OLDMUTUAL
THE AVERAGE CEO
WORKS 62.50HRS
PER WEEK*
Are those hours being well spent?
There's no getting around it. Administering a comprehensive and effective Employee Benefits solution takes up huge amounts of time and energy. That's why we help you to choose one that not only protects your people now and into the future, but also leaves you with more hours to spend doing what you do best – growing your business.
Call us to create a smart strategy for your business.
Rodney Msimango: Head of Business Development
+27 011 217 1420 or RMsimango@oldmutual.com
CORPORATE
CONSULTING
DO GREAT THINGS EVERY DAY
Old Mutual Corporate is a division of Old Mutual Life Assurance Company (South Africa) Limited, Licensed Financial Services Provider.
• Harvard Business Review Study
PUBLICIS
120587L

INVESTMENT
AN OVERVIEW OF **LISTED PROPERTY**

SPOTLIGHT
AMSA CEO: LOCAL STEELMAKERS NEED SA'S RECOVERY

FEATURED
HOW TO MAKE **ETFs** WORK FOR YOUR PORTFOLIO

ENGLISH EDITION

fin24 FIND US AT: fin24.com/finweek

finweek

26 September - 9 October 2019

EVERY TWO WEEKS

CAN FOOD STOCKS

RECOVER FROM MAJOR SELLOFF?

SHARE VIEWS ON:
- TIGER BRANDS
- PIONEER FOODS
- RCL FOODS
- AVI

SA: R30.20 (incl. VAT)
NAMIBIA: N$30.20

WHEN **NEGATIVE INTEREST RATES** BECOME THE GLOBAL NORM

from the editor

ANNELI GROENEWALD

Talk, as we know, is cheap. Dirt cheap. We can easily hide behind words. We can use them to sound smart, or to pretend we have a plan to fix things. But in reality, it could just be hot air.

Governments do it all the time. So do corporates. Think of terms like 'strategic think-tanks' or 'sub-committees' who work on 'multi-tiered approaches' to address anything from solving crime, to financial results that point to leadership out of answers.

Telling someone that you will fix, for example, the corporate culture of a company is quite different from actually doing it. What is the plan when you want to "fix" the so-called "soft" stuff like the culture of an organisation?

I recently met with Arrie Rautenbach and Bongiwe Gangeni, respectively CEO and deputy CEO of Absa Retail and Business Bank, who provided some concrete examples.

Absa received lots of flack over the last couple of years. Among other things, the bank has been blamed for being out of touch with customers, and the company slowly but steadily lost market share in an increasingly competitive market.

Rautenbach spoke frankly. So did Gangeni. And it was refreshing.

They openly discussed the problems that customers have had with the bank – from fees to frustrations with online platforms (and exactly how the bank is addressing it). They lucidly explained how they've started to implement structural changes within their division. And Rautenbach said the most recent results (for the six months to June) already started pointing to a recovery on most metrics.

But culture? How is that addressed? What do you do differently to change how people think and feel about a company that knows intimate details about their financial health?

Rautenbach and Gangeni have opted for a roadshow of sorts. The list of places they've gone to, and people they've spent time with, is dizzying. From visits to clients' factories in KZN to a good old braai with farmers in the Northern Cape.

"People are saying it's the first time that this has happened," says Rautenbach. That is: The first time that a bank has gone out to visit them.

They also meet with employees on all levels, including visiting branches to talk to them. In short, they are being human and talking to humans about the things that concern them.

Will it change the culture of the bank? Time will tell.

But their stories have reminded me how easy it actually is for South Africans on all levels to build bridges rather than burn them. ■

contents

By Johan Fourie

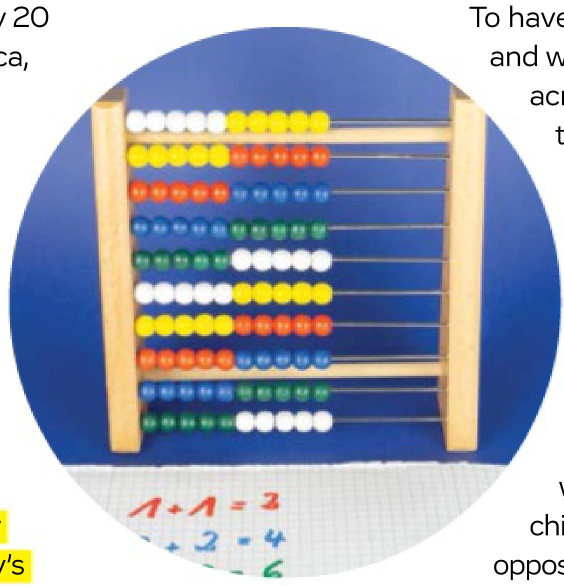
SOCIOECONOMICS

A theory about having babies

Across the globe, fertility rates are declining. If population sizes continue to decrease, there will be major social, economic and political ramifications. But encouraging citizens to have more children is a very fine line for policymakers to be treading.

One of the most underappreciated facts about the last half of the 20th century was the global decline in fertility rates. In 1950, the average woman had around 5 children. Today it's less than 2.5.

The implication is that women's fertility rates can fall rapidly; it took 95 years in the UK for the fertility rate to fall from 6 to 3 children per woman (from 1815 to 1910), yet only 20 years in Bangladesh (1982 to 2002). South Africa, incidentally, needed 34 years (1963 to 1997).



In many parts of the world the fertility rate is now way below the replacement rates, creating demographic challenges. And not just in the wealthiest countries. Yes, rich countries like Germany (fertility rate of 1.48) and South Korea (1.35) have exceptionally low fertility rates, but so do Iran (1.59), Poland (1.29) and Brazil (1.69). Bangladesh, with a fertility rate above 6 only 40 years ago, now has a fertility rate of 2.02, below the replacement rate of 2.1.

If sustained, these low fertility rates will radically reshape the population sizes of countries. Germany's population, for instance, is projected to decrease by about 13m from the current 80m by 2060. This is likely to have major social, economic and political ramifications. A larger share of dependent pensioners would need to be funded by an increasingly smaller pool of tax payers, for example, as Japan is experiencing.

This has forced many governments to think about ways to boost their population size. Migration from places with high fertility rates is one option, but is politically challenging.

An alternative is to encourage higher fertility rates. But this would require an understanding of the reasons for its initial decline.

Many factors help to explain the tremendous decline in global fertility, but a key insight scholars have come to is that fertility reduces significantly when women have the freedom to make decisions about their own family planning. Women tend to want to have fewer children than men.

In contexts where women have gained political, economic and social freedoms the fastest, fertility levels have declined rapidly.

In contexts where women have gained political, economic and social freedoms the fastest, fertility levels have declined rapidly.

Policymakers hoping to increase fertility rates are therefore left with a conundrum. To increase fertility rates would mean to overturn the freedoms women have received. Some countries have tried this, removing the right to abortion and imposing a tax on childless individuals older than 25. However, removing these freedoms are undesirable and unconstitutional.

An alternative is to use positive incentives. One option, tried by several countries, is to subsidise having children. This could be done in a variety of ways, like subsidising education or other kinds of expenses related to young children. It could also be very direct. In 2003, one Italian mayor offered women €10 000 for every baby they had.

But almost all these positive incentives failed or, at best, had only limited positive results. The reason is, according to a new study in the *American Economic Review*, that few of these policies had a good theory of bargaining over babies. Without a good theory, the policy is unlikely to succeed.

To have a baby, it's generally necessary for both the man and woman to agree on having one. Using a dataset across 19 countries that reports people's willingness to have kids, the authors show that this is supported by facts. (The probability of a pregnancy is almost zero if just the man wants a child and slightly higher if only the woman wants one.)

They also find that there is much disagreement about having babies. "Disagreement increases with the existing number of children. Among couples who have at least two children already, in all countries in our dataset we observe more couples who disagree than couples who both want another child. Moreover, women are generally more likely to be opposed to having another child than are men, particularly so in countries with a very low fertility rate."

The last conclusion is key to their consequent analysis. They construct a Nash bargaining model, which reveals that not just the overall costs and benefits of children matter for fertility, but also the distribution of costs and benefits within the household. "In a society where the burden of raising children is borne primarily by mothers, women will be more likely than men to disagree with having another child and, *ceteris paribus*, the fertility rate will be lower compared to a society with a more equitable distribution of the costs and benefits of having children."

The authors show that policies that lower the childcare burden, specifically for mothers (for example, by providing public childcare that substitutes time costs that were previously borne by mothers), can be more than twice as effective as policies that provide general subsidies for childbearing.

This, they argue, is primarily because mothers are much more likely to be opposed to having another child than are fathers. "The countries in our sample that have relatively high fertility rates close to the replacement level (France, Belgium, and Norway) already have such policies in place. Other countries that highly subsidise childbearing, but in a less targeted manner (such as Germany), have much lower fertility rates."

The lesson is that having a theory of how humans make decisions is a necessary first step to designing policies that hope to change it. Making babies is as much about economics as it is about the birds and the bees. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Shutterstock

in brief

EDITORIAL & SALES

Editor Anneli Groenewald **Managing Editor** Jana Jacobs **Journalists and Contributors** Simon Brown, Johan Fourie, Moxima Gama, Mariam Isa, Schalk Louw, David McKay, Maarten Mittner, Timothy Rangongo, Melusi Tshabalala, Amanda Visser, Jaco Visser, Glenda Williams **Sub-Editor** Katrien Smit **Editorial Assistant** Thato Marolen **Layout Artists** David Kyslinger, Beku Mbotoli **Advertising** Paul Goddard 082 650 9231/paul@fivetwelve.co.za Clive Kotze 082335 4957/clive@mediamatic.co.za **Sales Executive** Tanya Finch 082 961 9429/tanya@fivetwelve.co.za **Publisher** Sandra Ladas sandra.ladas@newmedia.co.za **General Manager** Dev Naidoo **Production** Angela Silver angela.silver@newmedia.co.za

Published by New Media, a division of Media24 (Pty) Ltd
Johannesburg Office: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092 **Postal Address:** PO Box 784698, Sandton, Johannesburg, 2146 **Tel:** +27 (0)11 713 9601 **Head Office:** New Media House, 19 Bree Street, Cape Town, 8001 **Postal Address:** PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 **Email:** newmedia@newmedia.co.za

Printed by **Novus Print Solutions** and Distributed by **On The Dot** Website: **http://www.fin24.com/finweek**
Overseas Subscribers: **+27 21 405 1905/7**

ENQUIRIES

SUBSCRIBERS	Fax	SHOPS
087-353-1305	0864-575-918	0861-888-989
subs@finweek.co.za		assistance@onthedot.co.za

Share your thoughts with us on:

@finweek finweek finweekmagazine

"THIS IS CONGRESS' BACKSTAGE PASS."

– **Paul Gallant, an analyst at Cowen Inc,** quoted in *The Wall Street Journal (WSJ)*. He was commenting after the US Congress gave technology firms Facebook, Amazon, Alphabet, Google and Apple, among others, until 14 October to provide documents – including executive communications, financial statements and information about competitors, market share, mergers and key business decisions – in an anti-trust probe of tech companies, reported the publication. Lawmakers are also demanding emails and other records from some of the industry's top executives like Jeff Bezos (Amazon founder), Mark Zuckerberg (Facebook CEO), Tim Cook (Apple CEO), and Larry Page, Sergey Brin and Eric Schmidt (Google's early leaders), as they look for evidence of anti-competitive behaviour. Gallant said Congress "will be able to see what company management said privately about the way they designed their business and whether that was actually anti-competitive".

"AN UPGRADE IS UNLIKELY."

– **Credit rating agency Moody's** in a statement downgraded its outlook on Hong Kong's rating from stable to negative, citing what it called the rising risk of "an erosion in the strength of Hong Kong's institutions" amid the city's ongoing protests. "The decision to change Hong Kong's outlook to negative signals rising concern that this shift is happening, notwithstanding recent moves by Hong Kong's government to accommodate some of the demonstrators' demands," said Moody's. Reuters reported that the move follows Fitch Ratings' downgrade of Hong Kong's long-term foreign-currency-issuer default rating from AA+ to AA in early September. Moody's said that it would "likely downgrade Hong Kong's rating" if the measures taken by the Hong Kong government to resolve the protests were likely to damage Hong Kong's medium-term economic prospects, or "signify an erosion in the predictability and effectiveness of its governing, judicial and policymaking institutions".

"[It] had become so big that further growth of our company on the JSE would be difficult."

Bob van Dijk

– **Naspers* CEO Bob van Dijk** to reporters after Prosus, a spin-off company from e-commerce group Naspers, made its debut on the Euronext, Amsterdam's stock exchange. Shares in Prosus surged by 25% on debut, with a market capitalisation of around €119bn (R1.9tr), according to Reuters. Prosus will hold the company's global internet investments. Prosus also has a secondary listing on the JSE under the technology internet sector. Sappi, the world's largest manufacturer of dissolving wood pulp, will lose its spot in the JSE's Top40 Index to make way for Prosus.

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

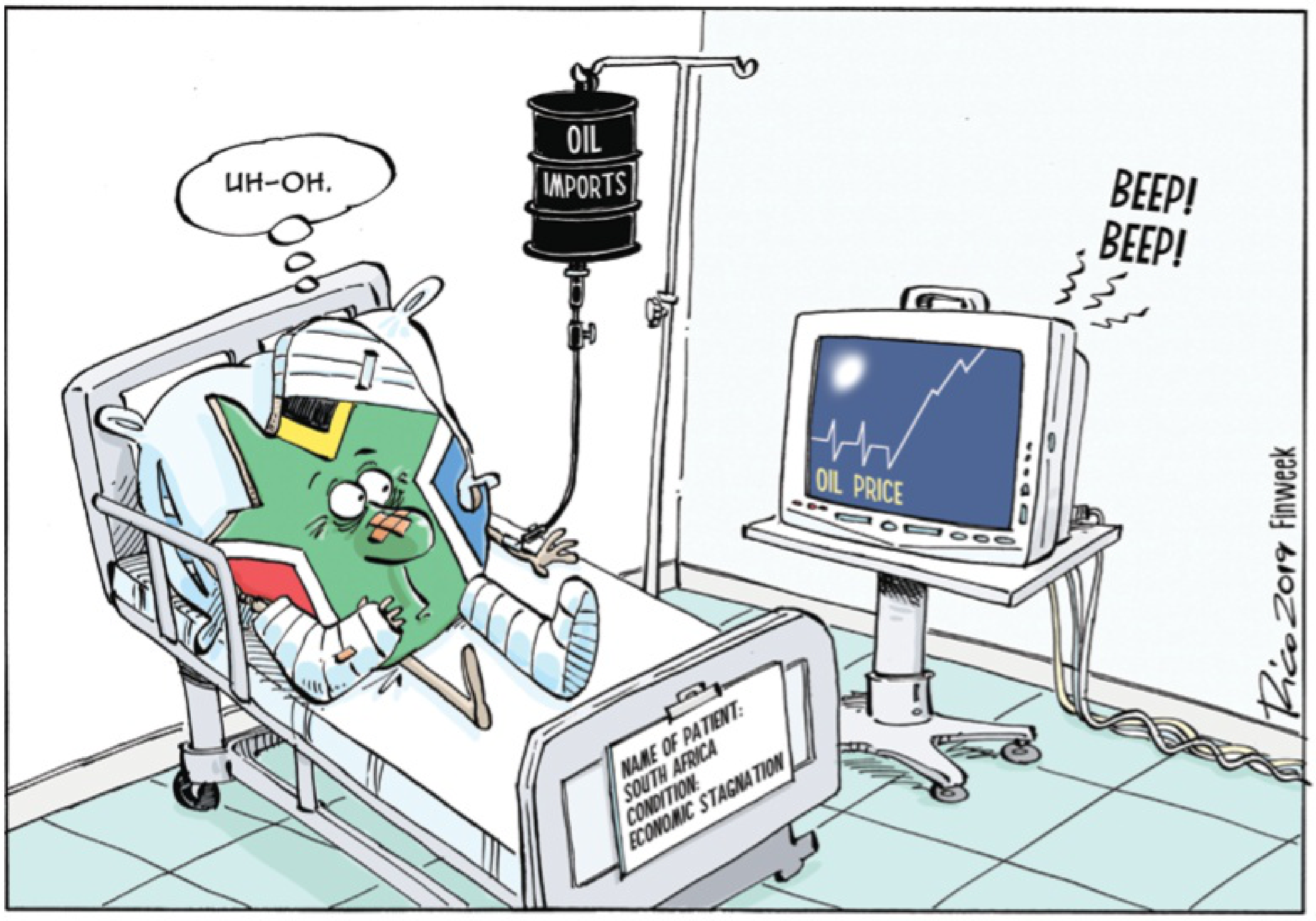
Photo: Gallo/Getty Images

BRICS BANK

R29.5bn

The New Development Bank, also known as the Brics bank, approved its seventh loan to South Africa, extending a R7bn credit line to the SA National Roads Agency (Sanral), reported *Business Day,* which brings the total value of the bank's loans to SA to $2bn (about R29.5bn). The publication reported that, according to the bank, the loan is for a project to improve national roads and includes the rehabilitation of pavements for the existing toll sections of national roads; construction of additional lanes to widen such roads; and the rehabilitation of related infrastructure, such as bridges and intersections. The loan was approved at the 21st meeting of the bank's board of directors.

DOUBLE TAKE — BY RICO



THE GOOD

The South Gauteng High Court ruled as illegal sections of the Regulation of Interception of Communications and Provision of Communication-related Information Act (Rica), which came into effect in 2005. Judge Roland Sutherland found Rica to be inconsistent with the Constitution, as it intrudes more than necessary on people's privacy via bulk surveillance and interception of signals, reported *Mail & Guardian*. The case was brought by investigative journalism unit amaBhungane, after it learnt that one of its journalists, Sam Sole, had been targeted by state surveillance operatives.

THE BAD

South Africa is likely to miss its 1.5% growth target for 2019 due to increasing headwinds, Reuters quoted finance minister Tito Mboweni as saying. "The assumptions underlying the forecasts have clearly changed ... the actual deficit now is probably much higher." Moody's, which still rates SA's debt at investment level, said it had lowered its growth forecast to 0.7% from 1%, while the Reserve Bank forecasts 0.6%. Said Mboweni: "We must refocus our economy on agriculture, but we also have to continue to support Eskom, because without electricity there is no growth."

THE UGLY

Global oil prices are expected to remain elevated for some time, following a recent drone attack on oil facilities in Saudi Arabia. *WSJ* described the attack as "a blow unlike any global oil supplies have seen since the first Gulf War", adding that the strike "points to the still-pivotal role played by Saudi production." The attack resulted in a loss of about 5% of global oil output. The supply shock sent US oil futures up by 9% to $59.67/barrel a day after the attack, said *WSJ.* Global oil prices rose by as much as 10% to $66.20/barrel. (See story on p. 12 for the impact on SA.)

By David McKay

Betting on the allure of legacy

Petra Diamonds CEO Richard Duffy acknowledges that the diamond market has been tougher than anticipated since he took the top job in February. However, he believes there will be a recovery in time.

Richard Duffy, CEO of Petra Diamonds, is hoping Brexit-weary Brits will buy into the 'romance' of the firm's Cullinan mine – situated a dusty, sun-baked 30km east of Pretoria.

That's the aim of a joint venture between his company and UK jewellery store Boodles, where diamonds marketed as having been mined from Cullinan are being sold.

