INVESTMENT

A FUND FOR ALL SEASONS

CEO INTERVIEW

TFG'S DOUG MURRAY SEES 'NO SHORTAGE OF OPPORTUNITIES'

MANAGEMENT

HOW TO ACE ANY NEGOTIATION

ENGLISH EDITION

finweek

16 June 2016

fin24 FIND US AT: fin24.com/finweek

BREXIT 3 SHARES TO BET ON

SHARE VIEWS ON:

BLUE LABEL TELECOMS

FAMOUS BRANDS

TELKOM

PPC

OIL AND THE BIG **SAUDI SHAKEDOWN**

IN PARTNERSHIP WITH

AABLA

ALL AFRICA BUSINESS LEADERS AWARDS

AABLA TABLE SALES ARE NOW OPEN

The All Africa Business Leaders Awards (AABLA), in Partnership with CNBC Africa, Honour remarkable leadership and salute game changers of business on the continent for their continuing commitment to excellence, developing best practices and innovative strategies.

Every Year, the AABLA releases limited tables of eight to companies and individuals and bookings for the 2016 awards season have now been opened. Experience a premium gala event celebrating vision, the spirit of achievement and excellence in leadership in Africa, together with top-level business and government networking.

Book your table now for the following events:

AABLA East Africa 2016
September in Kigali, Rwanda

AABLA Southern Africa 2016
September in Johannesburg, South Africa

AABLA West Africa 2016
October in Lagos, Nigeria

AABLA Finale 2016
November in Johannesburg, South Africa

For more information and to secure your seat please contact Chloe Gibbons on 011 384 0300 or visit www.aablawards.com and follow @aablawards on twitter.

Business Leader of the Year Category
Presented By

from the editor

JANA MARAIS

It is almost impossible not to criticise David Constable, whose contract as Sasol's CEO ends on 30 June, as just about everything seems to be going wrong with his North American diversification strategy.

News that the group will spend $2.1bn more on its ethane cracker in Louisiana and take yet another multibillion-rand impairment on its Canadian shale gas assets sent the group's share price plummeting on 6 June. Shareholders, who have rewarded Constable handsomely for his troubles (his pay in the first four years of his contract, to end June 2015, totalled R187.3m), are understandably quite livid. At the time of writing, the share price was roughly 32% down from its 2014 high of R632.36.

But if this was 2011 and you had just been hired to run Sasol, what would your plan look like?

Oil prices averaged more than $110 a barrel that year; when Constable took the job in June 2011, a dollar cost R6.76, a palatable price for corporates on the prowl internationally. (It is also worth noting that the rand and oil prices are two of the most important drivers of Sasol's financial performance – and both are very much outside of the company's control.) More than 80% of profits came from South Africa, where regulatory uncertainty has been making investors skittish, while new legislation (e.g. around air quality and mining) continues to pose a real risk to your business model. A shale boom in the US has been transforming the global energy sector, and US states, like Louisiana, have been eagerly rolling out incentives for new investors.

And so Constable, like many other CEOs of multinational energy companies, took a major bet on shale energy in North America. Few of them, one imagines, expected an oil price of below $30 a barrel by January 2016.

What Constable and his team should be held accountable for is the massive cost increase and delay on the Louisiana cracker, which will hopefully start using that plentiful, cheap US natural gas in 2019 to produce chemicals.

The major risk has always been that there will be cost overruns and delays – and Sasol has never had a good track record with getting major projects completed on time and within budget. Anyone remember the mess back in the day with its gas-to-liquids plant in Qatar?

Judging him on 8 June 2016, Constable was probably a fool to bet the farm on North America. But let's play this game again in 2020. ■

contents

Opinion

4 How to boost tourism in SA
6 Tackling unemployment in SA

The week in brief

8 News in numbers
10 The crash-detecting app that travels with you
12 Sub-Saharan Africa needs a policy reset
13 Where to for the battered mining sector?
14 Junior miners struggle to graduate

Marketplace

15 **Fund in Focus:** Taking advantage of global trends
16 **House View:** PPC, Telkom
17 **Killer Trade:** Tencent stake boosts Naspers
18 **Simon Says:** Famous Brands, Gooderson Leisure, Nampak, Tongaat Hulett
19 **Invest DIY:** Diagnosing a stock's health
20 **Pro Pick:** Rezco Value Trend Fund: A fund for all seasons
21 **Portfolio Management:** Keep an eye on those investment costs
22 **JSE:** Blue Label a rose among the thorns
23 **Directors & Dividends:** Dealings and payouts

Cover

24 **Brexit:** Blessing or balls-up?

In depth

30 **Oil:** What Opec has in store for the oil industry
34 **Property:** Pockets of opportunity for investment in Africa
37 **Local Government:** The state of our municipalities

On the money

40 **Spotlight:** TFG navigates bumps with aplomb
42 **Entrepreneur:** Getting ready to braai abroad
44 **Management:** How to ace any negotiation
45 Crossword and quiz
46 Piker

EDITORIAL & SALES

Editor Jana Marais **Deputy Editor** Anneli Groenewald **Journalists and Contributors** Simon Brown, Lucas de Lange, Johan Fourie, Moxima Gama, Craig Gradidge, Schalk Louw, David McKay, Buhle Ndweni, Andile Ntingi, Lameez Omarjee, Liesl Peyper, Petri Redelinghuys, Ciaran Ryan, Jaco Visser, Glenda Williams **Sub-Editors** Stefanie Muller, Jana Jacobs **Office Manager** Thato Marolen **Layout Artists** Beku Mbotoli, Tshebetso Ditabo, Zandri van Zyl **Sales Executive** Wendy Navarra wendy.navarra@newmediapub.co.za **Publisher** Sandra Ladas sandra.ladas@newmediapub.co.za **General Manager** Dev Naidoo **Circulation Manager** Armand Kasselman 021-443-9975 **Production** Angela Silver angela.silver@newmediapub.co.za, Rae Morrison rae.morrison@newmediapub.co.za

Published on behalf of Media24 by New Media Publishing (PTY) Ltd Johannesburg Office: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092
Postal Address: PO Box 784698, Sandton, Johannesburg, 2146 **Tel:** +27 (0)11 713 9601 **Head Office:** New Media House, 19 Bree Street, Cape Town, 8001
Postal Address: PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 **Email:** newmedia@newmediapub.co.za
Executive Directors **Group Commercial Director:** John Psillos **Managing Director:** Bridget McCarney **Non Executive Director:** Irna van Zyl
Printed by Paarlmedia and Distributed by **On The Dot** Website: **http://www.fin24.com/finweek** Overseas Subscribers: **+27 21 405 1905/7**

ENQUIRIES

SUBSCRIBERS	Fax	SHOPS
087-740-1019	0864-575-918	0861-888-989
subs@finweek.co.za		assistance@onthedot.co.za

Share your thoughts with us on:

@finweek finweek finweekmagazine

FINWEEK SUBSCRIBES TO THE SOUTH AFRICAN PRESS CODE WHICH COMMITS US TO JOURNALISM THAT IS TRUE, ACCURATE, FAIR AND BALANCED. IF YOU THINK WE ARE NOT COMPLYING WITH THE CODE, CONTACT THE PRESS OMBUDSMAN AT 011-484-3612 OR ombudsman@presscouncil.org.za © FINWEEK 2011 ALL RIGHTS RESERVED. TO INQUIRE ABOUT PERMISSION TO REPRODUCE MATERIAL CALL OUR ARCHIVE AT 021-406-3232.

