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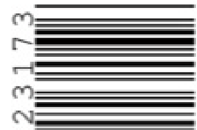

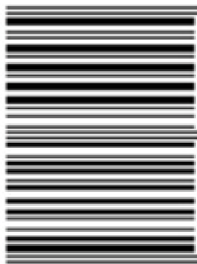

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2011 SYRIAN CIVIL WAR
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2015 YEMEN CIVIL WAR
2015 STOCK MARKET SELL OFF
2020 COVID-19 PANDEMIC

Sources: FastMarkets, ICE Benchmark Administration, Thomson Reuters, World Gold Council

from the editor

JANA JACOBS

O[illegible]day 24 May, *The New York Times* dedicated its front page to victims of Covid-19. N[illegible]1 000 names were published, along with their age and a personal detail. [illegible]mbstone engravings etched in ink that represent roughly 1% of the total [illegible]ported US death toll.

The US president's response to the pandemic continues to serve as an exemplary example of how dangerous poor leadership can be in this crisis. When *The New York Times* published this front page, the US death toll was nearing 100 000 and it was memorial weekend in the US, reserved for honouring the country's war dead. Trump chose to spend this sombre weekend golfing, tweeting and re-tweeting insults to female politicians.

Back here in South Africa our president was getting ready to address us about the next steps in our lockdown.

Yes, there have been questionable decisions made by our government, but unlike in the US, our president initiated an early response that has likely resulted in us being in a far better position than other countries were at this juncture in their Covid-19 timelines.

But we can't live in lockdown indefinitely, and so we move to level 3 at last. While this will provide a lifeline to a vast number of businesses, there are those that still won't be allowed to open, or can only operate on a very restricted basis because of the risk of transmission that comes with their operations. Places where social distancing can't be efficiently practiced. Or that necessitate the gathering of groups. As devastating as this is for these businesses, one can understand that after subjecting South Africans to 10 weeks of severe measures that may have protected their lives but decimated their livelihoods, only to then risk the exponential spread of the virus anyway, might not be the appropriate decision to make.

That is why I find the president's announcement that places of worship will be able to allow gatherings of 50 people so deeply troubling.

While I understand that it must be very difficult not to be allowed to practice one's religious freedoms, allowing the gathering of 50 people – in what is often a very intimate setting – threatens to undo all the gains we have made. As the president himself explained in his Sunday speech, we remain at a critical stage, teetering on the brink of the outbreak that we have been preparing for.

Indeed, just as we can't live in economic lockdown indefinitely, we will eventually resume our "normal" lives in a world where Covid-19 still exists. But, as the president has said countless times, that future is a long way off. This latest move is not about opening the economy safely, and it contradicts the cautionary approach that we have been asked by government to support.

It's a decision that won't help limit the number of names we will have to etch in ink. It seems more likely to help secure marks on ballots. ■

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By Johan Fourie

ECONOMY

One thing corona won't kill: inequality

Historically, wars, revolutions and pandemics have reduced inequality, but new research suggests that Covid-19 is unlikely to be a leveller for South Africa's deeply unequal society.

South Africa is one of the most unequal countries on earth. Statistics like the Gini coefficient only confirm what any tourist sees on arrival: Large disparities in living standards between those in the swanky suburbs of Sandton or Stellenbosch and those living precariously on the outskirts. Add to that the poverty of a third of South Africans still residing in former homelands, far away from most tourist eyes.

How to narrow this gap has been at the centre of debate for the last 25 years. But there has been little progress. While the nature of income inequality has changed – inequality between black and white has declined while inequality within each group has increased – the overall level of inequality has remained largely constant.

Economists have typically identified two things that should help: economic growth and redistribution. But SA is stuck. A decade of paltry economic growth has precluded the first of these options. And redistribution has its limits too. We often forget that because of our progressive tax system and well-targeted social grants system, we have one of the most redistributive budgets in the world. Yet, with a budget teetering on the brink of insolvency, there is little scope to further take from the rich to give to the poor.

There are, of course, other options. Historian Walter Scheidel argues in his excellent book, *The Great Leveller*, that only three things have ever substantially reduced inequality: wars, revolutions and pandemics. "Just as with mass mobilisation wars and transformative revolutions," he writes, "equalisation was accompanied by great human misery and devastation, and the same applies to the most catastrophic epidemics." He notes that "this is, without any doubt, an exceedingly bleak conclusion".

Could Covid-19 kill SA's persistently high inequality, presenting a silver lining around the darkest of clouds? A new NBER paper written by five economists suggests it's unlikely. They use the 1950s Chinese Communist Revolution and the Cultural Revolution from 1966 to 1967 to test whether these two major revolutions that completely eradicated inequality within Chinese society have created fairer Chinese income distribution today.

Mao Zedong's policies to eradicate inequality are great case studies. Both revolutions – a Land Reform policy where millions of acres of land was transferred from landlords to peasants, and a Cultural Revolution that equalised access to education – were not only explicitly aimed at reducing inequality, but were also associated with massive human loss as a result of violence and famine, one of the prerequisites for large-scale reductions in inequality. An estimated 40m people died in the Great Chinese Famine of the late 1950s alone.

As the authors point out, the revolutions were "remarkably successful in the short run – essentially eradicating inequality in land ownership and education attainment". They then do something interesting: They compare pre-Land Reform land inequality to real estate inequality in 2000. More specifically, they compare the family names of those that were part of the elite before the revolutions with those that have the most property today. There's no reason to expect a correlation, of course; the two revolutions wiped out any trace of inequality. Those that prosper in 2000 should bear no resemblance to those that prospered before 1950.

And yet, there is remarkable persistence. The grandchildren of the pre-revolution elites earn 17% more than their counterparts with non-elite grandparents. This result is especially striking given that there are no differences at the parental level: The children of the pre-revolution elites and non-elites all inherited the same land and the same education. Yet their children somehow reflect the income distribution of their grandparents.

> The grandchildren of the pre-revolution elites earn **17%** more than their counterparts with non-elite grandparents.

This persistence of inequality across two generations in China is very similar to measures calculated for the US or Canada. The authors conclude: "Thus, the two major revolutions with the explicit goals of eliminating class privileges and removing inequality did not manage to increase social mobility above what is observed in these two major capitalist economies, with no revolutions." The massive human suffering to equalise the income distribution was for nothing.

What could explain this? The authors emphasise the cultural transmission of values. "The grandchildren of the former landlords are more likely to express pro-market and individualistic values, such as approving of competition as an economic driving force, and willing to exert more effort at work and valuing education as an input into success." Attitudes toward the free market, it seems, are pivotal in creating prosperity.

SA's deep and structural inequality is, of course, not the result of a lack of work effort by the poor or mere beliefs in collectivist values. The inequalities of colonial interactions – land dispossession, limits on education and forced removals – still underpin much of what we see around us today.

Yet, we should also be cautious in asserting that our high Gini will simply vanish once we implement redistributive policies, either through the fiscus or, more directly through policies like land expropriation without compensation. As Scheidel notes, "land reform that was not associated with violence one way or another has rarely, if ever, been a potent means of combating inequalities of income and wealth". And, as the authors of the China paper point out, even if it is associated with radical transformation through violence, inequality inevitably returns because building wealth requires much more than simply access to land and education: It requires values and beliefs – pro-market attitudes – that economists are only now beginning to investigate.

A global pandemic is equally unlikely to defeat inequality. The best we can hope for is that Covid-19 will, firstly, help us find innovative ways to offer those at the bottom access to urban land and quality education and, secondly, cultivate and nurture the pro-market attitudes to make productive use of those resources. It's a tall order, but our only hope. ■

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Johan Fourie is associate professor in economics at Stellenbosch University.

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By Andile Ntingi

BLACK ECONOMIC EMPOWERMENT

Internal strife could compromise black business in economic recovery

Divisions within the black business community need to be mended for a strong and effective collective to emerge.

A day before President Cyril Ramaphosa announced a national lockdown on 23 March, aimed at curbing the spread of the Covid-19 pandemic, the president met with business leaders at the Union Buildings to discuss mitigating the impact of the disease on the South African economy.

Before the meeting, Ramaphosa, flanked by a high-level business delegation, held an impromptu media briefing to let the nation know that he was holding consultations with political, business, and labour leaders to formulate a powerful response to the deadly disease. Since then, the virus has claimed the lives of 348 322 people globally including 533 South Africans at the time of going to print.

The business delegation constituted Martin Kingston, vice president of Business Unity South Africa (Busa); Sandile Zungu, president of the Black Business Council (BBC); and Richard Wainwright, deputy board chairman of the Banking Association of South Africa (Basa).

The meeting was instructive, not only because our country is facing a grave health and economic threat, but also because the composition of the business delegation was telling. The invitation of the BBC by Ramaphosa to the meeting signified that he considers the lobby an important cog in the business sector in our country.

But has the group come of age as a mouthpiece for black business since it was re-established nearly a decade ago following an acrimonious breakaway from Busa by rebellious black affiliates, led by the Black Management Forum (BMF)? They walked out, accusing Busa of serving the interests of big white business and neglecting the needs of black businesses, particularly the advancement of black economic empowerment (BEE). The BBC ceased to exist in 2003 after it joined what was supposedly a non-racial Busa.

From a distance, it appears that the BBC has made serious strides to make a claim of being considered the main voice of black business in SA. But has it?

A closer look suggests it is not the unified and militant force that it once was when it took on big white business and courted government to implement policies that favour BEE. Sure, after cutting its umbilical cord from Busa in 2011, the re-established BBC quickly gained support among its members as it whipped up emotions, calling for the creation of black industrialists, criminalisation of BEE fronting, scrapping of the preferential procurement policy, and establishment of the department of small business development to stimulate black entrepreneurship, which had been playing second fiddle to the politically-connected elite taking up minority stakes in white-owned, JSE-listed companies.

But, over time, the lobby group has lost its shine after an internal power struggle led to a split in the group. In 2018, one of its major affiliates, the National African Federated Chamber of Commerce and Industry (Nafcoc), walked out after it complained about the results of an elective conference, which led to its leaders failing to occupy key leadership positions in the BBC. Tensions were so palpable that opposing factions levelled allegations of death threats against each other.

The division between Nafcoc and BBC means that there are two black business factions vying to be the voice of black business. Their rivalry extends to competing for official representation at the National Economic Development and Labour Council (Nedlac), the apex structure that deliberates to build consensus on policy and legislation that our country adopts. The irony of BBC and Nafcoc jostling for a Nedlac seat is that Busa is empowered by the Nedlac constitution to decide on whom forms part of business representation at Nedlac.

> The division between Nafcoc and BBC means that there are two black business factions vying to be the voice of black business.

Without the blessing of Busa, none of the two black lobby groups will have representation at Nedlac, unless the constitution of the consultative body is amended to strip Busa of the powers to cherry-pick representatives it wants to be part of business representation.

So, the umbilical cord that BBC thought it had cut from Busa was never really slashed. It is still there. The BBC must still get permission from Busa to sit in Nedlac meetings, meaning that Busa is still the top dog and BBC the underdog.

A divided black business community is unlikely to effectively challenge the voice of white business. There will always be areas of cooperation between black and white business, but the fragmented black business community is weakening its ability to develop black industrialists and its contribution to expanding the black middle class. To strengthen their collective position, Nafcoc and BBC need to mend their relationship.

The government's response to the Covid-19 pandemic through an R800bn stimulus package presents an opportunity to reignite black economic participation whereby a portion of this money could be used to develop sustainable black businesses. The package is part of the second phase of policy response to economic damage caused by the coronavirus. A third phase will involve heavy state investment in infrastructure development in a post-Covid-19 economy that will employ mainly South Africans.

Nafcoc is already agitating for companies to be mandated to employ 80% to 90% SA citizens in their operations and that all non-South African-owned businesses be licensed and registered for tax. This is a view also held by finance minister Tito Mboweni, namely that the country's workforce must be overwhelmingly dominated by South Africans. However, if BBC and Nafcoc continue to fight, this vision will fall flat and black business will remain a chihuahua still chasing after bones while the bulldog that is white business enjoys a rump steak. ■

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Andile Ntingi is the chief executive and co-founder of GetBiz, an e-procurement and tender notification service.

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in brief

>> **Mining:** Platinum could gain on the back of less air pollution *p.10*
>> Meltdown in iron ore prices expected *p.12*

Moeletsi Mbeki

"BLACK ECONOMIC EMPOWERMENT HAS NOT ADDED ANY VALUE TO THE SOUTH AFRICAN ECONOMY AND SHOULD BE SCRAPPED AND REPLACED WITH A MORE INTEGRATED BUSINESS DEVELOPMENT POLICY."

– **Political economist Moeletsi Mbeki** said, "BEE, in my view, has been a disservice to the economy of SA," during a dialogue on broad-based black economic empowerment (B-BBEE) hosted by transformation consultancy BEEnovation, reported Fin24. The Covid-19 pandemic has revived debate around the legitimacy of the legislation, including a failed legal bid by trade union Solidarity and its associate, AfriForum, challenging the application of B-BBEE provisions in the distribution of R200m in relief funding for tourism companies. (Also read Andile Ntingi's analysis of black business representation on p.6.)

"Here's what I don't remember: the pandemic of 1968-1969. And yet there was one. It was called the H3N2 virus – less formally, the Hong Kong flu – and it took a significant toll. "

– **Joe Nocera, veteran business journalist and columnist,** questioned the efficacy of lockdown policies, saying it's never been used in the past and therefore "there is no previous science to know what good the lockdown does". Nocera attributed the imposing of lockdowns to politics, with people saying "if my political party believes in lockdowns, then I believe in lockdowns ... Nobody on either side is willing to sit down and look at it with fresh eyes, and think about it from a point of neutrality and science." He said the virus will likely fade in the summer (Northern Hemisphere) and probably come back with a vengeance in October. "Will the economy be shut down for three months again because the virus is back?" he asked in a recent Bloomberg podcast.

"THE COMPILATION OF ACCURATE ECONOMIC STATISTICS WILL ALSO REMAIN SEVERELY CHALLENGED."

– **South African Reserve Bank governor Lesetja Kganyago** said that Stats SA's failure to collect data because of the Covid-19 lockdown is affecting the central bank's efforts to compile economic statistics, in his Monetary Policy Committee statement. The central bank said the release of publications from its economic statistics department, including the release of its quarterly bulletin, will be delayed. STANLIB chief economist Kevin Lings told Bloomberg that "for policymakers this [data] is critical to balance the questions of livelihoods vs life", because the fast, industry-based economic data could help to make a real-time assessment of the severity of the lockdown.

Photo: Gallo/Getty Images

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INFECTIONS EPICENTRE

650 000

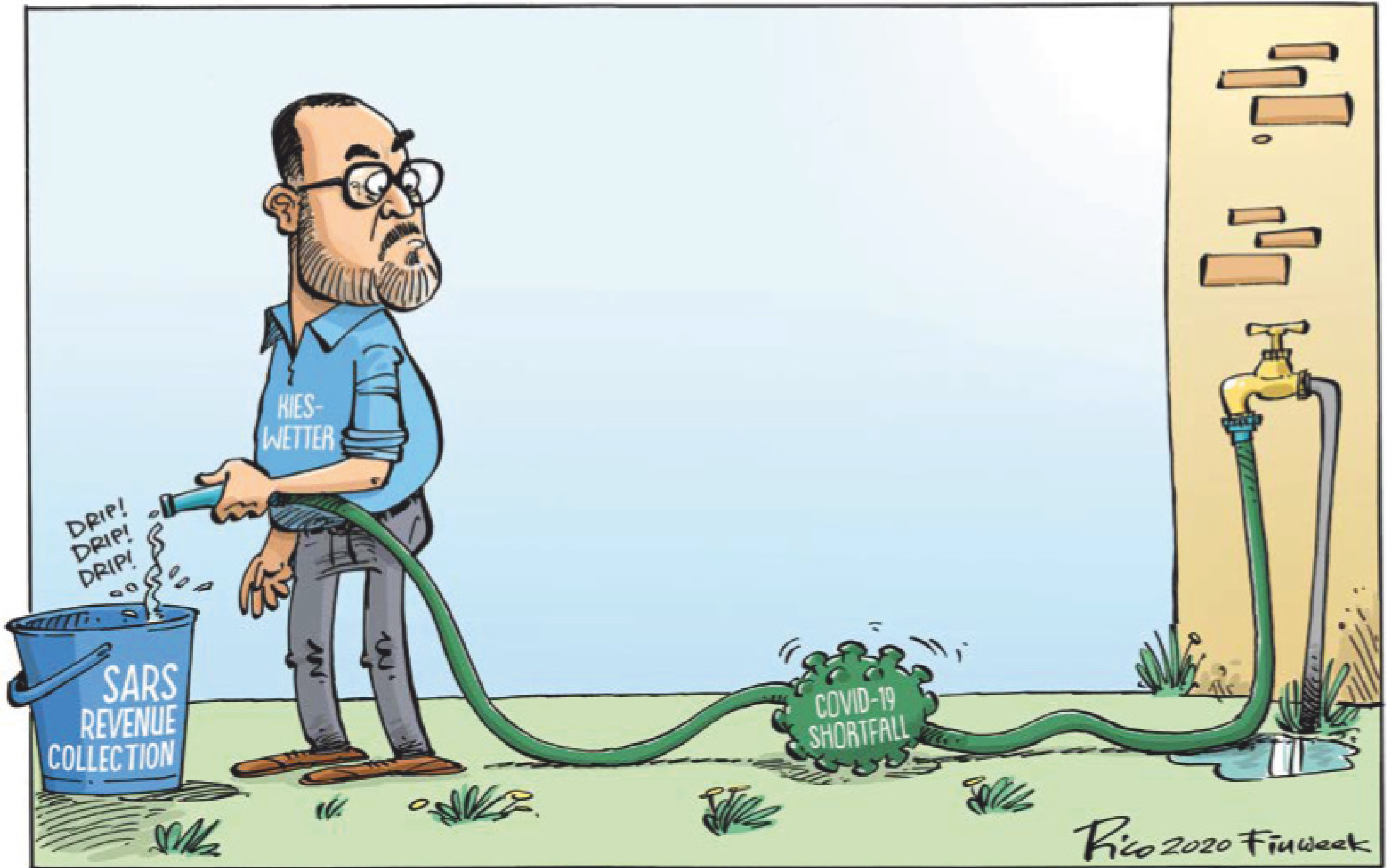
Dr Mike Ryan, a top emergencies expert at the World Health Organization, told a news conference that South America is the new Covid-19 epicentre, adding that Brazil is "clearly the most affected". Brazil led the surge across the continent, its death toll passing 22 000 from over 365 000 infections at the time of writing. Other countries in the region, including Mexico, Chile and Peru, are also struggling to contain major outbreaks. The region collectively has more than 650 000 recorded cases and more than 30 000 deaths, according to the European Centre for Disease Control and Prevention.