The intention is to play up the history as well as the modern-day benefits associated with Cullinan diamonds, remembering, of course, that in 1905, a very large 3 106 carat Cullinan rough diamond was cut and polished into pieces now worn and borne by the UK monarchy when the grandiloquent occasion befits.

Sound hopeful?

Perhaps. But in the current diamond market, every little bit helps. Duffy, who began duties at Petra in February, acknowledges the diamond company is walking a tightrope in a very wobbly market.

Richard Duffy
CEO of Petra Diamonds

Petra is shouldering $541m in net debt and is pushing hard to generate as much revenue as it can.

Petra is shouldering
$541m
in net debt and is pushing hard to generate as much revenue as it can.

The concern, however, is that if the diamond market deteriorates markedly from today's status quo, then revenues will be depressed to such an extent that the company falls foul of its debt covenants. Debt covenants are agreed limits expressed as financial ratios to which the company can safely go before the bankers rush in.

"Given where the market is, and the ongoing weakness, it's prudent of us to engage with lenders. Certain of our covenants may be threatened," Duffy said in an interview with *finweek* following the UK firm's year-end results.

"The deal with Boodles is by no means a branding strategy, but we are hoping to get better prices for our diamonds," says Duffy, whose maiden financial results included a $247m impairment of assets – on the back of poorer market conditions – and a $258m net loss.

The company has all but completed its period of high-octane investment, which saw net debt peak at $288m in 2016, and has now embarked on a $150m to $200m cash flow improvement plan by 2022. But the market isn't going its way, and may even hurt the ability of the company to deliver its cash flow goals.

Cullinan received $15 per carat less per diamond in Petra's 2019 financial year than in 2018. Two other SA mines – Finsch and Koffiefontein – were also under pressure, while Williamson, a mine in Tanzania, received more than $30 per carat less than in 2018.

According to a report by Citigroup this month, a cut in US interest rates and the onset of a recession could add further pressure on the diamond sector, especially as dollars flood into gold, traditionally viewed as the safe-haven investment.

"Gold has that counter-cyclicality," says Duffy, who would know as he was previously chief financial officer of AngloGold Ashanti, the SA gold producer. "But then, historically, diamonds have always traded a percent or two above global GDP. You also have that supply/demand fundamental relationship in the diamond sector whereas gold is governed more by sentiment," he says.

The belief is that the world is running out of new sources of diamonds. What this means is that pricing in the medium term will be restored, assuming forecasts are correct that newly mined diamond supply will fall to 115m from 150m carats currently. The process will begin in 2021, according to Petra's data.

For now, though, it feels slightly like survival for Duffy; and probably not what he was anticipating when he took up the post?

"You're right," he says. "I wasn't expecting the diamond market to deteriorate so sharply, but the asset base is very robust and I'm not afraid of the challenge. There is a good team in place. It's been made tougher by the market but it will, in time, recover." ■

editorial@finweek.co.za

Photos: www.petradiamonds.com


KINGJAMES 48532
The world's next big investment might not be of this world.
There's never been a better time to be an investor.
Investments
www.sanlaminvestments.com
Sanlam
Wealthsmiths™
It's estimated that in less than 30 years, we will walk on Mars. To make that 54,6 million kilometre journey, we have roughly 12 000 problems to solve. The solution to each will filter down to myriad industries, all with incredible investment potential. To find out how our innovative investment portfolios are taking advantage of the world we live in, visit www.sanlaminvestments.com.
Sanlam is a Licensed Financial Services Provider.

By David McKay

Why Eskom's coal is burning money

As was the case with South Africa Energy Coal's supply of coal to Eskom, most contractors provided the resource to the power utility on a fixed-cost basis – until it allowed contracts to lapse. Now new plans are needed.

Say what you like about potential carbon exposure, the fundamental reason South32 decided to sell its South African coal mines, held in its 92%-owned South Africa Energy Coal (SAEC), is that they weren't as competitive as other assets in the group's portfolio.

"SAEC was probably not going to compete within our portfolio for capital, given our capital allocation programme, and the more I think about it, that is probably the best reason to put forward," said Mike Fraser, chief operating officer of South32, in an interview with *finweek*.

"If these were high-returning opportunities, you would actually be able to cover the risk that was being created in the portfolio by coal: You could have bought carbon credits to offset it, or you could have done something somewhere else."

SAEC is now subject to an exclusive negotiation process with Seriti Resources, the black-owned consortium led by Mike Teke, the former chairman of Richards Bay Coal Terminal and the Minerals Council. Seriti will pay a modest upfront fee for the mines, take on several billions of rand worth of rehabilitation risk, and share revenues on the mines should the coal price, currently depressed, rise substantially.

Of the 27m tonnes in annual production from SAEC, roughly half is delivered to Eskom, largely on a cost-plus basis in which Eskom pays over a contracted period of time – normally years – the cost of developing and renewing the coal resources. In return, it receives coal at a fixed level and quality above the cost of production, thereby de-risking its market exposure.

That was the way Eskom sourced the majority of its coal for years until it allowed contracts to lapse. In the now infamous words of Eskom's former CEO, Brian Molefe, the utility didn't want to own the bakery (the mines), it just wanted the bread.

Unfortunately, Molefe's strategy has backfired: the 'bread' is expensive and – to extract every drop from the allusion – is increasingly like four-month old, hard-baked sea biscuit rather than freshly risen dough.

It's a subject that Fraser is forthright about. If Eskom wants to contain coal inflation to single digits in the future – it's actually expecting a 20% increase for 2020 – it needs to revert to the fixed-cost model post-haste.

"Think about how much coal goes on trucks," says Fraser. "Eskom has short-term contracts with all operators. The problem it also has is the coal quality is not meeting specification, so it is burning rubbish it's paying a lot of money for.

"The problem it also has is the coal quality is not meeting specification, so it is burning rubbish it's paying a lot of money for."

"Eskom was buying coal from too many junior mining firms that could not provide the required quality, yet had contracts owing to the power utility's previous undertaking to support black-controlled suppliers.

"Yes, there will be space for small operators, but maybe as part of supporting the majors in supporting Eskom," says Fraser. "The way Eskom is going about it, and the way it is transforming its supply base, is just terrible. And this is just costing a huge amount of money: quality at the wrong price."

It's quite likely this will be the response of SA's coal mining sector when it meets with mines minister Gwede Mantashe on 27 September. Mantashe told media in mid-September that he would propose establishing a price index for coal supplied to Eskom. The intention would be to increase transparency and standardise price.

According to Bevan Jones, who is hoping to develop coal price indexation in SA – via a company called Source Markets – there's a chance this can happen, largely as market pressures might be in favour of it. "The export net back price of coal should remain weak for at least the next five to ten years as the international coal sector continues to experience demand destruction," he says.

"Thus, all miners will want to supply Eskom if they can guarantee a fixed return to the mines. In that case, the cheapest option will be a market [such as Source Markets], should Eskom wish to use it." ■

editorial@finweek.co.za

Mike Fraser
Chief operating officer of South32

Mike Teke
CEO of Seriti Resources

Photos: Gallo/Getty Images


AFRICA OIL & POWER
2019 Events Calendar
CAPE TOWN
OCT. 9-11
AFRICA OIL & POWER 2019
SOUTH AFRICA
JUBA
OCT. 29-30
SOUTH SUDAN OIL & POWER
SOUTH SUDAN
MALABO
NOV. 26-29
5TH GECF SUMMIT
EQUATORIAL GUINEA
BOOK ONLINE AND FIND OUT MORE AT WWW.AFRICAOILANDPOWER.COM

By Mariam Isa

How Saudi oil attack may impact SA

After the mid-September drone attack on Saudi Arabia's main oil production facilities, oil prices surged. Although it is difficult to quantify, emerging markets like South Africa are most likely to feel the burden of higher prices, putting yet more pressure on consumers.

Nerves are settling after the record spike in oil prices which followed a spectacular drone attack on Saudi Arabia's main oil production facilities on 14 September. The incident raised the spectre of a military confrontation, which could take out more oil infrastructure in the volatile region.

But warnings that in this scenario oil prices would surge to $100 a barrel – choking growth in the weak global economy – have been put on a back burner by financial markets, even though a "geopolitical risk premium" is expected to keep prices higher over the coming weeks.

Standard & Poor's said in a research note on 16 September that the implications of the attack should not be brushed off lightly. The fact that one combined strike on Saudi Arabia could knock out half of its capacity, equal to 5% of global supply and 10% of spare production capacity, highlighted the oil market's vulnerabilities, it said.

Oil-importing countries – which includes SA – would suffer the most from higher oil prices, it said. The global slowdown, together with the trade war between the US and China, made them more vulnerable, and would be "particularly problematic for smaller oil-importing emerging markets", it added.

The fallout for SA is hard to quantify because of the uncertainty over how long the oil price surge will be sustained, how quickly Saudi supply will be restored to normal, and, most importantly, how the US will react to the attacks – which US President Donald Trump has blamed on Iran.

Trump has predictably said that the US is "locked and loaded" in readiness to respond, but also that he would "like to avoid" a military conflict. Given that he called off a missile strike on Iran at the last minute after it downed a US drone in June, his threats are probably not being taken as seriously as he intends.

Nonetheless, the risk to oil supply from the region will keep markets on edge, and prices for the Brent crude benchmark are likely to continue hovering above $65 a barrel, compared with about $60 the day before the attacks, analysts say.

That will feed through into local fuel prices and inflation, putting pressure on the disposable income of SA consumers and possibly curbing the economy's already sluggish pace of growth, warns NKC economist Elize Kruger.

She predicts the oil price spike will add R1/litre to fuel costs over the next two months. Fortunately, the impact on inflation is likely to be muted, despite the fact that a dip in petrol prices was the main reason why consumer price inflation dipped to 4% in July, a six-month low near the bottom of the Reserve Bank's 3% to 6% target range.

The fact that one combined strike on Saudi Arabia could knock out half of its capacity, equal to

5%

of global supply and

10%

of spare production capacity, highlighted the oil market's vulnerabilities.

"If you think the level of oil prices is going to be sustained, it takes a bit of the edge off a disinflationary environment," says George Glynos, managing director of ETM Analytics. "But it won't materially change the inflation outlook, even if we do settle at $70 a barrel."

The jury is out on whether concerns over the impact that higher fuel prices may have on inflation will prevent the Reserve Bank from lowering interest rates in the coming months, after it cut the repo rate by 25 basis points to 6.5% in March.

A decision from the bank's Monetary Policy Committee was due on 19 September (after this edition of *finweek* went to print), with market consensus betting on unchanged interest rates, particularly given the likelihood of further oil price volatility.

The spike in oil prices did weaken the rand, which is notoriously risk-averse and tends to depreciate significantly in the face of negative market news, even if the event is not perceived to be linked to SA.

Glynos says that the currency, which was trading at R14.78 early on 16 September, could strengthen in the weeks ahead but he recommends that investors "stock up" on offshore exposure or dollars during periods of appreciation.

At some point local markets would start to factor in a downgrade by Moody's Investors Service, even though SA bonds were already trading at junk status levels, with yields higher than comparable countries with sub-investment-grade ratings, he says.

Standard Chartered's chief economist for Africa and Middle East, Razia Khan, has similar views, saying that the Reserve Bank would see the main risk to SA stemming from a credit rating change or other factors specific to the country.

Moody's has recently indicated that SA was unlikely to be downgraded before it changed the outlook on its BBB- rating for the country to negative from stable – an event which is possible after the release of Treasury's Medium-term Budget Policy Statement in late October. ■

editorial@finweek.co.za

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

Smoke billows from an Aramco oil facility in Abqaiq in Saudi Arabia's eastern province following the recent drone attacks.

Photo: Gallo/Getty Images

market place

FUND IN FOCUS: ANCHOR BCI AFRICA FLEXIBLE INCOME FUND

By Timothy Rangongo

Owning a piece of Africa

The Anchor BCI Africa Flexible Income Fund maximises income by mainly investing in African interest-bearing securities.

FUND INFORMATION:

Benchmark:	SteFI Composite Index +2% p.a.
Fund managers:	Nolan Wapenaar
Fund classification:	Regional – Interest Bearing – Variable Term
Total investment charge:	0.99%
Fund size:	R141.33m
Minimum lump sum / subsequent investment:	R10 000/R500
Contact details:	011 591 0677/info@anchorcapital.co.za

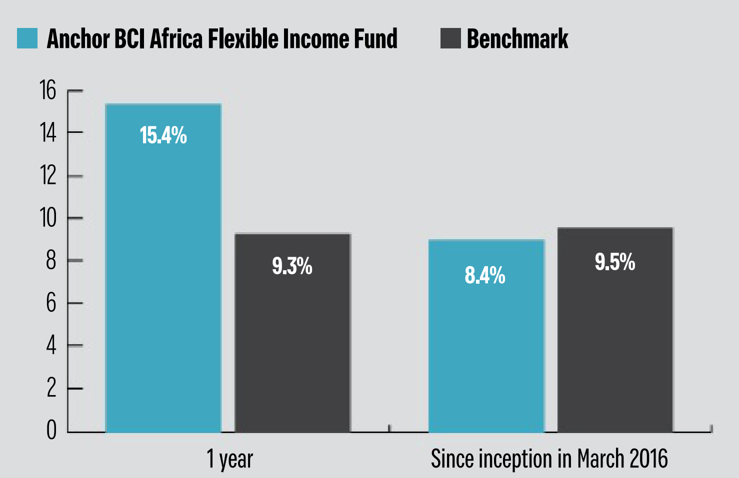
TOP 10 HOLDINGS AS AT 31 AUGUST 2019:

1	Morocco – 2022 Bond	13.1%
2	Rwanda – 2023 Bond	7.1%
3	Cash	5.6%
4	Nigeria – 2023 Bond	4.6%
5	Ethiopia – 2024 Bond	4.6%
6	MTN – 2024	3.6%
7	Africa Dev Bank – 2021 Bond	3.3%
8	Namibia – 2025 Bond	3.3%
9	Nigeria – 2027 Bond	3.3%
10	Naspers* – 2025 Bond	2.9%
	TOTAL	**51.4%**

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

PERFORMANCE (ANNUALISED AFTER FEES)

As at 31 August 2019:



Fund manager insights:

Anchor Capital's BCI Africa Flexible Income Fund primarily invests in African interest-bearing securities (mainly US-dollar-denominated bonds issued by African sovereigns and not in African corporate debt) with the objective of maximising income for investors. The fund gives investors access to an alternative source of yield and diversification away from equities (especially the local stock market's continued losing streak). The portfolio's African exposure, excluding SA, will always exceed 80% of the portfolio's asset value, according to Anchor Capital.

As at the end of August 2019, the fund had returned 3.48% for the month and 15.4% for the year thus far (outperforming its benchmark by 6.1 percentage points). A majority of the fund's holdings are from Morocco, Nigeria, and Rwanda, among others.

"Rwanda is more of a recovery story," says fund manager Nolan Wapenaar.

Rwanda's economy has been growing strongly for a number of years now (with a ten-year average annual growth rate of 7.2%) as they are coming off a low base. Rwanda has put a lot of effort into setting the country up as an attractive investment destination on the continent. Anchor still views Rwanda as a frontier market, but the trajectory of improvement makes this an attractive opportunity, says Wapenaar.

Morocco carries an investment-grade rating from Standard & Poor's and Fitch, and the country has been benefitting from foreign direct investment, with Japanese and Swiss companies recently increasing their presence, Wapenaar explains.

Following attacks on Saudi Arabian oil production capacity, at the time of writing, oil prices have been rising quite sharply. "We think that a higher oil price will likely be sustained for a while. In this context, we are looking to increase our exposure to oil-producing nations like Nigeria, Ghana and Gabon," Wapenaar says.

Of course, there's the challenge of Africa having a bad reputation "either because investors tried other asset classes, which did not meet their objectives, or because the popular perception of Africa as a whole is quite negative".

Anchor asserts that the portfolio faces no domestic currency risk in any of the African countries, and that the portfolio is not subject to the risk of being in a long queue to get out of a country at the end of an investment. "The truth is that dollar bonds issued by African countries are actually quite freely traded. In fact, this asset class is far more liquid than most of the domestic fixed-income portfolios," says Wapenaar.

Why *finweek* would consider adding it:

The fund's purpose is to be the lowest-risk fund for accessing the Regulation 28 allowance for investing in Africa. "Many savers are looking at how to apply the 10% bucket for alternative assets in their Regulation 28 portfolios. We think that they should definitely look at an African Income Fund as part of their solution. The costs are lower and the experience is probably better than they might have elsewhere," says Wapenaar. Since inception, the fund has never reported a negative outcome over any rolling 12-month period. ■

editorial@finweek.co.za

AFRICAN RAINBOW CAPITAL

BUY SELL HOLD

By Simon Brown

Good for the long term

African Rainbow Capital's recent results for the year to end-June showed a net asset value (NAV) of 934c, with the share trading at around 400c. Now, we can debate the NAV – and certainly I think its telecoms operator Rain looks to be optimistically valued – but even if we slice a quarter off the Rain valuation, it would still leave us with a NAV of over 800c.

Photo: www.tymebank.co.za

Something else that has me bothered is the high fee structure. But here we can use a formula for discounting the fee structure. Fees are potentially as high as 3% and multiplying that by ten gives a discount rate. So, we can take another 30% off NAV. That still leaves us at around 560c.

That means even aggressive discounting leaves a chunky discount to NAV.

Furthermore, they do hold some quality assets (TymeBank being the best of the bunch as they sign up over 3 000 new clients per day). The structure also means that as the group invests, they bring BEE credentials. And they have a decent cash pile (R725m) to go with experienced, quality management.

The stock is not likely to do anything soon, but it looks very decent for a long-term position in a portfolio. ■

Last trade ideas

BUY Exxaro Resources
12 September issue

BUY Metair
29 August issue

WAIT ETFPLT
15 August issue

SELL Kumba Iron Ore
25 July issue

PICK N PAY STORES

BUY SELL HOLD

By Moxima Gama

A share out of steam

Pick n Pay has come a long way since Richard Brasher, former head of UK retailer Tesco, joined the company as CEO in 2013.

He was tasked to restore the company to former glory. Pick n Pay was in urgent need of a turnaround strategy at the time as rivals were eating into its market share.

Six years later, Brasher could claim some success. In April, Pick n Pay announced profit after tax of R1.65bn for the 53-week period to 3 March 2019 – up from R1.3bn in the corresponding period. A final dividend of 192c/share was declared, putting the total annual dividend at 231.1c/share – an increase of 22.4%.

The share price's upside momentum, however, has slowly been losing steam since 2016, when it reached a peak of 8 425c/share.

The share price's upside momentum, however, has slowly been losing steam since 2016, when it reached a peak of

8 425c

per share.

How to trade it:

Pick n Pay's key support trendline (dated back to August 2013) was breached in August.

During the second week of September, the share price rose to the same trendline it had breached and is currently testing it.

A reversal below that trendline, or below 7 000c/share, could extend downside to the major support trendline of its long-term bear trend (dated back to 1999) or to 5 000c/share. Pick n Pay should bounce there, otherwise a negative breakout of the primary bull trend would be confirmed below 3 900c/share. Support at 2 500c/share could then be tested.

Alternatively, continued upside through 7 000c/share would mark a change in investor sentiment and gains towards 8 425c/share could then follow. A new bull phase targeting 11 565c/share in the medium to long term would commence once the all-time high at 8 425c/share is breached. ■

editorial@finweek.co.za

Last trade ideas

HOLD Bidvest
12 September issue

STAY SHORT Sasol
29 August issue

BUY Blue Label Telecoms
15 August issue

STAY LONG EOH Holdings
25 July issue

Photo: Gallo Getty Images

By Moxima Gama

ASPEN PHARMACARE

Will it fall further?