By Johan Fourie

ECONOMY

How to boost tourism in SA

If tourism is vital to our economy, what are the issues we need to address in order to draw maximum benefits from this industry? And, no, hosting mega-events is not the answer.

The optimism after the 2010 World Cup has given way to pessimism following the visa regulations saga that did nothing but hurt the local tourism industry. A rough calculation on recently released tourism numbers suggests that the additional rise in tourism numbers from the World Cup was completely nullified by the new visa regulations. (That blow has now been softened by changes to the regulations.)

Tourism is vital to our economy for at least two reasons: It's labour-intensive, and this labour is often female and unskilled. For roughly every nine tourists that visit South Africa, one job is created. More importantly, its impact is spatially dispersed. Labour-intensive manufacturing is almost always concentrated in large metropolitan areas. Tourists travel to Cape Town, but also to Clarence, Clanwilliam and Coffee Bay.

For roughly every nine tourists that visit South Africa, one job is created.

In a research paper published in *Local Economy*, Gareth Butler and Christian Rogerson report the results of interviews with black employees of tourism establishments in Dullstroom, known for its fly-fishing and agribusiness. The authors find that when most employees are recruited, they have little more than a high school certificate, but gain valuable skills through on-the-job training (mostly improving their computer literacy) or, for some, through more formal tertiary qualifications, including university degrees paid for by the employers. In short, the sector provides opportunities in areas where there are few alternative income sources.

What can be done to increase the numbers of tourists visiting SA? The most obvious answer is: make it as easy as possible for foreigners to temporarily enter our country. Enough has been written about the absurd visa regulations. But let me add: in an attempt to prevent child trafficking, the regulations have hurt far more South African children by reducing the income (possibilities) of their mothers, who would have found work in the tourism industry had more tourists entered. Making it easy for tourists also includes better and affordable transport to the country. More flights might require competitive airport landing slots. So would efficient and safe border posts. And once here, allow them to use services they trust, like Uber taxis and Airbnb accommodation (with the upshot of even more dispersed beneficiaries).

Advertising can help. Many countries try to boost their international image, for example, by hosting events. We did this with the 2010 World Cup and will again in 2022 with the Commonwealth Games. The tourism increases from the World Cup, as María Santana-Gallego and I show in a *Journal of Sports Economics* paper, were large and continued for a few years after the event. But a new paper in the *Journal of Economic Perspectives* by two gurus of sports economics, Robert Baade and Victor Matheson, warns against hosting mega-events. They find that "in most cases the Olympics are a money-losing proposition for host cities; they result in positive net benefits only under very specific and unusual circumstances". The cost-benefit proposition is also worse for cities in developing countries, they say. Ouch. Those who dream of a Durban, Johannesburg or Cape Town Olympics take note.

Industry support, as with other sectors, seems to be of little help; often, the best governments can do for exports (tourism is formally known as travel service exports) is to ensure a safe and open business environment. One of the first reactions to the Paris attacks in November last year, for example, was the fear that terrorism will harm France's massive tourism industry. Paris was the world's third-most-visited city in 2015. France remains, by a large margin, the world's most-visited country. Travel and tourism services contribute 9.1% to its GDP (SA is slightly higher at 9.4%, but significantly below New Zealand, for example, at 17.4%).

France remains, by a large margin, the world's most-visited country. Travel and tourism services contribute 9.1% to its GDP (SA is slightly higher at **9.4%,** but significantly below New Zealand, for example, at 17.4%).

The fear seems justified: of course tourists would prefer to travel to places where they are less likely to be killed, mugged, or even required to pay a bribe. And in a recent working paper, I (with two Spanish co-authors) find exactly that: a 1% increase in the ratio of terrorist attacks per 10 000 inhabitants reduces tourist arrivals by 2.3%. We find that the effects of terrorism and crime are greater for leisure tourism than for business tourism but that corruption affects only business tourism.

Safety and security remains a central concern when travelling to SA. Even though the statistics show that tourists are safe, the perception of safety is what matters most. (Consider the actual versus perceived threat of Ebola.)

Even though the statistics show that tourists are safe, the perception of safety is what matters most.

The good news is that we also find that tourists from more unstable countries are more tolerant of terrorism, crime and corruption in the destination country. The rapidly expanding middle classes of China and especially India (cricket!) offer excellent opportunities for our tourism industry; on aggregate, the perception of crime and corruption, the statistics show, will have less of an effect on their decision to travel.

SA has many wonders to delight leisure and business tourists. Let's welcome them with open borders and convenient regulations. And if you're in the tourism industry, perhaps it's good to shift focus to new markets where perceptions of safety and security are less likely to play a deciding role. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

Gallo Getty Images/iStockphoto

At MTN Business we don't just understand what solutions corporates need, but why they need them. We also understand what obstacles and operational barriers CIOs, CFOs and even CEOs overcome on a daily basis. That's why our portfolio of dedicated advisors, innovative solutions and professional products can help you collaborate, communicate and connect your growing vision to your growing business.

Call one of our advisors today on 083 1800 or go to mtnbusiness.com/za

THE COURAGE TO GROW IS BUSINESS.

An ICT partner that responds to your needs as they change.

A NEW WORLD OF BUSINESS.

MTN BUSINESS

MetropolitanRepublic/18738

By Andile Ntingi

ECONOMY

Tackling unemployment in SA

South Africa needs to focus on developing technical skills and become competitive at attracting investments that utilise unskilled labour.

South Africa may have escaped a credit downgrade by a whisker but the country is not out of the woods yet. The long battle to quell rising unemployment, income inequality and poverty, continues. SA has slipped from being Africa's largest economy to third-biggest behind Nigeria and Egypt. It has also struggled to attain high growth rates since its political transition in 1994.

There are two recent revelations that indicate SA is regressing instead of progressing. In April, Stats SA published information that revealed that black youths aged between 25 and 34 were less skilled than their parents and white contemporaries. The second revelation paints a disturbing picture of an increase in South Africans who are dependent on the state for a living – according to the *General Household Survey*, released by Stats SA on 2 June, the percentage of people that received social grants leapt from 12.7% in 2003 to 30.1% in 2015.

The percentage of people that received social grants leapt from 12.7% in 2003 to **30.1%** in 2015.

The first revelation explains why unemployment and income inequality are stubbornly high, and sadly the black youth bear the brunt of these social ills. The second implies that government has been reduced to a redistributor of wealth and an encourager of dependence on welfare handouts instead of being a stimulator of wealth creation and jobs.