IT MAKES ONE HAPPY

60%

Tequila exports from Mexico to the US jumped 60% in the four weeks to 25 April compared with the same period last year, according to Nielsen. The spirit can only be made in Mexico from a single variety of the native agave plant. Mexico shut down all non-essential industries in March, but the tequila industry succeeded in getting the drink considered an agricultural product, according to ft.com. Although wine exports have been allowed again and the alcohol ban has been lifted in SA, Sars Commissioner Edward Kieswetter reported for the month to end-April, underrecoveries of excise duties from beer were R664m, R300m for wine, R400m for spirits like tequila, and just under R300m for cigarettes.

DOUBLE TAKE BY RICO



THE GOOD

The National Prosecuting Authority's (NPA's) investigative directorate, set up to investigate and prosecute cases of corruption, has received cooperation from the United Arab Emirates (UAE) in its pursuit of those who allegedly benefitted from the Estina corruption case, according to BusinessLive. They include the Guptas, who are understood to be living in Dubai. The state alleges that about R250m that was meant to benefit poor farmers at the dairy farm in Vrede in the Free State was siphoned off to Gupta-owned companies. BusinessLive reported that some of it was allegedly used to pay for an extravagant family wedding at Sun City.

THE BAD

AngloGold Ashanti temporarily shut the world's deepest gold mine, Mponeng, after 164 employees tested positive for the coronavirus. This was shortly after government allowed the limited reopening of the country's underground mines. Underground mines are high-risk areas for companies that restarted operations, with thousands of workers having to go underground in small cages after grouping together in gathering areas. The conditions underground are also confined. So far, excluding AngloGold, 85 mine employees have tested positive for the virus, of whom 13 have recovered, and one mineworker had died during the lockdown period, reported BusinessLive.

THE UGLY

The country's biggest food producer, Tiger Brands, took a R557m impairment charge on its export businesses as trading conditions remained difficult amid the Covid-19 pandemic. The impairment relates mainly to Davita, a powdered soft drinks and seasoning producer, the deciduous fruit business and its investment in Nigerian associate UAC Foods, the firm said. "These impairments are as a result of the continual assessment of risks associated with these businesses amid ongoing trading difficulties due to deteriorating macroeconomic prospects, exacerbated by Covid-19-led economic challenges as well as adverse category dynamics," it said in a statement.

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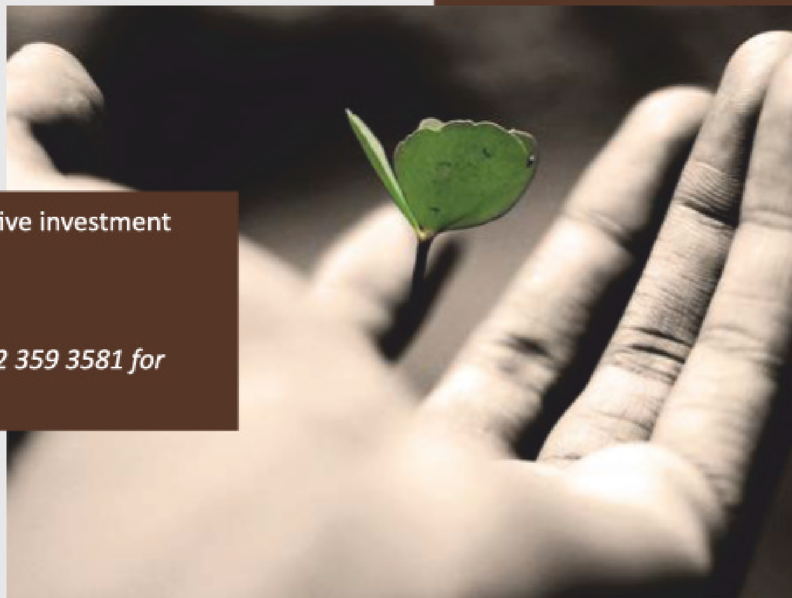

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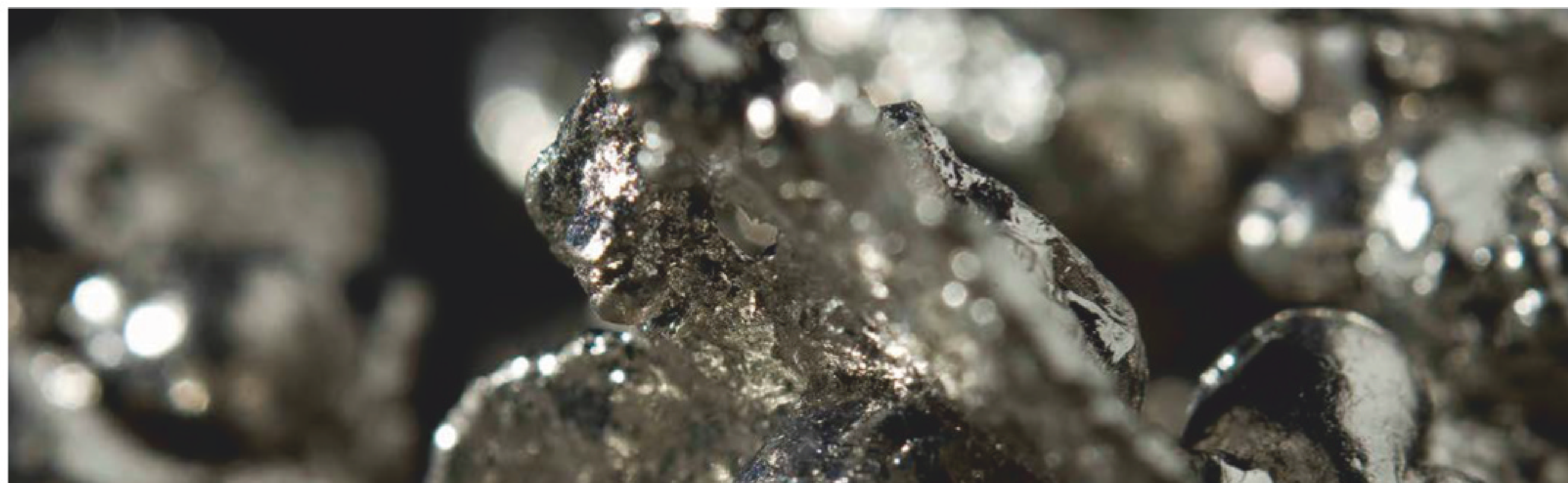
By David McKay

MINING

The coronavirus-induced smell of clean air could boost platinum

The world has experienced marked declines in air pollution during the Covid-19 lockdown. If this consequence isn't just temporary, platinum should gain.



South Africans may not have enjoyed their personal liberty becoming subject to government diktat, but at least the air smells sweeter.

One consequence of the Covid-19 pandemic lockdown has been a reduction in national pollution. Nitrogen dioxide levels fell 23% on the Highveld between 27 March and 20 April, according to satellite imaging studies produced by the Pretoria-based research institute the CSIR.

The phenomena of reduced emissions have been a global consequence of less cars on the road, less factories, and less air travel. "This cleaner air should not just be temporary," said Sadiq Khan, mayor of London, in an article by the UK's *Guardian*. "So once the current emergency has passed and we start to recover, our challenge will be to eradicate air pollution permanently," he said.

> Some 7m people die from the effects of air pollution each year, according to the World Health Organization.

This is much the hope of SA's platinum group metals (PGM) industry which, as with other industries, has been thrown into a fug by the onset of the Covid-19 disease. There's been little in the way of agreement between PGM research houses on where the industry may land in the months and years after the pandemic's arrival.

Days before the World Platinum Investment Council (WPIC) forecast a mild platinum surplus of only 247 000 ounces, a rival house, SFA Oxford, said platinum would run a surplus of 1.3m ounces this year – a difference of opinion of some million ounces. SFA Oxford also raised the prospect of platinum trading below $600 per ounce – a 25% decline compared with its current price ($885 an ounce), suggesting there is deep downside risk in the metal's demand.

Johnson Matthey, a PGM semi-fabricator and market commentator, didn't forecast on volumes or price but said the Covid-19 pandemic had hit demand and PGM supply equally hard and therefore expected the market to remain relatively balanced for PGMs including palladium – which was in a huge deficit last year.

The upshot of all this is that while getting production back on the rails is a matter of time, there's no knowing how quickly demand will recover. Just on platinum jewellery sales alone, consumers are likely to be cautious. "If you have a huge economic impact, it's all about survival," said Trevor Raymond, director of research at the WPIC.

In the end, the future of PGMs turns largely on the extent to which it can participate in a world after Covid-19 where values-driven public policy puts greater emphasis on decarbonisation. It's no small irony that set against the current

Phoevos Pouroulis
CEO of Tharisa

Mike Jones
President and CEO of Platinum Group Metals

Photos: Archive | miningmx.com

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The future of PGMs turns largely on the extent to which it can participate in a world after Covid-19 where values-driven public policy puts greater emphasis on decarbonisation.

Covid-19 death toll of some 345 000 globally, some 7m people die from the effects of air pollution each year, according to the World Health Organization.

"Will this be something that, after the eventual economic recovery, we dismiss as a nice moment as we get back to life as usual?" asked SFA Oxford of the improved environment in the UK during its lockdown.

It believes greater commitment to the development of hydrogen-powered transport, for instance, in which hydrogen is electrolysed from water to produce electricity, will serve the interests of the PGM sector and help decarbonise the environment.

"Overall platinum demand in all electrolyser and fuel cell technologies is estimated to be around 60 000 ounces in 2020, but could reach significant levels compared to other areas of industrial demand, approaching 500 000 ounces by 2030," said Jenny Watts, a researcher for SFA Oxford in a May paper.

"The hydrogen economy is definitely gaining momentum," says Phoevos Pouroulis, CEO of Tharisa, a Johannesburg-listed company that mines chrome and PGMs. "It is still a blue-sky industry but we're in this for the long term."

In a shorter timeframe, there's also the question of when substitution of the expensive palladium with the cheaper platinum will occur in the autocatalyst, which limits emissions from the internal combustion engine. "It hasn't happened yet, especially in the gasoline engine," says Pouroulis.

"In China, new regulations may enable car companies to implement catalyst changes more quickly," said Johnson Matthey in its report. "This could allow some domestic automakers to thrift palladium and rhodium, and to accelerate platinum substitution programmes."

Governments may tighten emissions legislation for combustion engines faster after Covid-19 as has happened in China. There may be other shifts not considered before.

Anecdotal evidence from China is that there's a resurgence in the personal car in preference to public transport owing to coronavirus transmission risks.

This may well be temporary; not that that has dimmed the enthusiasm of Mike Jones, president and CEO of Platinum Group Metals, which is in a joint venture with Impala Platinum and HIC Holdings on a palladium project in Limpopo.

Car purchases were greater in April this year than in April 2019, he said in a 15 May conference call with investors. "We think the car is going to have a big resurgence." ■

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IRON ORE PRICES MAY TUMBLE ON EXPECTED RECESSION

Increased iron ore supply in the second half of the year will likely place pressure on the price of the steel ingredient.

Assore may have brought the curtain down on 70 years of trading on the JSE this month, but there's still much on offer in terms of the iron ore market exposure it brought investors: African Rainbow Minerals, Exxaro, Kumba Iron Ore and Anglo American all reflect what's currently going on for the steel-making ingredient.

Iron ore is an interesting mineral in mining's universe because of its close correlation to industrial activity and infrastructural spend. For instance, the current sky-high valuation of Kumba Iron Ore is reflective of how China – which comprises more than half of iron ore consumption – has emerged from its Covid-19 lockdown.

China's recovery and the relatively locked-down state of the rest of the supply-side of the economy in Brazil, Australia and SA – the major iron ore producers – have sent iron ore prices rocketing to above $90/t. Shares in Kumba, in which Anglo has a 70% stake, are at a year-to-date high.

But it would be folly for investors to follow Kumba, or other iron ore producers, much further in its upwards trajectory, according to analysts at Renaissance Capital. They think the iron ore price could slide a third to about $65/t by the fourth quarter.

"We believe a severe Covid-19-induced global economic recession, combined with iron ore supply growth in the second half of the year, could put pressure on iron ore prices," the authors of the Renaissance Capital report said. Earnings could also feel pressure from strengthening producer currencies – as seen in SA's rand-dollar exchange rate lately – as well as rising shipping rates and oil prices, the latter off record lows.

The Kolomela mine near Postmasburg in the Northern Cape is operated by Anglo American group company Kumba Iron Ore.

Photo: Anglo American

This is potentially bad news for Anglo, which is exposed to global recession on several major fronts.

Normally, the group's production of platinum group metals and diamonds provides comforting diversification when bulk minerals are under pressure. Consumer demand, however, is expected to take longer to recover in this downturn.

So, heavy iron ore declines are decidedly unhelpful. According to Renaissance Capital, the one-third iron ore price decline alone will take Anglo's share earnings down 46% from the current $2.74/share at the current iron ore spot price.

That's heavy and is reflected in other miners such as Exxaro Resources, a company which – in the absence of strong thermal coal prices – relies on investment income from Sishen Iron Ore Company, one of Kumba's operating subsidiaries in which Exxaro has a 20% stake. Its earnings could fall 30%. ■

market place

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FUND IN FOCUS: AUTUS PRIME GLOBAL EQUITY FEEDER FUND

By Timothy Rangongo

Stock selection skewed to new-generation companies

A four-pronged approach to choosing shares has delivered solid results for investors.

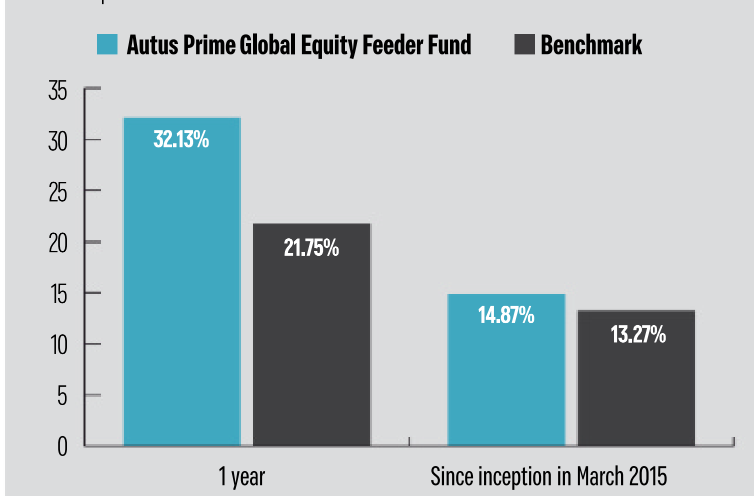
FUND INFORMATION:

Benchmark:	MSCI All Country World Index Total Return
Fund manager:	Dawie Conradie
Fund classification:	Global – Equity – General
Total investment charge:	2.35%
Fund size:	R229.6m
Minimum lump sum/ subsequent investment:	R50 000/R500
Contact details:	021 913 9301/afminfo@autus.co.za

TOP 10 EQUITY HOLDINGS AS AT 30 APRIL 2020:

1	Mastercard	5.32%
2	Visa	5.29%
3	Alphabet	5.13%
4	Microsoft	4.97%
5	Amazon	4.96%
6	Alibaba	4.62%
7	Tencent	3.92%
8	BlackRock	3.09%
9	Ping An	2.92%
10	Facebook	2.78%
	TOTAL	**43%**

PERFORMANCE (ANNUALISED AFTER FEES)



Fund manager insights:

Autus Fund Managers' global equity fund aims to provide capital growth over the long term. At the end of April, a little over 90% of the fund's assets were allocated to offshore equities, which are picked through a four-pillar-based, bottom-up fundamental analysis taking into consideration research; the business model; management; and economic, social and governance issues.

The fund focuses on companies with a global footprint and worldwide earnings, annuity income, strong cash flows, low debt and a low probability of incurring bad debts. The fund prefers companies with little need for external capital to grow the business, but that hold cash reserves on the balance sheet and have easily understandable business models and excellent management.

A company that adheres to the aforementioned criteria, according to the investment team, is Chinese-listed Ping An Insurance Group (which has 27 subsidiaries, including Ping An Health Insurance Company of China, in which SA's Discovery is invested).

The Ping An conglomerate, whose subsidiaries mainly deal with insurance, banking, and financial services, is ranked seventh on the Forbes Global 2 000 list and 29th on the Fortune Global 500 list. The insurance arm was selected for the 2019 Dow Jones Sustainability Emerging Markets Index (DJSI).

The fund aims to limit maximum exposure to any share at 5% of the portfolio (and takes profit if it exceeds 5%). It is rarely fully invested and has so far managed considerable outperformance, holding on average more than 10% in cash to benefit from buying opportunities.

"We aim to invest smaller holdings in new-generation companies offering value over the long term. A good example is Shopify, which was bought initially at less than $98 and is currently trading at just more than $754. As the price increased, we took profit and kept the exposure at less than the current 2% of the fund," says Dawie Conradie, leader of the fund management team.

"A great company is only an excellent investment if you pay the right price for it," he says. In April, after the effects of the global pandemic became a bit clearer, the fund reduced exposure to equities deemed too expensive under current conditions. As a result, stocks such as Berkshire Hathaway, Target, Royal Dutch Shell and Siemens were sold. But, Conradie says, "we stand ready to invest in them again when the right prices are presented to us".

Why *finweek* would consider adding it:

The fund has performed well in upswings and similarly managed to protect capital in market drawdowns. The portfolio is well-diversified and offers exposure to global companies with a minimum need for external capital to grow the business. ■

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HOSPITAL GROUPS BUY SELL CAU-TION

By Simon Brown

Pandemic infects outlook

In this issue's *Simon Says* (see p.18), I write about Aspen Pharmacare as a drug manufacturer offering value. But hospital groups are struggling during the coronavirus lockdown. "Bed nights" are down as elective surgeries are being delayed. These surgeries have typically been large drivers of bed nights. With high fixed costs, lower bed nights can quickly turn a profit into a loss-making situation.

Furthermore, personal protective equipment requirements for staff and patients are adding to hospitals' costs, especially as prices for these products have surged in recent months. Many hospital groups also have secondary businesses in the medical device industry and while this is a non-cyclical sector, orders are being cancelled as the industry goes into cautionary mode.