Aspen Pharmacare was long a darling share on the JSE, with an all-time high of 44 870c/share achieved in 2015 (from 2 900c/share in 2009). Starting out in a house in Durban in 1997, today Aspen is a multinational pharmaceutical company that distributes its products to more than 150 countries across the world.

Outlook: Acquisitions over the past decade left Aspen with huge amounts of debt. Earlier this year, the company said total debt burden had reached R53.5bn; more than its market value. But announcing its results for the year to 30 June in September, the company indicated that debt had been reduced by 27%, to R39bn – which is now safely below market cap of roughly R44bn.

52-week range:	R64.07 - R200.50
Price/earnings ratio:	6.65
1-year total return:	-48.26%
Market capitalisation:	R44.1bn
Earnings per share:	R14.66
Dividend yield:	-
Average volume over 30 days:	2 190 707

SOURCE: IRESS

ASPEN PHARMACARE

SOURCE: MetaStock Pro (Reuters)

On the charts: Aspen recovered somewhat following the announcement of its full-year results, but the company is still only slightly above all-time lows reached in August. Is now a good time to buy?

Go long: The three-month relative-strength index (3M RSI) is bouncing from an oversold position, but in order for Aspen to escape its steeper bear trend, it would have to trade above 11 305c/share – a buying level. Such a move could prompt further buying towards 18 005c/share. Above that level positions could be increased, as upside to 23 365c/share could then follow. This move would be a recovery within the current bear trend, which would only end through the upper blue trendline.

Go short: Do not go long if Aspen should encounter resistance at 9 665c/share and maintain its bear trend, as downside through 6 465c/share could trigger another sell-off towards 4 360c/share. ■

CAPITEC

Possible bull break

Capitec investors tried hard to shrug off a report issued by Viceroy last year, claiming that the bank was misleading investors. But upside momentum was already losing steam. When Capitec hit an all-time high at 143 295c/share in March 2019, its price-to-earnings ratio (P/E) was at an expensive 26.18. Investor sentiment began to plateau. Capitec was over-extended.

Outlook: After failing to hold at key support at 131 605c/share, Capitec capitulated through the second support trendline of its long-term bull channel.

In a trading statement, released early in September, Capitec said it expected headline earnings per share for the six months to end-August to rise as much as 21% to a range of R25.04 and R25.68. The share price jumped 2.34% on the news – a recovery within its corrective bear trend. Capitec results were due by 26 September.

52-week range:	R926.05 - R1432.94
Price/earnings ratio:	28.31
1-year total return:	38.05%
Market capitalisation:	R149.6bn
Earnings per share:	R45.71
Dividend yield:	1.35%
Average volume over 30 days:	339 399

SOURCE: IRESS

CAPITEC

SOURCE: MetaStock Pro (Reuters)

Go short: Capitec is merely correcting within its long-term bull channel. It has breached the resistance trendline of its corrective bear trend and is trading above 124 945c/share. With the three-week RSI in overbought territory, a pullback may be underway soon.

If Capitec trades through 117 880c/share, it would extend the downside momentum towards 100 700c/share – or even to the lower slope of the channel towards 90 500c/share. In this instance, go short below 117 880c/share.

Go long: Continued upside above 124 945c/share – even after the 3W RSI has come off its overbought position – would mark the end of the correction. This could potentially trigger upside to the all-time high at 143 295c/share. Above that level, Capitec could retest the upper slope of its long-term bull channel towards 160 000c/share. ■

editorial@finweek.co.za

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

By Schalk Louw

STOCKS

Quality shares itching to rally

On close inspection, it would seem that there are some quality shares on our bruised local bourse that present possible opportunities.

Tiger Woods must stand out as one of the biggest comebacks of all time. Until quite recently, most people felt that he *used* to be one of the greatest golfers ever, but that his retirement was due any moment.

His body has endured many surgeries over the years, and the BBC reports that he spent 1 876 days without a single win. At one point, he was ranked 1 199th in the world. But his willpower and determination – a mark of all quality sportsmen and women – surprised everyone when he won the US Masters in April.

It's human nature to give up on something if it "doesn't work anymore". Take our local stock market – it's no surprise that in the past few years, several things just weren't working.

When we look at shares with specific characteristics (or factors) that 'went under the knife', quality shares seem to stand out. Quality shares are valued according to strong return on equity (ROE) and the lowest possible enterprise value to free cash flow ratio.

The Satrix Quality South Africa exchange-traded fund (ETF) dropped by more than 3% over the year to 8 September 2019, while the same management company's Alsi index fund barely managed to deliver positive growth over the same period. Meanwhile, the MSCI World Quality Index was one of the best investment choices as it managed to outperform the MSCI All Country World Index quite comfortably.

Mr Price has delivered an average return on equity of

43.7%

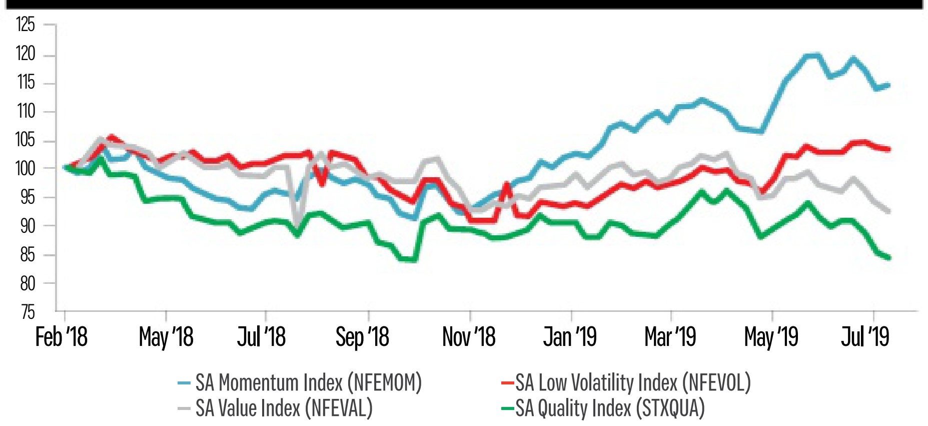
since 2009, well above the industry mean of 25%.

I'm not calling local quality shares the 'Tiger Woods comeback' of the SA stock market. But I decided to dig a little deeper to look for possible opportunities. With the assistance of Pieter-Jan van Niekerk, equity analyst at PSG Wealth Old Oak, I managed to find some quality shares that may just be restored to their former glory.

Mr Price

Mr Price said earlier this year that it was anticipating a challenging first half of the 2020 financial year, but expected an improvement in the second half. The group has delivered an average ROE of 43.7% since 2009, well above the industry mean of 25%, according to data provided by Thomson Reuters. Relative to peers, the group has low debt levels and is a highly cash-generative business. Mr Price is well-positioned to benefit from a recovery in the local economy.

SA-LISTED FACTOR ETFs



SOURCE: Schalk Louw & Thomson Reuters

Tiger Brands

After the confirmed outbreak of listeriosis in December 2017, Tiger Brands lost nearly half of its market capitalisation. Higher input costs and a challenging trading environment has put further pressure on operating margins. The company's debt levels are below the long-term and industry average. Should future earnings revert back to historical levels, Tiger Brands could offer value to long-term investors.

Standard Bank

Standard Bank has managed to grow earnings by 9.72% and its dividend by 12.72% year-on-year over the past five years. The group is likely to see most of its growth come from regions outside of SA, such as East and West Africa. About 38% of the group's earnings are non-South African, which provides greater diversification and exposure to faster-growing economies in the rest of Africa. ■

editorial@finweek.co.za

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.

HYPROP

Hyprop's super-regional mall, Canal Walk

Top pick in its sector

Hyprop has long been one of my preferred property stocks as it holds high-quality local assets. But the adventure into the rest of the continent has hurt; they have had to write off almost R1.5bn ahead of the sale of these assets. The local operations remain solid, with retail vacancy below 1% and an impressive growth (of 6.5%) in local distribution income. Its smallish Eastern Europe operation reports even better numbers. The yield is over 12% – which is excellent for a quality operation (notwithstanding their rest of Africa misadventure) and the stock remains my preferred locally, as it trades over a third below net asset value.

METROFILE

Deal or no deal?

Metrofile* results for the year to 30 June saw debt coming down, while box volume grew some 5%. Both are positive outcomes. They have also resolved previous tax issues, but the impact thereof will only come through in the next financial period. However, this is all moot as the company has since issued a Sens announcing a buyout offer that the board is considering. No price is mentioned but, if they want my vote, I'll need a price of over 300c – and I think that's a long shot. Looking at the share price over the last few months, 250c is more likely to be the top end of the range. The company also announced another dividend that can be taken in either cash or shares and I will be applying for the shares.

DISCOVERY

Happy shareholder

Discovery* results for the year to end-June were in line with expectations following the blowout in life claims in the first half of the year (when they had a number of high-value claims). The company continues to spend on its new businesses, with the bank chief among them. So far, they have signed a modest 22 000 banking customers. The reports that I am hearing are mostly favourable, although some people are not liking the process or the app-only interface. The group's Chinese operations (through its interest in Ping An Health) continue to grow at an accelerated rate, off a low base. Local operations, though, muddle along in tough conditions. I remain a happy holder of the stock.

No price is mentioned but, if they want my vote, I'll need a price of over

300c

– and I think that's a long shot.

TOBACCO

A matter of time

President Donald Trump has announced a plan to ban flavoured vaping products in the US, citing concerns that they're dangerous. Two US states (Michigan and New York) are also clamping down on vaping products, following concerns that the flavoured products are essentially a gateway for big tobacco to get kids into smoking either via cigarettes or vaping. I think they're right on both counts. I have written before that big tobacco saw vaping as a backdoor to getting back into the large US market, after decades of being on the retreat due to court defeats in the 80s and 90s. But they're likely going to lose this battle as well. I think they have a real risk here that menthol cigarettes will now also be on the block for banning. If flavoured vaping is a gateway, then so is menthol. It is not about the delivery mechanism; it is about the dangers of tobacco. Of course, a lot of lawyers (and a lot of time) will first get involved. But, ultimately, if your product kills people, you will lose the battle.

GROUP FIVE

All or nothing

Group Five has announced the final winding up of the company, with secured debt holders receiving between 39c and 59c per rand of debt. Shareholders will get nothing as they get the most reward when things work post-business rescue – unlimited upside potential. Equally, of course, shareholders stand last in line when trouble hits and they get nothing for a 100% loss.

Photos: Archive | Shutterstock

PHUMELELA

Monopoly under threat

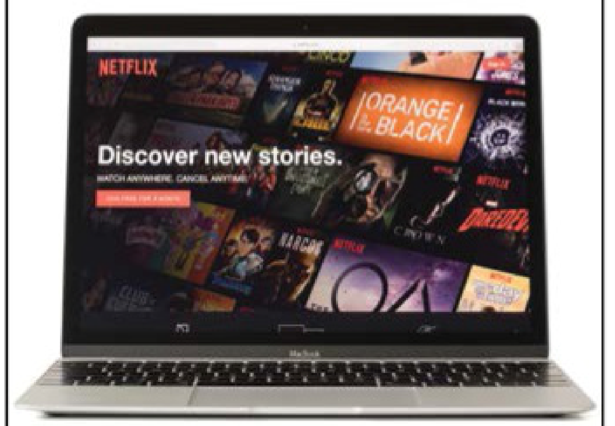
Phumelela Gaming and Leisure has issued another Sens. This time the Gauteng Gambling Board has "invite[d] an expression of interest to develop, own and operate a race meeting licence in the Gauteng Province and to invite an expression of interest to operate a totalisator licence in the Gauteng Province". Now, this is exactly what Phumelela currently does (and it is the sole operator of such in the province). So, is Phumelela going to lose its licence or will it get competition? A third option is that they apply (and they have indicated they will) and win the sole licence. The share has had a wild ride recently. In the last month it has seen a high of 300c and a low of 149c – indicating the real uncertainty that exists. And this was before the current announcement, when concerns were just around the 50% of gambling tax that they receive. I think they'll survive. But their monopoly is under threat. I think that a delisting is the most likely course of action.

SPUR

Ahead of the pack

Good results from Spur for the year to end-June. Revenue increased by 5.9%, with headline earnings per share (HEPS) up 10.8%. The dividend was up 10.6%. This was, of course, off a lower base in the previous year. Hussar Grill was the standout performer for the group as it grew revenue by 13.4%. It's a small business, but impressive. Famous Brands* should, in theory, also see good growth in its sit-down signature brands as it operates in largely the same higher-income category, but their cautionary said like-for-like growth was around 1.4%. That means Spur is well ahead in this sector. Famous Brands also said that its Lamberts Bay Foods had lost a single client, resulting in a 39% decline in sales. One client being that big is serious concentration risk. Even if we assume some fixed costs that worsened the drop, it won't be easy for them to recover that income and resulting margins.

NETFLIX



Clouds on the horizon

Apple has announced that its streaming TV service is launching in November, while Disney will launch its later in the same month. Both are starting at aggressive prices of $5 and $6.99 per month respectively, while Apple's service will be free with a new device. With Disney you can also bundle Hulu and ESPN+ for $12.99, the average Netflix pricing. This is a real threat to Netflix and investors need to watch their subscriber numbers over the next year.

LABAT

Take it slow

Labat has become South Africa's first listed cannabis company after it bought two small stakes in technology, growing rights in Lesotho and CBD production. They now also have an offer to subscribe for some R40m of new shares, which will generate a bunch of cash for the company. The market did move the share higher, albeit on slim volumes. The issue here is that having some tech and some rights is great, and cannabis is certainly a hyped sector, but none of this ensures profits. As yet, while we do have a high court judgment on growing and consuming at home, we don't yet have a law legalising cannabis. I do think we'll eventually have a local market, and laws that enable growing and marketing of cannabis, but we're a long way from knowing who the winners will be.

Photo: Shutterstock

What excited the market was that debt is down to only R38bn, just a little below the current market cap. My concern is about growth.

ASPEN

Finding growth

Aspen's results for the year to end-June saw flat revenue and diluted HEPS off some 11%. It also cancelled its dividend (it was always modest). But what excited the market was that debt is down to only R38bn, just a little below the current market cap. My concern is about growth. The company is not bullish on growing revenue or profits in the next financial year. Without growth, even a price-to-earnings ratio (P/E) of around seven times begs the question: why buy the stock? Sure, it is cheap, but they still have plenty of challenges with managing a large debt pile and finding growth. I would rather watch from the sidelines. ■

editorial@finweek.co.za

**The writer owns shares in Famous Brands, Metrofile and Discovery.*

By Simon Brown

SHARES

The case for listed property

While there are plenty of short-term risks with listed property stocks, investment expert Simon Brown still includes this sector in his long-term portfolio. He explains why.

I have been buying listed property exchange-traded funds (ETFs) over the last year. So far, it has not been a rewarding investment as the listed property index is off just over 10% over the period. However, that is before dividends. Dividends have been chunky at around 9%. That means that, overall, one is down around 1%.

Over the same period, the Top40 is flat, excluding a dividend yield of some 3%.

I want to delve into why I like property, but also why I may be wrong, especially in the short term.

The bull case for property is fairly simple. One buys when the yield on property is above the ten-year government bond rate. This is currently around 8.1% and the sector is yielding over 9%, so that box gets ticked.

The second bull case is to buy into the sector when the price is around or below the net asset value (NAV) of the property stocks. Again, this is the current situation, so now we have both bull-case boxes ticked.

Except, of course, that prices keep falling. It is important to mention, however, that this will often be the scenario. Just because a share or sector is cheap does not mean it will stop falling.

But there are risks... plenty of risks.

The first risk is that yields will fall as the listed property stocks are unable to pass on inflation-based rental increases in a tough economy. Certainly, the power here sits with the tenant. The landlord would rather have a lower increase in rental income, or even maybe a decrease in rental income, than lose the tenant.

But while income could be lower, costs will continue to rise at the rate of inflation. This means a squeeze on profits.

Furthermore, in the current economy we are often seeing higher vacancy levels. This will again depress overall income and occupancy levels.

The second risk is that the NAV may be under threat. Most listed property companies update the NAV on a rolling basis of between three to five years. So, in a worst-case scenario, we could see a five-year valuation being used that gets downgraded at the next review period.

As NAV drops, debt could become an issue. This is because many listed property stocks have debt covenants that require debt to be a certain maximum percentage of NAV. So, suddenly, the landlord could be in breach of their debt covenants and have to scramble to either sell buildings or restructure debt.

Another response could be to cut back on maintenance on their buildings in order to free up cash for debt repayments. But this road will, of course, only lead to ruin.

While listed property is certainly cheap by classic valuations, there is indeed risk in the short term. But it is that short-term part that has seen me buying.

When I am buying for my long-term portfolio, I am asking myself what I expect to see happening in ten years' time, not over one year (or even over three years). So, when I was buying property ETFs, I was looking out to 2028. Do I still expect the economy to be struggling to keep its head above water? Do I still expect rentals and NAVs to be dropping? The answer to both is no, I do not. So, I use this valuation opportunity to stock up on assets that have a solid long-term future.

A last point here is that I always buy into ETFs when investing in property. Sure, I have a few preferred listed property stocks, but listed property has never been an area in which I've felt comfortable enough buying individual stocks. An ETF offers a basket of property stocks that will change over time, leaving me free to not have to worry about picking individual stocks. ■

editorial@finweek.co.za

While listed property is certainly cheap by classic valuations, there is indeed risk in the short term. But it is that short-term part that has seen me buying.

Photo: Shutterstock

OLDMUTUAL

USING PROFESSIONAL ADVISORS FOR YOUR COMPANY'S EMPLOYEE BENEFITS

BY MALUSI NDLOVU,
GENERAL MANAGER OF OLD MUTUAL CORPORATE CONSULTANTS

Executives have several high-level responsibilities that require rare and specific skills and personality traits. They have to inspire and motivate their teams, lead with enthusiasm, have a vision for the future and navigate the most effective route to get there – all while running a profitable business. This is no easy task and would explain why CEOs and other executives spend more time at work, and why they need a loyal and committed workforce to support them. A good employee benefit solution will attract and retain that loyal and committed workforce.

YOUR EMPLOYEES ARE YOUR BIGGEST ASSET

Taking care of your employees should feature high up on any CEO and his company's list of priorities. Using professional, expert advisors for this important function can prove to add a lot of value for both the employees and the employer.

As professional experts in employee benefit solutions, Old Mutual Corporate Constultants offers advice on how to tailor-make an employee benefit solution for your company or alternatively, optimise and improve your existing employee benefit structures. In doing so, we free up the CEO and senior management team's time so they can concentrate their efforts on high-level decision making.

WE OFFER:

General and benefit consulting

Old Mutual Corporate Consultants offers a wide variety of general and benefit consulting that is customised around your organisation's needs.

Investment consulting

You will have the support of a focused investment consulting team. This professional team has the skills and resources to assist trustees with their fiduciary duties. Members will also benefit from an optimal investment strategy that has been designed to meet their unique needs.

Actuarial consulting

Not many companies have the luxury of an in-house actuary to assist with fund valuations, benefit calculations, employer liability valuations and replacement ratios – to name only a few. Old Mutual Corporate Consultants offers professional actuarial services that go beyond the traditional production of regulatory valuations.