Let me deal with the revelation that young black South Africans are less skilled than their parents. To put it bluntly, this regression means that apartheid governments did a better job training black people than the current democratic state.

We are spending more money on education than any other country in Africa, but the graduates that the system produces lack the skills the private sector needs. Part of the reversal was caused by the reduction, after 1994, in investment in technical and vocational training and a disproportionally greater focus on academic education. This has led to the problem of unemployed university graduates who cannot find work anywhere.

The leaders of the ANC should hang their heads in shame. They have presided over the dangerous reversal that is causing anger and frustration amongst the young black South Africans who are being rejected by the labour market. The private sector, which continues to exclude black people from its upper echelons and black-owned businesses from its supply chains, should also share the blame for what is happening.

The reduction in technical and vocational training coincided with the de-industrialisation of the economy, where we have seen the rise of consumption-driven sectors such as banking and consumer retailing and the decline of productive sectors like mining and manufacturing.

Shopping malls have proliferated in big cities, small towns and townships across SA while mines and factories have been closing down. As a result, the country's citizens are facing massive unemployment and inequality. Between 1994 and 2013, the manufacturing sector's share of GDP declined from 20.9% to 12.4%.

The drive to re-industrialise the economy presents us with an opportunity to develop technical skills (engineers, technicians, and artisans) by encouraging young people to enrol at vocational colleges, instead of solely focusing on enrolling at universities. These skills are not only specific to manufacturing and can easily be transferred to high-tech mining and the construction and maintenance of infrastructure. Countries with literate workers that are skilled at operating machines attract investors.

In SA we are known for poor education and labour unrest, hence we are struggling to attract investors to our manufacturing sector, which is crucial to growing our sluggish economy. On top of this, we are not competitive in attracting investments that seek to utilise unskilled labour.

The other source of concern is the growing number of people who are living on social grants. An estimated 2.6m people received social grants in 1994, but the recipients have ballooned to 16.9m people in 2015. At some point, this will become unaffordable.

While the government must be commended for widening the welfare net to protect the poor from slipping into abject poverty, this also represents a massive failure to intervene in the economy in a manner that creates a climate that is conducive to attracting investment and generating employment.

Corporates continue to hoard about R1tr in cash because they don't feel comfortable investing in SA due to legislative uncertainty, labour instability, and the high cost of doing business. The concerns over state capture by politically influential individuals to curry favour with cabinet ministers will not help to build trust between business and government to ensure the release of these funds into productive investment in the economy.

While jobs remain scarce, particularly for the youth, the political risk is building up and SA may find itself facing its own Arab Spring. Or the poor and disenchanted may find themselves in the arms of the EFF, which is promising to seize mines, farms, and banks without compensation if voted into power. ■

editorial@finweek.co.za

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

Gallo Images/Getty Images

JOE PUBLIC Ignite AF/3436/FW

Alexander Forbes Private Client Wealth applies the same care and consideration to every client's capital to ensure their financial well-being.

Contact Lorna Harrington on 011 269 0741
or harringtonl@aforbes.co.za

*South Africa 2016 Wealth Report by New World Wealth.

Alexander Forbes Financial Planning Consultants is a licensed financial services provider (FSP 31753).

in brief

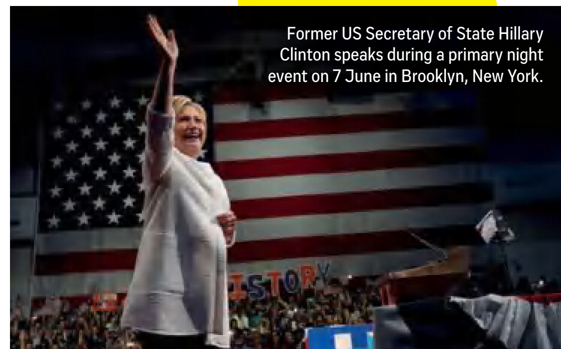
>> **TREND:** The app that will increase your chances of surviving a car crash *p.10*
>> **IN THE NEWS:** SA and its neighbours desperately need to rethink policies to boost their economies *p.12*
>> What does the future hold for mining? *p.13*
>> Small miners taking massive strain *p.14*

"I KNOW MARKET PARTICIPANTS REALLY WANT TO KNOW EXACTLY WHAT'S GOING TO HAPPEN. THERE IS, AS I SAID ABOUT 18 TIMES, NO PRESET PLAN."

– US Federal Reserve chair **Janet Yellen** comments on the outlook for interest rates in a speech on 6 June. The Fed was widely expected to hike rates again when it meets on 14 and 15 June, but weaker-than-expected jobs data in May has caused the Fed to rethink its plans, nytimes.com reported. Yellen highlighted a number of economic uncertainties facing the Fed, including the inconsistency of recent economic data and Britain's coming referendum on whether to remain in the EU, it reported. A breakup would be economically disruptive, she said.

"Thanks to you we've reached a milestone: the first time in our nation's history that a woman will be a major party's nominee... I wish my mother could see her daughter become the Democratic Party's nominee."

– **Hillary Clinton** to supporters at a rally in Brooklyn after clinching the Democratic nomination on 7 June. She is to become the first female presidential candidate of a major US party, ft.com reported. Clinton will face Donald Trump, the presumptive Republican nominee, in national elections on 8 November.



Former US Secretary of State Hillary Clinton speaks during a primary night event on 7 June in Brooklyn, New York.

"THE BRITISH ARE NOT THE ONLY ONES WITH DOUBTS ABOUT THE EUROPEAN UNION. THE EU'S IMAGE AND STATURE HAVE BEEN ON A ROLLER-COASTER RIDE IN RECENT YEARS THROUGHOUT EUROPE."

– A recent survey by the US-based Pew Research Center found that only 38% of French people have a favourable view of the EU, down from 69% in 2004, ft.com reported. This compares with 44% of Britons who felt positively about the EU, down from 54% in 2004, the survey found. In Spain, only 47% now view the EU favourably, compared with 80% in 2007. In Italy, pro-EU sentiment has slumped to 58%, down from 78% over the same period, ft.com said. Only 27% of Greeks support the EU, compared with 50% of Germans. (Also see page 24.)

Gallo Images/Getty Images

THE GOOD

The JSE, which is celebrating 20 years of electronic trading, will reduce its settlement period on all equity trades from five days to three in July, bringing it in line with international best practice. The move will benefit investors, as it would increase liquidity and reduce credit and systemic risk, *Business Day* reported. Liquidity is expected to increase from the current average value traded per day of R25bn, to R50bn, it said. However, the JSE is behind the global curve in reducing the settlement cycle, the newspaper said, with countries like India, Hong Kong, Taiwan and Germany already operating on a two-day cycle. Settlements involve the payment and delivery of securities.

