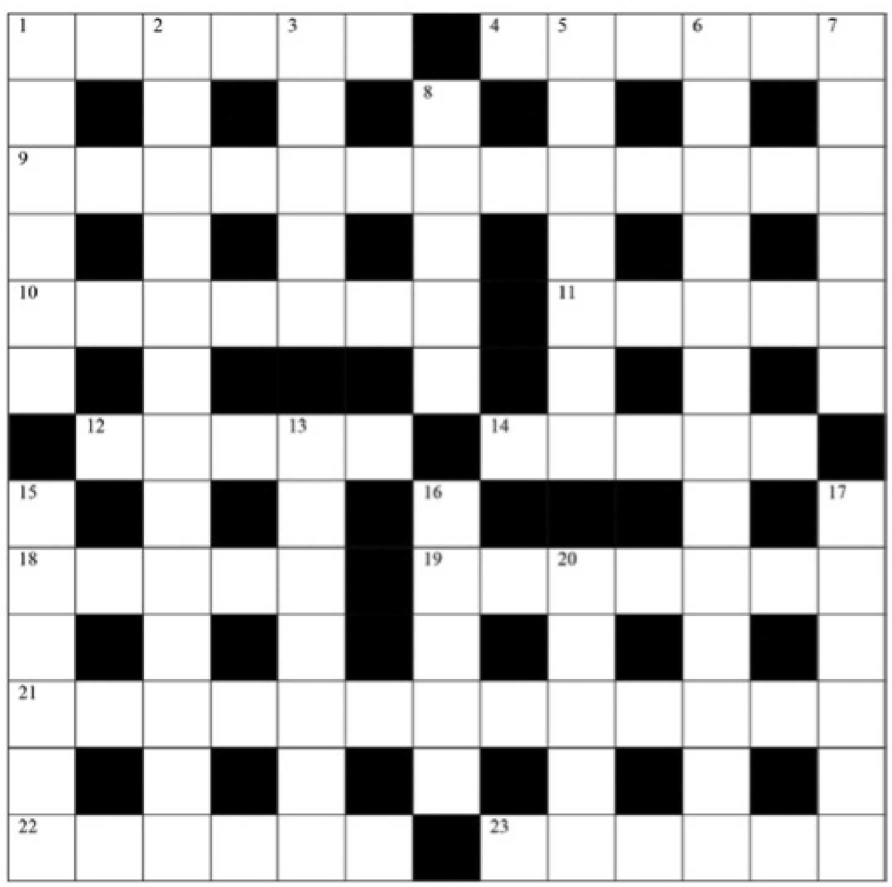
CRYPTIC CROSSWORD NO 744JD

ACROSS

1 Privy to the officer commanding the camp (6)
4 Bar Association's number (6)
9 Short chat with a nice Tory mad about sweets (13)
10 Learning trestle-work (7)
11 Least possible unit (5)
12 Highly intensive depression (5)
14 Employers in the US introducing Earnings Related Supplement (5)
18 Instrument first played by Scotsman in love (5)
19 Sir has hack prepared for carriage (7)
21 Using Internet turns out to be monotonous (13)
22 Fellow has line to the aristocracy (6)
23 Maiden's funny sound swells (6)

DOWN

1 Available over page (2,4)
2 Misgivings against people inserting rest breaks (13)
3 It can be fiction, for example, about a true subject (5)
5 In the past, you'd have heard "It's them rodents" (6)
6 Represent stronger sin as sacrilege (13)
7 No utter denial forthcoming (6)
8 Starts to store wood put away for a rainy day (5)
13 Gunner's equaliser (7)
15 Odds to level out (6)
16 The appropriate lane to house one's mistress? (5)
17 Most drawn is a dish (6)
20 RACC is cooking the troops some fish (5)



Solution to Crossword NO 743JD

ACROSS: 1 Unattached; 7 & 22 Bad cop; 8 Dressmaker; 11 Rara Avis; 12 Flow; 14 Tut-tut; 15 Ravine; 17 Oboe; 18 Ointment; 21 Martingale; 22 See 7; 23 Resentment

DOWN: 1 Understood; 2 Aberration; 3 Testamur; 4 Crania; 5 Ewer; 6 See 20; 9 Illiterate; 10 Tweet tweet; 13 Castanet; 16 Virtue; 19 Bake; 20 & 6 Not far

On margin

Hit me with all you've got

This issue's isiZulu word is *shaya*. *Shaya* means hit (verb).

Well, that's what it is in its most basic form. However, in everyday use, it is so much more. So, so very much more.

And then you have the variations.

Shaya shaya – to lie. As in "you are hitting me with your lies". If I believe your lies, you have successfully hit me – *ungishayile*. Like with the Zondo Commission – we can't tell who is *umashaya* (one who hits us with many lies) and who is not.

Shaya ngaphakathi – impress or win over. *Ngaphakathi* is "inside", so *shaya ngaphakathi* literally means "hit me in my insides". The Springboks hit us in our insides – just not as bad as they hit the England players in their insides. It was brutal.

Shaya iround – visit. As in "come around".

Shayisa – knock off work.

Shayisa – bump into.

Shayisa – vehicular accident.

Shayisa – you're going to get us beaten up (*uzo sishayisa)*.

Shayisa/shayise – share. As in, "let me get a hit".

Shayekile – broke. Me. I am always broke.

Shaya phansi – failure or disappointment. *Phansi* means down.