WHAT IS AN EMPLOYER TO DO?

Speak to a consultant that has the expertise and a proven track record to help you package your employee benefits to suit your business' unique needs and budget - one that is focused on delivering specific, well-defined outcomes for your employees. That means they partner with you to ensure that your staff are on track with their retirement savings and the outcomes they want for the future.

Call us to create a smart strategy for your business.
Rodney Msimango: Head of Business Development +27 011 217 1420 or RMsimango@oldmutual.com

CORPORATE
CONSULTING

DO GREAT THINGS EVERY DAY

Old Mutual Corporate is a division of Old Mutual Life Assurance Company (South Africa) Limited, Licensed Financial Services Provider.

By Maarten Mittner

GLOBAL ECONOMY

It's all getting weirder and weirder...

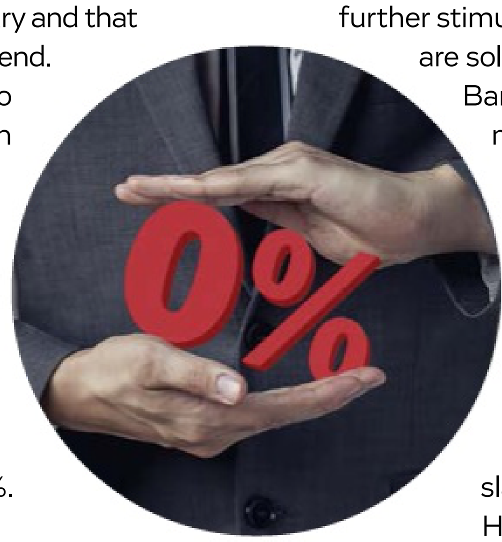
Global economic growth is very dependent on an ongoing easing environment. But what implications does this have in a world where interest rates are already extremely low, or negative?

Could negative interest rates become the new normal?

This follows President Donald Trump's recent tweet urging the US Federal Reserve (Fed) to reduce rates further to zero, and even negative levels. And as the Fed unveiled its newly founded "appropriate" stance, from a previous "mid-cycle adjustment", former Fed chair Alan Greenspan has warned that the US might soon also face negative bond yields, as is the reality already in Germany and Japan.

As if to rebut these calls, the US ten-year bond, in line with global bonds, turned the other way as yields rose in anticipation of further stimulus measures from central banks to stave off a possible recession. But many analysts believe this move was just temporary and that global bonds will soon again resume their downward trend.

At the end of last year, Greenspan's view was sure to be regarded as preposterous, with the US ten-year then yielding 3.2% as the relatively strong US economy afforded the Fed the opportunity to hike rates gradually. Recently, the ten-year was at 1.42% as the market priced in weak economic growth and lower inflation. But his view is certainly not that far-fetched, with the ten-year's real rate already negative when measured against inflation.



In Germany the ten-year Bund yields dropped to -0.7% and the Japanese benchmark ten-year to -0.2%.

Ironically, lower rates are usually associated with recessionary or near-recessionary conditions. So what do economies with negative yields look like?

GDP growth is almost always lower; just positive as is the case in Japan. Inflation usually hovers around 0.5% and 1%, leading to desperate measures from governments to stave off deflation, stimulate the economy and keep markets in positive mode. The problem is there is little room for stimulation, as these economies already have fiscal deficits in place.

Negative rates benefit corporate debt and punish savers. The result is distorted economies. In Japan, companies sit on huge cash piles, which is not spent on investment.

On the positive side, exports could remain strong, resulting in a positive current account balance. But that is dependent on unfettered global trade, which is now under threat from Trump's tariff-hiking policy. Germany's industrial production has fallen, with the European behemoth likely in a recession in the third quarter.

Negative rates benefit corporate debt and punish savers. The result is distorted economies. In Japan, companies sit on huge cash piles, which is not spent on investment. In Germany, there is a substantial budget surplus, as the government hoards money rather than spend it on infrastructure projects, for example.

In the US, where rates could still turn negative, Trump's tax stimulus package has prompted companies to buy back shares and declare dividends rather than directing spend towards greater capital outlays.

On Wall Street, the Dow reflects huge valuations in the traditional tech companies, partly due to their cash-flush position and low corporate tax payments. The traditional manufacturing companies struggle.

The Dow is up 14% so far this year. The Nasdaq has gained 22% and the S&P 500 18%. These gains are largely based on faith in a continued dovish stance from the Fed.

The German and Japanese equity markets have showed similar growth, despite the fact that lower or negative bond yields are indicative of safe-haven trade where central banks have adopted a hawkish or neutral stance. The moment central banks indicate that further stimulus might be in the offing, yields rise again as bonds are sold off in favour of more risky assets. European Central Bank (ECB) president Mario Draghi has hinted at further monetary relaxation, but present lending rates are already at 0%. In Japan, Shinzo Abe's administration has alluded to further measures in the ECB's "whatever it takes"-mode.

This is supportive of equities. But the mood is fragile, leading to more and more calls for ancillary stimulation measures, mostly from the fiscal side. With the impact of dovish monetary policies expected to be more muted going forward, fiscal slack must come to the rescue.

However, the wriggling room is very limited. Despite austerity in the UK, the budget deficit is near 2% of GDP. In France and Italy, it is around 3%. The US budget deficit is nearing 5%, as tax revenue has come under pressure. The US fiscal deficit is now expected to hit $1tr every year in the next decade.

Where will the greater stimulus come from? And where will it end? It has become abundantly clear that no central bank can afford to hike rates to levels seen before 2008. Because that will only tip global economies into recession. Economic growth is dependent on an ongoing easing environment.

What the bond market shows, is that it is all likely to end badly. Monetary and fiscal stimulus cannot continue indefinitely. The reason being exponential rises in national debt levels, already set to increase further with the envisaged fiscal stimulus calls. Probably the only positive is that the cost of debt remains low due to suppressed interest rates. Relative to GDP, developed countries spend only 1.7% on debt interest. In the late 1980s the cost of debt hovered at a comparable 4%. This has led some analysts to state it is difficult to envisage a recession in an environment where rates are zero.

These might prove to be famous last words. ■

editorial@finweek.co.za

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

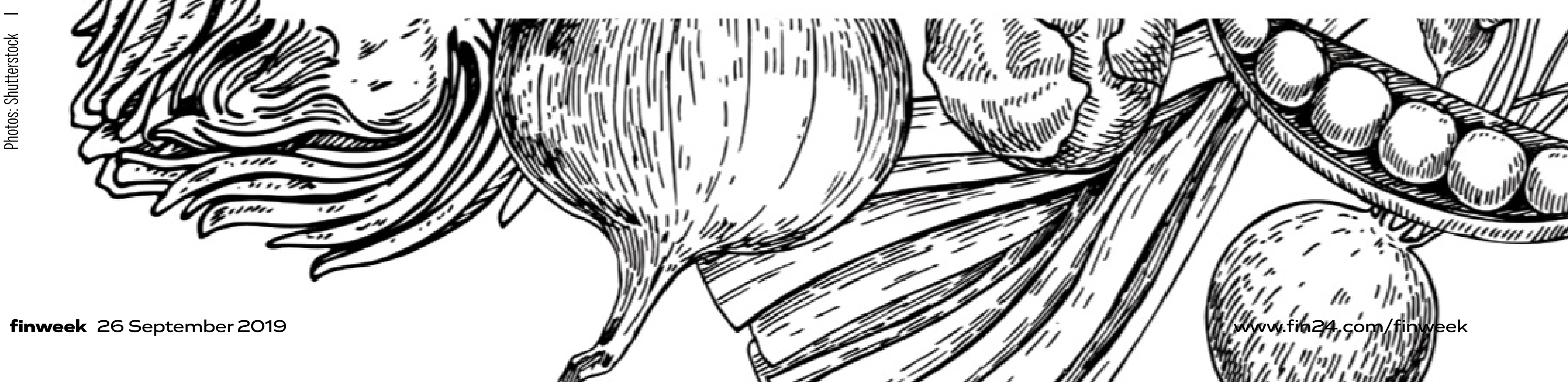
Photo: Shutterstock

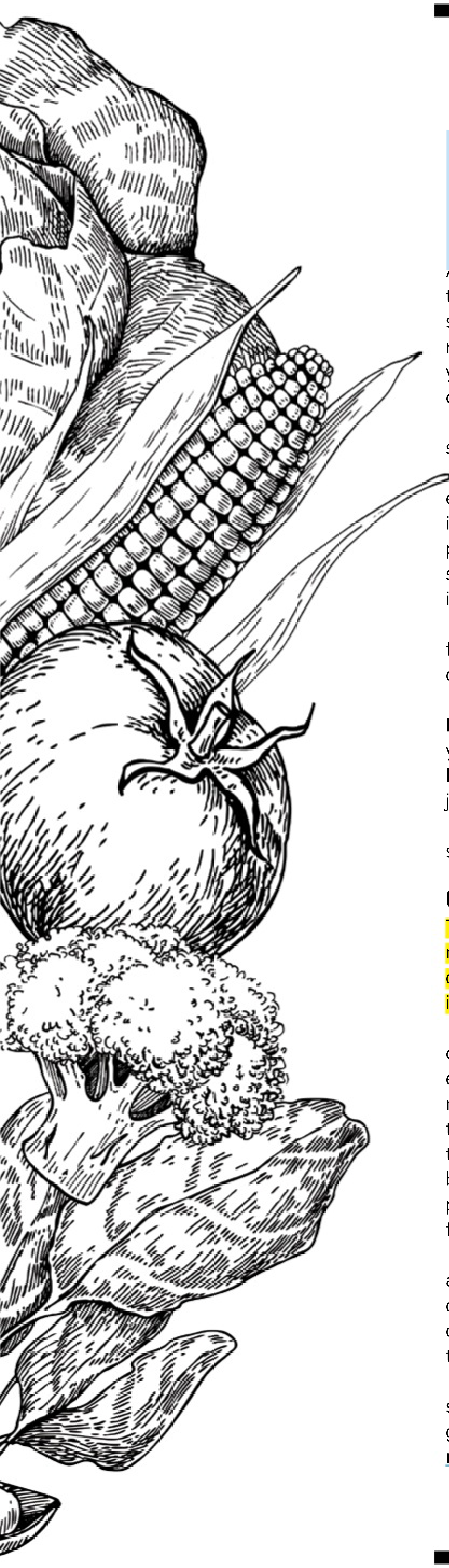
FOOD STOCKS: DID MAJOR SELLOFF CREATE OPPORTUNITIES?

Traditionally, food manufacturers remain steady in tough times and are solid earners for investors. However, this theory has not held water of late. Amid a dive in consumer confidence, among other things, the sector has seen major value destruction, with investors being hard hit. But does that mean the sector now offers value again?

By Jaco Visser

Photos: Shutterstock | www.clucasgray.co.za





People must eat.

Food is the last item shoppers will ditch to stretch their wallets. Or so conventional wisdom held.

This sagacity was shattered as investors in South Africa's food producer sector saw R24bn wiped out over the past 12 months. Considering two preceding years of strong capital growth, investors are left R806m in the red over the shorter end of the medium term – three years. The selloff over the last year may have been too deep too quick.

To top it all, investors aren't spoilt for choice in this segment of the economy in any case.

With only 14 food producers listed on the JSE, excluding Remgro and Brait SA, which are both investment holding companies, and servicing a population of 58.7m, the sector was hard hit over the short and medium term as consumers lost confidence in the local economy.

And now a private equity firm and an American food behemoth are circling to further reduce investors' choice.

The bourse already lost chicken producers Sovereign Foods and Country Bird Holdings over the last couple of years when they were taken private. That said, Libstar Holdings, Sea Harvest and Premier Fishing & Brands joined the food producers over the past three years.

The takeover bids come at a time when some of the stocks may start to show value again.

Gird your loins

The value destruction over the short as well as the medium term could be ascribed to both lacklustre consumer spending and cost pressures which outpaced inflation a couple of times.

The inland wholesale price of diesel surged 39% over the past three years, data from the national energy department shows. Electricity supplied by municipalities jumped 24% in three years, according to Eskom data. Labour costs, which were boosted by the introduction of a national minimum wage at the beginning of the year, escalated by 26% over the same period when measured according to the least pay a farmworker may take home.

Food prices at producer level didn't keep pace. Prices at the manufacturing door for food increased by 9.1% over three years. Overall inflation, as measured by the consumer price index, was recorded as 14.1% for the three years through July 2019, Stats SA data shows.

"The conventional wisdom is that food producers are steady earners and in tough economic times your go-to guys for returns," says Brendon Hubbard, portfolio manager at Clucas Gray. "This fact has disappeared."

In order to stem the bleeding of profits, food

Brendon Hubbard
Portfolio manager
at Clucas Gray

producers expensed on efficiencies to reduce operating costs. AVI Ltd, the second-largest producer on the JSE measured by market capitalisation, and which owns brands such as I&J, Five Roses, Bakers and Green Cross, pro-actively put cash into its operations to reduce production costs.

The company decided two years ago to do a fixed-cost review in anticipation of the current economic difficulties. For the year through June, their operating income declined by 3% as sales increased by 1.2%.

"They've got a very lean business," says Rella Suskin, equity analyst and head of research at Benguela Fund Managers. "They're able to swim when the economy is weak."

Tiger Brands, the largest food producer on the JSE, on the other hand battled to contain costs as it struggled to get its value-added meat product division back on course. This is the unit that produces processed meats and was hit by a listeriosis outbreak in 2017.

When you strip this division's performance out of Tiger's results, the rest of the company saw operating income slide 9% even as sales grew by 4% in the six months through March.

"The sharp decline in Tiger Brands started with the listeriosis outbreak," says Suskin. "I think it's got a lot of challenges ahead of it."

Hennie Lourens
CEO of Quantum Foods

RCL Foods*, which is 77.5% owned by Remgro, reported a 25.4% drop in operating income, whereas sales grew by 5.5% for the year through June. The decimation of operating income was due to sales price pressures in its chicken and sugar divisions. Excluding those units, operating income was 7.8% higher.

The drive for efficiencies among food producers is almost necessitated as consumers buckle under a poorly managed economy.

"Food producers can only work at improving efficiency to mitigate higher prices," says Hennie Lourens, CEO of egg, animal feed and poultry producer Quantum Foods*.

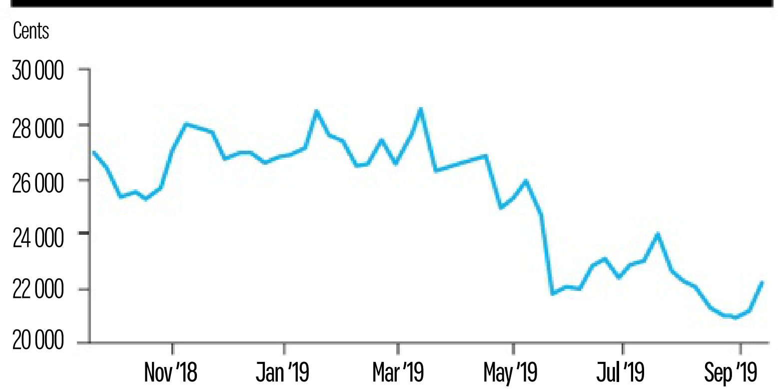
Tongaat Hulett, the sugar producer, is "prioritising improved efficiencies" and cost containment as part of its turnaround plan announced earlier this year, says Michelle Jean-Louis, a spokesperson. The company suspended trading in its shares in June as it reviews audited financial statements from previous years and restructure its debt.

The prices, they're a-coming down

Improving production and even sales efficiencies are the only way food producers can hold their positions as the South African economy tanks.

"Ideally, food producers want to balance their price and volume growth equation sufficiently to recover their

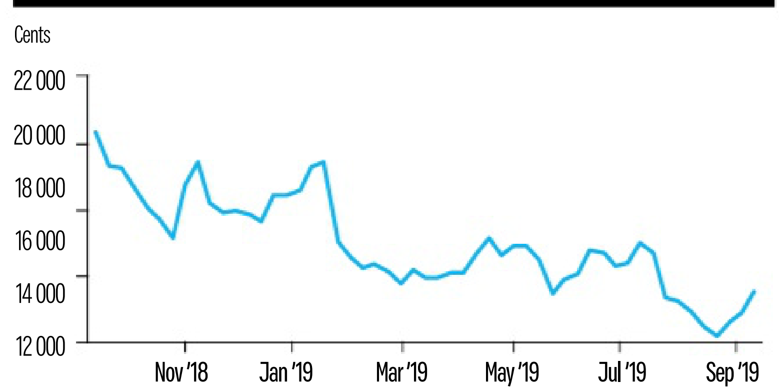
TIGER BRANDS



52-week range:	R203.23 - R268.47
Price/earnings ratio:	15.1
1-year total return:	-7.4%
Market capitalisation:	R42.42bn
Earnings per share:	R14.80
Dividend yield:	4.58%
Average volume over 30 days:	838 017

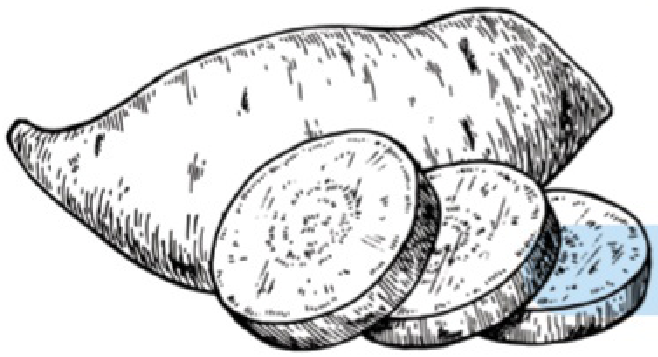
SOURCE: IRESS

AVI



52-week range:	R78.76 - R109.26
Price/earnings ratio:	16.79
1-year total return:	-13.43%
Market capitalisation:	R28.59bn
Earnings per share:	R5.15
Dividend yield:	4.74%
Average volume over 30 days:	686 257

SOURCE: IRESS



input cost growth," says Kayalethu Nodada, investment professional at Old Mutual Investment Group.

Sales growth has been equal to or lower than consumer price inflation. Food prices have been stuck in a deflationary spiral for a couple of years now, according to Hubbard.

One of the reasons prices were on the decline, is deep promotional activities launched by the large retailers, including Shoprite, Massmart*, Pick n Pay and Spar.

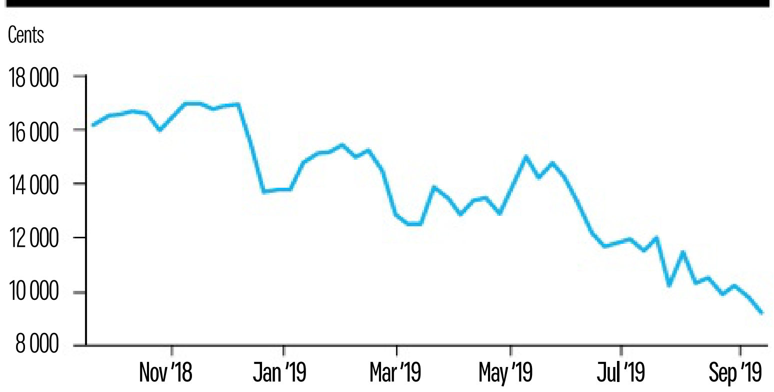
"Shoprite passed on less inflation than it experienced on cost prices during the year," says a Shoprite spokesperson.

"My general view is the market is definitely tight and consumers are more price conscious and are seeking affordable alternatives," says Greg Veale, financial chief of farming outfit Crookes Brothers.