THE BAD

South Africa's economy reported negative growth of 1.2% in the first quarter of 2016, with an 18.1% decline quarter-on-quarter in mining production contributing to the drop. The GDP decline was worse than the market expectation of a contraction of around 0.1%. Excluding mining, the economy would have shown quarter-on-quarter growth of 0.5%, Statistics SA said. Year-on-year, GDP declined 0.2% in the first quarter. In addition, the RMB/BER Business Confidence Index fell further to 32 points in the second quarter, the lowest level since the global financial crisis in 2008/9, and nearly 17 points below the average level of confidence achieved since 1994, according to Stanlib.

THE UGLY

The Sasol share price dropped the most in 17 years in trading on 7 June, slipping 11% after the group warned that its profit for the year to end June will drop by as much as 30%. The decline was mainly due to impairments of a whopping R11.5bn on its shale gas assets in Canada. Sasol had more bad news: its new ethane cracker in Louisiana, which is about 40% complete, will now cost an estimated $11bn, rather than the $8.9bn initially budgeted for, while construction will take longer than expected. Not a great way for CEO David Constable to end his tenure at the petrochemical giant, but at least he's not leaving empty-handed, receiving a pay cheque totalling R187.3m for the four years to end June 2015.

DOUBLE TAKE

BY RICO

INVESTIGATING THE GUPTAS

R3m

Public protector Thuli Madonsela said her office will need only R3m for an initial probe into the influence of the Gupta family on President Jacob Zuma's administration, *Business Day* reported. The first part of the investigation would focus on whether non-government actors were involved in the appointment of ministers, particularly the appointment of Des van Rooyen as finance minister in December 2015, and whether this involvement took place with the permission of Zuma, the newspaper said. The second and main investigation, which would be much more complex, would look at whether contracts were irregularly and corruptly awarded to Gupta family businesses by state-owned companies and government departments, *Business Day* said.

OIL RECOVERY

$60

Oil prices rallied to seven-month highs in the second week of June after Abu Dhabi forecast prices could climb above $60 a barrel amid a supply overhang that is contracting more quickly than projected, NKC African Economics said in a research note. Tightening supplies stemming from attacks on Nigerian oil infrastructure also bolstered the price of crude, it said. Brent crude oil was trading at $51.50 a barrel at the time of writing, after breaching the significant $50-level on 26 May, nearly double its 13-year lows of below $27 reached in January. The slump in prices has forced higher-cost production, notably shale producers in the US, to cut production and halt investment plans. (Also see page 30.)

RECORD-LOW YIELD FOR THE BUND

0.033%

The benchmark German government debt yield hit a fresh record low of 0.033% on 8 June as the European Central Bank (ECB) starts to buy corporate debt as part of its quantitative easing programme, ft.com reported. The pressure extended across European sovereign debt markets, with Switzerland's 10-year debt yield dropping 2 basis points to 0.44%, Italian 10-year yields falling 2 basis points to 1.32%, and UK Gilt yields declining 1 basis point to 1.26%, it said. The pressure was "in part due to expected or actual central bank buying", but also reflected "entrenched deflationary expectations", Sanjiv Shah, chief investment officer at Sun Global Investments, was quoted as saying by ft.com.

LOW GROWTH HAMPERS CATCH-UP

67.7

The slowdown in growth in emerging markets over the past three years means it will take decades longer for major emerging economies, including SA, to catch up with US per capita GDP, the World Bank said. The bank said on 7 June that emerging commodity-exporters will grow by only 0.4% this year, compared with 3.2% in 2013. In the five years before the 2008 financial crisis, emerging markets could expect to take an average of 42.3 years to catch up with US per capita GDP, it said, but slower average growth means it would now take 67.7 years to catch up with the US, ft.com reported. For frontier markets, like Nigeria, the average catch-up period has more than doubled from 43.1 years to 109.7 years, ft.com said.

By Glenda Williams

A crash-detecting app that travels with you

CrashDetech is an app that detects when you are involved in an accident…and summons help.

Emergency medical personnel refer to it as the "golden hour" – that critical time following a traumatic injury during which medical attention is likely to save a life. With no less than 47 fatalities on South Africa's roads every day, according to LeadSA/Arrive Alive, that golden hour takes on a lot more significance.

The problem gets stickier if an accident occurs on a quiet road with little likelihood of anyone witnessing the accident or rendering aid. And while a smartphone might be to hand, accident victims might not be in a condition to summon help themselves.

This was the problem that Dynamus Technologies CEO Jaco Gerrits wanted to address with his smartphone app CrashDetech. This app does not rely on a person to activate an emergency. Activated by the smartphone app on impact, medical help for motorists in distress is immediately summoned.

Gerrits established Dynamus Technologies in 2002, winning the Top Information & Communication Technology Entrepreneur in Africa award in 2007. The company has developed numerous technology solutions, among them the Thembela skills and recruitment project linked to mining companies and local government.

Selected to compete in the finals of *The Venture* competition, the Dynamus Technologies CEO is off on another award-seeking journey. This time to New York in July to pit his CrashDetech solution against social entrepreneurs from 26 other countries.

One of CrashDetech's differentiators is that it is portable, attached to the individual's smartphone and travels with them whether as driver, passenger or public transport user. The app, which runs on the IOS and Android platforms, requires a one-time log in with the auto-drive detection sensor automatically opening the app.

The app took 18 months to develop and knows the difference between a mild impact and a serious crash. "The sensors on the phone are able to pick up the force of acceleration (g-force), a serious car crash sometimes generating in excess of 30 g's. We spent a lot of time engineering a solution to eliminate 'false positives'; the CrashDetech proprietary algorithm monitoring the phone's sensors eliminate them," explains Gerrits.

So while you may get a call to find out if you require assistance after a minor incident, the likelihood of an entire fleet of emergency services arriving on the scene of such an event is low.

There is insignificant battery drainage when the app is running. "The algorithm is designed so that there is no significant drainage of the battery for standard driving (two to three hours/day). We had to address that to ensure that users did not uninstall the app," explains Gerrits. If you happen to be driving for 10 hours on the trot, it is likely to have some impact on the phone's battery.

Jaco Gerrits
CEO of Dynamus Technologies

CrashDetech currently has 500 local users, but Gerrits believes that the initial marketing drive will increase that number to around 20 000 users, 10% to 15% of whom are forecast to become paid subscribers.

CrashDetech's free version provides users with a monthly 30-trip limit that includes automatic crash detection and sending of an emergency alert sms to that user's personal emergency contacts.

Subscription options range from R49 to R109 per month. All include the immediate dispatch of emergency medical services to the crash location and provision of a windscreen medical ID disc with medical information, crucial in the event of smartphone damage.

An automated logbook feature is also included. The smart drive-detection technology allows users to monitor their trips, seamlessly logging which are business, and which are private.

The road ahead

CrashDetech currently has 500 local users, but Gerrits believes that the initial marketing drive will increase that number to around 20 000 users, 10% to 15% of whom are forecast to become paid subscribers.

The company is close to concluding a deal with a number of large local entities in the insurance industry to embed the technology into existing apps. If successful, that could mean gaining upwards of 100 000 users in one swoop, says Gerrits.