Another risk is that as the pandemic spreads and beds fill up, will private hospitals be able to charge their normal rates for each bed night? Will we see government requisitioning beds for state patients on a cost basis rather than at usual margins? So, a sector that one would think may benefit from a pandemic is actually finding it very tough going for the next year or more. ■

Last trade ideas

- CAU-TION — Mining, *21 May issue*
- CAU-TION — Food Retail, *7 May issue*
- BUY — Diverse ETF, *2 April issue*
- BUY — Grindrod Preference Shares, *19 March issue*

DISTELL BUY SELL HOLD

By Moxima Gama

Toasting to lifting of liquor ban

Distell is a producer and marketer of spirits, fine wines, ciders and ready-to-drink beverages. It produces brands such as Hunter's Dry, Nederburg, JC le Roux and Klipdrift, among others.

At the start of the ban on alcohol sales during the lockdown, Distell warned shareholders that its profits were likely to plunge by 80%. Mid-May the company announced on a much lighter note that the easing of agricultural export regulations under level 4 will allow it to process about R440m worth of open orders.

On 24 May President Cyril Ramaphosa said he intended to lift the government's controversial ban on the sale of liquor for home consumption from the beginning of June – Distell's share price gained 6% on 25 May. Though the company mentioned in a trade update earlier in May that earnings are likely to be as much as 65% lower for the year through June, that figure is much better than the 80% they had originally anticipated.

How to trade it:

Distell is currently trading sideways between 8 500c/share and 6 500c/share. It's been encountering resistance at 8 500c/share for the past month and fell to an all-time low at 6 000c/share during the lockdown. It has now formed rising bottoms towards resistance at 8 500c/share – a sign of increasing buying appetite. Therefore, breaching that level would trigger a good buy signal, with potential upside to 10 510c/share. Stay long above that level as the next resistance would be at 12 380c/share.

If Distell encounters major resistance at 8 500c/share, sellers could return and push the share price back to 6 500c/share. Breaching that level could see the stock retest its all-time low at 6 000c/share. ■

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At the start of the ban on alcohol sales, Distell warned shareholders that its profits were likely to plunge by 80%.

Last trade ideas

- BUY — Sasol, *21 May issue*
- BUY — Pan African Resources, *7 May issue*
- BUY — Datatec, *2 April issue*
- BUY — Aspen Pharmacare, *19 March issue*

Photos: Gallo/Getty Images | distell.co.za

By Moxima Gama

MTN

Gap could be closing

MTN, the largest locally-listed mobile operator by subscribers, announced increased service revenue and earnings before interest, tax, depreciation and amortisation (ebitda) for the quarter ending 31 March. The company saw its global subscriber base growing by 6.6m to 257.3m and its ebitda margin increasing from 41.1% to 43.2%, according to a Sens announcement. "The Covid-19 situation is an evolving one and will undoubtedly affect the year ahead," group CEO Rob Shuter said.

52-week range:	R26.25 - R114.45
Price/earnings ratio:	11.30
1-year total return:	-42.75%
Market capitalisation:	R98.15bn
Earnings per share:	R4.61
Dividend yield:	10.56%
Average volume over 30 days:	10 286 790

SOURCE: IRESS

SOURCE:MetaStock Pro (Reuters)

Outlook: In March this year MTN gapped through support at 6 905c/share – losing more than 50% of its value on the JSE for 2020 – triggered by the huge global market sell-off. It landed on a low at 2 625c/share, held there and has since recovered some of its losses. MTN's share price has been range bound between 4 200c/share and 5 825c/share for the five weeks through 24 May. At current levels, speculators believe MTN is undervalued and cheap – the charts concur.

On the charts: MTN has been forming rising bottoms from its low at 2 625c/share and is currently encountering resistance at 5 825c/share. Breaching that level could attract further buying momentum in the short to medium term.

Go long: A buying opportunity would be presented at any level above 5 825c/share. Because MTN gapped through 6 905c/share in March, and gaps are often closed, upside towards 7 300c/share is possible. Above that, the share price could retest either the 9 300c/share mark or the resistance trendline of its bear trend. A positive breakout of this bear trend would be confirmed above 11 445c/share – in this instance stay long.

Go short: A reversal through 4 200c/share could see the share price capitulate back to support at 2 625c/share. MTN's all-time low, which was last tested in September 2009, is situated at 820c/share. ■

NASPERS

Breakout confirmed

Naspers* has reclaimed all its losses from the global Covid-19 sell-off, even testing new highs (from the new levels established after the spin-off). In April, Naspers completed its R22.4bn share buyback programme. The group sold R30.6bn worth of shares in its Amsterdam-listed Prosus with the intention to repatriate the proceeds to South Africa to buy back its own shares. When a company buys back its shares, it's because it believes the market has discounted them too steeply. It then uses that money to invest in itself and improve its financial ratios. Naspers is expected to release its full-year results on 19 June.

52-week range:	R1843.80 - R3277.70
Price/earnings ratio:	29.03
1-year total return:	42.11%
Market capitalisation:	R1.32tr
Earnings per share:	R6.00
Dividend yield:	0.24%
Average volume over 30 days:	1 200 944

SOURCE: IRESS

SOURCE:MetaStock Pro (Reuters)

Outlook: Naspers has maintained its long-term bull trend, which commenced in 2014. By 2015 it had returned 82% over 12 months and was hitting psychological levels at 200 000c/share. Naspers' share price continued to fall towards the support trendline of its long-term bull trend – where it bounced and consolidated in the form of an inverted head-and-shoulders pattern.

On the charts: Naspers has been consolidating in the form of an inverted head-and-shoulders formation (a bullish pattern) for the past two years. It recently breached the neckline of the pattern and confirmed a positive breakout above 273 675c/share.

Go long: With the three-week relative strength index (3W RSI) in mega-overbought territory, a near-term pull-back is in the offing. Naspers could fall back towards 273 675c/share, where it should hold and recover. If so, go long at any level above 273 675c/share after the anticipated pull-back. The medium-term target of the bullish pattern is situated at 373 095c/share.

Go short: Refrain from going long if the pull-back should extend below 273 675c/share. Downside below 255 480c/share would mark a false break through the neckline. Selling towards 223 115c/share could continue. ■

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

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

By Simon Brown

INVESTMENT STRATEGY

How to navigate the unknown

Investors simply don't have the data – or expertise – to traverse the uncertainty of the Covid-19 pandemic and make informed investment decisions. Realising this is the first step to protecting your portfolio.

I've been re-reading a few of the columns I have written over the years, focusing on those that look at the older (more experienced) long-term investors in order to try and get an idea of how they handle a crisis filled with severe uncertainty. In the process I came across an old quote by Warren Buffett in a 1996 annual letter.

"What an investor needs is the ability to correctly evaluate selected businesses. Note that word 'selected': You don't have to be an expert on every company, or even many. You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital."

This piece of advice from Buffett apparently originated from a comment by IBM founder Tom Watson, who said: "I'm no genius. I'm smart in spots – but I stay around those spots."

All of this got me thinking about how us long-term investors should manage our portfolios during this incredibly uncertain time filled with a host of unknowns.

The problem is that we know so very little about the Covid-19 pandemic, as all the data we have is less than five months' worth. If I showed you a company to invest in, and only this amount of data, you'd rightly ask for more. A lot more.

But this is the reality we find ourselves in – we simply have very limited data.

This hasn't stopped many from forming opinions about how we should be responding. But those opinions are largely worthless, especially when they're actually tainted by broader political and life views. As far as the pandemic goes, I really only listen to epidemiologists – and even they admit we're working in the dark right now. Any projections are, at best, informed guesses.

But pandemic or not, we're still long-term investors and we have to make decisions on what to buy, sell or whether cash is the best place to hide.

So, we should start by defining our true "circle of competence" and accepting that, for most of us, that circle excludes epidemiology, which means we're investing blind and will continue to do so for some time – likely well into 2021, if not even 2022.

That brings me to the million-dollar question: How do we then invest when we're flying blind during the first true pandemic to be experienced in a century?

As I've explained in my columns as this crisis has taken over, I've been avoiding all individual stocks and only been buying diverse global exchange-traded funds (ETFs). Secondly, as I wrote back in early March, I had a hard look at my portfolio and exited a few positions in stocks I thought would seriously struggle. Now, make no mistake: I underestimated the severity of the pandemic and aggressive selling in more of my stocks would have served me well. But that's the beauty of hindsight, and it's of no use to an investor.

What then of the future? I remain very cautious during this uncertainty. Fixed income, such as government retail bonds, remains attractive. (I wrote about this in the 7 May issue, notwithstanding that these bonds' rates dropped from 11.5% to 10%.)

I'm also looking at structured products that offer 100% capital guarantees, as well as some put options over the Top 40 that will appreciate in value if the index falls. We've run hard off the lows from March, and a put warrant such as TOPSBZ* only expires in December and works as an insurance policy in case markets take a turn for the worse during the rest of the year.

The reality is that my circle of expertise doesn't help me know what the market will do due to the pandemic.

So, I'm keeping it very simple by hunting for yield and looking to survive rather than thrive. And buying some downside insurance to further protect my portfolio. ■

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The writer owns units in the TOPSBZ warrant.

I underestimated the severity of the pandemic and aggressive selling in more of my stocks would have served me well.

Photo: Shutterstock

By Schalk Louw

OFFSHORE

Should investors join the rush?

Before making the decision to invest offshore, you need to make sure the move is based on sound reasoning, advises Schalk Louw. This is the first column of his two-part series on the topic.

If Covid-19 has taught us anything, it's that many of us tend to act impulsively and without getting the facts. The ridiculous rush to collect as much toilet paper as possible when things started to get to a boiling point in March is a typical example. Before then, toilet paper was just another item on your standard monthly shopping list, but certainly not the only thing.

Pretty much the same can be said for offshore investments. Many people don't even consider an offshore investment as part of their investment needs until the rand takes a nosedive, and then, without proper research or expert advice, they invest impulsively without giving any thought to the products and currencies they choose.

Why should I invest offshore?

The reality is that an offshore investment should always be on your investment to-do list, and the main reason for this is diversification, both by asset class and currency.

In terms of currency, the benefits are obvious: to protect yourself against the depreciation of the rand. Sadly, as South Africans, we are quite familiar with political instability, though this is not unique to South Africa. Add to this, among other things, inflation and interest rate concerns, and negative perceptions about the country and you have a recipe for rand volatility. By diversifying your investments across the currencies of several developed countries, you should benefit from the rand's decline in value over the longer term.

Another aspect to consider is that certain factors that affect certain sectors are unique to SA. When we consider the local banking sector, for example, it's affected by elements such as interest rates, risk and local consumers' levels of indebtedness. This causes the local banking sector to often behave quite differently to its offshore counterparts. Therefore, by investing in similar sectors offshore, you will essentially gain exposure to all the relevant industry sectors with their accompanying levels of risk, returns and business cycles.

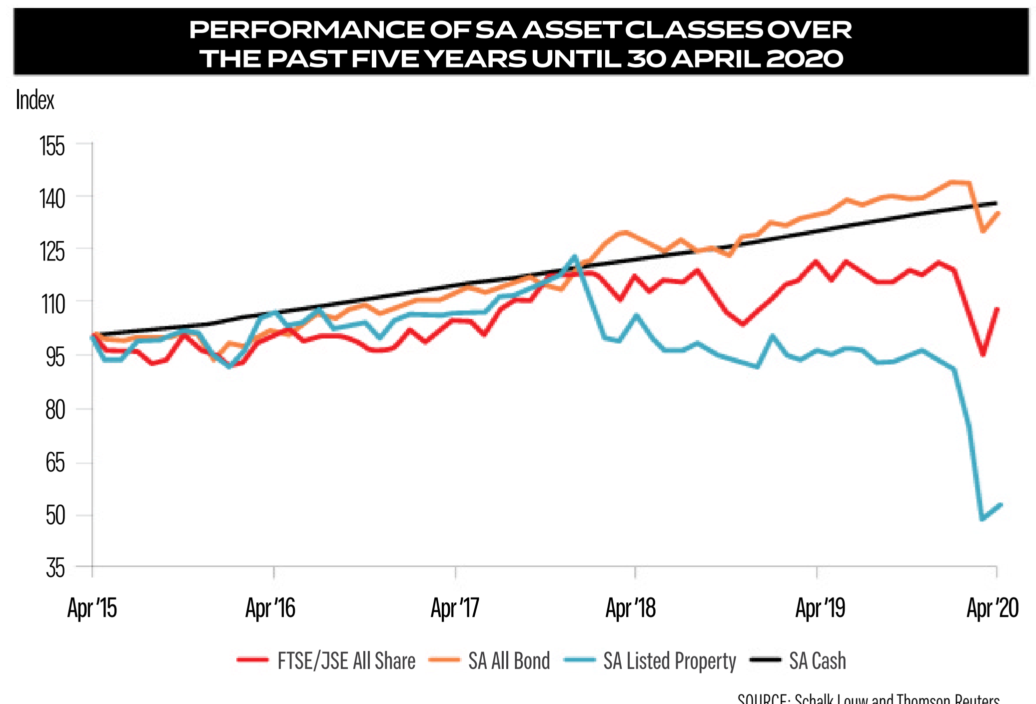
Furthermore, the tax clearance process has become much simpler, and individuals may now invest up to R1m offshore without obtaining a tax clearance certificate, and up to R10m with tax clearance.

How much?

There are countless opinions on what the optimum amount to invest offshore is. This mainly depends on the level of risk you are willing, and able, to take, along with what you can afford to invest offshore.

You can also consider the impact of exchange rates on your living expenses. For example, are exchange rates likely to affect the cost of running your motor vehicle and do you travel overseas regularly? If so, you should invest offshore at least to the extent that you want to hedge against prices that will rise because of currency depreciations.

PERFORMANCE OF SA ASSET CLASSES OVER THE PAST FIVE YEARS UNTIL 30 APRIL 2020



SOURCE: Schalk Louw and Thomson Reuters

If you had invested 100% of your capital in the ACWI, your investment would have underperformed inflation 31% of the time over a 60-month (or five-year) rolling period.

The truth is that SA asset classes in general, relative to their international peers, are performing poorly, with none of the local asset classes (local shares, bonds or property shares) having been able to outperform the local money market over the past five years (until the end of April 2020).

It is for precisely this reason that ever more financial advisers are encouraging their clients to invest literally all of their capital offshore. But the fact is that our local market hasn't always performed this poorly. If we look at the data at our disposal since the end of 2000, we will see that in rand terms, the MSCI All Country World Index (ACWI) has grown by 9.7% per year (until 30 April 2020), while the FTSE/JSE All Share Index (JSE) has grown by 13.3% per year (see graph). If you had invested 100% of your capital in the ACWI, your investment would have underperformed inflation 31% of the time over a 60-month (or five-year) rolling period.

Regulation 28 of the Pension Funds Act, however, currently restricts offshore exposure to 30%.

Things looked much rosier for investors who invested their capital 50/50 in each of the above indices as it would have delivered returns of 11.7% per year, but more importantly, would have underperformed inflation only 4.6% of the time over a five-year rolling period over this period. ■

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The second instalment of Schalk Louw's offshore investing advice will be published in the upcoming (25 June) issue of finweek.

Schalk Louw is a portfolio manager at PSG Wealth.

Photo: Gallo/Getty Images

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown, is *finweek*'s resident expert on the stock markets. In this column he provides insight into recent market developments.

GRAND PARADE INVESTMENTS

Burger King deal uncertainty

Grand Parade Investments said on 21 May that it is "renegotiating the terms and conditions" of the disposal of Burger King. In other words, they are probably talking about a lower selling price for the business. We're going to see a lot more deals delayed or cancelled, especially in the leisure space, as revenue has collapsed due to the economic lockdown and questions remain about when it will return to pre-lockdown levels.

TENCENT

Gaming boost to local indices

Tencent's results for the first quarter of its 2020 financial year saw a 19% jump in gaming subscriptions, while overall group revenue was 26% higher. Hardly surprising as we've seen gaming boom during the lockdown. The move in Tencent pushed Prosus and Naspers* to all-time highs. With these two stocks still representing over 25% of the FTSE/JSE Top 40 Index, and almost 40% of the capped FTSE/JSE Industrial 25 Index, both indices were pushed higher. This also belies the general strength of locally-listed stocks, as much of the recent run higher was on the back of these two shares and their concentration on gaming in general and China specifically.

ASPEN PHARMACARE

A cheapie in the lockdown

Pharmaceutical manufacturer Aspen Pharmacare recently reaffirmed a March update in which it expected normalised headline earnings per share (HEPS) for the full year through June to be higher than the R13.50 it recorded in 2019. That's something I didn't expect, even as Aspen operates in the healthcare space. For instance, private hospital group Life Healthcare's earnings per share (EPS) for the six months ending March jumped 12%, but the company expects full-year EPS to decline by 20%. This shows how tough the pandemic is on the hospital groups. So, the drug space is the better area for listed companies and while Aspen's share price ran to around R135, the forward price-to-earnings (P/E) ratio is ten times on HEPS of 1 350c and the stock still offers value, especially in a Covid-19 world with very few stocks looking cheap.

Tencent's results for the first quarter of its 2020 financial year saw a

19%

jump in gaming subscriptions.

BARLOWORLD

Tongaat deal turns sour

Barloworld, which would have bought Tongaat Hulett's starch business, is now trying to pull out of the transaction, claiming the pandemic has triggered a "material adverse clause" that allows it to exit the deal. Tongaat has rejected the idea, saying the transaction must go ahead – I suspect the courts will have to decide. Either way, deals taking place under this pandemic are unlikely to happen and those proposed before the pandemic are even less likely to go ahead. I agree that there has been a material adverse event due to the pandemic-induced economic lockdowns.

LIBERTY TWO DEGREES

Mall carnage

Liberty Two Degrees (L2D), following its annual general meeting on 20 May, issued an operational update that gives lots of details as to how retail is operating now. It said that about 60% to 70% of lettable space in its malls is now open, with the exceptions mostly being restaurants that remain closed. It also said foot traffic has returned to around 60% of what it was before the lockdown. Rentals, however, are not fairing as well, with only 38.2% of full rentals paid in April and a slightly better 43% so far in May. This suggests that many of the now open stores are still not paying rentals because they simply can't after five weeks of no sales during level 5. It is going to be an awfully long road back for shopping centres. Sure, the economy is starting to slowly open, but retailers are still under pressure, many will not survive, and new stores are going to be extremely hard to find as consumer confidence remains battered. Nobody wants to open a new store or start a new business under these conditions.