Tiger Brands saw shoppers change their behaviour from doing a single large month-end run to the grocer to doing multiple store visits seeking out branded products at the best prices.

"Shoppers tend to trust branded food products to deliver quality, especially in constrained economic environments," says Nevashnee Naicker, corporate communications director at Tiger Brands. "However, when the price differential is significant, consumers are shopping what they can afford."

RCL FOODS



52-week range:	R8.10 - R17.90
Price/earnings ratio:	25.86
1-year total return:	-42.38%
Market capitalisation:	R9.35bn
Earnings per share:	R0.38
Dividend yield:	2.55%
Average volume over 30 days:	57 267

SOURCE: IRESS

Photos: Shutterstock | www.quantumfoods.co.za

The cost of investing in food retailers

South African food retailers cost investors R32.1bn over the past year as share prices slid on account of a weak consumer environment. Over the past three years, R54bn in capital value was destroyed. (This is according to calculations based on share price movements up to 12 September.) A struggling local economy has weighed on the shares of Shoprite, Woolworths, Spar, Pick n Pay and Massmart*.

Africa's largest grocer, Shoprite, lost more than a third of its share price over the past 12 months, whereas Massmart, South Africa's third-largest grocer by sales, tanked by more than a half. Operational cost increases became hard to pass on to consumers beleaguered by high unemployment, lacklustre economic growth and a lack of real wage growth.

"We have remained focused on controlling costs and have exercised strong cost discipline across our store operations and support offices in order to invest the savings into price," says David North, Pick n Pay's executive responsible for corporate affairs.

The company's share price slid 11% over the past year. Sales at its SA operations grew 7.4% during its last 52-week reporting period ending 3 March.

Shoprite reported sales growth, measured on a like-for-like basis, which excludes new store openings, among others, of 1.9% at its South African stores for the year ending June. Massmart reported a 3.2% increase in sales for the same period. Spar, whose year-end is in September, reported sales growth of 5.3% in Southern Africa for the 12 months through September 2018. Woolworths Food saw a 5.3% jump in sales for the year ending June.

Servicing different segments of consumers may be key for food retailers.

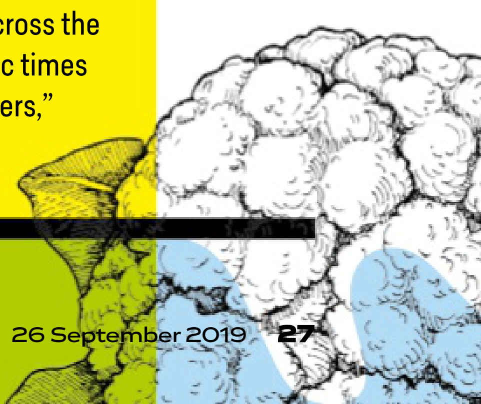
"Our upper-income target market tends to be more resilient during tougher economic times," says Spencer Sonn, managing director of Woolworths Food.

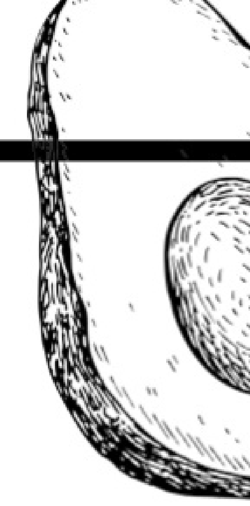
The deep discounting and almost continual promotion atmosphere in grocers which afflicted food producers' ability to pass on higher prices, is present among the top-tiered retailers too. Consumers' perception of value, in a discounted market, shifts their expectation of value and what they're willing to pay.

"Given the tough economic climate, there is a continuing focus on value," says Sonn. "So, we are working to strengthen our value perception with ongoing price investment in our iconic lines, everyday low prices and promotional offers."

Shoprite, on the other hand, relies on the efficient use of its distribution centres in a bid to contain price increases.

"We have large centralised distribution facilities across the country that allow us to manage purchases at strategic times to soften the impact of price increases on our consumers," according to a Shoprite spokesperson. ■

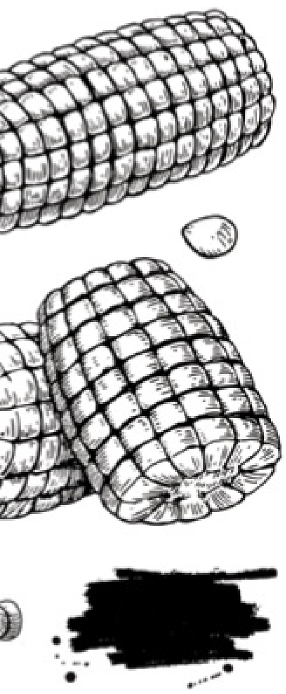




The only way the food producers are getting things through the retailers, is through quite heavy discounting and by putting their products on promotions, says Hubbard from Clucas Gray.

"The low pricing has come from this very promotional environment that we probably haven't seen to the same extent in recent history as we're seeing now," says Benguela's Suskin. "Consumers are buying the best of all the first-tier brands, but they're buying them on promotion only."

"You need consumer confidence. You need disposable income. You need the economy to turn."



About 30% of all fast-moving consumer goods in SA are sold on promotion, according to market researcher Nielsen. This results in smaller profit margins for both producers and retailers, says Naicker.

Some food producers, in a bid to accommodate financially distressed shoppers and to grow volumes, have adjusted their package sizes.

"Rather than being tempted to decrease the quality of products in hard times, it is key to make branded products more accessible through different pack sizes and strategic promotions," says Naicker.

The forcing of retailers, and by extension some food producers' sales tactics has led to a less than optimal product mix for producers. They must either produce house-branded products for retailers or run the risk of losing volume growth. To add insult to injury, some of these house brands are now imported.

Libstar, owner of mushroom grower Denny's and dairy producer Lancewood, among others, is positioned to capitalise on the growth in house brands.

"Their private label business seems to be on a trend that's getting traction, especially in this weak environment," says Suskin.

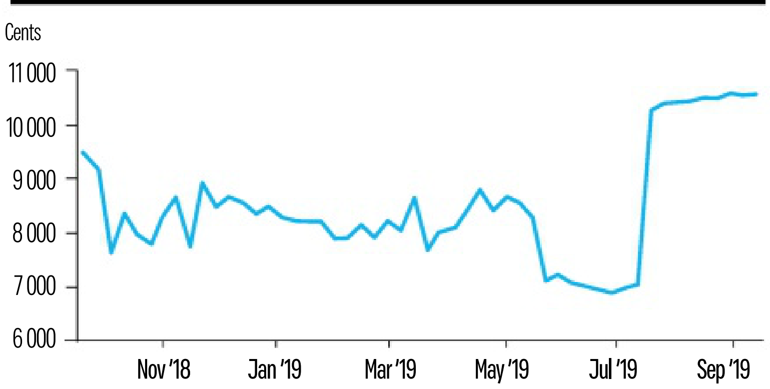
The deep discounting of well-known grocery brands by retailers extends to producers. As the same operational cost pressures turn up the heat for retailers, they will look for efficiencies in their own processes and supply chains – and that includes the food producers, according to Old Mutual's Nodada.

"This manifests through tougher negotiations and collaboration between the retailers and food producers to promote products and get volumes through the till," he says.

Even those companies that have seen volume increases, such as in the egg market, didn't pluck the benefits of higher prices.

"Egg prices have declined by approximately 12% to 15% and are now at levels before the avian influenza outbreak," says Quantum's Lourens. "There have not been price increases to customers, yet the producers have seen an increase in output costs."

PIONEER FOODS



52-week range:	R67.04 - R107.61
Price/earnings ratio:	21.33
1-year total return:	12.97%
Market capitalisation:	R23.46bn
Earnings per share:	R4.96
Dividend yield:	3.45%
Average volume over 30 days:	714 555

SOURCE: IRESS

It is, of course, the economy

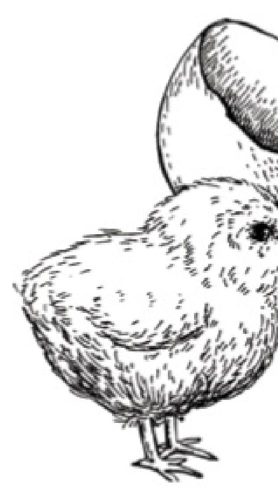
The hunt for specials, in some instances the only way to put food on the table, will not abate until South Africa's economy experiences fundamental and market-driven change. Consumers must have more money to spend.

"Basically, you need money back in the consumer's pocket," says Nodada. "You need consumer confidence. You need disposable income. You need the economy to turn."

South Africans' income per capita needs to increase and only a growing economy can achieve that, says Quantum's Lourens, adding that it is only attainable if the government creates an enabling environment.

The lack of confidence inhibits people from spending a little bit more on that more luxurious item, because they're scared that tomorrow they might not have as much money as they do today, says Suskin.

"Historically, we've gone through downcycles, but this one exhibits very low levels of confidence," she says.



Industry vagaries

Some industry-specific issues are adding to investors' lack of confidence in food producers. When looking at the local food manufacturers, you can identify fisheries, poultry processors, sugar producers and dairy companies.

Feed costs comprise a large chunk of poultry producers' operational expenditure. A fluctuating maize price, primarily linked to the size of the domestic harvest, led to swings in the earnings of companies such as Astral Foods and Quantum Foods.

Astral paid a total dividend of R20.50 per share during its 2018 fiscal year, up from 2017's R10.55 and much better than 2016's R4.90. Similarly, Quantum Foods returned 90c per share to holders as a dividend during its 2018 book year, 34c in 2017 and 6c in 2016.

In addition to the maize price, poultry producers compete with the alleged dumping of so-called "brown meat" in South Africa. These are the chicken cuts after breasts have been removed and sold for a premium in Western consumer markets. Almost a quarter of local chicken consumption is now imported.

RCL Foods, owner of Rainbow Chickens, together with other members of the SA Poultry Association, are lobbying government to impose the maximum anti-dumping tariff of 82% on these imports. Remgro-owned RCL restructured its chicken business in 2017 and profited R206m on the sale of dormant chicken farms over the two years ending in June.

RCL Foods, owner of Rainbow Chickens, together with other members of the SA Poultry Association, are lobbying government to impose the maximum anti-dumping tariff of

82%

on these imports.

The sugar industry, on the other hand, saw local demand for sugar plummet by 300 000 tonnes, or equal to 24% of local supply, according to RCL, as the government's sugar tax adjusted people's consumption of the sweetener.

This forced sugar producers to look to the export markets to keep or increase volumes sold. These exports compete in the global market where an oversupply reduced the commodity's price.

Any good fruit left?

Finding value amid the malaise of economic pessimism and industry-specific headwinds could be an Iliadic endeavour. On basic valuations, such as estimated price-to-earnings ratio (P/E) and dividend yields, it seems that the food producers were hit disproportionately hard. Those facing probes into their financial statements and debt restructuring excluded.

Tiger Brands reported a sales contraction of 1.8% for the six months through March. Bear in mind that its processed meat division saw sales drop by R887m from R1.1bn in the corresponding 2017 period to R213m this year due to the listeriosis outbreak. Had this calamity not befallen Tiger, and sales in this division declined by 20%, and everything else held unchanged, the company's turnover would have gained more than 4% in the first half. That, however, hasn't happened.

Despite the listeriosis, and repositioning of the meat processing business, some analysts think the drop in the share price was too harsh.

"The market has probably over-extended or over-punished the stock," says Benguela's Suskin.

The JSE's second-biggest food producer, AVI, despite its relentless focus on operational efficiencies, also saw a sharp decline in its share price. There are a couple of overhangs on AVI's share price, with the first being its I&J business, according to Suskin.

"Leading up to the 2020 allocation of hake fishing quotas, there has been discussion on whether they're going to lose fishing rights," she says. "They're probably the least black-empowered fishing company."

In addition, AVI is one of those local companies that attracts foreign asset managers' attention because it's "a quality company showing consistency" in its performance, according to Suskin.

"It is more a story of foreign investors wanting to invest in South Africa than AVI specifically," she says. "Recently we have seen a sell-off of these foreign shareholdings."

And foreigners may yet come to the rescue of food producers' stocks.

Clover is targeted for a R4.5bn-takeover by Milco, of which the privately-owned Israeli food and beverage company, International Beer Breweries, is the largest shareholder. Pioneer Foods has been courted by American PepsiCo for a consideration of R24.4bn. This is almost the same value investors in the food sector lost over the past year.

"Once the money starts to flow after Clover and Pioneer Foods' takeovers, we might see some investors looking to the other food producers," says Hubbard of Clucas Gray, adding that this may lead to an upward rerating of these stocks.

However, "the big question is when this will happen?" he asks. ■

editorial@finweek.co.za

**The writer owns shares in Massmart, Quantum Foods, and RCL Foods.*

HOW TO MAKE ETFs WOR

Since the first exchange-traded fund listed on the JSE nearly two decades ago, these
With the many options now available to investors, *finweek* consulted the

The first exchange-traded fund (ETF) was listed on the JSE in 2000. Fast-forward to September 2019 and 78 ETFs are now (at the time of writing) available to local investors, according to Johann Erasmus, who heads up index funds at Standard Bank.

At the end of June 2019, the total market capitalisation of all JSE-listed ETFs in SA amounted to R81bn, according to data from etfSA.

Attractive to investors has been the ability to invest closely to specific indices, without having to pay an active manager or pick shares. ETFs are also often seen as cheaper than using an active investment management approach and have become popular as local investors became more and more familiar with these passive investment vehicles.

Exchange-traded fund (ETF):
Generally, a passive way of investing in the market. They are investment products listed and traded on stock exchanges, are usually registered as a Collective Investment Scheme with the FSCA and track the performance of underlying assets, such as a basket of shares, bonds, or a commodity.

Can one build a diversified portfolio using only ETFs?

"ETFs provide excellent diversification, as each ETF typically represents an index, comprising an entire basket of stocks or instruments. By combining a few ETFs representing different asset classes, sectors, and geographical regions, it is very easy to build a completely diversified, low-cost portfolio," affirms Nikolay Mladenov, fund manager in the Ashburton Investments indexation team. "You could build a balanced portfolio with exposure to local and offshore assets, with the weightings dependent on your view of markets and risk tolerance."

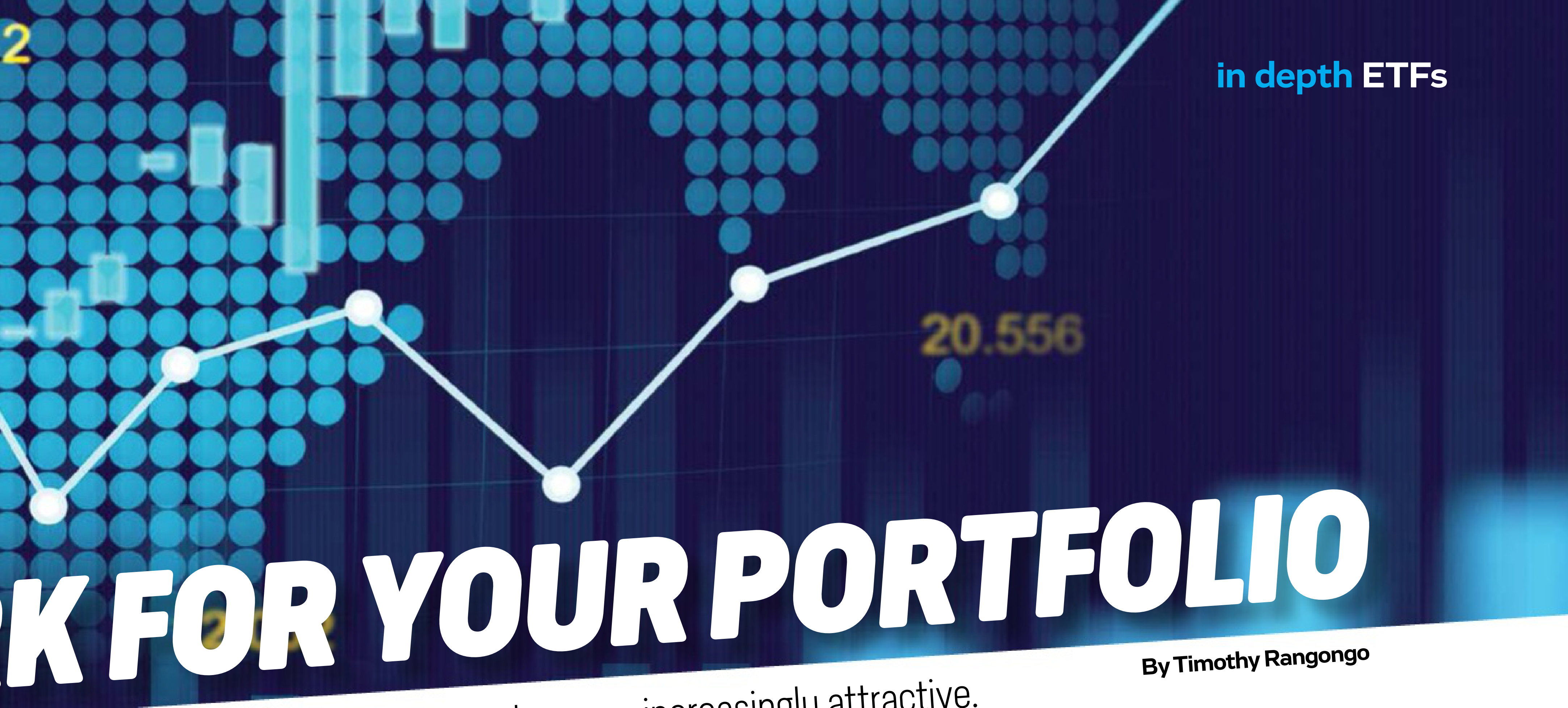
Nikolay Mladenov
Fund manager at
Ashburton Investments

For example, Ashburton has a JSE Top40 ETF, a Mid-Cap ETF for exposure to local equity, an Inflation ETF for exposure to local fixed income, the Global 1200 ETF for exposure to offshore equity and the WGBI (World Government Bond Index) ETF for exposure to global bonds, while Satrix has a property ETF for local property exposure and Absa's New Gold ETF for exposure to gold, among many others.

"As always in these matters," says Iain Anderson, head of investments at Sygnia, "every individual's circumstances will determine what a suitably diversified portfolio entails, but there are excellent options to build a low-cost portfolio of domestic and international equities using domestic-listed ETFs."

Each individual investor's personal circumstances or goals differ, and you can only construct a proper portfolio of this kind by taking all of this into consideration as it would require different allocations in the underlying asset classes and jurisdictions to adequately meet specific needs.

"Get some good financial advice or guidance, be it via a financial or robo-adviser, around your



K FOR YOUR PORTFOLIO

By Timothy Rangongo

passive investment vehicles have become increasingly attractive.
experts to provide an in-depth guide to investing in ETFs.

personal situation and what your ideal portfolio should look like," says Erasmus. He emphasises spending more time to financially educate yourself because, at the end of the day, "it remains your investment decision and you work hard for your money".

Are ETFs really cheaper?

ETFs are well-regulated by the JSE and Financial Sector Conduct Authority (FSCA), and the expenses that are allowed in an ETF are standardised to include fees such as management fees, bank charges and audit fees, explains Mladenov.

These fees would then comprise the total expense ratio (TER).