Integrating CrashDetech technology into third-party apps is a format also being used for international discussions.

"CrashDetech has generated interest from many markets and we are in early discussions to expand the app to territories like Zambia, Guatemala, the UK and Australia," Gerrits tells *finweek*. ■

editorial@finweek.co.za

Activated by the smartphone app on impact, medical help for motorists in distress is immediately summoned.

Power to being on top of tech trends

Stay up to date with all the latest phones, reviews, videos, competitions and what's new for you on the Vodacom *now!* hub.

now.vodacom.co.za

Vodacom
Power to you

Terms and conditions apply

By Ciaran Ryan

Sub-Saharan Africa needs a policy reset

A policy reset is the only way to get back onto the high growth path. This means labour market flexibility, policy certainty, and diversifying away from commodities, according to the International Monetary Fund.

Weak commodity prices and slowing economic growth have interrupted sub-Saharan Africa's blistering 5.8% average growth over the last decade for the 20 fastest-growing countries. For this kind of growth to resume, Africa needs a policy reset, says Axel Schimmelpfennig, the International Monetary Fund's (IMF's) senior resident representative in South Africa, referencing the IMF's April 2016 *Regional Economic Outlook for Sub-Saharan Africa.*

Speaking to *finweek,* Schimmelpfennig said the continent needs to counter overreliance on commodity exports by diversifying into manufacturing and services, while focusing on fiscal sustainability, infrastructure development and social spending. "We feel the latest Budget in SA sets appropriate fiscal targets to safeguard fiscal sustainability. The big question is whether the government's growth projections will be realised, and what it plans to do if growth falls short of its target."

Treasury expects growth to limp along at 0.9% this year (Standard & Poor's [S&P] is forecasting only 0.6%), reaching 1.7% next year. This leaves little elbow room for fiscal manoeuvring.

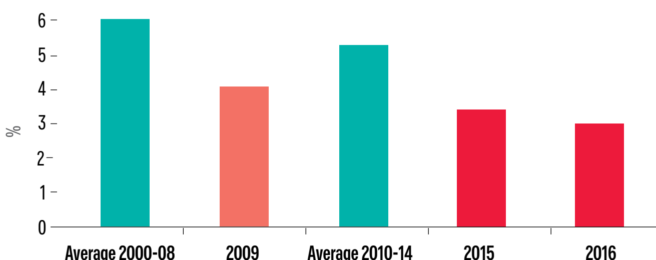
Schimmelpfennig says pro-growth reforms would include measures to enhance competition in the economy, a more flexible labour market, increased infrastructure investment to reduce the electricity and other bottlenecks, and greater policy certainty. "The one thing we have seen in SA is the decline in the mining sector, which has been impacted by lower commodity prices. However, with a predictable and conducive policy environment, the mining sector should stabilise."

Treasury expects growth to limp along at **0.9%** this year (Standard & Poor's is forecasting only 0.6%), reaching 1.7% next year.

S&P highlighted a number of structural issues that should be addressed to put the South African economy on a "firmer footing" and to maintain the country's investment-grade rating. These issues include the provision of a reliable energy supply, where Eskom has been making progress through a better maintenance programme, additional capacity coming online (including from independent power producers), and better management of demand in peak periods, S&P said. Labour reform is also needed to prevent prolonged strikes and address high youth unemployment, which pose structural weaknesses to SA's economy, the ratings agency said.

From a policy certainty perspective, concerns include the discussions around the new Mining Charter, as well as the "cohesion of the executive branch", with political tension having increased since Nhlanhla Nene was fired as finance minister in December. S&P said the successful conclusion of the Mining Charter talks "could help improve confidence and investment", while political factors (such as the "periodic disputes between key government institutions and within the ruling ANC") could weigh "more on investor confidence than inconclusive labour or mining sector reform" if allowed to fester.

SUB-SAHARAN AFRICA: REAL GDP GROWTH, 2000-16



SOURCE: IMF, *Regional Economic Outlook for Sub-Saharan Africa*, April 2016

SA isn't the only country in the region that is facing tough economic times. Schimmelpfennig says the region is in for a protracted period of low commodity prices, aggravated by a longer-than-expected drought in East and Southern Africa. Security challenges are adding to the fiscal burden facing some countries in the region.

Countries reliant on commodity exports will have to make fiscal adjustments as a matter of urgency, while oil-importing countries are benefitting from lower prices and improvements in their balance of payments, the IMF said.

Axel Schimmelpfennig
IMF's senior resident representative in South Africa

Writing in the latest IMF *Finance & Development* magazine, Steven Radelet, director of the Global Human Development Program at Georgetown University, says those African countries that moved forward in the last two decades demonstrated much improved governance; a greater propensity to appoint skilled leaders and policymakers to top positions; improved economic and social policies, characterised by smaller budgets, flexible exchange rates and more market-orientated trade systems. The fast-growing countries were assisted by strong global growth.

He adds that Africa can emulate Asia's economic miracle by investing heavily in schools to build skills, as well as the infrastructure necessary to support manufacturing, while implementing pro-business policies that encourage investment in manufacturing and services.

If the right policies are taken to diversify economies into manufacturing and services, Africa's growth can resume, says Radelet. ■

editorial@finweek.co.za

Steven Radelet
Director of the Global Human Development Program at Georgetown University

www.cddrl.fsi.stanford.edu

Image: Supplied

By David McKay

Where to for the battered mining sector?

While there was an uptick in certain metals at the beginning of the year, prices have declined and the big miners' market caps have been falling. What does the future hold for this sector?

The latest annual mining survey produced by consulting firm, PwC – *Mine2015* – shows just what a kicking the world's mining sector has received. Based on the performance of the top 40 miners by market value, consolidated market capitalisations fell for the third consecutive year in 2015.

At about $500bn, the combined market caps of the companies – consisting of BHP Billiton, Glencore and Anglo American, among others – were at their lowest point since 2004, and a fraction of the $1.6tr recorded in 2010, the zenith of the mineral and metals super cycle.

What's interesting though is that the combined market caps have increased in the first quarter of this year to just over $600bn, raising the question as to whether the commodity market has seen the worst of the four-year correction.

Andries Rossouw, a partner in PwC's energy and mining industry assurance group, who has co-authored *Mine* in the past, doesn't think there are fundamental reasons for believing in the recovery, however.

"I think that the commodity price upswing reflects the spot mentality of traders," he told *finweek* at the launch of the survey on 7 June. It is the restocking of Chinese buyers, and short-covering, that has temporarily raised metal prices and the equities have overreacted.

"It's absolutely ridiculous that mining stocks ran ahead and while I believe we have hit the bottom of the market this year, there will be some bumping along the bottom for the foreseeable future," he added.

The message to investors is to be cautious with mining stocks that have already had a strong run this year, largely owing to the rand-hedge characteristics certain gold and platinum counters have with production 100% in SA.

The message to investors is to be cautious with mining stocks that have already had a strong run this year.