Photos: Archive | Supplied

RICHEMONT

Preserving cash at all costs

Richemont results to the end of March saw fourth-quarter sales down 18% with sales from Hong Kong and China 67% lower for the quarter on the back of China's lockdown, which started in early February. This gives us some clue as to what we can expect from their sales in the rest of the world for the three months ending June – as other countries' lockdowns started later than China's. Of note was the statement around the dividend that said, "potential shareholder equity-based loyalty scheme being considered". Later, Richemont specified that this would potentially be a warrant (option) instead of a dividend payment. A warrant is the right to buy shares at a set price with an expiry date. Let's assume the expiry date is far enough into the future to not be an issue. Thus, what Richemont is suggesting is that a shareholder will buy and pay for more shares instead of receiving a cash dividend or sell the option on the market. If you take up the option shares, Richemont will be the seller of those shares, which makes it essentially a capital raise for the company. This even as Richemont sits with €2.39bn in cash. For a shareholder it should be simple: "Give me the cash dividend. If I wanted a warrant, I'd buy one." Meanwhile, in addition to their results announcing a possible non-cash option for their dividend, Richemont has raised €2bn of debt on the bond market. With an already cash-flush balance sheet, the company has really battened down the hatches, seemingly in expectation of a tough couple of years.

COMMODITIES

The PGM puzzle

Most commodity prices have remained surprisingly strong during the pandemic (with oil largely the exception) and I suspect there are two drivers at play here. The first is that mines across the world are mostly not operating at 100% capacity. This means that there is less supply coming onto the market, even as the demand has also dropped. Secondly, large infrastructure builds are surely going to be a part of governments' responses to the pandemic and this will see demand for industrial commodities soaring. The risks are of course that governments are going to be cash-strapped after more direct support to companies and individuals. The resilience of platinum group metals (PGMs) does, however, confuse me. Vehicle sales across the globe have collapsed, with consumer confidence a long way from returning. Add to this the chapter 11-bankruptcy of rental giant Hertz, which could see its fleet of 400 000 used cars flood the second-hand market, and PGM demand must be at the lowest it has been in years with little prospects of recovering any time soon. So, either supply has collapsed (which is possible) or prices are based on a quick recovery, which I consider unlikely in this space.

> Nedbank has rescheduled R81bn of corporate and private debt. This is a large number as it is equal to more than 10% of its total loans.

NEDBANK

Update throws light on debt

Nedbank also gave an insightful trading update, with the main take-away being the comment that "forecasting in the current environment is complex and subject to a much higher degree of forecast risk than usual". This is the key point about operating during the first pandemic in over a century: uncertainty rules. That said, Nedbank is seeing impairments moving to the top end of its target range, which is a good stat considering that it is still early days. To manage impairments, the group has rescheduled R81bn of corporate and private debt. This is a large number as it is equal to more than 10% of its total loans and advances worth R764bn. Even while it's rescheduled, a lot of this debt could still default as individuals and businesses come under continued financial pressure.

DIS-CHEM

A baby boom?

Dis-Chem announced the acquisition of 100% of Baby City for R430m on 15 May. Profit was not disclosed, but revenue for the year ending February was R855m. Dis-Chem's net profit margin is 24% and, if that holds for Baby City too, it would mean over R20m in profit and a P/E of 21.5 times. This is expensive but lower than Dis-Chem's P/E of over 30 times. I would also think that baby products are highly competitive but equally inelastic, with some 900 000 births a year in South Africa. Overall, this is a good-looking deal for the group. ■

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

Photos: Archive | babycity.co.za

By Maarten Mittner

US MARKETS

The QE path can be much bumpier this time around

US government debt is ballooning and is set to increase exponentially. Measures taken to address this will be felt worldwide.

In 2009, the US Federal Reserve (Fed) in effect saved the world by embarking on a massive programme of monetary stimulus, called quantitative easing (QE), and so – through its extended money-printing and -buying programme – prevented a global depression from taking hold.

With the onset of the coronavirus pandemic in 2020, the Fed has embarked on precisely the same path, initiating an initial $700bn bond buyback, this time in conjunction with fiscal measures from the US Congress. More has been promised.

In total, about $3tr has been pumped into the US economy at a time when the GDP could fall 30%, in the same way it did during the Great Depression of the 1930s, and as its unemployment has already ballooned to nearly 15% from below 4% at the beginning of the year.

As a result, total US debt is set to balloon further. To mitigate the debt surge, the Fed is banking on a huge turnaround in economic growth. Fed chairman Jerome Powell predicts a strong recovery in the US economy already in the third quarter of this year.

There are, however, some factors that may make the growth road ahead much bumpier than in 2009. For one, in 2009 the global economy was fully committed to globalisation and open trade between all countries, through which growth could be boosted. Now globalisation is under threat, thanks to President Donald Trump's protectionist policies. And recently China slapped tariffs of 80% on Australian exports.

It is unclear what the sources of a future surge in growth will be, especially while the dollar is expected to remain strong. The stronger dollar is linked to the disjointed US tax structure. Corporate tax in the US only totals about 9% of all federal taxes collected, compared with 17% in SA. Individual US taxes amount to 41% and payroll taxes to 40%.

That means little redress on the fiscal side is to be expected in the US.

Social unrest is another real threat in the US, as Trump's tax reforms have done little to benefit the average American. Corporate America has been the great winner, with the corporate tax rate now at 21%, down from 35%. But, effectively, corporate America pays extraordinarily little tax in the US, as the country has a residence-based tax system, meaning global profits from companies are only taxed when it is brought back into the US.

Wealth disparities have increased markedly, coinciding with the decimation of the middle class. In 1970, the share of income earned by the richest 1% was 8%. Today it is 40%. In the 1920s, before the Great Depression, the comparable figure was 20%.

The US looks particularly vulnerable at present. Its huge total debt of

$20tr

or 103% of GDP is set to increase exponentially over the next few years.

Photo: Shutterstock

The spread of multinational companies' global reach resulted in trillions of dollars being kept in global tax havens such as Ireland, Bermuda and Switzerland, where tax rates are much lower. This "stateless income" is mostly owned by individuals and shareholders on Wall Street. The American federal state benefits little in the form of tax receipts.

Tax havens have the potential of inherently destabilising the world order. The Organisation for Economic Cooperation and Development (OECD) has recognised this by introducing the base erosion and profit shifting (Beps) action plan initiative whereby individual countries are set to benefit more by taxing multinational profits at the point where the value is created. At present, little of the profits made internally benefits the host country, apart from some job creation.

The aggressive linkage of local profits to intellectual property, as well as widespread internal tax deductions available to companies, results in the repatriation of profits to tax havens. Any investment by a global multinational in any individual country is mostly tax-deductible. And with developments such as e-commerce and digital currencies offering new challenges, countries are struggling to widen the local tax base.

American power in the world has faded over the past few decades. In 1945, after World War II, US GDP represented 52% of the world's total. In 1970 it amounted to 25%. In 2015 it was 15% and is set to fall to 13% in 2024. China's economic miracle represents 18% of world GDP in 2015 and is set to rise further.

The US looks particularly vulnerable at present. Its huge total debt of $20tr or 103% of GDP is set to increase exponentially over the next few years, with little on the horizon to indicate this will change for the better.

But take note: When tensions with China rises, the dollar as the world's reserve currency still strengthens. When conditions in the US economy improve, Wall Street benefits, as the 30% recovery in the Dow Jones Index in April illustrates. And the US 10-year treasury remains the world's greatest safe-haven investment. American entrepreneurship is still an important part of life, with Apple, Amazon, Google and Facebook potent trademarks worldwide.

So, the US will remain a force on the global stage. However, the present reality is that the US economy is built on debt. How the US reacts to this challenge will affect markets worldwide. ■

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by Lucas de Lange

JSE

All Share not as firm as it seems

... most local shares in fact look sickly.

While the JSE's All Share Index showed a recovery of more than 30% since reaching a low on 19 March, the latest tables showing the shares that are lying above their 200-day exponential moving averages (EMAs) tell a different, more sombre story. It's mainly owing to the large international rand-hedge stocks, whose prices are determined elsewhere, and to the commodity groups, that the index appears so firm.

Should these shares be eliminated from the 100 largest shares by market cap, the rest of the index looks sickly; only 6% lie above their 200-day EMAs compared with the 19% seen in the table. Turning to the list of weakest shares, the percentages of prices below their 200-day EMAs are exceptionally high. This probably reflects the anguish that investors and companies have to deal with.

Results that have recently been published confirm this trend. Ranging from Investec to Tiger Brands, not only are weaker profits being encountered, but the difficult outlook for business is being emphasised. As Theo Vorster, CEO of Galileo Capital, puts it: There is still a lot of bad news on the way. One economist, Professor Johan Willemse of Agrimark Consultants, believes that the contraction of the economy will reach a frightening 12%. This is about twice as much as most predictions.

But there are also those who see opportunities that may be had. Hendrik du Toit, CEO of Ninety One, sees a gap for the discretionary asset managers of unit trusts now that exchange-traded funds (ETFs) are locked in indices that contain many struggling companies. His organisation, he says, will position itself behind those companies that will benefit from the coronavirus over the coming 18 to 24 months.

There are, undoubtedly, opportunities to be had. Prosus, which has been unbundled from Naspers*, is a good example. It has strengthened by about 84% since reaching a low on 19 March, before a slight correction took place. The reason for its strong run is the success of the Chinese Tencent Group, in which it has an interest of 31%. An example of how Tencent's online sales have flourished in the midst of a crisis that forces people to stay home, is the video game *Fortnite*, in which it has an interest. Worldwide, *Fortnite* already has more than 350m users.

Then there is the 4th Industrial Revolution Fund of the listed Sygnia Group. This is an ETF aimed at companies that spearhead new technologies and other developments. The fund has increased by 60% since the beginning of the year, while nearly all the other unit trusts are battling with painful losses.

Locally, there are a few companies, such as Clicks and Dis-Chem, that are benefitting greatly from the crisis. In addition, there is something else working in their favour. Both are involved in large expansion plans and a problem they often face is finding the right premises. But with so many businesses being ruined, not only are more sought-after premises becoming available, but favourable leases can also be negotiated with property management companies.

The pain being experienced by investors in local companies is apparent in how far share prices lie below their 200-day EMAs on the long list of the weakest shares. Tsogo Sun is by far the weakest at -82%, followed by more than half the list lying below -20%.

Among the strongest shares, gold counters are still king with the risky DRDGOLD at the very top. It's notable that platinum shares are no longer creating much excitement.

Among the shares that have broken through, Cartrack and the JSE Group look interesting. Both are supported by a rising price/volume trend**, which is often an indication of buying pressure. ■

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

*** The price/volume trend is calculated by multiplying the percentage change in the price by the volume and by indicating the result graphically. A small change in the price, but supported by exceptional volume, will, for example, provide a noticeable buy or sell signal.*

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

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
TSOGO SUN	-82.1
BRAIT	-75.6
PPC	-73.3
ADCORP	-69
HAMMERSON	-63.7
SASOL	-62.3
REDEFINE	-61.6
TELKOM	-53.6
INVESTEC PLC	-52
MASSMART	-51.4
NEDBANK	-49.5
TFG	-46.7
KAP	-44.8
STANDARD BANK	-36.8
ABSA GROUP	-36.8
PEPKOR HOLDINGS	-36
REUNERT	-34.2
SAPPI	-33.9
GROWTHPOINT	-32.6
TRUWORTHS	-32.3
MAS REAL ESTATE	-31.8
BARLOWORLD	-31.3
DISTELL	-30.5
MTN GROUP	-30.2
AB-INBEV	-29.7
WOOLWORTHS	-29.6
FIRSTRAND	-29.4
RESILIENT	-28.8
LIBERTY HOLDINGS	-27.6
CAPITEC	-27.1
LIFE HEALTHCARE	-26.7
OLD MUTUAL	-26.6
RMB HOLDINGS	-25.7
FORTRESS A	-25.5
NETCARE	-25.1
DIS-CHEM	-24
CAPITAL & COUNTIES	-23.2
MR PRICE	-22.7
VIVO	-22
NEPI ROCKCASTLE	-21.3
GLENCORE	-20.7
AECI	-20.5
PSG	-20.4
ITALTILE	-20.3
REMGRO	-20.2
BIDCORP	-19.4
SHOPRITE	-19.3
TIGER BRANDS	-19.3
BIDVEST	-19.2
MC GROUP	-18.7
TRANSACTION CAPITAL	-18.7
ROYAL BAFOKENG PLAT	-18.4
LIBSTAR	-16.5
RCL	-16.3
PSG KONSULT	-16.2

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
PICK N PAY	-16
SANLAM	-15.8
ASTRAL	-14.1
MEDICLINIC	-14.1
IMPERIAL	-13.4
AVI	-13.1
SOUTH32	-12.7
ADCOCK INGRAM	-12.7
RICHEMONT	-11.3
EXXARO	-11.3
EQUITES	-11
DISCOVERY	-10.9
RMI HOLDINGS	-10.5
MOMENTUM METROP	-8.9
CLICKS	-6.3
CORONATION	-6.2
ZAMBEZI PLATINUM PREF	-5.3
ALTRON A	-5.2
SANTAM	-5.1
SPAR	-3.6
ANGLO AMERICAN	-3.3
REINET	-3
QUILTER	-2.5
MONDI	-1.4

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EMA
DRDGOLD	72.4
GOLD FIELDS	44.4
PAN AFRICAN RESOURCES	43.7
ANGLOGOLD ASHANTI	39.7
HARMONY	28
KUMBA IRON ORE	20.9
ASPEN	18.9
NASPERS N	14.3
ASSORE	11.8
BAT	10.4
AMPLATS	9.8
VODACOM	7.7
BHP	7.6
IMPLATS	6.8
ARM	6
SIRIUS	3.9
CARTRACK	3.9
NORTHAM PLATINUM	3.2
JSE	1.2

BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY EMA
CARTRACK	3.9
NORTHAM PLATINUM	3.2
JSE	1.2

**Based on the 100 largest market caps.*

By Simon Brown

PORTFOLIO MANAGEMENT

Utilising a technical approach to fundamental investing

Simon Brown explains how his trading days informed his long-term investment portfolio mechanics.

When I was learning to trade in the 1990s, I tried to put together a technical trading system. But I was all over the place. I would try one technical indicator and then abandon it shortly thereafter for another, and after a year or more of this I had managed to make exactly zero progress. I was frustrated and wondered whether I should just give up.

Then a trader friend gave me some advice that got me back on track in no time. He said that I should just pick my favourite two or three indicators or oscillators and use them together. Using the basic default settings and trigger levels, I now had a system; all I had to do was sit back and wait for a stock to confirm and then enter the trade.

I did exactly that and it worked, albeit the key lesson for me was that this method of trading required a lot of waiting. I wanted multiple triggers every day, but I ended up only getting a few triggers every month. But the quality of those triggers, and hence my profits, was far superior to the messy method I had been using to try and trade.

This strategy still applies to trading, but recently I have been applying this to a long-term investment approach. You need to decide on the fundamental metrics that matter to you and which levels you consider to be an acceptable number. Then, put them all together and wait.

My online stockbroker offers a search facility that makes it easy to scan across the entire market to see which, if any, stock meets my criteria. A particularly useful feature of this search function is that it also enables me to search on a three-year average and this increases the outputs. I like that function as I can filter them out later. The result is a decent list of stocks that have what I count as strong fundamentals across sectors for me to start digging further.

This method is typically called the bottom-up approach, as it is agnostic as to which sectors will end up confirming your requirements. Many investors, myself included, usually work from a top-down approach, whereby we'll focus on a specific sector that we consider to be a great place to invest and then dig around the available listed stocks to decide which is the best in that sector to buy for the long haul.

The bottom-up approach has its benefits as it gets me to look at stocks I would normally never consider. Now sure, I may still walk away, but it does enlarge my potential investment universe.

The question is then which fundamental data points should be included?

I have stuck with the old-fashioned, tried and tested ones. They've survived decades of investor usage. I prefer return-on-equity and would look for a figure of at least above 16%. Debt is always important, so a debt-to-equity ratio is included, and here I'd look for a figure below 50%. Cash is always king, and the easiest measure of cash is a dividend; here I would look for consistent dividend payments that also increase every year.

Another important ratio to consider would be the quick ratio. There is no fast rule about which ratios to use, so any one you really like is worth including as you build your own system.

A last point is that as this bottom-up approach is industry agnostic, you can't include industry specific measures in your initial search. For example, with banks, the cost-to-income and impairment ratios are important, while with miners it is head grade and mineral reserves. You'll have to dive into those numbers after the initial search that sets up your universe of stocks. ■

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Photo: Shutterstock

You need to decide on the fundamental metrics that matter to you and which levels you consider to be an acceptable number. Then, put them all together and wait.

By Peet Serfontein

OFFSHORE

Sprouts Farmers Market healthy despite recession

This share is benefitting from the organic trend.

It is quite common for the word "organic" to pop up in conversation as a healthy lifestyle has become a priority for many of us. When we look at the word "organic", we usually associate it with food produced with the use of fertiliser of plant or animal origin and without using chemically-formulated fertiliser, growth stimulants, antibiotics or pesticides.

Amid the coronavirus lockdown, I wondered what would happen if shops ran out of those freshly picked lettuces. And I see a definite increase in the advertisement of wooden planter boxes as people begin planting their own veggies.

This is where Sprouts Farmers Market caught my eye. The company is listed on the Nasdaq (share code: SFM), and with a share price of $25 it's quite affordable, especially in times of a weak rand. Furthermore, this kind of share could be a good alternative as a hedge against a recession.

Sprouts is one of the fastest-growing retailers in the US, and for close on two decades it has been making a healthy lifestyle affordable for the public.

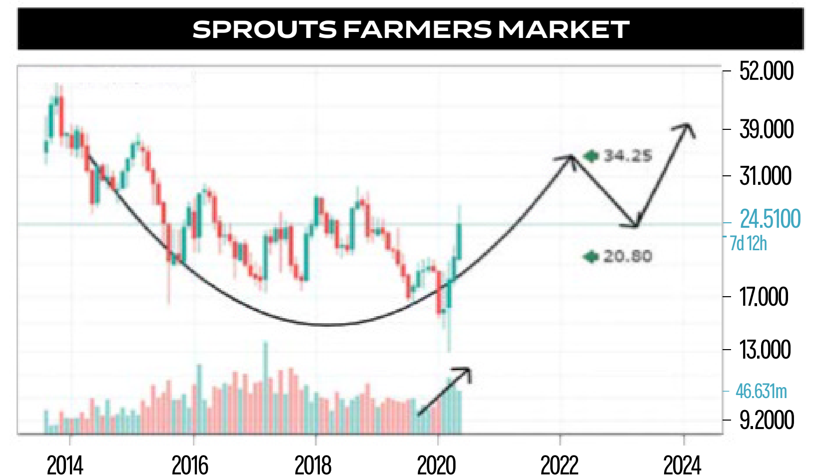
Following the farmers' market heritage, Sprouts is known for its unique grocery store model, which has a shop layout that displays fresh products in the middle of the store, an extensive large foodstuffs section and a vitamin section that focuses on general wellbeing. Sprouts also offers a unique variety of healthier products with special characteristics such as plant-based, gluten-free, keto-friendly and grass-fed products.