The transaction cost of buying and selling the fund's underlying assets would be added to the TER to provide a total investment charge (TIC) for the fund. Cost of access should also be considered when investing in ETFs. These include brokerage or platform fees charged by the service provider that is giving you access to the ETFs.

Most ETFs in SA at present cost less than 1% (of funds invested), according to Eugene Visagie, portfolio specialist at SA's Morningstar Investment Management office.

"Large indices to track are normally cheaper than more non-vanilla products. As an example, to buy a product that tracks the JSE Top40 comes in at ten basis points (because it is a large index with lots of liquidity and relative ease to implement) compared to an emerging market index that costs 40 basis points," he explains.

Erasmus also mentions advice costs.

"If one does not follow the DIY approach, these could be in the form of traditional financial adviser fees or guide advice fees through a robo-advising tool," he says.

Cloud Atlas Investing's team cautions that anything more than 3% would most probably be too high.

PERFORMANCE OF S&P 500-TRACKING ETFs AT END-JULY 2019

ETF	Description	1-year total return
CoreShares S&P 500	Tracks 500 of the top US companies. All constituents must be US companies with a market cap of $5.3bn or greater. Uses Vanguard S&P 500 ETF as a feeder fund.	17.3%
Satrix S&P 500	Includes 500 leading US-listed companies; captures approximately 80% coverage of available market capitalisation. Uses iShares Core S&P 500 UCITS ETF as feeder fund.	17.53%
Stanlib S&P 500 Index Feeder	Tracks the S&P 500 index as closely as possible, in SA rand. The fund is a feeder fund and invests in the iShares Core S&P 500 UCITS ETF.	17.78%
Sygnia Itrix S&P 500	Tracks the S&P 500 Index. Includes 500 leading US-listed companies; captures approximately 80% coverage of available market capitalisation.	14.5%

Annualised benchmark (S&P 500 index) return at 31 July 2019: 16.1%. SOURCE: etfSA

Eugene Visagie
Portfolio specialist at Morningstar Investment Management

Photos: Supplied | Shutterstock

It's also worth noting whether the ETF is a normal, locally managed fund, or a feeder ETF.

Investment expert Simon Brown's JustOneLap.com financial education platform uses the example of Satrix's feeder ETF products (like the Satrix Nasdaq 100 or S&P 500 feeder ETFs). "Satrix's offshore products outsource this process of buying and selling shares to mirror the index to another ETF provider. They do this because the ETF provider they feed into can do all this mirroring business at a much lower rate than Satrix can."

As more products come to market, and clients become more cost-conscious, more pressure will be placed on these offerings, says Visagie.

Choosing an ETF

"ETFs are only wrappers (think of it like a vessel)," explains Erasmus.

It's the performance of the underlying asset classes that drive performance.

The Standard Bank rhodium ETF, has, for instance, been the best-performing commodity ETF over the last two-and-a-half years; the performance driven by the price of rhodium and the rand-dollar exchange rate, with the Standard Bank palladium ETF also performing well, mentions Erasmus.

The performance of an ETF is highly dependent on the performance of the underlying investments in the ETF. Over the past ten years in SA, this has been found in US equities and industrial shares listed on the JSE, notes Nerina Visser, ETF strategist and adviser at etfSA.

"Apart from the performance of the underlying assets, the best-performing ETFs would have relatively low costs, exhibit very good index-tracking management, have efficient market making [continued and efficient exchange between buyers and sellers] and will be offered by an ETF issuer with strong operational capabilities."

Inasmuch as past performance is no indication of future performance, ETFs that track

What are smart beta ETFs?

"Smart beta" or "strategic beta" funds are pegged to bespoke indices that target stocks that are less susceptible to violent price swings.

The pros and cons of investing in ETFs

ETFs are often compared to unit trusts. "If both structures offer products that are designed to track the same benchmark, they will most likely hold the same securities to achieve the same performance objective," says Johann Erasmus, head of index funds at Standard Bank.

ETFs, however, offer certain structural advantages, some of which are highlighted below by the industry experts *finweek* spoke to.

Pros

Cost

▶ In general, ETFs have lower costs than unit trusts. This mainly stems from the fact that ETFs are traded on the secondary market on the JSE, with no cost impact to the fund itself.

Liquidity

▶ ETFs give investors immediate exposure to a market and can be traded intra-day like stocks. Unit trusts can only be traded once per day.

Diversification

▶ You can choose to invest with the doyenne of the industry (the first ETF provider in SA) Satrix, or excellent newcomers like CoreShares, according to Shaun Keeling, who is heralded as the ETF champion at EasyEquities.

▶ One can focus on themes (like dividend-paying ETFs or ETFs focused on minerals).

▶ "Our suggestion would be to read more about the make-up of an ETF and if that resonates with you, invest. Having some offshore exposure and some local ETFs is perhaps also a good idea," says Keeling.

Global exposure

▶ Global ETFs listed in South Africa give retail investors immediate access to offshore investments without the hassle of exchange controls or taking the money offshore themselves.

Tax efficiency

▶ The biggest pro, according to Keeling, is that you can use ETFs to invest in your tax-free savings account (TFSA). "To our mind, that is what all investors should do as a priority – maximise the benefit of their TFSA by buying ETFs."

▶ Trading of ETFs is securities transfer tax exempt, resulting in a tax saving of 0.25%.

Cons

▶ The rate of return typically holding the investment for a number of years in order to achieve good returns, according to Cloud Atlas' investment team. They emphasise that "you have to be willing to see the ups and downs".

▶ ETFs cannot provide outperformance, tend to have lower dividend yields and are not available on linked investment platforms (LISP).

▶ Investors in ETFs need an investment account with a suitable broker or investment platform in order to trade and hold ETFs.

▶ Trading ETFs comes at a cost, and especially when trading in small quantities these can be quite punitive. This stems from the fact that minimum fees apply, irrespective of size.

▶ In addition to trading costs, investors also pay the spread when buying or selling an ETF. The larger the spread, the larger the cost to the investor.

ETF expert Nerina Visser explains that investing in ETFs requires a different skillset to the one many investors have cultivated over time (for example, compared to buying individual shares or unit trusts), and few financial advisers can guide investors with ETF investment.

As a matter of caution investors must educate themselves about investing in ETFs (there is a lot of information available online, for free), or deal with ETF specialists who can give them the necessary guidance and advice. ■

international assets have generally been best performers and featured more in the responses of most industry experts on ETFs regarding which ETFs are best for diversifying one's investment portfolio (more specifically to gain global exposure).

ETFs that track the S&P 500 index – which measures the stock performance of the 500 largest companies listed on stock exchanges in the US – have been best performers as a result of the underlying assets, i.e. US equities. The S&P 500 has, on average, fallen only in three months, with September proving to be the index's worst month of the year, according to Dow Jones Market Data.

The US's economic expansion is now the longest in history, says Francois van der Merwe, portfolio manager at Absa Multi-Management. "The US president can move markets with a tweet, de-globalisation is taking hold, populism is rising, and a record amount of global bonds are trading at negative yield.

"Stocks, especially in the US, are up double digits for the year-to-date and trading at eye-watering lofty valuation levels on the back of buoyant investor sentiment and interest rate cut expectations," he says.

The monthly performance survey of index-tracking ETFs with global exposure for the period ended 31 July 2019 is evidence of the strong performance witnessed from local S&P 500-focused ETFs.

An ETF to suit your risk profile

Since most asset classes can be accessed via ETFs, it is possible to build a portfolio with varying equity exposure, depending on the risk appetite of the respective clients.

With the tumultuous markets of late, the risk ratings have really changed, according to Cloud Atlas' investment team. They identify low-risk ETFs as inflation-linked bond ETFs like the New Funds ILBI. The ETF tracks the Barclays Capital/Absa Capital index of six inflation-linked SA government bonds. Coupons are reinvested monthly to provide a total return fund that adjusts in value and yield to provide an inflation-linked return.

Low-risk ETFs would be those that include investments with exposure to interest-bearing assets, such as bonds or preference shares of high-dividend-paying equity investments, says ETF expert Visser.

The Cloud Atlas team considers the Top40, or S&P 500 ETFs as medium risk, while Visser points to multi-asset (or balanced) funds as medium risk, "but there are only two Absa ETFs that offer balanced exposure. Some new-generation ETFs, also offered by Absa under the NewFunds brand, offer equity ETFs with built-in risk controls to reduce the downside risk, and these would also be suitable for a medium-risk portfolio," she adds.

The Big50, emerging market, commodity focused, and the S&P 500 ETFs, especially depending on how US President Donald Trump is feeling, are higher risk, according to the Cloud Atlas team. Visser puts equities – especially emerging markets and new technologies – listed property and commodity investments into the higher end of the risk spectrum.

At the highest end of the risk spectrum, according to Visser, is investment in new technologies and industries. Such investments can be accessed through the Satrix Nasdaq ETF and the Sygnia Itrix 4th Industrial Revolution ETF.

Cash tends to be the lowest-risk asset class and therefore such ETFs too, whereas equity ETFs tend to be the highest risk. Head of product and client solutions at CoreShares, Chris Rule, however believes that the largest risk an investor faces is that of not achieving their investment objective, and so the best way to achieve a varying array of investment objectives is by combining ETFs with different characteristics (i.e. exposure to different asset classes and within asset classes using smart beta) to best suit the investor's particular needs.

Using ETFs as a retirement saving vehicle

Regulation 28 of the Pension Funds Act (PFA) governs how retirement funds should invest in asset classes and serves to protect investors from overexposure to high-risk asset classes,

Buying ETFs and keeping track of them

Because an ETF is a security listed on the JSE, you first must open an investment account with a suitable broker or investment platform, advises ETF expert Nerina Visser. She recommends opening such an account with a financial services provider (FSP) that specialises in ETFs, and can give you the necessary support and advice when you need it.

This also applies to discretionary (ordinary investment) accounts, tax-free investment accounts, and retirement fund accounts.

Investors too often look at performance and make poor short-term decisions, according to EasyEquities' Shaun Keeling. "Have a strategy in mind when you buy and then stick to that. So, if you are buying to invest in an educational fund for a child, checking in quarterly is good enough. Of course, getting monthly updates from your ETF provider is always useful." ■

Absa Capital has about

R27bn assets under management in listed ETFs, according to etfSA's end-of-August monthly performance survey. The bank has 21 ETF products in issue.

S&P 500

SOURCE: IRESS

Investing in ETFs via a tax-free savings account

ETFs do not have a tax-free savings component; rather, an investor opens a tax-free account and can then invest in ETFs in that account. All JSE-listed ETFs that are registered as Collective Investment Schemes (unit trusts) with the FSCA qualify for investments in tax-free accounts, explains ETF expert Nerina Visser.

Commodity ETFs do not qualify for tax-free investment accounts. One has an annual allowance of R33 000, with a lifetime maximum of R500 000 as contribution limits.

"Any trading profit, dividends, or income that is earned from the money invested is free from any form of tax," says Standard Bank's Johann Erasmus.

and assists in building diversified, balanced portfolios. ETFs can be used on their own or as part of an overall retirement solution, explains Ashburton's Mladenov.

However, like tax-free accounts, ETFs are not "retirement vehicles" *per se,* according to Visser, but they can be used very effectively in retirement funds.

For example, the etfSA Retirement Annuity Fund exclusively invests in ETFs as the underlying investments. The low costs and transparency of ETFs make them ideal to use in new-generation retirement funds that are fully compliant with Regulation 28.

Standard Bank already has retirement annuities that provide clients with the option to invest in ETFs (or index-linked unit trusts) linked to different asset classes to provide market performance at low cost.

"Our current ETF offering would even allow investors to construct a Regulation 28-compliant portfolio out of ETFs," explains Standard Bank's Erasmus.

Cloud Atlas is working on offering retirement-linked ETFs and says that "the building blocks are there but the intelligence in terms of making a well-performing portfolio is still to come. We want to list CARS (Cloud Atlas Retirement Savings) soon, pending regulatory approvals." ■

editorial@finweek.co.za

Whose data is it anyway?

Insurance company Liberty recently launched a Wellness Bonus benefit, which uses clients' wellness data from any recognised external wellness programme to assign them a Liberty Wellness Score. Clients voluntarily provide Liberty with this data and, in turn, Liberty gives them benefits for living a healthy lifestyle in the form of cash bonuses. Nalen Naidoo, divisional executive for Retail Solutions at Liberty, explains:

Why should your personal data matter to you?

At a time when large companies seem to dominate the financial services landscape, consumers may feel they have little power to influence the products they buy, the prices they pay or the value they receive.

But consumers own a crucial resource that businesses increasingly want – their personal data. That potentially gives them a great deal of power, and they need to make sure they exercise that power.

Why is your personal data such a big deal for companies?

In 2017, *The Economist* shared the often-repeated words: "The world's most valuable resource is no longer oil but data." *The Economist* was, at that time, writing about the world's digital giants – Google, Amazon, Apple, Facebook and Microsoft – but the same is becoming true in our own industry, financial services.

Unlike oil, data is not a scarce resource globally. But, like oil, the personal data of each individual is a commodity that has immense value – in measurable, monetary terms – to companies that can use it most effectively.

For companies, data is driving business strategies that can target customers more accurately and develop and price products more innovatively and successfully.

How do you derive value from big business in exchange for your data?

As a consumer, you should not just be giving your data away – you need to ensure that your value is recognised and that you are appropriately rewarded.

Just as you expect and demand value for your labour when you work, so too when you 'labour' to create personal information – such as the health data on your exercise and eating and wellness habits – you should demand that those to whom you give your data recognise and reward your value.

How do I start taking ownership of who uses my data?

How your data is used is your decision. You should not be prevented from accessing your own data, and you shouldn't just be giving it up without knowing how it will be used, for what and by whom. Consumers who might previously have blithely given over their data to digital or financial services giants in return for "free" stuff, such as messaging or connectivity or gym membership, now need to step back and ensure that they know what's being done with their data and that they are comfortable with the value they receive. ■

By Glenda Williams

RESETTING THE D
YARDSTICK IN LIS

Results season in the listed property sector pointed to a

In recent years, listed property results have mostly been a time of gains and few losses. But a tough and deteriorating domestic economy has contributed to a somewhat different picture this year.

Recent results across the sector pointed to a slowdown in dividend growth as the new benchmark for what has historically been termed "good growth".

"Today, 4% to 6% is the new 8% to 10%," quipped Fairvest Property Holdings CEO Darren Wilder.

Other sector-wide themes that emerged included a shift away from exposure on the continent, as well as a foray into the challenging UK retail space.

Fairvest Property Holdings, among the few listed property entities to post above-market growth, delivered an 8.1% increase in distribution per share (DPS) for its year to 30 June 2019. But even this R3.16bn SA-focused real estate investment trust (Reit), which concentrates on more defensive non-metropolitan and rural shopping centres and lower-LSM market, has its forward look set at a less lofty 4% to 6% for 2020.

Fairvest has R200m-odd of headroom on the balance sheet, loan-to-value (LTV) is a low 27.9% and its interest-cover ratio is strong at 3.6 times. But stress is starting to come through the business, Wilder tells *finweek.* "The key deviation is vacancies [up from 3.5% to 4%] and growth in rental on renewals."

Hyprop Investments is at the opposite end of the spectrum, with its higher-LSM centres and larger R42bn portfolio. So too in dividend growth.

A revised strategy from its new board includes repositioning the SA portfolio, exiting its Africa interests and improving dominance in Eastern Europe. The retail-focused Reit's DPS declined 1.5% for the year to June 2019, predominantly on the back of underperformance of its 14% Africa portfolio. Hyprop has already reduced its Africa exposure, having sold two malls in Zambia and Ghana, one post the period. Hyprop, whose 61% SA portfolio includes super-regional mall Canal Walk, successfully refinanced R8.5bn worth of debt following Moody's concern about its LTV. Now down to 35.2%, the aim is to reduce LTV to below 30%, a figure Moody's considers appropriate.

Sector-wide themes that emerged included a shift away from exposure on the continent, as well as a foray into the challenging UK retail space.

The V&A Waterfront in Cape Town is 50% owned by Growthpoint.

"We don't have to reduce our debt. We do that to retain the Moody's rating. From a bank perspective, interest-cover ratio is a bigger thing," new CEO Morné Wilken tells *finweek.* And Hyprop's interest cover is a healthy four times.

"Hyprop has been hurt by the rest of Africa exposure and how they structured the debt," according to Keillen Ndlovu, Stanlib head of listed property funds. And, he says, the Hystead structure has been misunderstood by the market. Hyprop's Eastern Europe portfolio is held via a 60% stake in UK-based Hystead and includes retail interests in Serbia, Montenegro, Macedonia, Bulgaria and Croatia. "Both these ventures led to Hyprop's debt going up and Hyprop being downgraded by Moody's. Latest results show that these issues are being addressed by new management and the business is reducing its debt. The rest of Africa assets are in the process of being sold. We believe that most of these issues are in the price now."

Attacq, meanwhile, increased DPS by 10.1%, exceeding the top end of its guidance for the full year ended 30 June 2019. Its target of between 8% to 10% DPS growth for 2020 is a standout in the sector. Its performance is underpinned by a quality R20.5bn SA portfolio and, in particular, the development of the Waterfall precinct where 59% of its retail, office and mixed-use, light industrial and hotel assets are located.

Attacq's flagship retail asset, Mall of Africa, realised a 13.1% increase in trading density, and interest in its first residential high-rise development,

IVIDEND GROWTH STED PROPERTY

few marked changes that will shape the year ahead.

Ellipse Waterfall, has exceeded expectations with over 80% of the first phase already sold.

The Reit's R27bn of total assets includes a 22.8% interest in Central and Eastern Europe-focused MAS, equating to 11.8% offshore exposure.

Attacq also aims to exit Africa. It's rest of Africa assets dropped to below 2% post year-end.

Fortress Reit's *annus horribilis* appears to be at an end after being cleared of insider trading and share manipulation – allegations that saw its share price tumble. For the year to end-June, its 'preferred' low-risk A shares delivered distribution growth of 4.32%, but its higher-risk B shares fell 12.28%.

Fortress's mostly defensive commuter-focused, lower-LSM retail assets comprise 20% of the R54bn portfolio. And it has 35% offshore exposure through its 23.9% interest in NEPI Rockcastle. But this Reit's tale is about its plan to grow logistics properties to two-thirds of its total portfolio.

Fortress has one of the largest logistics property developments pipelines in SA, accounting for around R4bn to R5bn. "Our four to five-year goal is to have our direct property roughly two-thirds logistics and one-third retail," new CEO Steve Brown tells *finweek*. "R3bn is currently under development, and to build the top structure will cost another R4bn to R5bn. That will add roughly R8bn to income-producing property," says Brown.

Funding will come via R10bn of non-core assets (office and industrial portfolios and Resilient shares) earmarked for disposal. "The disposal of the office and industrial assets will give us more than enough cash to fund the development pipeline," he says.

Brown says they are also entering into more JVs with tenants. "It binds them into the property as a co-owner and allows us to recycle our capital and make a bit of a profit on the development. We'd like to do more of that."

Growthpoint Properties' story is two-fold. It's partly about a potential venture into the much-maligned UK retail space, and partly about its outlook on future distribution. The country's largest primary listed Reit,

Morné Wilken
CEO of Hyprop

Norbert Sasse
Group CEO of Growthpoint Properties

Keillen Ndlovu
Head of listed property funds at Stanlib

whose group property assets increased by 4.9% to R139.4bn for the year to 30 June 2019, confirmed discussions for a majority stake in UK-listed Reit Capital and Regional via cash and new shares.