Already, there has been evidence of a pull-back in commodity prices during May, which has recorded the worst performance for bulk minerals and commodities so far this year.

Copper was down 7.3% in the month, as was aluminium. Nickel retracted sharply by 10.8% while zinc was flat and was the best-performing base metal to date this year. Gold declined ahead of a possible interest rate hike.

Copper was down **7.3%** in the month, as was aluminium. Nickel retracted sharply by **10.8%** while zinc was flat and was the best-performing base metal to date this year.

"There has been a trader mentality in China which has seen rising demand and rising stock levels [of metals]," said Tim Clark, an analyst for Standard Equities. The question is whether this is linked to short-term factors such as stimulus measures in China.

"Our economists believe there is too much debt in China and they think there'll be a slowdown," said Clark. "Maybe not the hard landing that we have seen previously in China, but there will be declines in demand."

Kieran Daly, an analyst for UBS, also believed China was "pulling levers", but he thought the super cycle had well and truly been consigned to history, even were India and Africa to set upon their own heightened levels of industrialisation.

"I battle to see another significant demand event like we had in China," he said. "India as another China? That is a very different proposition. People talk about Africa, but Africa is a collection of different countries and it's hard to see a significant growth story." ■

Andries Rossouw
Partner in PwC's energy and mining industry assurance group

editorial@finweek.co.za

fin24 #trending on fin24.com

Many businesses still ill prepared for Popi – survey

A recent survey has raised concerns about lack of awareness among South African organisations about the legal requirements around storing and disposing of confidential data outlined in the Protection of Personal Information (Popi) Act.

More than three-fifths of small and medium enterprises (SMEs) surveyed, and a third of larger organisations in South Africa surveyed, believe Popi does not apply to their businesses, according to the first *South Africa State of the Industry – Information Security* report conducted by Ipsos on behalf of information security company Shred-it. Once Popi is implemented, businesses will have one year to comply.

06/06/2016 11:58

DA asks Zuma to send Expropriation Bill back to Parliament

The DA has petitioned president Zuma in terms of the Constitution to refer the Expropriation Bill back to Parliament. This follows advice from its lawyers that the Bill is unconstitutional, in its content, and because of what the lawyers deem to be procedural irregularities in its passing. One of the concerns with the Bill in its current form is what the DA deems a violation of the Constitution, with specific reference to the right to property and the right not to be evicted without an order of the court.

It also referred to alleged errors in adhering to the requirements in the mandating and voting procedures in the Provincial Legislatures and the National Council of Provinces.

07/06/2016 19:50

Sars paid KPMG R23m for 'rogue' unit probe

The South African Revenue Service (Sars) paid KPMG over R23m for its highly contested probe into its investigation unit, which was founded when finance minister Pravin Gordhan was Sars commissioner.

This was according to a written response by Gordhan, on behalf of Sars, to a question tabled by EFF MP Floyd Shivambu.

07/06/2016 14:42

By David McKay

Junior miners struggle to graduate

The current economic and legislative climate is hard for the big mining companies, and near impossible for the smaller ones.

Spare a thought for the junior mining companies. If it's hard for large mining firms to attract investment and raise capital, then you can bet it's doubly worse for the juniors, the intrepid entrepreneurs who are often the lifeblood of tomorrow's minerals and metals supply.

In SA, it's especially difficult for junior miners to gain traction. This is owing to the evaporation of confidence in the country's regulatory framework, according to bankers, analysts and junior mining executives.

A quick look at the JSE tells its own story.

There are hardly any exploration plays and very few small junior miners to shake a stick at: Bauba Platinum, Miranda Minerals, Tawana Minerals, Firestone, ZCI... But with all due respect, there's nothing here to set the world alight; not yet.

Speaking at the Junior Indaba, a conference held in Johannesburg earlier this month, Johan Dippenaar, CEO of Petra Diamonds, said that a lack of flexibility in application of regulations would make it impossible today to build a company in the same way that he had constructed his firm.

Petra's rise to prominence from a diamond industry hopeful was based on buying the ageing diamond mines of De Beers, but it was a strategy that required the ability to behave entrepreneurially.

"It would be very difficult to have junior miners like ours given the current regulations. The inflexible approach of labour unions is another problem," he said.

Market cyclicality is one thing, but legislative instability disturbs the cycle and means investors will abandon a mining district, said Chris Hart, an economist.

"If you don't have line of sight in terms of policy, you have problems," said Hart. "We haven't looked after investors and they won't want to carry us through the downtimes.

"They see it as an orphan to be discarded. We need to appreciate that when the environment is not stable – such as when we get a downgrade – it doesn't end there. It will be followed by more [downgrades] and we could end up at the IMF," he said.

"Then we are not operating in a cyclical environment."

The regulatory uncertainty in SA mining relates to changes in black economic empowerment targets. The 2003 Mining Charter has been modified twice and a third was gazetted in April, setting down fresh targets.

But it's not only the business climate.

> "We have lost the public investors and they won't come back again."

Imprudent planning and spending by mining in general, as well as specifically in the junior sector, has killed off a lot of the retail investment in the sector.

"Junior financiers, such as the archetypal retired Canadian dentist who has kept investing through incentivised flow-through funds, or the self-employed Australian...they have been destroyed by investing in junior miners," said Paul Miller, a resources banker with Nedbank Capital.

"We have lost the public investors and they won't come back again," he added.

Bauba Platinum's chrome mining operation

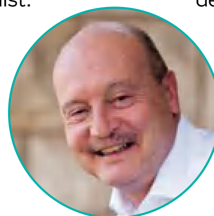
The new investors in the sector are largely private equity, he said. If developers want to access private investment they either have to be "in a good jurisdiction, have a rock star geologist, or have made money for investors in the past. If you can't tick one of those boxes, there isn't money for you," said Miller.

Luckily it's not all doom and gloom.

Rob Still, a long-standing mineral exploration and mine development investor, said there are certain cast-iron rules that are worth following and that apply in any given regulatory environment for junior miners wanting to attract capital and investors.

"Go for a high-grade deposit," he said, adding that a high-quality mineral resource "forgives a lot of sins" that the entrepreneur may commit, or the investor overlook.

He also guides investors "not to sweat the small stuff". Investing in mineral deposits means targeting known and large mineral systems. "If you're going to be in exploration, you need to know how the system is formed. Don't get involved if you don't understand the orebody," he said.



Johan Dippenaar CEO of Petra Diamonds

> "Keep your failures small and your successes large. If something is not working for you, get out quickly and cut all strings."

"Keep your failures small and your successes large. If something is not working for you, get out quickly and cut all strings," said Still. He also recommends a degree of philosophical thinking about the chances of success.

The sobering fact is that on average it's the seventh owner of a certain project or mineral deposit that actually brings a project into production. ■

editorial@finweek.co.za

baubaplatinum.co.za

market place

Don't miss: The *finweek: Money Matters* show every Friday at 1PM on CNBC Africa, channel 410. In the show, we talk to experts about this issue's top stories.