There is currently a major disconnect between the world stock exchanges' recent upward price trend and what is in fact really happening in global economies. A state of lockdown cannot be good for any economy. The degree of this disconnect is not going unnoticed and is creating more and more anxiety.

Only time will tell whether the various stimulus packages are going to be adequate for the economies of the world. In these uncertain times, I think going back to simplicity in analyses is best and I try to just interpret the graphs.

52-week range:	$13.00 - $26.84
Price/earnings ratio:	15.40
1-year total return:	18.97%
Market capitalisation:	$2.89bn
Earnings per share:	$1.58
Dividend yield:	-
Average volume over 30 days:	2 807 625

SOURCE: IRESS



SOURCE: Peet Serfontein, published on TradingView.com

Why is the share attractive?

A typical cup-with-handle pattern is developing on the price graph (see black incomplete cup as well as the insert on the graph).

This makes the share attractive as an investment option.

A pattern such as this consists of a drop in the price and an increase back to the original value, followed by a smaller decrease and an increase past the previous high. This is interpreted as an indication that a bull trend is starting to develop with the prospect of possible further increases in the share price.

The cup section of the pattern should be relatively shallow, with a rounded-off or flat underside and preferably the same price at the top point of both sides.

The handle should be about 30% to 50% of the increase at the end of the drawback of the head. The pattern develops over a number of years. The cup section usually develops over a few months to years, while the handle develops over a few weeks to months.

The pattern is regarded as significant if it has a rising price trend, as is currently the case. The green arrow on the insert indicates the development phase of the pattern until now.

Furthermore, the trade volume of the share should decrease together with the price during the development of the cup and then it must increase rapidly at the end of the handle when the price starts to rise. Currently, there is an increased trade volume that supports the price movement.

But should you buy?

The increase in the trade volume of the share indicates interest in the stock. The recent upward trajectory of the on-balance volume (OBV) indicates that money is indeed flowing to the share. The OBV is used in technical analysis to measure buying and selling pressure. If the volume on the upward days is higher than the volume on downward days, then the OBV increases. The basic theory behind the OBV indicator is that volume is leading the price.

Upward potential of the share is currently $34.25 after which I will reduce exposure and wait for the share to first complete the handle portion.

I will classify the buy on the share as speculative as the cup-with-handle pattern is still incomplete. The indication that the share is a hedge against recession is further motivation.

The graph is the long-term monthly graph (logarithmic) of Sprouts' share price.

Upward potential of the share is currently $34.25, after which I will reduce exposure and wait for the share to first complete the handle portion. This profit target almost corresponds to the high reached in November 2013.

Should the price break through below $20.80 you can expect the share to lose even more value. Regard this level as a stop-loss to protect capital. ■

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FINDING BALANCE IN CHOPPY WATERS

South Africa's largest balanced funds are navigating uncertain times while still having to preserve retirement and other savings. Jaco Visser spoke to these funds' managers about the strategies they are employing to stay the course.

By Jaco Visser

Photo: Shutterstock

As the storm in equity markets subsides – hopefully not just temporarily – a thick mist is rolling in among those that manage billions of rand on behalf of savers and retirees. It's an obscuring haze that makes predicting the origin of future returns uncertain.

For instance, will the enormous amounts of cash pumped into the global economy through quantitative easing encourage floundering consumers to spend more? Or will this money flowing into world economies lead to serious inflationary pain for those same consumers in the not-so-distant future? Let's not forget how worldwide inflation in the 1970s and 1980s, coupled with other factors, destroyed the Golden Era of heightened income equality.

And still, investors in funds demand a return above the rate of inflation – although every individual's inflation basket differs from the next based on their needs and wants. This will necessarily inform consumers' expectations of their investment returns – much in the same way as inflation expectations are created.

As markets plummeted in March – and rebounded in April – those invested in balanced funds only had

30%

of their savings hedged against rand weakness.

Enter one of, debatably, the best vessels to save for retirement or future one-off outlays by consumers: the balanced fund, more officially known as the "multi-asset, high-equity sector" of unit trusts. Over the past couple of years, these behemoths have struggled to keep a-tide the force of inflation. Balanced funds typically invest in a multitude of asset classes, ranging from risky assets (stocks and real estate) to income-type instruments (such as bonds and other listed debt).

"A balanced solution has over time delivered the real returns investors require while reducing the volatility experienced," says Graham Tucker, one of the managers of the Old Mutual Balanced Fund, referring to an analysis published in the funds house's *Long Term Perspectives* publication. "We believe this holds true, despite the recent years which have clearly been extremely challenging for local investors."

Coronation Fund Managers' Pieter Koekemoer, head of personal investments, describes the key benefit of the balanced approach as the investor giving a "broader mandate to their chosen fund manager, enabling ongoing management of the assets in an appropriate manner without the investor having to be actively engaged in evaluating changing investment risk and opportunity sets".

The watchman

Typically, balanced funds, as retirement vehicles, need to comply with the government's maximum asset allocation criteria. This is an apparent bid to safeguard investors from managers taking too high a risk in certain asset classes, say shares, for example. The oft-cited Regulation 28 of the Pension Funds Act limits funds earmarked for retirement to a maximum 75% invested in equities, 25% in listed property, 30% offshore (with an additional 10% invested in the rest of Africa) and 10% in hedge funds.

In practice this asset allocation means that many retirement savers were limited in riding the wave of the recent rand depreciation. As markets plummeted in March – and rebounded in April – those invested in balanced funds only had 30% of their savings hedged against rand weakness to benefit from the currency's decline.

While not the only force behind the volatile currency, foreign confidence in South Africa's economic management and view of its political stability can play a role in the rand-dollar exchange rate.

The rand has acted as a shock absorber against poor-performing local assets for those with investments held offshore. This begs the question as to whether the government-imposed asset allocation limits on balanced funds haven't turned into a hurdle for investors looking to hedge their savings against poor economic management and political instability. One can even ask whether these limits aren't obsolete. And there are arguments that the offshore allocation could be raised.

"Our analysis shows that for a typical balanced fund you want, on average, 35% exposure to offshore assets," says Tucker. The inclusion of offshore investments serves two significant purposes in a balanced fund, he says. Firstly, it renders access to "alternative sources of return" that aren't available in the local market and includes different geographies, industries and asset classes, he says. Think, for example, what the local offering of technology stocks looks like and compare this with Alphabet (Google's parent company), Facebook and Apple. Secondly, he says, it offers "risk mitigation". This brings us back to the argument for the rand as hedge.

The wake of the journey

So, has risk mitigation offered the safety of the hull to investors in balanced funds over the past few years? Over the last five years, the FTSE/JSE All Share Index returned a cumulative 6.8%. Up to the end of April, the mean (not average) cumulative returns of the balanced fund sector was 12.11%. Thus, they outperformed the JSE. On an annualised basis, the equity index returned 1.3% whereas the balanced funds returned 2.3%. Both, however, are lower than the consumer price index.

As many financial advisers and fund managers will

Graham Tucker
Fund manager at Old Mutual

Pieter Koekemoer
Head of personal investments at Coronation Fund Managers

William Fraser
Fund manager at Foord Asset Management

Clyde Rossouw
Co-head for quality at Ninety One

warn you upfront, historic returns as a guide to future performance are poor indicators of what a fund may deliver. Like staring through ultra-strong binoculars into the mist. That said, it is all that those saving for retirement or rainy days have at their disposal: historic performance. And we need to see why returns have been lagging inflation over the past five years.

It's a story that starts at the end of the previous financial crisis. And it goes like this.

"Investors have benefitted from the local equity market returns which significantly exceeded expectations prior to the end of 2015, a result of central bank policies after the global financial crisis, Chinese fiscal stimulus that inflated the prices of some commodities, and an increase in domestic demand far outstripping nominal GDP growth as a result of increases in government employment and unsustainable wage increases," says William Fraser, one of the managers of the Foord Balanced Fund.

He also refers to how SA's government debt ballooned from around 20% of GDP to the more than 60% it now stands at. This excessive spending by government – as if it got hold of a credit card with no limits, with taxpayers responsible for the monthly instalment – will now come home to roost.

"Prior period excesses are now in the process of reversing, as debt rises to unsustainable levels, excess savings are withdrawn (note the selling by foreign holders of SA bonds and equities) and the fiscal deficit domestically prevents additional expansionary policies, which were so important in the first half of the previous decade to excess returns for SA Inc businesses," says Fraser.

And this is where the crux for balanced funds' low returns lies. As Clyde Rossouw, co-head for quality at Ninety One, calls domestic equities: it is "typically the 'growth engine' of returns".

"The last five years' returns have disappointed investors, notably the contribution from domestic equities," says Fraser. "But we have seen this before and returns below inflation are not uncommon."

However, with short- and long-term interest rates having fallen to below inflation in many markets, and with short-term rates in SA approaching the local rate of inflation, investors need to allocate "a reasonable portion of their portfolio to real assets", he says.

The global interest rate situation is such that $14tr of government bonds worldwide are trading at negative rates in absolute terms, he says. These real assets refer to equities, commodities and real estate investment trusts, according to him.

"But selection is critical, and avoiding the dinosaurs (is) critical," Fraser says. "The opportunity set in global markets offers more certainty for investors compared to domestic-focused companies."

TOP 20 FUNDS IN THE SA MULTI-ASSET, HIGH-EQUITY SECTOR

POS.	FUND NAME	ASSETS UNDER MANAGEMENT
1	Allan Gray Balanced Fund	R132.45bn
2	Coronation Balanced Plus Fund	R76.82bn
3	Ninety One Opportunity Fund	R48.95bn
4	Foord Balanced Fund	R25.38bn
5	Discovery Balanced Fund	R24.53bn
6	PSG Wealth Moderate Fund of Funds	R19.27bn
7	Prudential Balanced Fund	R18.75bn
8	Ninety One Managed Fund	R17.88bn
9	Old Mutual Balanced Fund	R15.85bn
10	Sanlam Investment Management Balanced Fund	R15.48bn
11	Nedgroup Investments Core Diversified Fund	R13.66bn
12	Old Mutual Multi-Managers Balanced Fund of Funds	R11.71bn
13	10X High Equity Index Fund	R10.15bn
14	PSG Balanced Fund	R7.12bn
15	STANLIB Multi-Manager Balanced Fund	R6.29bn
16	Rezco Value Trend Fund	R5.73bn
17	Momentum Focus 6 Fund of Funds	R4.83bn
18	Satrix Balanced Index Fund	R4.51bn
19	STANLIB Balanced Fund	R3.81bn
20	Marriott Balanced Fund of Funds	R2.37bn

SOURCE: Fundsdata as at 18 May 2020

On the lookout

But where will higher returns for balanced funds come from in future? There are more than 200 of these funds and each has its own investment objective and style. Suffice to say all would aim to preserve capital and require an investment term of five years, preferably seven.

From a local equity point of view, the top 10 balanced funds according to the value of their assets under management, all have Naspers* in their top equity holdings. This stock, together with Prosus, fills the number one equity spot in six of these funds and its allocation among them ranges from 4.6% in the Discovery Balanced Fund and PSG Wealth Moderate Fund of Funds to 15.66% in the Sanlam Investment Management (SIM) Balanced Fund.

"Needless to say, as the largest equity holding, we are very positive about the stock," says Fred White, one of the SIM Balanced Fund's managers. "Its core holding in Tencent continues to exhibit a strong growth profile supported by a platform with a billion users and that helps diversify its revenue sources by naturally attracting other disruptors that (in return for access to the platform) offer Tencent the opportunity to become a partner in even more new technologies or ventures."

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"Many SA companies are also withholding dividends, so bonds will remain an important income source." They offer better returns, after adjusted for risk, than the retail, banking and property sectors.

The stock is also the largest equity holding in the Prudential Balanced Fund.

"It has been a large holding in the fund for some time now, and Tencent's online gaming and other services benefitted from the global lockdowns, especially in China," says Sandile Malinga, joint portfolio manager of the Prudential Balanced Fund. "We continue to hold it for its strong earnings prospects at valuations comparable to other tech giants."

The largest of the balanced funds, the Allan Gray Balanced Fund, has allocated almost 10% of its R132bn under management to Naspers and Prosus. Similarly, the fund also has large allocations to consumer-facing companies British American Tobacco (BAT) and Remgro.

"We think these shares have lots of upside," says Jacques Plaut, one of the fund's managers. First, the impact of the global lockdown on Naspers and BAT will be smaller than for the average company, he says. "In fact, Naspers may even benefit from the lockdown."

Secondly, the valuations of the three stocks are "relatively cheap". BAT is trading at 13 times its free cash flow, Naspers is trading at a 40% discount to the value of its underlying parts, which mainly consists of Tencent, and Remgro is trading at a 30% discount to the value of its underlying holdings (FirstRand, Outsurance and Mediclinic), and these are not cheap, he says.

BAT fills the spot as second-biggest equity holding, after Naspers and Prosus, of six of the ten largest balanced funds and the top spot at three of them.

"BAT is a largely defensive stock given its steady tobacco-based income over time, its new products and its global earnings base, as well as being a beneficiary of rand weakness," says Malinga. The Prudential Balanced Fund's BAT holdings were increased in 2018 on price weakness due to proposed new US regulations, but there haven't been recent increases in this holding, according to him.

Steer clear?

Far removed from defensive stocks lies the listed property sector. Balanced funds allowing for retirement savings can invest up to 25% of their holdings into these companies. The largest allocation to this sector among the ten largest balanced funds is the PSG Wealth Moderate Fund of Funds with 5.7% at the end of March. Of the single-manager funds, the SIM Balanced Fund has 5.36% allocated to listed domestic property.

Are sector funds still relevant?

Sector-specific unit trusts may be declining in numbers, but they can offer benefits for specialised investors.

Specialised sector funds in the unit trust sphere are very old, with some of them being initiated in the 1960s. However, their prominence has faded over the years as more general equity and multi-asset funds started to offer larger differentiation and, in a sense, made retail investors' decisions easier.

These funds traditionally, and to this day, focus on the JSE's resources, financial and industrial sectors. There are 15 of these funds remaining, with exchange-traded funds (through Satrix ETFs) a player in each sector. Their combined assets under management total R7.3bn with the bulk invested in the industrial sector (R3.9bn), followed by resources (R2.2bn) and financials (R1.2bn). (See table on p.30.)

"What makes sector funds attractive is also what leads to their downfall," says Marlo Scholtz, one of the managers of the Sanlam Investment Management Industrial Fund. "When a particular sector is overpriced or out of favour, they will lag on the performance table. Institutions tend to look at the underperforming funds as areas to cut their overall fund portfolio."

In addition, he says, there has been a reduction in the risk appetite from retail investors, which led to a reduction in flows into specialist sector funds.

There remain, however, benefits in investing in these funds. Sector-specific funds are important to those investors, or allocators, who would like a higher allocation to a specific sector than you would typically see in the broader market, or in a typical general equity fund, according to Sangeeth Sewnath, deputy managing director of Ninety One.

The different sectors of the market perform differently at certain stages of the "market evolution", says Scholtz. "Specialised sector funds allow a more sophisticated investor to concentrate their investments on the sector or sectors that are offering more value at any point in time." ■

Sandile Malinga
Fund manager at Prudential Investment Managers

Adrian Zetler
Fund manager at Coronation Fund Managers

Sangeeth Sewnath
Deputy managing director of Ninety One

Photos: Supplied | www.coronation.com

The local listed property sector went into the government-imposed lockdown in a precarious condition. An economic recession, high joblessness, extremely high real interest rates and power cuts across the country placed pressure on local Reits as their tenants struggled to keep afloat. Their Achilles' heel is the oversaturation of shopping centres, especially large regional malls, and their overreliance on these properties for cash flow. As retailers, especially apparel retailers, started to buckle and were forced to close their doors during the government-imposed lockdown in March, listed property's underbelly was exposed.

But as in all other scenarios, a sell-off such as the one seen in this sector, even before the lockdown, may show up opportunities. Scrutiny is, however, a key consideration for those looking at these stocks.

"The Covid-19 pandemic has created the perfect storm for the property stocks," says Adrian Zetler, who helps manage the Coronation Balanced Fund**. "We believe they are cheap, but their heavily geared balance sheets are under massive pressure and we would expect one to two years of dividend holidays to try and repair them. We think there is value, but scrutiny of asset quality, balance sheets and earnings quality are required."

If, in two years' time, distributions from listed property companies can return to levels 25% below their previous highs, the sector will be priced for very real positive returns, says Sanlam's White.

"But the Covid-19 pandemic hangs like a sword over its head and could lead to things becoming even worse before getting better," he says. Their fund continues to hold exposure to property but at a reduced level than before and with some "protective structures" added to it.

Thus, investors in listed property will have to turn to another form of cash flow as distributions are reduced or even cancelled.

Ahoy, sailor!

That leaves the bond market. Seemingly the saving grace, together with foreign equity, of local balanced funds. Allocations to this asset class have risen dramatically.

"Interest rates have been slashed and cash no longer offers meaningful above-inflation returns," says Ninety One's Rossouw. "Many SA companies are also withholding dividends, so bonds will remain an important income source." They offer better returns, after adjusted for risk, than the retail, banking and property sectors, he says.

By Shaun Murison

Lenders brace for defaults

Shaun Murison analyses the outlook for local banks as they face the economic headwinds brought on by Covid-19.

Locally-listed banking counters have seen share prices correcting significantly in 2020, as markets try to asses how severe the impact of Covid-19 will be on the economy. Banks, whose fortunes are directly linked to the domestic economy, have already been dealing with a recessionary environment leading into the year. Current forecasts for (negative) growth suggest a contraction of no less than 6.1% in 2020. Dividend cover over the medium term is no longer a guarantee from these counters, and impairments from both retail and commercial clients are rising.