Shaya izithupha – to be aloof. *Izithupha* is thumbs. So if *ushaya izithupha*, you snap your fingers. Why that represents being aloof, I don't know, but it makes sense and feels right. *Isithupha* (one thumb) is also the number six.

Shaya isicathulo – leave. (*Isicathulo* means shoe.)

Shaya isishwapha – leave. (*Isishwapha* is a flat butt.)

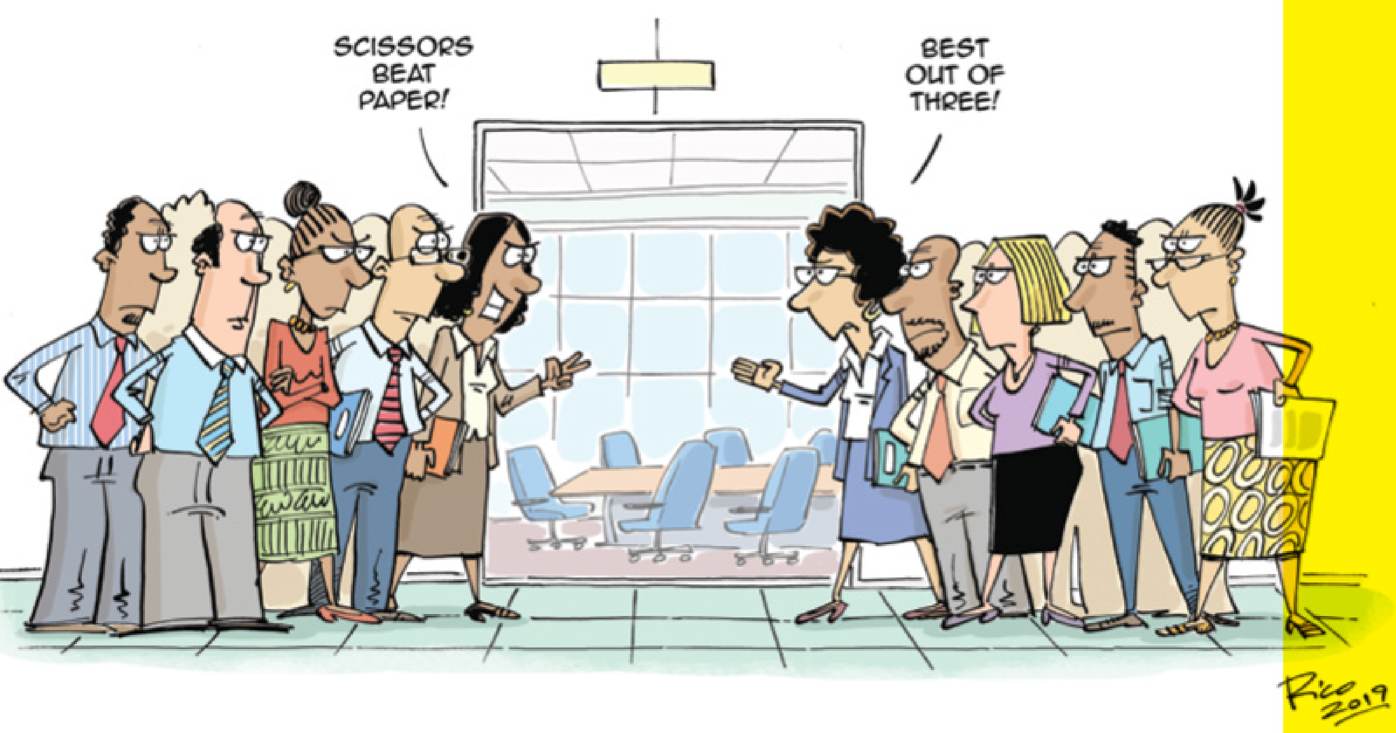
Shaya imoto – drive fast. Don't listen to passengers that tell you "*shaya imoto, baba*". They're sent by the devil.

Shaya amanzi – suspicious. As in, something is causing these ripples in the water. It's probably a crocodile.

There are so many more expressions that relate to *shaya*. I can't possibly cover them all. I probably left out some pretty obvious ones.

Please don't *shaya* me.

– *Melusi's #everydayzulu* by Melusi Tshabalala



Someone double-booked the conference room.

Verbatim

Tom Eaton @TomEatonSA
Angie Motshekga was sworn in as acting President on Friday morning. On Friday evening Moody's decided not to downgrade South Africa to junk. On Saturday we won the World Cup. I hope she has updated her CV accordingly.

Gugulethu Mhlungu @GugsM
We really need our best scientists to find a way to harness SA's commitment to iNice time into electricity. We'd have an endless clean power source.

UCT Just Kidding @uctjustkidding
I'm trying to study but Netflix keeps playing the next episode.

Naval @naval
A politician who reads aloud speeches written by others is an actor, not a leader.

Rob Temple @RobTemple101
"Right, that feels like today's 2 000 words done."
Checks word count
"Seven words."

Gasant Abarder @GasantAbarder
Saying goodbye to colleagues in the office today. This will be the last time I see them after I win the lotto tonight.

Bianca van Wyk @BiancavanWyk16
Whoever invented autocorrect must just fake off and burn in hello.

Sikonathi Mantshantsh @SikonathiM
"Here's my number, we must have coffee sometime," a Johannesburg proverb.

"It is greed to do all the talking but not to want to listen at all."

– Democritus, Greek philosopher (c. 460 BC – c. 370 BC)