FUND IN FOCUS: ARGON BCI WORLDWIDE FLEXIBLE FUND

By Jaco Visser

Taking advantage of global trends

The fund aims to deliver a high long-term total return to investors. It has a steep benchmark of seven percentage points above inflation and uses a bottom-up and top-down approach to selecting stocks.

FUND INFORMATION:

Benchmark:	CPI + 7% p.a.
Fund manager:	Kyle Hulett
Total expense ratio (TER):	4.24%
Fund size:	R22.1m
Minimum lump sum/ subsequent investment:	R1 000 monthly / R10 000 lump sum
Contact details:	info@argonasset.co.za or 021 670 6576

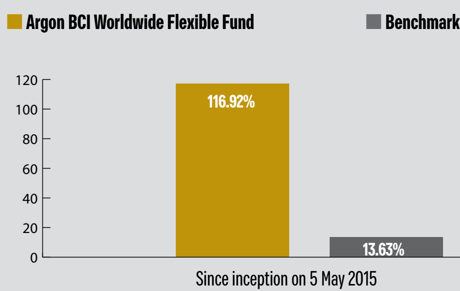
TOP EQUITY HOLDINGS

as at 30 April 2016:

1	Rockcastle Global Real Estate	6.3%
2	New Europe Property Investments	6.1%
3	British American Tobacco	6%
4	Cashbuild	5.9%
5	Nedbank Call Account	5.4%
6	Mondi plc	5.4%
7	Reinet Investments SCA DR	5.1%
8	Steinhoff International Holdings	5.1%
9	The Spar Group	5%
10	Anheuser-Busch InBev	4.7%
	TOTAL	**55%**

PERFORMANCE (ANNUALISED)

as at 30 April 2016:



Fund manager insights:

According to Kyle Hulett, manager of the fund, the stock selector analyses a company's financial fundamentals (bottom-up) and takes cognisance of the macroeconomic environment that a company operates in (top-down).

"I'm looking for companies that have a dynamic management team, are in profitable industries and are currently doing well and enjoying strong momentum," says Hulett. "From a top-down perspective, I look at what's happening to global currencies, interest rates and global economic growth."

The fund had a large allocation to global bonds, global property and gold, explains Hulett. This is due to his belief that interest rates will continue to be low for a very long time and domestic economic growth is "non-existent".

"The reason I think growth won't exceed current levels is that debt is too high," says Hulett. "Debt is the reason the world entered the 2008 US subprime crisis. Debt is the reason we had the European sovereign debt crisis in 2011." In China, local government funding vehicles, which borrowed money from banks and shadow financial institutions, led to the country's municipal debt crisis last year.

The world has seen three debt-induced bear markets over the past seven years, which were survived by taking on more debt, he explains. Currently global debt is higher than it was in 2008. "When debt is high, every response that the economy has is magnified. Volatility is high. Growth is low as people attempt to repair their balance sheets."

Hulett doesn't expect central banks to increase interest rates as much as they hope due to elevated debt levels of government, corporates and households in a bid not to curb economic growth. When interest rates increase, governments, corporates and households alike have less discretionary spending power, which limits the output of economies.

Hulett's focus is on SA stocks with global revenue streams and buying offshore equities and fixed-income stocks through tracker funds. He has positioned the fund to take advantage of volatility in the currency, equity and bond markets.

Why *finweek* would consider adding it:

The fund has performed well over the past almost 12 months and posted a 35% investor return since the start of January.

Hulett's view on the interaction between debt and its limiting effect on economic growth is a prudent macroeconomic view; aligning a fund to benefit from this harsh reality is attractive. With its steep benchmark, namely seven percentage points above consumer price inflation, the manager would need to work magic in coming years to deliver these types of returns to investors.

The fund's total investment charge, which is at the upper end when compared with peers, should not pose a problem if returns remain elevated at current levels. ■

editorial@finweek.co.za

PPC

BUY SELL HOLD

By Simon Brown

From bad to worse

I wrote last week that PPC's management had failed shareholders and that shareholders had failed themselves by not noticing management's failings. And now things have gone from bad to worse. After PPC initially said it would need to raise R3bn to R4bn due to its debt burden, it has now said that after being downgraded four notches, it will need to raise an even larger unspecified amount.

The share now trades back where it did in 2003, but things are worse than back then. Its plants are over a decade older and in need of upgrading; it has local competition in the form of Sephaku Cement and it has a pile of US dollar-denominated debt for its African expansion.

Beleaguered shareholders may be tempted to hang on, hoping that it all goes well, but I think the risks outweigh the benefits and I would cut my losses and run. This 124-year-old company may not survive; the African expansion has risks, locally it is under pressure and so far management has not covered itself in glory. ■

After PPC initially said it would need to raise R3bn to **R4bn** due to its debt burden, it has now said that after being downgraded four notches, it will need to raise an even larger unspecified amount.

- SELL Lewis
- BUY Santova
- HOLD Calgro M3
- HOLD Kumba Iron Ore

TELKOM

BUY SELL HOLD

By Moxima Gama

Turnaround strategy yields results

In 2013, just after Sipho Maseko joined Telkom as CEO, he listed three areas the company needed to address: resetting its cost base, creating a new affinity with its customers and resolving the mobile issue in a way that enables it to be a telecoms company of the future. Two years later, Telkom declared its first dividend since 2011. And releasing the group's results for the year to end March on 6 June, Telkom said it has completed its three-year turnaround strategy and is now well-positioned for growth.

As part of its turnaround plans, it has cut its headcount from over 21 200 employees in 2013 to below 14 000 by the end of the 2016 financial year, while employee expenses have been cut from R9.28bn to R7.91bn over the same period. It has also managed a significant turnaround in its mobile operations, which reported an ebitda (earnings before interest, taxation, depreciation and amortisation) loss of R40m in the past financial year, down from an ebitda loss of R2.16bn in 2013. Telkom said the mobile business has been breaking even on a monthly basis since the fourth quarter of the 2016 financial year.

Its R2.6bn takeover of Business Connexion (BCX), which expanded Telkom's enterprise ICT service offering, is also starting to bear fruit, contributing new technology revenues to the group, it said. BCX reported revenue growth of 17% for the seven months, with revenues in Europe, the Middle East and the rest of Africa up 40%, it said.

Yet challenges remain. The number of fixed lines in service has fallen to its lowest level in more than 20 years, and the group warned that it is seeing an increased competition, particularly in the fibre space, putting its margins under pressure. On the plus side, Telkom declared a dividend of 270c a share, up 10.2% from the previous year's total dividend.

How to trade it: Upside above 6 135c/share would end a short-term bear channel, with potential gains to 7 460c/share and then 8 580c/share. Go long at any level above 6 135c/share, with a fair stop-loss. A reversal through 5 500c/share would end the current uptrend. In which case, abandon long positions. ■

editorial@finweek.co.za

Sipho Maseko
CEO of Telkom

On the plus side, Telkom declared a dividend of 270c a share, up **10.2%** from the previous year's total dividend.