However, the banking sector is well-capitalised and robust, suggesting that these counters can withstand a notable (expected) contraction in earnings. Markets are now assessing whether the risk to this sector is appropriately discounted into current share prices, or perhaps overcompensated therein.

South African banking shares – broker ratings and client views

The below table highlights how major SA banks (Absa, Capitec, FirstRand, Nedbank and Standard Bank) are currently viewed on both an institutional (analyst) and retail (trader) level. It highlights the current analyst ratings (as polled by Thomson Reuters), and how IG clients who are trading these shares are placed as at 18 May – this data is also available on IG's trading platform.

		THOMSON REUTERS ANALYST RATINGS					IG CLIENT SENTIMENT	
	Strong buy	Buy	Hold	Sell	Strong sell	Average rating	Long	Short
Absa	4	3	4	0	0	Buy	76	24
Capitec	2	0	7	1	0	Hold	63	37
FirstRand	1	6	3	1	1	Hold	90	10
Nedbank	4	3	2	3	0	Buy	76	24
Standard Bank	2	6	3	1	0	Buy	93	7

The banking sector carries an average long-term analyst rating of "buy". Absa, Nedbank and Standard Bank are the favoured banks (on an institutional level) carrying an average rating of "buy". Absa is the only bank with no "sell" recommendations. Capitec and FirstRand both have an average analyst rating of "hold".

In terms of IG client sentiment data, Standard Bank, followed by FirstRand, have the most "long" open interest and the least "short" open interest. Long indicates that traders with open positions on the company expect the price to rise in the near term, while short means that traders with open positions on the company expect the price to fall in the near term.

Capitec is the least-favoured by IG clients, although it still has more long interest than short interest. ■

Shaun Murison is a senior market analyst at IG Markets.

One of the favoured bonds is the R186 with a maturity of 2026; it's a nominal bond with a fixed-interest, or coupon, payment as opposed to inflation-linked bonds which depend on the consumer price index. As the Reserve Bank slashed interest rates this year with the key repo rate at 3.75%, and the Johannesburg interbank acceptance rate (Jibar) linked to this, it is evident that the non-government sphere of the debt market entered a low interest rate period.

"The attractiveness of the R186 is manifold," says Foord's Fraser. "The bond has a high coupon of 10.5% and is fixed. The attractiveness of the fixed coupon should be quite evident today, relative to interest rate instruments where the interest is linked to repo or Jibar."

Other factors, according to Fraser, include the bond's short term to maturity, its high liquidity and that short-term inflation (over the next three years) "is more likely to surprise on the downside than the upside". Consumer price inflation clocked in at 4.1% in March, below the central bank's important 4.5% midway of its inflation target range of 3% to 6%.

Longer-dated debt has also attracted attention as yields surged in February and March. The Prudential Balanced Fund sold some foreign equities and used the cash to buy local bonds, which have been offering "exceptionally attractive yields compared to their history", says Malinga.

"These have been largely in long-dated maturities of more than 20 years, where we believe yields of around 11% compensate investors for the risk involved," he says.

And those risks have not passed Fraser. Unlike Malinga, who expects inflation to be in line with the central bank's 4.5% midpoint for a while, Fraser reckons higher inflation is not a low probability three years and longer from now. It could be sparked by a more rapid recovery in the global economy, where a vaccine or cure for Covid-19 is developed and approved sooner than anticipated, fuelled by the "massive monetary and fiscal support" from central banks around the world, according to Fraser. This may be curbed by the massive amount of debt issued to combat the pandemic's economic fallout, he says. In SA, the inflation picture may look less benign.

"Longer term, inflation and inflation expectations may be more intrinsic to the structural challenges SA faces," says Fraser. Low growth, a high fiscal deficit and hence continuous increases in the amount of bonds Treasury needs to issue to fund expenditures and rising debt-to-GDP ratios are likely to place downward pressure on both the price of bonds (higher yields) and the currency, he says.

"Any want from politicians to use the printing presses to allow Treasury to fund payments of coupons or principal on bonds is unlikely to be viewed upon favourably by international investors, and both will face significant declines in value, coupled with rapid adjustments to inflation and inflation expectations," he says.

Some fund managers are already starting to buy inflation-linked bonds. "Long-term government bonds are pricing in a very bad outcome, and we are finding value in some maturities and in inflation linkers," says Allan Gray's Plaut.

Coronation's Zetler says SA government bonds offer reasonably attractive yields, especially when compared with cash. "However, the risks are high, and we are increasingly concerned about the country's fiscal position and about the risks of the country entering a debt trap."

Thus, the Coronation Balanced Fund has increased its exposure to inflation-linked bonds, "which we believe are attractively priced and provide protection against longer-term inflation risks", says Zetler.

Roger Williams, who manages the Centaur BCI Balanced Fund, has a similar view. He says even though SA bonds can perform well in the short term due to lower risk aversion, the SA government is running out of funds and he intends to reduce his nominal bond exposure in favour of inflation-linked bonds over the medium term.

So, as the balanced funds manoeuvred their way through local headwinds over the past couple of years and a once-in-a-generation global stock rout, the gravest danger of them all, inflation with its compounding power, may lie ahead. ■

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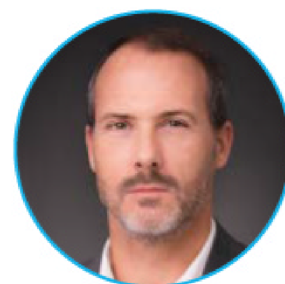
Photo: Supplied

TOP 10 FUNDS IN THE SA EQUITY, RESOURCE, FINANCIAL AND INDUSTRIAL SECTORS

POS.	FUND NAME	ASSETS UNDER MANAGEMENT
1	Satrix Capped INDI ETF	R1.72bn
2	Sanlam Investment Management Industrial Fund	R1.41bn
3	Ninety One Commodity Fund	R734m
4	Coronation Industrial Fund	R705m
5	Coronation Resources Fund	R535m
6	Satrix FINI ETF	R478m
7	Nedgroup Investments Mining & Resource Fund	R411m
8	Satrix RESI ETF	R397m
9	Momentum Financials Fund	R224m
10	Nedgroup Investments Financials Fund	R218m

SOURCE: Fundsdata as at 18 May 2020



Roger Williams
Manager at Centaur Asset Management

** finweek is a publication of Media24, a subsidiary of Naspers.*
*** The writer is invested in the Coronation Balanced Fund.*

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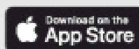

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GOING BEYOND THE TRADITIONAL INVESTMENT MATRIX

The market collapse across various asset classes suggests that investors need to contemplate getting exposure to as many different and non-correlated types of risk as they can. From real estate funds and Krugerrands, to currency futures – there are a number of alternatives to consider adding to your portfolio for diversification.

By Timothy Rangongo

Many investors thought they were adequately diversified in 2008, only to see their portfolios collapse during the great financial crisis (GFC). "Modern Portfolio Theory did not fail – if anything, portfolio construction did," says Professor Christopher Geczy, academic director of the Wharton Wealth Management Initiative, in a research note by BlackRock.

He says what really happened back then, was that many investors did not have the right investments in their portfolios.

"Portfolio construction is challenging enough to begin with, and it's even harder during times of crisis, when correlations can work against investors."

Turning to the present, the crisis of the current market collapse across various asset classes has demonstrated some level of correlation among most of them. For example, many investors believed that merely having exposure to both JSE-listed and international stocks provided sufficient diversification, but the stocks turned out to be exposed to many of the same common factors, such as the price of oil.

"There is no doubt that global capital flows will be impacted by Covid-19. The collapse in oil and other commodity prices has also resulted in a revised downgrade in global growth expectations and asset prices," says Sumaya Aziz, investment analyst at Mergence Investment Managers.

According to Geczy, a traditional 60% stock and 40% bond portfolio would undoubtedly fare better during a market crisis than a 100% stock portfolio but, given high levels of correlation, it's becoming hard for investors to rely on what is traditionally thought of as

Photos: Shutterstock

diversification to meet their long-term goals.

He says investors need to rethink their overall approach to portfolio construction and start thinking in terms of risk diversification and getting exposure to as many different and non-correlated types of risk as they can, which brings us to alternative investments.

The concept of alternative investing is about going beyond what a traditional 60-40 portfolio might look like by either going long on assets that are not already present or by engaging in trades that provide a new source of diversification.

Alternative investments are core diversifiers, sources of potential return and investments that provide risk exposures that, by their very nature, have a low correlation to something else in an investor's portfolio, says Geczy.

Real estate and infrastructure

Real estate funds pool money from long-term investors such as institutional pension and provident funds, retirement funds and multi-managers.

The market is small relative to the real estate investment trusts (Reits) listed on the JSE, according to Smital Rambhai, portfolio manager of Futuregrowth Community Property Composite – a portfolio specialising in the acquisition of new and existing shopping centres that cater to the needs of underserviced communities throughout SA, mostly rural and township areas.

Real estate funds have a longer-term outlook than Reits as they are not required to distribute income to investors, says Rambhai. "Reits have to distribute

The value of real estate funds is not sentiment-driven, but rather based on actual income generated and the capital appreciation of the asset. Nevertheless, such funds have some pitfalls.

a minimum 75% of cash income earned to maintain their Reit status. The management teams of real estate funds are therefore able to take longer-term views on property assets as they have cash available to reinvest in their properties to maintain and uplift value for investors over the longer term."

According to Rambhai, these funds tend to offer long-term, stable financial returns that have less volatility and a low correlation to other asset classes. They have real, hard assets with diversification benefits, a rental income stream that is a hedge against inflation and have access to a segment of the property market that the Reits may not be focusing on. He says the value of the investment is not sentiment-driven, but rather based on actual income generated and the capital appreciation of the asset.

Nevertheless, such funds have some pitfalls. Liquidity constraints are a critical factor in real estate funds, for instance. The managers of real estate funds need to utilise either cash flows that are generated from the properties or sell a property to pay investors seeking to disinvest. Corporate governance is of utmost importance, says Rambhai, as "weak governance controls can result in poor decisions being made that will impact investor returns".

Both financial and non-financial factors such as environmental, social and governance are considered when Futuregrowth decides to buy, develop and manage existing properties – and could thus be deemed impact investing. The social benefits that accrue from such developments include creating employment before and after construction, providing access to key retailers and reducing transport costs for the community due to the shopping centre's proximity to transport and services.

In a social context, physical infrastructure is the backbone of a country and the economy, says Mergence's Aziz. "The country's basic infrastructure and services require bolstering through accelerated investment into electricity generation, building, upgrading and ensuring the efficient operation of state hospitals, and laying down the foundations for a quality education system, facilitating access to all.

"Infrastructure assets provide investors with relatively stable cash flows akin to fixed-income instruments, which should drive the pace of investment. The cash flow profile is also naturally inflation-hedged."

Tanya van Lill
CEO of the Southern African Venture Capital and Private Equity Association

Jonathan Elcock
CEO of CompariSure

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Private equity

In the current pandemic environment, Aziz says private debt (or credit) funds are likely to come under pressure as underlying portfolio companies experience the knock-on effects of an economic slowdown. However, borrowers may turn to private markets over the short term as their traditional sources of capital have dried up, she says.

Private equity firms identify the companies they could invest in based on their investment mandate (for example, the size of the investment, industry, life stage of the company and geography), says Tanya van Lill, CEO of the Southern African Venture Capital and Private Equity Association (SAVCA). She says the capital they provide may be used to expand the companies, hire additional staff, invest in new equipment or grow into new markets.

An example of this is CompariSure, a local fintech company that distributes financial services products via its proprietary chatbot technology that leverages platforms like Facebook Messenger and WhatsApp. The fintech company in mid-May secured venture capital funding from UW Ventures, in partnership with Allan Gray.

The CEO of CompariSure, Jonathan Elcock, says the funding has given them significant "runway" and will allow them to explore new initiatives, such as improving their chatbots and looking for opportunities outside of SA.

The last SAVCA Private Equity Industry Survey showed that private equity had R171bn in assets under management (excluding private equity funds managed by the Public Investment Corporation) and venture capital had R5.37bn invested into early stage transactions, according to Van Lill.

Private equity should be considered by investors who are looking for long-term investments as part of their strategic portfolio allocation and investment risk strategies (10 years in a private equity fund and up to 15 years in an infrastructure fund) that can weather short-term economic cycles, says Van Lill.

She says investors who not only want above listed-market returns but also want to make a positive, measurable impact should consider private equity; as well as those who wish to invest in industries and geographies that wouldn't necessarily be available on listed markets.

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Krugerrands

Krugerrands are the most recognisable and widely-traded gold bullion coins in the world, first minted in 1967, with the objective of putting gold bullion into the hands of the person on the street, says Arno Egen, CEO of Mr Kruger.

Alan Demby, chairman of the SA Gold Coin Exchange and Scoin shops, says "Krugerrands don't work, have working parts, rust or need maintenance. They are inanimate objects. They don't need any management, so that alone is a big advantage. It's just something you have. Its value is exactly that – a store of value. Prices are set by buyers and sellers."

Demby says R10 000 worth of Krugerrands in 1967 would be worth R12m today. "The price of a one ounce coin is now about R35 000. The average return on gold coins over the past 20 years is 25% per annum." He says that when he started in 1977, Krugerrands were worth R500 an ounce.

Apart from the recent spikes in the gold price, Egen says Krugerrands appreciated 20% during 2019 with inflation in SA averaging at 4.38%. "The high gold price and weak rand continues to drive the demand for gold as a safe-haven asset. One of the best ways to participate in this growth or protection is by purchasing physical gold like Krugerrands."

Krugerrands in SA are priced in rand. The price is derived from the dollar price of gold and the rand's exchange rate, plus a premium depending on the supply and demand, says Demby. He says when the value of money erodes it's good to own gold.

Egen says the price of Krugerrands has hit new records this year. "Since 2010, there has been 248% growth, trading at R8 468.57 per ounce at its lowest level and R32 925.87 at its highest level a few weeks ago. The price shot up from R21 057.87 to R32 925.87, offering an astonishing 56% growth during the last six months."

Hilton Davies, CEO of SA Bullion, says the Krugerrand is legal tender in terms of the South African Reserve Bank Act and for this reason there is no VAT on its purchase, unlike other forms of gold. Furthermore, Krugerrands are priced as close to the gold price as you can get in SA.

"Many factors, such as the consistent devaluation of the rand against the US dollar and more recently the effect of the Covid-19 pandemic on our local economy, cause a lot of uncertainty and nervousness. Krugerrands offer stability and wealth during times like these," says Egen on how the coins are an uncorrelated asset that serves as an ideal hedge against the devaluation of the rand.

Arno Egen
CEO of Mr Kruger

"The price of a one ounce coin is now about R35 000. The average return on gold coins over the past 20 years is 25% per annum."

Hilton Davies
CEO of SA Bullion

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Agricultural derivatives

The JSE offers derivatives on a wide range of local and international agricultural commodities, including grain. "Agricultural derivatives from the JSE provide a platform for price discovery and efficient price risk management for the grains market in South and Southern Africa," says Frans Dreyer, manager of Senwes brokerage.

Producers and other users of agricultural derivatives often use them to hedge price risk. However, anyone can use them, he says. "They are used for hedging or to diversify a portfolio, both of which are ways of managing risk. They are also often used to speculate on price, which is a way of profiting from price movements in the grains market."

The SA Futures Exchange (Safex) provides a market platform for participants, like hedgers, speculators, arbitrageurs and investors.

These four groups of market participants collectively provide liquidity to the market.

The last group, investors, may deem the commodity market an attractive investment opportunity and decide to purchase futures contracts on white maize instead of physical white maize stock, since they consider the futures market to be more liquid.

As a result, the participation of all four groups increase the liquidity in the market, thereby increasing the number of contracts traded and the ability of the market to act as a price-forming and risk-management mechanism.

As with any investment portfolio decision, different types of investors should consider the risk involved with the type of investment, says Dreyer. The main independent investment-type offerings are driven by hedge funds, which may be considered as higher-risk investments, according to him.

Alternatively, an investor may open a JSE account through a registered JSE commodity-derivatives market broker which will provide the necessary market access. The main decision for an investor will therefore be whether they want to manage the associated price risk of the physical underlying commodity by means of the JSE account, or whether they want to take part in speculative opportunities.

Speculative opportunities by means of an own JSE account or by means of an agricultural hedge fund should be considered a high-risk, high-reward/high-loss investment.

Currency futures

A future contract is a financial agreement in which an investor agrees to buy an underlying instrument at an agreed price and date in the future, explains St John Bunkell, head of Absa Alternative Asset Management.

Garith John Botha, senior short-term interest rate trader at Standard Bank, says currency futures allow investors to hedge or trade on their currency risk views. "For example, if you are a large importer of widgets from Europe and you are concerned about the rand weakening against the euro, you could buy euro-rand currency futures which would hedge some of that risk." This consists a currency pair, namely the rand and euro.

Worldwide, John Botha says, the currency futures market has seen remarkable growth after the global financial crisis, with thousands of contracts trading daily over multiple exchanges and healthy open interest. Local users range from importers, exporters and retail investors to large financial institutions.

Bunkell says speculators can use these instruments to express a currency view in the underlying pair. "Any investor or corporate who has exposure to the volatility associated with the changes in currency pair may also use these instruments to remove unwanted risk due to adverse movement in the exchange rate."

St John Bunkell
Head of Absa Alternative Asset Management

He says investors who have assets in foreign currencies should seriously consider some hedging component to reduce the additional risk associated with the movement in the exchange rate. "This can be extremely beneficial in realising gains should the rand strengthen against the currency in which the investor holds their international assets; typically, the US dollar."

Should the rand strengthen against the international currency baskets, the investor will not experience any negative impact or loss on the rand value of their asset as a result, explains Bunkell. Furthermore, hedging the international asset reduces the variance and hence uncertainty of the rand return in the hands of a local investor. It therefore decreases the risk inherent in the investor's rand returns. This pick-up in consistency tends to assist in both increasing the return and reducing risk of the portfolio-allocation exercise.

Both Bunkell and John Botha says that large losses may be experienced should the exchange rate move significantly against the investor. ■

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FIRING UP A VITAL

South Africa's carmakers are finally able to start their engines, but the effects of

South Africa's automotive industry can finally start its engine. Albeit still on idle, vehicle production is gradually beginning to ramp up and dealerships have at last been given the green light to trade.

The automotive industry is vital to the economic health and welfare of SA and her citizens. The industry, both manufacturing and retail, contributed R500bn in revenue to the country last year (2018: R503bn) and 6.9% to GDP (4.4% manufacturing; 2.5% retail). It is also responsible for around 457 000 jobs.