"It's a surprise announcement," says Ndlovu, surmising that Growthpoint is looking for further growth opportunities and diversification out of SA. "Perhaps Growthpoint has 'priced in' Brexit and the negative impact of online shopping as well as CVAs [a debt arrangement often used by struggling retailers] in the UK. Capital and Regional's share price has fallen significantly due to these challenges in the UK."

Growthpoint, he says, may be looking to take advantage of this.

"Disruptions in the region have created an entry point," says Norbert Sasse, group CEO of Growthpoint.

While DPS increased 4.6%, marginally up on its market guidance, a strained SA economy impacted Growthpoint's around 70% domestic portfolio that contributed a mere 0.5% to distribution growth.

Amplified investment in Growthpoint Australia (GOZ) and Central and Eastern Europe through GWI, grew Growthpoint's offshore exposure to 30.3%. It was these international operations that contributed the 4% bulk of distribution growth.

Growthpoint's 50% share in the V&A Waterfront, arguably the best real estate in SA, according to Bandile Zondo, equity research analyst at SBG Securities, contributed 1.5% to distributable income growth against -0.2% from the SA portfolio. And vacancies reduced from 1.8% to 1.2% in contrast to the SA portfolio where vacancies climbed from 5.4% to 6.8%

Growthpoint, whose Moody's rating was upheld, expects dividend growth, if any, to be nominal for the year ahead, and could not be pressed for a firm number. Zondo interprets this as likely to generate 0% to 4% DPS growth for FY2020.

The outlook over the next year will be 0% to 1% distribution growth for the sector, down from the 2% to 3% outlook before the August/September reporting season, says Ndlovu. ■

editorial@finweek.co.za

Photos: Supplied | Archive

>> **Entrepreneur:** A restaurant's organic road to success *p.40*
>> **Art:** Load shedding lands young artist prestigious prize *p.42*
>> **Management:** Finding the right incubator for your business *p.44*

CEO INTERVIEW

By David McKay

Amsa's man of steel

With further retrenchments looming, a struggling industry and a business in distress, ArcelorMittal South Africa's CEO, Kobus Verster, has his work cut out for him.

Priority number one for Kobus Verster, CEO of steelmaker ArcelorMittal South Africa (Amsa), is to revive employee morale.

"This is a business that's been in distress for the last ten years," he said in an interview shortly after the firm's interim results. "We need to ignite the culture of the organisation," he said.

That's easier said than done. The numbers of the last few reporting seasons demonstrate in a microcosm how difficult a business steelmaking in South Africa has become. In 2017, Amsa posted a headline loss of R2.5bn which was followed by a 'windfall' profit last year of R968m. Before that, accumulated headline losses of R8bn had been registered during financial years 2014 to 2016.

Also threatening employee morale, is the fact that retrenchment lies in wait over the livelihoods of roughly 2 000 employees – about 17% of Amsa's workforce (and possibly more if trading conditions don't improve). It's a tough place to be: a fact Verster knows all too well, having called himself steelmaker for nigh on 20 years. He worked in various financial and treasury functions at the company when Amsa was Ispat Iscor and, before that, Iscor.

During that time, and mostly spectacularly through the 2000s, Amsa has been a business in shrinkage. Between 2000 and 2005, it parted with about 30 000 employees as the impact of its unbundling in 2001 hit home. In that transaction, Amsa was separated from the mining assets that went on to become the highly successful Kumba Iron Ore and Exxaro Resources.

Also threatening employee morale, is the fact that retrenchment lies in wait over the livelihoods of roughly 2 000 employees – about

17%

of Amsa's workforce.

Kobus Verster
CEO of ArcelorMittal South Africa

Is it just a coincidence that these upstream mining businesses, once called 'dirt diggers' by ANC policymakers, have flourished while their downstream brethren, the steel manufacturers, have suffered so?

Verster found a lot in Tito Mboweni's recently submitted economic reform paper to recommend, even though it up-ended the above position – which has also been the long-standing government position – in saying the end-game for SA's iron ore and metallurgical coal industries was not to make a tonne of steel. It might be elsewhere in the world, but not in SA.

"I'm quite positive on Tito Mboweni's paper, but things like that need the government to pull in the same direction," says Verster. Failing to move in a concerted direction is one reason for SA's currently broken-down economy. The blunt, fact-of-the-matter is that without economic revival and sustainable growth, there can be no Amsa, and no steel industry.

"The domestic steel industry, to be successful, needs a reasonable amount of domestic demand," says Verster. Anything less than 1.8% GDP growth is not enough to sustain it. "At the moment, we've got a continuous downward spiral in steel consumption," he says.

Quite apart from the overlay of economic decline, there are specific national factors that make life hard for Amsa, and other steelmakers. One is the relative sanguinity SA has towards cheap imports.

Tariffs are only applied to Taiwanese and Russian imports once they pass through a volume threshold, but it doesn't take a lot of cheap steel to make a bad situation worse.

Verster says the company is also lobbying for value chain tariff protection that shields from cheap imports the livelihood of the wheelbarrow manufacturer as well as the steelmaker from which it buys. "If you only protect the upstream, you'll lose the downstream," says Verster.

Then there's Eskom.

Verster says the company has made endless petitions to the power utility for a special tariff. "We haven't got much of a positive response. But we will continue when Eskom goes to Nersa [National Energy Regulator of SA]," he says, but adds that they're "not that optimistic of a result".

At least the second half of the financial year ought not to present the same perfect storm of the first. As Standard Bank Group Securities analyst Thabang Thlaku described it: "What could go wrong, did go wrong" for Amsa.

The rand was 16% weaker during the six-month period compared to the previous financial year, but that's where the good news generally ended. Sales volumes were down 9% year-on-year, and steel prices were 19% lower. Logistics and other costs, such as the sky-high increase in the iron ore price, increased by R507m, but perhaps most damagingly, increased competition from imports equal to 20% of steel consumption. The weaker rand added R1.3bn to pre-tax earnings, but the damage was done on the cost side.


Amsa took over Kumba Iron Ore's Thabazimbi mine last year and might develop it for longer-term supply.

Clearly, Verster is not sitting on his hands. "I'm not going anywhere," he says of the challenge at hand. Key among his response is a $50/t unit cost reduction drive by 2023, although analysts think that's "a stretch target" given the paucity of infrastructure development that's Amsa's lifeblood. "Increased competition from imports is likely to undermine management's efforts," said Thlaku.

No matter, says Verster. "We've realised $15/t of those cost savings already and we're confident we can help close the gap between ourselves and our competitors in the US and China," he says. "We've got very good plants in terms of our technical standards."

Amsa is also hoping to 'trade out' of some of its difficulties. It is investigating increasing its production of coke and chemicals where there's a supply deficit (even though the country produces it). Longer term, the company is hoping to add 'dirt-digging' back to its portfolio of assets with trials underway to assess the quality of iron ore from Thabazimbi, the mine it bought from Kumba.

"We took Thabazimbi over last year and have the mine in rehabilitation at the moment. But there are 200m tonnes in above-ground material and there are two different opportunities that could see beneficiation," he says. "We've mined some samples and sent them to R&D in Spain. Once we get the results, we might end up developing the mine for longer-term supply. It's quite massive."

Over and above internal company dynamics, and government policy, Amsa has to survive in a deeply competitive global industry. Verster pinpoints China as the most influential aspect in Amsa's life. It produces 53% of all production and is a massive consumer. Recent stimulus efforts put a spring back into the Chinese economy but, if it falters, supply finds its way to SA's borders.

Chinese companies are also state-supported, whereas Amsa is largely dependent on market forces and the support of its controlling shareholder, ArcelorMittal. Verster thinks, however, that China may cut production in the near future. Exports aren't making sense for them currently and pressure to lift their carbon footprint is also raising the possibility of production cuts.

Globally, however, capital expenditure in steel production is estimated to increase by 19% or some $4.2bn to $26.7bn in 2020, compared to levels in 2018. That's according to a report by Renaissance Capital, which also found that sector utilisation capacity – the ability of steelmakers to increase production without increasing costs – have widened.

It makes for sobering reading for the likes of Amsa. "The global steel industry could be in oversupply for the next two years and we believe this could weigh on steel prices," it said. ■

editorial@finweek.co.za

The blunt, fact-of-the-matter is that without economic revival and sustainable growth, there can be no Amsa, and no steel industry.

Photos: Supplied | www.angloamericankumba.com

By Jana Jacobs

The patience to start your own business

Lexi Monzeglio has opened three restaurants in just over a year. But it took years of hard work, as well as the right partnerships, to get going.

Lexi Monzeglio opened the first Lexi's Healthy Eatery in Sandton in 2018. Within a year, she's expanded to three branches. But her entrepreneurial journey wasn't straightforward. Much like the concept of her plant-based restaurant, her success came very organically. *finweek* sat down with her at her newest restaurant in Rosebank Mall.

You're not a chef by training. How did your food journey start?

After finishing my graphic design degree, I started a job in the marketing department of a financial services group. I wanted to eventually become a creative director or start my own agency, because I always loved art and design.

I hated being at a desk, so one of the outlets I had in my first year of working was starting a food blog. I couldn't cook at all. One of the only things I could make was brownies. So I ate out a lot, had tonnes of brownies and ended up gaining a bit of weight. My mother even told me I looked like a little bubble! That was the start of me becoming more health conscious. It wasn't revolutionary; I started making very small changes to my diet and shared some of the recipes I was using on my blog.

The more I cooked, the more I realised it's another form of creative outlet and I loved using unusual flavour combinations.

How did it develop from creative outlet to more?

I changed jobs nearly once a year. I gained quite a bit of varied experience and moved up quite quickly as I moved companies. I didn't have a BCom degree, so I did a project management course at Wits and used that to leverage me into a position as marketing manager, where I could manage events and the marketing team. I loved it because I didn't have to be at a desk all day.

All along my food blog had been ticking over. By this time, I loved food and

Lexi's Flamingo in Modderfontein on the East Rand of Gauteng.

I was also doing freelance food styling and recipe development. The more I did this, the more I thought, "I should do this".

Years ago, a friend of mine and I thought of opening a little restaurant together, but it was a pipedream. At the time we thought we'd need to save about R200 000 to make it happen. In hindsight that wouldn't even have paid for the kitchen.

So, a restaurant was always at the back of my mind, but it was a total dream.

Lexi Monzeglio
Founder of Lexi's Healthy Eatery

How did you move into the restaurant space?

Through my freelance work, I started getting more restaurant clients, working on their social media strategy and also getting to know the kitchen processes. By that point I had also – not consciously – effectively gone vegan. I am more comfortable with the term plant-based now as I am far from a *perfect* vegan.

All these things just kind of came together and I eventually started working for a start-up meal kit company. I developed over 100 recipes for them. But I realised this was also not what I wanted to do – it wasn't creative and the recipes I was developing were not exclusively plant-based.

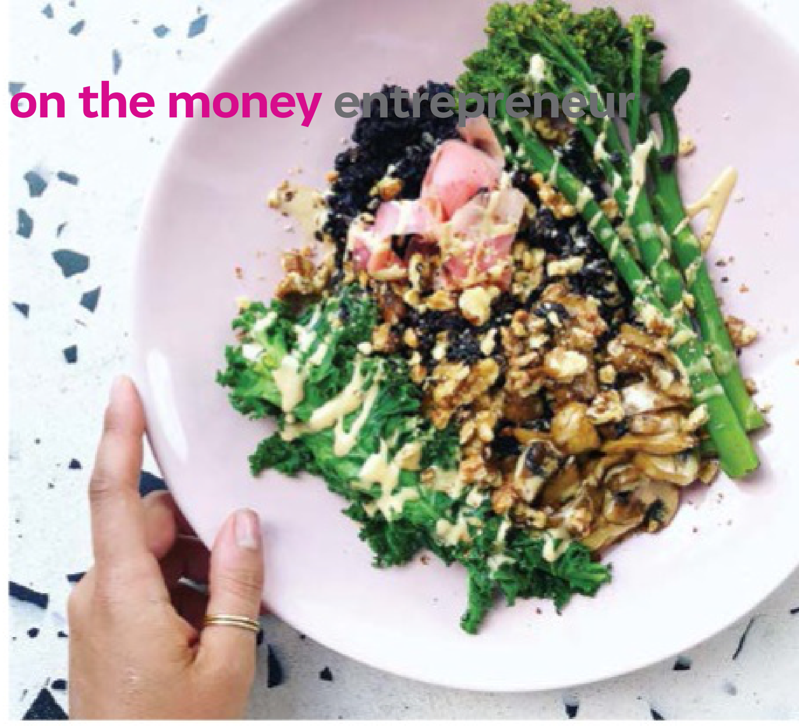
So, I quit. I had no plan. I had enough money to get me to the end of that month.

Where did you go from there?

I started a food stall. I didn't know how else to pursue this dream. Because I had no money, this was a cheap way to figure out if I really wanted to do it. The response was great. The stall didn't make lots of money, but it got the food out there. The amount of work required was insane. It was exhausting, but I loved it and it gave me a lot of insight into the food world.

I also ran a number of vegan pop-ups in Joburg. One of my clients at the time was Licorish Bistro and they were brave enough to let me take over the kitchen for

Q&A:



my first pop-up restaurant. We were full every day, made a killing and the response was really good. It was the first time I worked in a kitchen. Getting the food out and chatting to people was the happiest I had ever been.

Is that how Lexi's was conceptualised?

One morning, at Licorish, a customer requested a vegan breakfast. Nobody had a clue what to do so I made him quinoa porridge and a smoothie. He was blown away and immediately wanted to know, "What I was doing with my brand". "What brand?", I thought. I was just one person, kind of going with the flow.

He offered to help me draw up a business plan. It was something that I could have done on my own, but it always seemed impossible, so I never did it. He coaxed it out of me and before I knew it, I had a fully formed idea for Lexi's Healthy Eatery.

Everything I had been doing up until that point had amalgamated into this one mess of skills that seemed like nothing at the time. But, in hindsight, I was actually learning how to make that pipedream happen.

And then you opened Lexi's?

Not quite. I found a space in Linden and was looking for a financial partner. At the time my proposal was ridiculous – I was offering a financial backer 15%. If I were an investor, I wouldn't have accepted that either.

So, I decided to do it by myself. When the bank wasn't very keen on giving me a business loan, I planned to make it happen for much less and just do it through a personal loan.

Looking back, I would have crippled myself on the interest alone. My dad has a bit of money, but he wasn't entirely in the position to take a risk like that, especially on someone who had changed jobs so many times already! Now he's incredibly proud.

Everything was ready to go. I had designed the interior, had a builder ready to start, suppliers etc. But the lease fell through.

I wanted some stability, so I started looking for jobs and planned to just carry on with the food stall on the side.

Why didn't you give up the dream?

I got a call from my now business partner, Ezio Nichele. He had gotten my details through a mutual friend. He was planning to open a vegan restaurant and needed a vegan chef. Initially, I wasn't sure about the idea, but I met up with him and it turned out that he had known my uncle for 15 years, and had even worked with him for a while, which already gave us a bit of a connection.

He had a concept already, but I was so sure Lexi's was the right idea for Joburg that I convinced him we should do that instead.

And that's how we partnered. We went in 50/50 – me with IP equity and Ezio with the financial capital.

Your slogan is 'Eat more plants'. Can you explain your menu?

My vision was to encourage healthy eating. To create a plant-based menu that is accessible and affordable in South Africa. Overseas everyone is doing it. South Africa is almost there, but not quite, specifically not Joburg.

The few vegan cafés or restaurants that have been around for a while in Joburg have definitely started rippling waves of change, but I think Joburgers are starting to get more serious about their diets and realising sustainability is important, so there's a bigger gap now.

Vegan isn't our only pillar. That's why our menu works, because we still make a burger and fish, which makes it accessible.

You've opened three restaurants in just over a year. Why do you think Lexi's has been so successful?

We've been really lucky in the combination of our skillsets; Ezio from an operational point of view, and me on the food and design side. Lexi's Healthy Eatery works because the partnership works – and when we apply our different skills to the business, we always consult each other.

Photos: Supplied

Obviously, being the 'first' to launch something like this really helped us in terms of building quick success – people are ready and keen for something fresh and different. We also made sure not to position ourselves as strictly vegan – it appeals to a bigger market because people just want to eat healthier and more consciously. In fact, only about 10% to 15% of our clients are even vegan.

Plans for the future?
Our target is to have five restaurants in the short term – anything from six months to three years from now. This will help us to get a central kitchen on its own premises. We also want to look at starting a retail line that would include our sauces, maybe patties and falafels as well. I also really want to open up an express Lexi's.

One thing I have noticed is that if you don't force things too much and continue pursuing your goals, things will happen organically.

What advice do you have for aspiring entrepreneurs?
One of the things you've got to be is impatient and patient at the same time. Keep applying yourself and think that it's going to happen tomorrow but be okay if it doesn't. That's kind of how it was for me. And it was hard because it didn't happen, but it kind of did in little ways. Only when you're on the other side and you look back do you realise that those little steps were actually steps.

Also, I think the one thing that causes failure is that people think that when it's your passion it's going to be easy. It's not. It's very seldom easy, even when you love it. But loving it makes it easier. ■

editorial@finweek.co.za

By Timothy Rangongo

Sasol New Signatures 2019 winner, **Patrick Rulore,** standing beside his winning oil-on-canvas work titled *Stage 4 moments.*

Finding light in the darkness

Patrick Rulore recently won the 2019 Sasol New Signatures art competition – a feat that has propelled many artists to further award-winning success.

Paintings tell stories. They are not just aesthetic pieces, but also works that stand as barometers of our time. For instance, they uncover or attempt to communicate some of present-day society's most pressing issues.

In this vein, Patrick Rulore's oil-on-canvas work titled *Stage 4 moments* sheds a microscopic view on how load shedding affects him and his family.

"This is what load shedding looks like in my home," the 24-year-old Tshwane University of Technology fine arts student tells *finweek*.

Rulore's work took top honours at the 2019 Sasol New Signatures, one of South Africa's most prestigious art competitions, and now in its 19th year. Acclaimed artist Mohau Modisakeng won in 2011 and his career has been nothing short of brilliant since.

Juxtaposing lightheartedness during a dark moment is among one of the compelling elements in *Stage 4 moments.*

"This painting does not complain about load shedding, it rather celebrates dark moments given into by these circumstances," Rulore explains.

When stage 4 load shedding hits our households, dismay seeps in and darkness prevails, as illustrated by Rulore.

But the artwork celebrates the fact that all electrical devices are set aside during these blackouts, and portrays the family interacting with each other, face-to-face, talking, laughing and playing games.

"The work [*Stage 4 moments*] has been painstakingly laboured and shows immense drive and passion," notes acclaimed artist, judge and Sasol New Signatures chairperson, Professor Pieter Binsbergen.

Sasol's senior manager: group brand management, Nozipho Mbatha, says winners of the competition, like Rulore, have gone on to carve out illustrious careers in the visual arts, making significant contributions to SA's artistic heritage.

As the winner, Rulore walks away with a R100 000 cash prize that will also go towards preparing for his solo exhibition at the Pretoria Art Museum in 2020. ■

editorial@finweek.co.za

Photo: Supplied

The future of transaction banking – Design by analogy versus design using first principles

In response to the fintech disruption in the banking industry, Standard Bank's Transactional and Services team has embarked on a future-ready programme that is very much centred around clients' needs.

The future of banking has not been immune to the machinations of the Fourth Industrial Revolution, with disruption becoming the norm. From a transaction banking perspective, especially, disintermediation has already irrevocably challenged and changed banking forever.