It is a manufacturing mainstay for SA's economy, accounting for 30.1% of manufacturing output, with vehicle production last year rising to 631 983 units while exports of vehicles (387 125) and automotive components accounted for R201.7bn, according to the National Association of Automobile Manufacturers of South Africa (Naamsa).

But the coronavirus lockdown slammed the brakes on vehicle manufacturing, sales and exports. The toll has been heavy, the effects of which will resonate for some time to come.

"The industry's significant 6.9% contribution to GDP means that many jobs are potentially impacted, across manufacturing and retail, as is foreign currency revenue from exports. Mobility plays a vital role in providing the necessary stimulus to all sectors of the economy," says Lebogang Gaoaketse, head of marketing and communication at WesBank.

New car sales in April, when SA's lockdown was in full effect, plunged a staggering 98.4% compared with the same period last year, according to Naamsa. Only 574 vehicles were sold against 36 787 units in April 2019.

Exports plummeted by 97.3% with just 901 units leaving SA's shores, in contrast to the 32 828 units in April 2019.

"During lockdown, we had finished cars sitting in manufacturing plants, with transporters and at ports with Transnet," Naamsa CEO Michael Mabasa tells *finweek*.

Some are starting to leave the country. But many countries are still in lockdown so now, before vehicles leave Durban or Richards Bay, the receiving authority for each consignment must be confirmed to ensure that the ship will be allowed to dock, says Mabasa.

Given production constraints, May export numbers are still expected to be low, albeit an improvement on April. Mabasa expects a decline of around 50% to 60% in exported units in May 2020 compared to May last year (29 850 units).

Dampened demand

The spread of the coronavirus and necessary containment measures is expected to seriously dampen demand across all major markets. Moody's Investors Service has predicted that global demand for passenger vehicles will shrink by approximately 14% in 2020.

Statista reports that the global auto industry expects to sell 59.5m vehicles in 2020, a 20% decrease compared with the 75m vehicles sold in 2019.

Moreover, there's chatter about the European market (SA's largest export destination, accounting for 73% of vehicle exports) possibly declining by 30%.

"I would not be surprised if our exports drop 20% or more as a result," Dr Martyn Davies, managing director for emerging markets and Africa, and the automotive sector leader at Deloitte Africa, tells *finweek*.

Davies believes the global recovery will

Lebogang Gaoaketse
Head of marketing and communication at WesBank

> "The industry's significant 6.9% contribution to GDP means that many jobs are potentially impacted, across manufacturing and retail, as is foreign currency revenue from exports."

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

ECONOMIC ENGINE

Covid-19 constraints on operations have caused significant drag for the industry.

By Glenda Williams

be Asia-led and suspects the Asian export markets will remain quite buoyant.

Vehicle exports to Asian markets make up a small percentage of SA's exports, but Davies thinks SA needs to look at markets that are growing and are less damaged by the pandemic.

"The global consequences of this pandemic will be immense for some time to come, from the economic impacts to the way corporations work and the manner in which consumers behave," says Gaoaketse.

He tells *finweek* that vehicle finance applications in April were down 82% from March 2020, while year-on-year figures are down 48%. But, he says, May applications are slowing picking up.

According to Naamsa, the average price of used vehicles financed for April was R131 277 against the new car figure of R184 046.

By 18 May, WesBank had received over 100 000 applications for vehicle finance payment relief and had offered relief to over 53% of qualifying customers.

The domestic market was suppressed even prior to the Covid-19 pandemic, with sales declining by 2.8% last year (536 626 units sold). Sales for 2020 are expected to be significantly less, analysts forecasting sales in the region of 450 000.

Although interest rate cuts and the low fuel price are expected to somewhat stimulate local vehicle sales, consumers may be slow in their return to the car market given budget constraints brought about by job losses and pay cuts as a consequence of the pandemic.

"We are approaching a decade now of a middle class under pressure. The move away from luxury brands is already happening. People have been trading down to small hatchbacks or lesser-priced SUVs and the sales volumes of German players like Audi, BMW and Mercedes-Benz have shrunk dramatically as a result," says Davies.

He says the mid-market players with strong brands like VW, Toyota and Kia will be more resilient.

SA's carmakers back on the production line

Though unable to manufacture vehicles during level 5 lockdown, SA's carmakers were not idle. The country's original equipment manufacturers (OEMs) were at the forefront in the fight against Covid-19, whether manufacturing personal protective equipment and breathing aid devices, as Mercedes-Benz SA was, or converting an unused plant in Port Elizabeth into a temporary Covid-19 medical facility, as Volkswagen SA is doing with its R28m contribution and German government funding of €5.2m.

Now, under level 4 regulations, SA's OEMs are gradually re-opening their manufacturing plants for vehicle production.

BMW in Rosslyn, VW in Port Elizabeth, Toyota in Durban and Mercedes-Benz in

Trading down to free up cash

Prices of new vehicles increased by 4% in the first quarter of 2020 against 2.3% for the comparative period in 2019, while the used car price increase declined from 1.8% to 1.4%, according to TransUnion.

Unsurprisingly, sales of used cars have been outstripping those of new cars, in March reaching 2.31 to 1.

As the health of the economy deteriorates and consumers' wallets are hit by the effects of the pandemic, the pre-owned trend is likely to pick up pace.

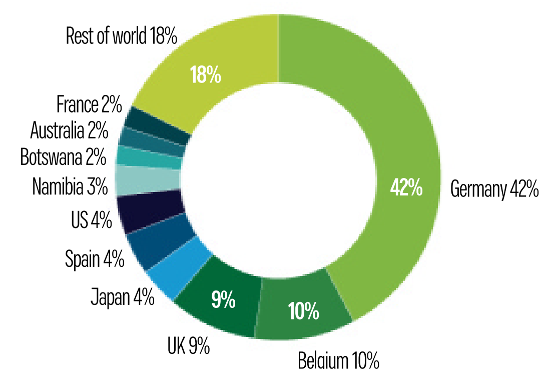
Desperate to free up cash or reduce monthly household costs because of job losses or salary cuts caused by the Covid-19 lockdown, motorists (including higher-income-level consumers) are looking to trade down their vehicles.

"Searches for second-hand vehicles under R50 000 have increased by almost 300% versus normal pre-lockdown levels," says George Mienie, CEO of AutoTrader.

According to Mienie, a survey run during the first week of May showed that the financial wellbeing of 65% of vehicle-buying consumers in SA had been negatively impacted by the nationwide lockdown.

The survey indicated that 30% of vehicle-buying consumers were under pressure to replace their vehicles within four weeks. ■

SOUTH AFRICA'S TOP 10 VEHICLE EXPORT MARKETS BY VOLUME (2019)



SOURCE: Deloitte calculations based on the department of trade and industry and competition data.

Photos: Supplied | Shutterstock

East London are all back online, currently running at 50% capacity, while Nissan, Ford and Isuzu will be up and running for vehicle production by the end of May, says Mabasa. Level 3 lockdown, which Mabasa hopes will be in place by end-May, is expected to bring 100% capacity.

Mabasa predicts a 25% decline in units produced compared with last year and expects that the department of trade and industry will revise the yearly 50 000 units production threshold for OEMs set down by the Automotive Production and Development Programme.

On a more heartening note, many of the OEMs indicated that they would try and contain job losses and did not project any significant job cuts.

Car manufacturers who are more mechanised – like BMW which builds the X3 – will be more agile and less willing to shed labour, says Davies.

But the National Automobile Dealers' Association (Nada), which makes up 85% of all new vehicle franchise dealerships in SA, is expecting job losses in the sector.

Most of the domestic consumption is driven by Nada and its 1 300 members and being unable to participate in the economy made the situation more dire, chairman Mark Dommisse says.

"The effect on retail businesses would have been even more devastating if there had been a further delay in the issuing of a directive to permit trading," he says.

Only in mid-May were car dealerships finally given the go-ahead to trade.

Listed companies with automotive operations

The lockdown impacted 90% of JSE-listed automotive group Motus' operations.

Motus, which unbundled from Imperial in 2018, represents 22 OEMs and 321 dealerships. It employs over 18 600 people, has a 20.1% retail market share and around a 25% rental market share through its car rental business Europcar and Tempest.

In late April it reported reduced remuneration for directors and executive committee members for six months, reduction of advertising spending, cancellation of the interim dividend and suspension of the share buyback programme.

Motus said they had sufficient stock of vehicles and parts to trade for the next six months and, based on discussions with OEMs and suppliers, were not anticipating significant supply chain disruptions.

JSE-listed Barloworld, with operations in motor retailing (50 dealerships) and car rental (Avis and Budget), announced cost-saving initiatives including salary sacrifices and suspension of retirement fund contributions. And the sale of its 50% equity in fleet management business Avis Fleet is on hold.

It said it expected the operating environment to remain weak and volatile

Covid-19 scuppers electric vehicle plans

In 2019, 2.2m electric vehicles (EV) were sold globally. But the number is expected to drop 43% to 1.3m by the end of 2020, according to global research and consultancy company Wood Mackenzie.

EVs have constituted approximately 5% of all vehicle sales in China for the past two years. But sales of EVs there have been hard hit by the pandemic. In January sales were down 54%, with February expected to be down more than 90%.

In contrast, EV sales in Europe rose 121% in January despite a 7% reduction in the overall market. The increasing EV adoption trend persisted into February, albeit lower.

Traditional automakers entering the EV market have announced upcoming models that will be launched over the next several years rather than over the next 12 months, says Wood Mackenzie.

The number of EV models in South Africa was due to change, perhaps bringing EV models in SA from three to 12. But the pandemic may have scuppered those plans.

"Before the coronavirus, a number of manufacturers were considering bringing EVs onto the market," **Michael Mabasa, CEO of the National Association of Automobile Manufacturers of South Africa**, tells *finweek*.

He says that some of those were Chinese- and Indian-produced affordable brands – level 2 of lockdown will bring an update on those plans.

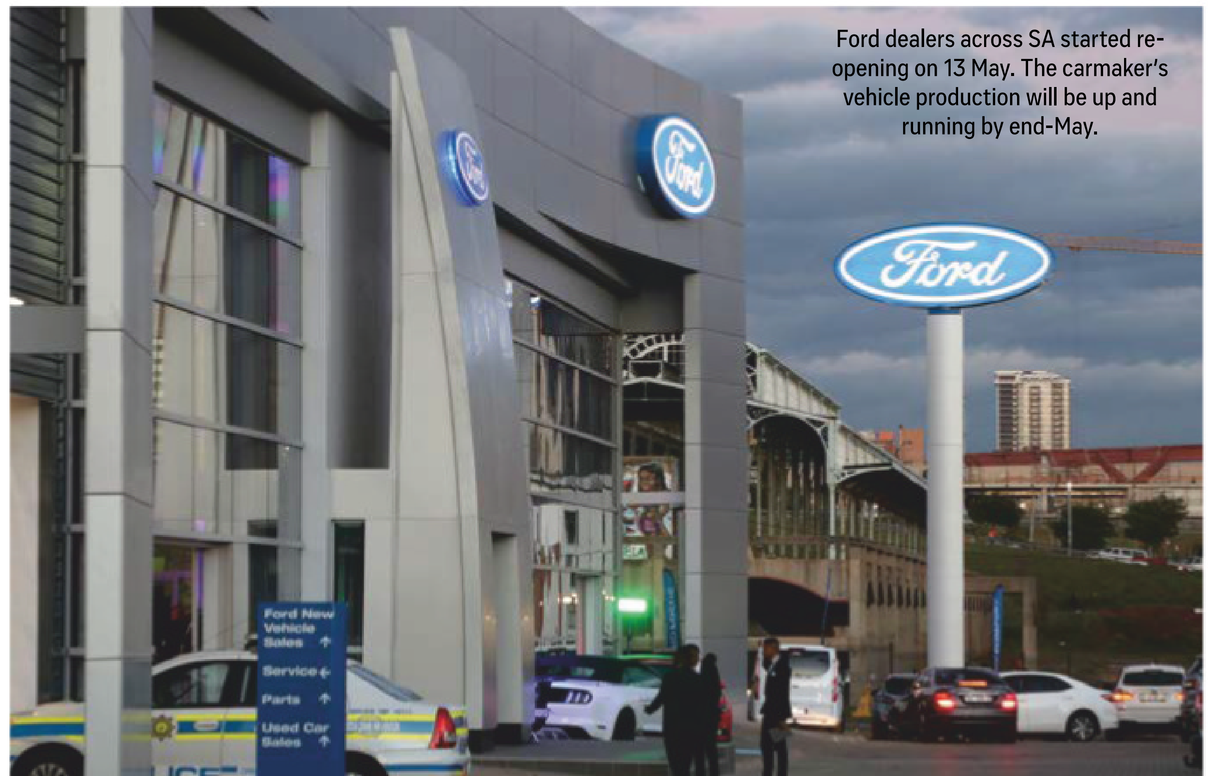
Unsurprisingly, given the higher prices and infrastructure constraints, EV adoption in SA has been lacklustre, sales in 2019 for the three EV models currently on the market (BMW i3, Nissan Leaf and Jaguar iPace) was 154 units, compared with 58 in 2018. "As more brands come in, the more the price of EVs will come down," says Mabasa. ■

Michael Mabasa
CEO of the National Association of Automobile Manufacturers of SA

Photos: Supplied

"The automotive sector is the most important value-added industry in SA. We must do everything possible to protect it. It's hard to industrialise; it's almost impossible to re-industrialise."

The Jaguar iPace is one of three electric vehicles currently on the market in South Africa. The other two models are BMW's i3 and the Nissan Leaf.



Ford dealers across SA started re-opening on 13 May. The carmaker's vehicle production will be up and running by end-May.

in the near term with significantly lower activity levels in the automotive division. In mid-May, unconfirmed reports of retrenchment consultations in the automotive and logistics divisions surfaced.

Bidvest Group's automotive division includes motor retailer Bidvest McCarthy with a network of over 100 dealers retailing 26 automotive brands. Bidvest Automotive also operates in the car rental and vehicle auction (Burchmores) sectors.

The company reported continued pressure on margins in both the new and used vehicle markets for the six months ended 31 December 2019. The luxury brands continue to suffer, it said.

JSE-listed Combined Motor Holdings (CMH) has significant interests (65%) in the retail motor sector, holding franchises for the sale of 19 different car brands while its car rental interest comprises 16%.

As a result of the lockdown CMH delayed the release of its results for the year ended 29 February 2020 but advised that headline earnings per share and earnings per share were expected to decrease by between 5% and 15% for its financial year-end.

The industry will be different, and corporations will need to adapt.

Davies believes that dealer rationalisation and cost cutting will be the order of the day for companies to come out leaner and meaner while waiting for some semblance of recovery.

But, he cautions, "there is no V shape here", referring to the economic recovery measure that represents a brief period of economic decline followed by a strong recovery.

"It will take time and companies must do whatever it takes to survive."

Tailwinds

Apart from low interest rates and reduced fuel costs there are other ways of generating relief for consumers, OEMs and car retailers.

Take the tax on cars, which in SA constitutes 48% of the average car price.

Davies broaches an innovative short- to medium-term solution that could reduce that. And it has to do with the savings that government benefits from because of the lowered oil price. He says government could pass on some, not all, of those savings.

"The state could take more tax on the oil price and reduce car taxes, which would then make car prices cheaper.

"The automotive sector is the most important value-added industry in SA. We must do everything possible to protect it. It's hard to industrialise; it's almost impossible to re-industrialise," he says. ■

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>> Management: The lockdown effect on labour policies p.44

RESTAURANT INDUSTRY

By Jana Jacobs

Very little relief on the menu for restaurants

The easing of lockdown restrictions under level 3 could not have come sooner for many South African businesses. For restaurants, however, there is little to celebrate.

South Africans waited with bated breath on 24 May to find out what the government had decided about the lockdown level we would be living under as of 1 June. And while many business owners would have breathed a collective sigh of relief, there are still a vast number of businesses that are not going to be permitted to operate at full tilt – or at all – come 1 June.

Since the national lockdown was first implemented in March, the restaurant industry has been hard-hit. Wendy Alberts, CEO of the Restaurant Association of South Africa (Rasa), estimates that the lockdown has left close to 800 000 people in the industry without an income. This compares with the 430 000 employees in the country's mines, according to Stats SA figures. Since the lockdown began eight weeks ago, Rasa has been engaging with various role players across the industry in order to mitigate the consequences of the lockdown, as well as advocating for the industry with government – which involves getting staff back to work and looking at ways of reducing overheads, among other things.

Speaking to *finweek* in the week leading up to the president's latest announcement, Alberts explained that the key focus in engaging with government had been to open the industry for contact, collection and drive-through – level 4 only allowed for deliveries – with the next step being to advocate for sit-down in level 3 as opposed to level 1.

As of early May, The Restaurant Collective – an association of sit-down restaurants including Ocean Basket, Tasha's, Signature Restaurant and Famous Brands-Signature Brands – has been advocating for level 3 to allow sit-down dining as well.

"We need to open," says Grace Harding, CEO of Ocean Basket and spokesperson for The Restaurant Collective, in an interview with *finweek*. In this vein, in early May The Restaurant Collective started to develop a hygiene and governance protocol for the safe opening and operation of restaurants, which was submitted to the Tourism Business Council of SA (TBCSA) on 22 May.

A few days later, the president's announcement made it clear that restaurants wouldn't be allowed to welcome patrons to sit down for a meal under level 3 lockdown.

Although the respective ministers will be clarifying the lifting of various restrictions, as the order of lockdown regulations currently stand, restaurants will now be permitted to add collections and drive-through to their operations, but will only be able to function on a sit-down basis, whereby customers can dine on site, once lockdown level 1 is reached.

With no sign of that happening any time soon, restaurants across SA – whether it be your local pizzeria, a franchised restaurant located in a mall, or a fine dining establishment – are facing the very real threat of not surviving Covid-19.

Why deliveries won't cut it

Like most other businesses, restaurants were shut down completely at level 5. At level 4 they were given the go-ahead to operate on a delivery-only basis, but this has been of little consequence, says Harding.

"Many think that now that deliveries are a thing, we can make a living. We can't. Sit-down restaurants are very different from takeaways... In normal times deliveries are about 10% of our sales. We are not going to be able to pay staff, utilities, suppliers etc. with that."

Wendy Alberts
CEO of the Restaurant Association of South Africa

Grace Harding
CEO of Ocean Basket and spokesperson for The Restaurant Collective

Sasha Simpson
Owner of Brik Café

Photos: Supplied

Furthermore, when restaurants make use of a third-party delivery platform, like Uber Eats or Mr D, deliveries can only be made to customers within a limited radius of around 5km, and the restaurant has to pay up to a 30% commission on the meal ticket.

"Deliveries are not going very well. We are operating at about 25% to 30% of our usual turnover at all three stores. We have encouraged customers to order directly with us for delivery, but even then the orders are few and far between and our in-house delivery radius is still no more than 6km or so due to the way food travels, driver logistics etc.," says Lexi Monzeglio, founder of Lexi's Healthy Eatery.

Unable to operate at full capacity, and with deliveries proving unprofitable, some restaurateurs have come up with innovative ways to generate income. Brik Café in Rosebank, for example, has created ingredient boxes that "include a collection of fresh seasonal fruit and veg and some of our house-made favourites like yoghurt, granola, chakalaka, jam and pulled brisket", says Sasha Simpson, owner of Brik.

"The boxes were extremely helpful just before lockdown and helped us pay all the staff full salaries in March. We are still delivering the boxes once a week on pre-order and have included a personal shopper option called 'from our pantry to yours' where customers can tick items from a list of fridge and shelf fillers that we either stock or make at Brik for delivery or for street collection."

Lexi's Healthy Eatery has launched a frozen meal line, which is going quite well, according to Monzeglio. "We are also in the process of finalising a retail line, which we are hoping will also help our revenue in future.

"The possible silver lining is that we have been pushed into a retail space – and if this pivot is successful, we will be able to operate at a lower capacity in the restaurants while continuing to build our business and the brand," she says.

Prepping for the future

The decision to uphold level 3 lockdown restrictions certainly dealt a blow and will likely be challenged. When asked about this, Harding explained that the TBCSA is working on "some plans" and that The Restaurant Collective is also going to be putting out formal messaging to show "they are ready".

According to her, the protocol for safe opening that The Restaurant Collective has put together will be available on their website and they will start training restaurant owners and managers to adhere to this protocol in the first week of June.

The rationale behind this is that they want to show government they are ready to implement all the necessary measures and that the industry is prepared to take responsibility. She believes that "if we start to open the tap cautiously, in a considered way, it might be a better solution than either or. The fact that industry is collaborating can take a little bit of pressure off government."

Regardless of whether Rasa, The Restaurant Collective, or others in the industry successfully manage to advocate for bringing forward the lifting of restrictions on restaurant operations, the traditional sit-down model will shift markedly. Restaurants will not only have to try and pick up the pieces after the lockdown, but completely reinvent their business models to survive in a world where social distancing needs to be the order of the day in an industry that is built around socialising.

Simpson says, for instance, that the future of Brik as a restaurant may change indefinitely due to the Covid-19 restrictions. She is in discussions with like-minded colleagues about possibly creating a co-op "where we share resources and expenses. We are also in the process of strategising the opportunity of turning the café into a general store that stocks a range of items such as frozen meals, fresh produce, products from local businesses and sustainable living products."

For Monzeglio it's also hard to say what the outlook for the industry after the lockdown is, but she admits the general feeling within the industry is that the future is very grim. She also points out the fact that eating out is a luxury spend – lest we forget that restaurants will need to attract cash-strapped consumers that have themselves been holding their breath as they prepare to adapt to a new reality. ■

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THE INDUSTRY AT A GLANCE

According to Ocean Basket CEO Grace Harding, The Restaurant Collective represents a category of about 13 000 sit-down restaurants. As per the Euromonitor Report 2017, the overall food service industry in South Africa "looks something like this", says Harding:

▸141 000: Total outlets of which **11 000** are chains

▸14 500: Cafés/bars of which **1 000** are chains

▸13 200: Full-service restaurants of which **1 200** are chains

▸11 500: Fast-food of which **7 000** are chains

▸98 000: Street stalls/kiosks of which **300** are chains

▸3 000: Pizza consumer food service of which **1 400** are chains

Helping restaurants remain operational

To support restaurants financially as they wait for the go-ahead to become fully operational, the Eat Out Restaurant Relief Fund was started in partnership with Community Chest.

"We've had news of more restaurants and businesses in the food industry that may close their doors permanently due to the impact of the Covid-19 lockdown. With no form of income, they see no way to meet the expenses that are compounding each day," says Tarryn Corlett, head of the Eat Out Restaurant Relief Fund. The fund has appealed to corporates and the public to donate in order to "at the very least, prevent more closures in the near future".

As at 26 May, the support was as follows:
Total funds raised: R1 177 842.67
Total paid out or allocated to successful restaurants: R1 140 000
Total number of successful applicants paid out: 38
Successful applicants on waiting list for payment as more funds become available: 3
Applications pending/being vetted: 12

Visit https://help.eatout.co.za/ to get involved.

By Amanda Visser

Labour relations during the corona lockdown

As employees slowly start returning to work – and others continue to work from home indefinitely – engaging with the workforce on issues such as safety, accountability and even retrenchment, will require employers to rethink policies.

Returning to normal has never been so uncertain and abnormal. The gradual lifting of restrictions following the hard lockdown to prevent the spread of the coronavirus will bring with it many new challenges.

Many companies have been able to open their doors and will gradually increase their workforces until the Covid-19 disease is no longer a threat. They will, however, have to consider the challenges of a continued remote workforce, safety measures for those returning, and operational issues relating to disciplinary hearings and potential retrenchments.

The safety of people returning to work will be at the forefront, and companies will have to be well-prepared for this as they may face claims if they are found to be negligent in ensuring the safety of workers.

Fiona Leppan, director at Cliffe Dekker Hofmeyr's (CDH's) employment practice, refers to a case in the US where the employer was found to have been negligent after a worker died from Covid-19. His family claimed wrongful death since no measures were in place to protect him. He worked on nightshift in a major retailer, notified his employer that he was not feeling well, but was allowed to continue coming to work.

If a company does not implement the necessary measures appropriate and relevant to its workplace – and safety measures are introduced as an afterthought when an employee falls ill – it will demonstrate that the company has been negligent.

"Be mindful that there is a need for ongoing understanding and training as we learn more about this virus. What may be good for today may not be good enough in a month's time," says Leppan.

As workplaces are required to gear up and accept more employees back to the workplace on a staggered and controlled basis, the need to have protocols in place – and to enforce them – is important.

"We can have the very best protocols in writing, but they should not sit in a drawer. They must be worked, and they must be understood," says Leppan.

Remaining remotely accountable

Historically, employers have pushed back against the notion of having a "remote workforce". The typical concerns related to a dramatic loss of productivity because of distractions such as pets, kids and Netflix.

However, technology has now shown that people could be kept healthy by allowing them to work from home and, low and behold, some are even more productive because they are free from the office chatterboxes.

Companies may consider allowing people to continue working from home even after the pandemic passes, says CDH director Gillian Lumb.

A major benefit of having employees, and especially key workers, working remotely has been the survival of businesses. However, issues that will require attention include continued security and confidentiality of business and client information, with employees being obliged to ensure confidential information remains secure.

Employees also remain accountable for their conduct, even if they are working in the privacy of their own homes, and especially when it comes to employees now being far more active on social media.

"There is a clear need to remind employees that they are still representing the employer when they are engaged on social media. They may be disciplined if they are not conducting themselves in an appropriate manner."

It may be necessary to set out a "business etiquette" and ensure that company policies speak to that. When people are working on employer-provided computers, employers will need consent to monitor employee communications to take appropriate action if the conduct is not in keeping with company standards.

At the best of times, performance management is challenging, and doing it remotely is even more so, says Lumb. It may be necessary to rethink key performance areas, performance management processes and different measurable goals.

Current reward systems may not be well-suited for people working remotely. There is also the possibility that some employees may have entered a probation period when lockdown started, in which case Lumb suggests extending the probation period to allow for proper assessments.

In order to address these issues, Lumb advises companies to revisit their employee policies.

"The reality is that this is not the only pandemic we may suffer, there may be national disasters going forward and other emergency situations. Companies will need policies that can deal with these situations quickly."

Following the law

In months to come companies will continue to minimise face-to-face meetings, which will impact the conducting of disciplinary hearings, says CDH director Michael Yeates.

"The way we approach these hearings now may need to be realigned with the company's policies, procedures and measures to cater for the Covid-19 situation." The realignment will also bring with it procedural challenges. Employees may even impose new tactics to try and avoid disciplinary measures.

Yeates says there are two alternative models to consider – the decriminalised and technological models.

1 The decriminalised model

This is more suitable for cases against senior management and envisages parties running the proceedings through several written representations. The

Fiona Leppan
Director at Cliffe Dekker Hofmeyr

Gillian Lumb
Director at Cliffe Dekker Hofmeyr

senior manager will be informed with "sufficient particularity" of the charges being levelled against them and is invited to make written representation as to why they shouldn't be dismissed.

They must be afforded sufficient time and access to information to make their representations to an independent chair, who will consider the submissions.

2 The technological model

Face-to-face interaction is substituted with technological interventions such as Skype, Zoom or Microsoft Teams. Challenges include computer literacy, no access to the relevant technology or poor internet connection – none of which is insurmountable, says Yeates.

He also warns of employees claiming to have been in contact with someone who has contracted the coronavirus and therefore needing to self-isolate, in order to avoid a face-to-face hearing. The employer is entitled to insist on an affidavit from a medical practitioner confirming they have instructed the person to self-isolate.

If a company is forced to follow the traditional model and conduct the meeting face-to-face, it must safeguard employees against contamination. Measures will include heat screening, personal protective equipment, and the ability to maintain social distancing at the meeting.

Yeates says that shop stewards have claimed that their unions have instructed them not to agree to technological hearings. The objections and reasoning for this can be presented to the independent chairperson for a directive or ruling on the objection.

"The acid test will be fairness to both parties ... We recommend the appointment of strong chairpersons, well-versed in procedural requirements and the law."

Lumb says if restructuring becomes inevitable, and people may be retrenched, it is important to follow the provisions of the Labour Relations Act and notify employees in writing through SMS or WhatsApp notices and to follow these up with telephonic conversations.

If employees refuse to engage with the employer despite their efforts, the process can continue in the employee's "absence", but employees must appreciate that their decision not to engage cannot be held against the employer at a later stage. ■

editorial@finweek.co.za

Photos: Supplied

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

1. President Cyril Ramaphosa announced that some low-risk prisoners would be granted parole to help curb the spread of the coronavirus in correctional facilities. Around how many people will be freed by the move?
   - 5 000
   - 12 000
   - 19 000
2. Fill in the missing figure: Vodacom Group reported a _____% rise in annual earnings.
3. **True or False?** Phumelela Gaming and Leisure has entered business rescue.
4. Life Healthcare Group recently cancelled its interim dividend to preserve cash. What was the group formerly known as?
5. **True or False?** A Singapore judge sentenced a man to death via video-conferencing platform Zoom.
6. Which of the below is South Africa's largest private hospital operator?
   - Netcare
   - Mediclinic International
   - Lenmed Group
7. **True or False?** The Eastern Cape has the highest number of confirmed Covid-19 cases in South Africa.
8. With an estimated net worth of about £16.2bn (R350bn), who tops 2020's annual *Sunday Times* Rich List of the UK's wealthiest people?
9. **True or False?** The chairwoman of Steinhoff, Heather Sonn, has stepped down.
10. On 21 May, the South African Reserve Bank announced an additional rate cut of:
    - 15 basis points
    - 30 basis points
    - 50 basis points

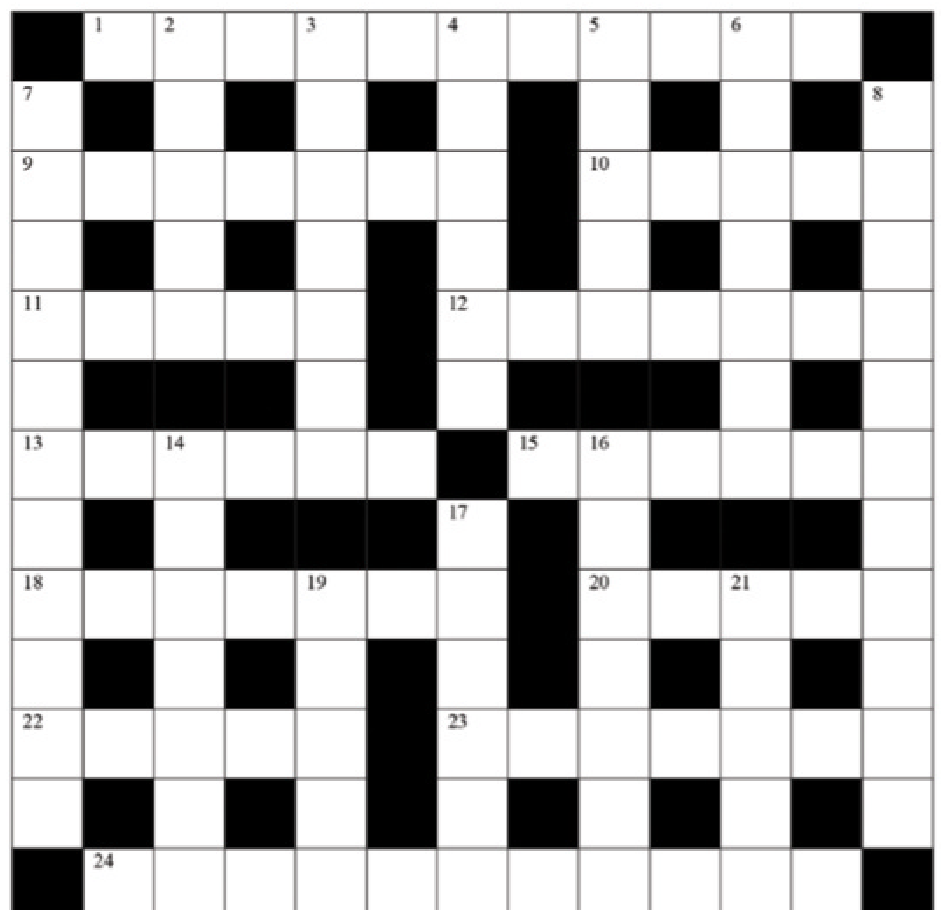
CRYPTIC CROSSWORD — NO 754JD

ACROSS

1 Anticipated call to pick up first victim (11)
9 Put the French female in torment regarding marriage (7)
10 Sink right into a depression (5)
11 It's more dangerous doing some fieldwork (5)
12 Sir seems mostly confused and not so smart (7)
13 Make up one's mind to be resolute to the end (6)
15 Swipe and cut the banner (6)
18 Rates good behaviour (7)
20 Heading for little change out of one pound (5)
22 Willingly back English bond (5)
23 Brazilian capital beer? (4,3)
24 Jackson, say, and Edward played for time (11)

DOWN

2 Quick to back girl after discussion (5)
3 Deemed worthy after originally getting denied wrongly (7)
4 Feature on fighting men ... (6)
5 ... including opponents on the range (5)
6 Observing the throne and its occupant, perhaps (7)
7 Presenting a problem with icing round the front (11)
8 Taking part payment (8,3)
14 Acts to expel from community (4,3)
16 Release left out in full (3,4)
17 Points to old lady's property being kept in custody (6)
19 Fit for the sea, but not going there (5)
21 Guy left off prickly plant (6)



Solution to Crossword NO 753JD

ACROSS: 1 A bit thick; 8 Ego; 9 East African; 11 Apaches; 12 Image; 13 Muesli; 15 Agamas; 17 Siren; 18 Admirer; 20 Great stress; 22 Ooh; 23 Tiredness

DOWN: 2 Bra; 3 Teach; 4 Inrush; 5 Kicking; 6 Gendarmerie; 7 Condenser; 10 Stage fright; 11 Admission; 14 Lenient; 16 Raptor; 19 Muted; 21 SOS

On margin

It sucks to be Cyril

This issue's isiZulu word is *amazwi*. *Amazwi* is words. It's also voices.

I had managed to get my hands on the first draft of *amazwi* the president was planning to deliver to the nation on the evening of 24 May. However, a highly-placed source, who is not Somizi Mhlongo, told me the president would not go with these *amazwi* because the "deep state" got to him.

Herewith the president's aborted speech:

"Fellow South Africans, dear compatriots and others. The others know who they are. In fact, everybody knows who you are. No, I don't mean foreign nationals. I mean you.

I digress.

I stand before you as your president. Some of you have been making jokes about NDZ (Nkosazana Dlamini-Zuma) being the president. Well, she isn't. I am. *Eu sou o Presidente. Soy el President*. That's Portuguese and Spanish, people. I'm global.

Lockdown sucks. Big time. And I know not having access to booze is terrible, man. It's so bad, one of my ministers has been hitting the pineapple beer so hard it's got him confusing ventilators with vibrators. It's not a great situation.

Then there's the cigarette story. What are people supposed to do during this stressful time?

Anyway, I just wanted to let you know that I know it sucks. And that I miss the good old days, before I took this rubbish job. Zuma can have it back. Some of you say he already has taken it back anyway.

Back to the point – everyone can move to level 3. Or level 2. Or level 1. Or stay on level 4. Or return to level 5. Or whatever. I don't care anymore. I have *amazwi enu* (your voices) in my head all the time and I've had enough. I quit."

– *Melusi's #everydayzulu* by Melusi Tshabalala

GOING BACK TO THE OFFICE AS THE LOCKDOWN EASES

Elizabeth Windsor @Queen_UK
#Eurovision is cancelled this year, but thankfully the BBC is broadcasting a special programme to remind us all what an odd bunch of people the Europeans are.

Tom Eaton @TomEatonSA
Hearty congratulations to South Africa's cigarette-smuggling gangs. Wonderful news, guys. Don't spend it all in one place.

RK Jackson | Atlanta @theerkj
2020 is what 2000 thought she was gonna be.

Jared Yates Sexton @JYSexton
The President of the United States of America, lone holder of the world's largest arsenal of nuclear weapons, told the world he's taking a drug that has among its side-effects a "feeling that other people are controlling your thoughts and actions".

IG: @quentin.quarantino
Skype had 17 years for preparation and still was beaten by Zoom.

GIM @georgemceachran
I'm not an early bird or a night owl. I am some form of permanently exhausted pigeon.

Texx @texxonfire
Cape Town is that guy who does no work in the group project but still gets an A #level3

The Dad @thedad
It's never been easier to embarrass your kid, just walk shirtless through the background of their Zoom call.

"Nothing in life is to be feared, it is only to be understood..."

Marie Curie, Polish-born scientist and the first woman to be awarded a Nobel Prize (1867 – 1934)

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