In response to the demands of meeting these new challenges, Standard Bank's Transactional Products and Services (TPS) team has embarked on a future-ready programme, which looks at four key conceptual enablers that are set to bring about quantum change.

Co-create with clients

A focus on client-led development means no longer designing by product, but rather on client needs. This means co-creating solutions with the clients, which may sound easy and something everyone aspires to but is hard in practise. What this needs is clients willing to partner on this journey, truly understanding the client's ecosystem, and deploying solutions on a modular basis.

Assemble over build

This requires a fundamental shift away from multi-year technology platforms, to rapidly assembling solutions using modular technology. It impacts banking in two ways; firstly, as a utility, providing efficient systems to effect transactions, and secondly, as a service enabling corporates to focus on business growth, efficiency and competition.

Fintechs recognised this from the outset, and have created simple, efficient and cheap ways to move money. In other words, fintechs concentrated on using technology to do the essentials well, assiduously ignoring everything else that was not central to achieving the task at hand. Banks, as they currently exist today – with their legacy architecture and processes – are somewhat constrained in their ability to follow a similar approach.

Leverage data

Access to the clients' data allows the banks to provide end-to-end services that leverage the full spectrum of client insight across the whole client ecosystem. Standard Bank knows its expertise lies in risk management and relationship management with our clients. Standard Bank wants to partner with other vendors who are stronger in specific expertise, such as specific technology services (for e.g. data prediction and artificial intelligence).

While the goal is clear, the challenge going forward is to aggregate all the newly co-created functions and systems into a single integrated transaction platform that clients can effortlessly navigate, use and deploy via whatever device they choose to use, from anywhere in Africa or the world.

Achieving these kinds of changes culturally, however, requires that banks rethink the future of work.

The concept of future-ready banking is so different from existing bank architecture that Standard Bank's TPS team has elected to run the programme outside of the existing bank structures. Since the most radical and disruptive fintech advancements have happened in technology industries outside of banking, TPS has taken the people with the required skills and moved them out of the immediate banking environment, allowing them a freedom of thought and approach.

This process is entirely supported by First Principles philosophy. "Achieving this kind of quantum leap in thinking, design, efficiency and cost of outcome, however, also means that we will need to measure ourselves differently," says Hasan Khan, group head of Standard Bank TPS.

Once the transition to a future-ready business model that is digitally enabled is achieved, Standard Bank believes that TPS will continue to understand, manage and grow clients' businesses.

This will ultimately help the bank to achieve its goal and driving passion, to partner clients in Africa on their journey for growth. ■

Hasan Khan
Group head of Transactional Products and Services for Standard Bank

"Achieving this kind of quantum leap in thinking, design, efficiency and cost of outcome, however, also means that we will need to measure ourselves differently."

By Amanda Visser

Business hubs: finding the right fit for growth

Empowering SMEs is integral to our economy. And with the rise in incubators, which provide small start-ups with the resources to get going, there are various support options available.

Local business accelerators, co-creative spaces and incubator hubs, offering support for entrepreneurs and fledgling companies, have been sprouting over the past few years.

This is not only because of the realisation that small- and medium-sized enterprises (SMEs) are critical to the economy and job creation, but also because of an important change in the broad-based black economic empowerment codes. Companies can get up to 40 points on the B-BBEE scorecard if they invest in the enterprise and supplier development of qualifying small businesses.

What do business incubators offer?

All businesses go through different stages – getting the idea (ideation), starting up, settling, growing, stabilising and growing further. There seems to be a support programme for every stage. However, finding the right fit is critical for success.

Many entrepreneurs find it quite daunting to embark on their business journey, because it becomes quite lonely, says Jenny Retief, CEO of the Riversands Incubation Hub.

Riversands was launched in 2015 through a private-public partnership between Century Property Developments and National Treasury's Jobs Fund.

Established and start-up small businesses are accommodated at Riversands for a period of up to three years in subsidised premises with access to business support services. The Riversands hub offers mini-factories, workshops and offices at subsidised rates.

Another model is that of the co-creative hub, such as Jozihub, where entrepreneurs can rent a desk with connectivity, or get assistance with the organising of events, workshops, meetings or conferences. It provides a "hang-out" for like-minded people, sometimes for free, but mostly at an hourly, daily or monthly fee.

Raizcorp, founded by Allon Raiz, offers services such as access to training, financing, mentoring, markets and infrastructure and describes itself as a "prosperator" rather than an incubator. It takes a minority stake in the businesses that qualify for their support programmes, which can be up to 50%.

However, it doesn't mean that they take over the day-to-day running of the business. They do offer backroom support that many small businesses struggle to afford when they are on their own.

Jenny Retief
CEO of the Riversands Incubation Hub

Photo: Supplied

"Successful business incubation and enterprise development is firstly dependent on the quality and commitment of the entrepreneurs themselves."

Finding the right fit

In a working paper presented by experts from Fetola – an SME specialist firm – it is noted that one of the key ingredients for a robust incubator model is the selection of the right candidates.

"Successful business incubation and enterprise development is firstly dependent on the quality and commitment of the entrepreneurs themselves," the authors say. "Successful results are, more often than not, only achievable if participants are appropriately matched to the incubation programme itself."

Retief agrees that the "pre-selection process" is critical. Entrepreneurs must carefully consider where their businesses are, what their needs are and if they comply, or want to comply, with the rules and conditions to become part of an incubator programme.

"Being part of a high-energy community of entrepreneurs is a big reason why start-ups or early stage businesses want to move into an incubator hub. They love being around other entrepreneurs, sharing, learning and encouraging each other. It can be a very lonely journey otherwise."

Conducive environments

According to Fetola, the biggest challenge for business support programmes is to create a "conducive environment" for sustainable growth and the creation of lifetime jobs.

Therefore, the role of incubation is particularly important.

At Riversands entrepreneurs are allocated to a service coordinator, similar to a relationship manager at a bank. The coordinator puts them in contact with experts who can assist with financial and operational services as well as strategy and leadership guidance.

The concept is to offer the services initially for free or for a small co-payment, but eventually the company will be charged for the service. The expectation is for the business to grow in order to function without the aid of the incubator.

"Our role in creating jobs is by growing large numbers of small businesses. If these businesses, and especially black-owned businesses, grow successfully, it will make a huge difference to the inclusiveness, growth and productive capacity of our economy. That is our return on investment," says Retief.

They require the businesses to submit monthly statistics to determine whether, as an incubator, they are achieving their goal.

Most incubators offer training and resources that would otherwise not be available to an SME. Support services can make a significant difference in an SME's success. Many entrepreneurs tend to struggle with issues such as strategic planning, costing and pricing, sales and marketing, finance for business leaders and labour law.

However, Fetola warns against the role the incubator plays in facilitating opportunities for greater access to markets as it may create a dependence on the incubator's involvement in the business.

Time to go

Many non-profit incubators allow for a support period of three years for a company to grow from a fledgling, early stage business to becoming an independent, sustainable business.

Retief says they see themselves as a stepping stone and springboard. In principle, the subsidised lease agreement is not renewed beyond the initial three years, or at times it is not renewed after one year.

"We have the duty to make sure that when we invest in our subsidised square meters it is truly unlocking growth and movement towards independent viability. If we do not do that we are failing in our moral and stated mission and obligations," says Retief. ■

editorial@finweek.co.za

A few (of many) BUSINESS INCUBATORS:

- **SA Business Hub:** Offers affordable and accessible business training
- **Innovation Hub:** Supports growth for technology companies
- **Shaduka Black Umbrellas:** Supports with infrastructure, mentorships and collaboration
- **Seda Incubation:** Has 24 incubation centres across the country in different sectors
- **Swiss Business Hub SA:** Responsible for implementing Swiss export strategies in Southern and Eastern Africa. ■

Source: www.youthvillage.co.za

One reader stands a chance to win a copy of Johann van Loggerenberg's *Tobacco Wars: Inside the Spy Games and Dirty Tricks of Southern Africa's Cigarette Trade.* Enter by completing this quiz on fin24.com/finweek, accessible from 23 September.

1. How much did the Financial Sector Conduct Authority (FSCA) fine retailer Steinhoff for misleading markets?
2. According to South Africa's latest crime statistics for 2018/19, which type of cars are the most hijacked in SA?
   - Bakkies
   - Sports cars
   - Hatchbacks
3. At its fall 2019 event, Apple announced that the iPhone 11, 11 Pro, and 11 Pro Max will be released on 20 September. How many cameras does the latest iPhone have?
4. **True or false?** The newly passed National Qualifications Framework (NQF) Amendment Act seeks to criminalise qualifications fraud and lying about qualifications on CVs.
5. In which country did former Zimbabwean president, Robert Mugabe, die aged 95?
6. **True or false?** The BMW X3 is manufactured in South Africa.
7. Who is the European Union's incoming trade commissioner?
8. Africa's biggest oil exporter, Nigeria, seeks to reduce its reliance on crude sales and is planning to increase which type of tax:
   - Income tax
   - Capital gains tax
   - VAT
9. On 11 September, Naspers* listed a new spinoff company that opened at R1 238 per share on the JSE. What is the name of the new company?
10. **True or false?** Alibaba chairman Jack Ma stepped down from the e-commerce giant.

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

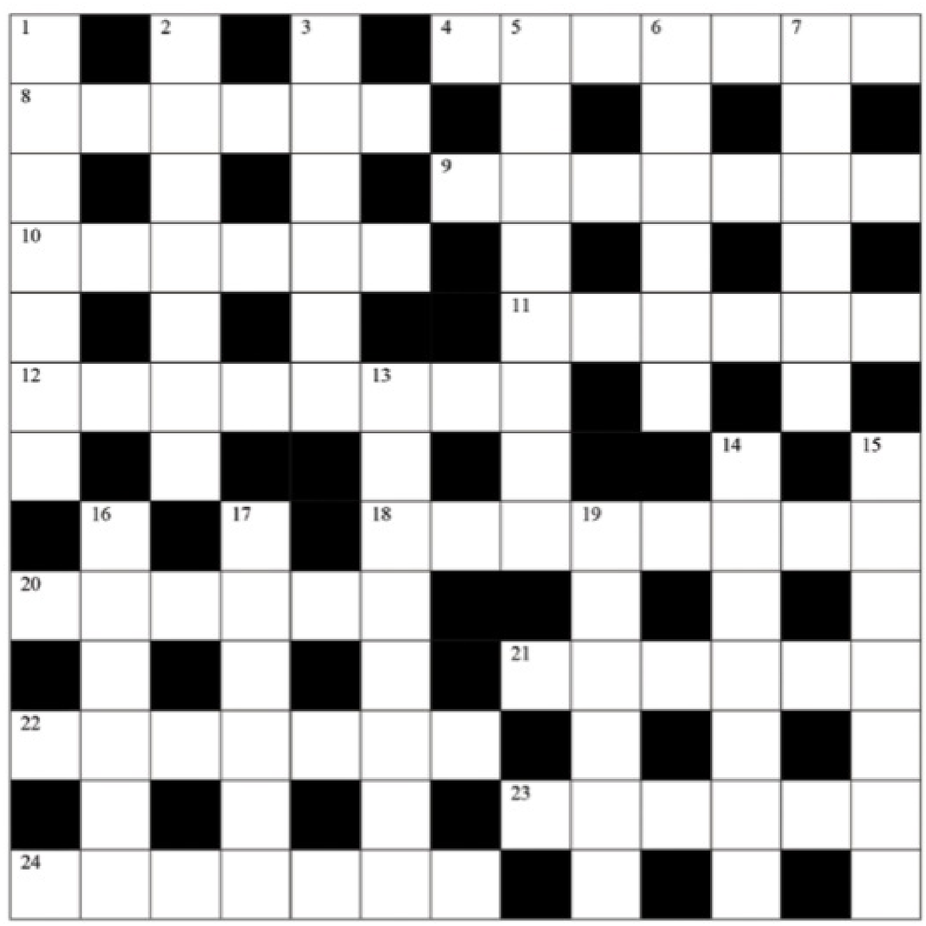
CRYPTIC CROSSWORD NO 740JD

ACROSS

4 If you're away with them you're not all there (7)
8 Sidesteps duel arranged with opponents (6)
9 Good engineer starting with knowledge on earth science (7)
10 Sounds like girl's into pond life (6)
11 High-flyer starts in charge at Royal Ulster Show (6)
12 Set free a French wife held captive in Lima (8)
18 Concerned about a broken planter (8)
20 Sporty football hooligan in designer clothes! (6)
21 Dropping off fish? (6)
22 A man in one body (7)
23 A stormy one appears at the onset of trouble (6)
24 Following around, getting the silent treatment (7)

DOWN

1 Not why, we hear, envy is green (7)
2 Break through after a song (7)
3 Enemy routed by a single Arab (6)
5 Pea soup I divided out as form of medicine (8)
6 Top up deal or go bust (6)
7 Holder to bring cheer to one's lot in life (3,3)
13 Consul takes time over credentials (8)
14 People who find fault with the Gunners? (7)
15 Tally reworked in a clear-headed manner (7)
16 Corporal's right in the groove (6)
17 Subtle form of support (6)
19 Selected two men in Italy (6)



Solution to Crossword NO 739JD

ACROSS: 1 Envelope; 5 Opus; 9 Smite; 10 On a roll; 11 Flee; 12 Separate; 13 Protectionary; 18 Side face; 19 Tuna; 20 Lorelei; 21 Count; 22 Sane; 23 Invasion

DOWN: 2 Nimbler; 3 Entreat; 4 Protest action; 6 Pro rata; 7 Silvery; 8 Navaho; 13 Pestles; 14 Order in; 15 Enfile; 16 Nations; 17 Run into

On margin

For our brothers and sisters

These are somber times and, as such, in this issue we get pretty serious.

In our serious state, our isiZulu expression (yes, a whole expression) is *induku enhle igawulwa ezizweni.* Directly translated to English it means "a beautiful stick is chopped/cut from far-away lands/nations".

This expression is dedicated to our brothers and sisters visiting South Africa from far-away lands.

You see, the Zulu ancestors were very clever genealogists and understood that inbreeding is bad because of the potential for population bottlenecks and whatnot.

As such, this expression came about as an encouragement to go out there, explore the world and find mates that are not necessarily of your own people. Go find them in Lesotho, Zimbabwe, Zambia, eSwatini, Botswana, Angola, Malawi, China, Pakistan, Argentina, the US, Nigeria, France, Russia and everywhere else in the world.

So, we don't know how the hell the hooligans think we are going to achieve that if the rest of the world thinks we want to kill them. They really are going against our nature and need to stop it. We are truly sorry they have lost their way so badly and we hang our heads in shame.

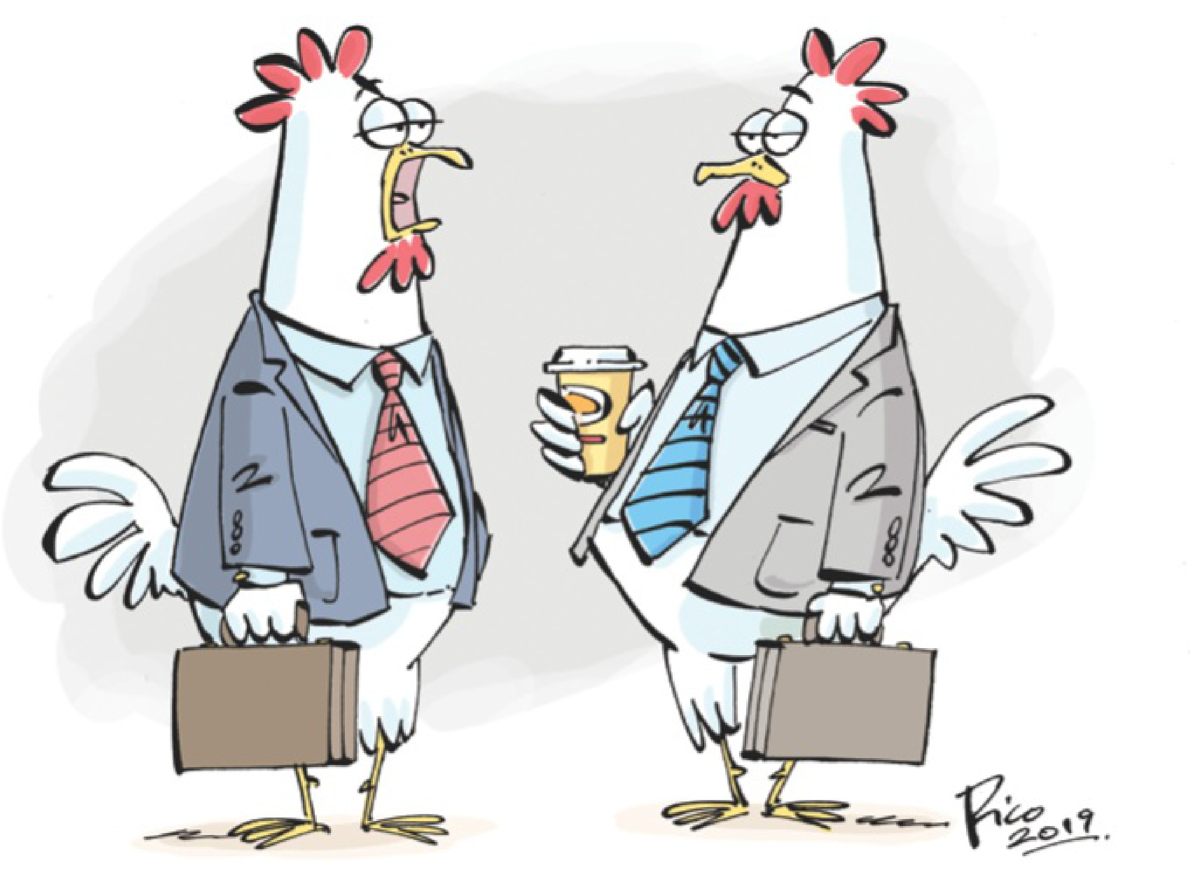
The world is way more fun when we chop sticks from far-away lands. And it sucks big time when we threaten our visitors with pangas.

People will say there are many issues faced by South Africans that lead to the xenophobic violence. But the truth is there is never a good reason for violence. There really isn't.

Anyway, I hope our brothers and sisters across the continent and the rest of the world will forgive us and not condemn us because of the actions of a few.

We still want to travel the world and chop sticks in foreign lands.

– *Melusi's #everydayzulu* by Melusi Tshabalala



"I'd definitely cross the road for a better job offer."

Verbatim

Wotan @WotanZA
If all my hatred for Rivonia road could be turned into an energy source, it would power the industrialised cities of man for the next million years.

#16 @L_Tido
Dear rappers, do your parents know you're in studio saying the streets raised you?

NKABINDE @sya_nkabinde
Life after 18 is horrible. You breathe and you owe R200.

Mr D @DarronDiesel
No one:
Afrikaans people: "Môre, môre."

Karabomothibi_ @KayarrSocial
Buy jeans and a sneaker or pay rent?

Ben Carlson @awealthofcs
During the next recession:
"I CALLED THE RECESSION!"
- literally everyone.

Naval Ravikant Bot @NavalBot
"A taste of freedom can make you unemployable."

Adam Liaw @adamliaw
Like most, I struggle with it sometimes but always take heart from knowing things would be much worse if I weren't even trying to struggle with it.

"A lie will go around the world while truth is pulling its boots on."

– Charles Spurgeon, English preacher (1834 - 1892)