- SELL Richemont
- SELL Netcare
- BUY AngloGold Ashanti
- BUY Barloworld

By Moxima Gama

NASPERS

Tencent stake boosts Naspers

Various factors have driven the media giant's rally over the past months.

The rise of Naspers*, Africa's largest company by market value, saw its market capitalisation exceed R1tr for the first time on 31 May, driven by gains in underlying investment Tencent.

The internet, e-commerce, video entertainment and media group has returned 25.8% to shareholders over the past year. Over the past five years, the stock is up six-fold, from R381.95 in June 2011 to R2 295 a share at the time of writing, according to INET BFA data.

The share is trading at a price-to-earnings ratio (P/E) of 110, making it one of the most expensive shares on the JSE's Top40 Index based on this metric.

The rally in Naspers shares has been largely driven by its 34% stake in Chinese internet company Tencent, which offers mobile gaming and messaging services including WeChat and QQ.

Tencent, which was founded in 1998, has grown into the biggest internet company in Asia. Naspers initially bought half of Tencent in 2001, investing $32m in the start-up. The stake has since been diluted, and Tencent's market capitalisation at the time of writing was $214bn.

Naspers's success is not all attributed to Tencent, as it continues to build its portfolio in the online world.

Its other major investments include a 29% stake in Russian internet group Mail.ru, which is valued at around $1.2bn.

While the group has had much success investing in early-stage internet companies over the years, ratings agency Fitch in May flagged its high development spend on e-commerce and pay TV as reasons why the group cannot qualify for better credit ratings.

Naspers has, for example, been investing in ShowMax, a subscription video-on-demand service that is aimed at competing with Netflix.

The company's South African pay TV business remains crucial for the group, as it generates most of its operating cash flow from this business, Fitch said.

The business showed some strain in the first six months of the financial year as it struggled to raise subscription fees to offset the impact of a declining rand against the dollar, in which it pays for much of its content.

The group is set to release its financial results for the year to end March on 24 June. This will be the first set of results that is reported in US dollars, rather than rand.

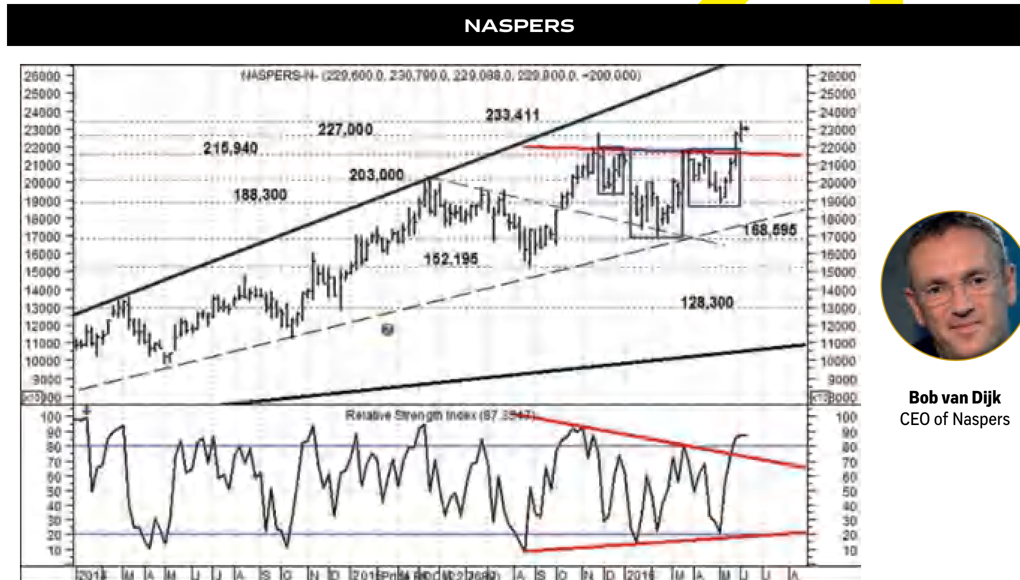
Naspers, which was founded in 1915 in Stellenbosch, has grown into a business with operations in more than 130 countries.

It said it currently earns more than 70% of revenue on an economic interest basis (which includes the group's proportionate share of the revenue of associates and joint ventures) from outside SA, while its shareholder base is now also largely comprised of foreign investors "to whom financial reporting in rand is of limited relevance".

52-week range:	R1 521.98 - R2 334.11
Price/earnings ratio:	108.4
1-year total return:	+24.5%
Market capitalisation:	R996.7bn
Earnings per share:	R20.96
Dividend yield:	0.21%
Average volume over 30 days:	1 323 212

SOURCE: INET BFA

NASPERS



SOURCE: MetaStock Pro (Reuters)

Bob van Dijk
CEO of Naspers

What next?

Possible scenario: Naspers has recently broken out of an inverted head-and-shoulders pattern – a bullish continuation pattern – confirmed above 215 940c/share and substantiated by the 3-week relative strength index (RSI) overcoming the upper slope of its symmetrical triangle. The upside target of this breakout is situated at 263 285c/share. The overbought RSI should trigger a reversal to affordable levels to 209 000c/share at most. A reversal above that level should see Naspers resume its uptrend to its near- to short-term target.

Alternative scenario: The objective of the bullish pattern would be negated below 188 300c/share. Alarm bells should sound below 203 000c/share. ■

editorial@finweek.co.za

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

Moxima Gama has been rated as one of the top 5 technical analysts in South Africa. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.

Don't miss!

Moxima Gama on *finweek: Money Matters* on CNBC Africa every Friday at 1pm.

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 the week's main market news.

FAMOUS BRANDS*

Still a must-have

Famous Brands' results show why this is one of the must-own stocks on the JSE. The group owns over 2 600 stores, with properly integrated franchise, logistics and manufacturing operations. However, margins are slipping and the operating leverage went the wrong way with revenue up 31%, operating profit up 18%, headline earnings per share (HEPS) up 16% and the dividend up only 15%. The question is: should you worry? I don't think so. Famous Brands is a massive operation and margins will shrink as lower-margin logistics and manufacturing grow. I also suspect that casual sit-down dining may be a lower margin business – sure, a higher spend per head but over a longer duration (versus a takeaway), and a larger outlay for the restaurant etc. The group is also grappling with consumers who are under pressure and has to be careful when pushing through price increases, which will hurt margins. Overall, Famous Brands is not just about its own brands as it also, for example, supplies the sauces for Spur. I hold and am buying more at under R120.

Margins are slipping and the operating leverage went the wrong way with revenue up 31%, operating profit up

18%,

headline earnings per share (HEPS) up 16% and the dividend up only 15%.

FAMOUS BRANDS

Directors selling shares not significant

Speaking of Famous Brands, the Halamandaris and Halamandres families – the majority shareholders – are again selling in sizable chunks. As always, I do not worry about directors selling, as there are simply far too many possible reasons for the sales. Frankly, in this case it is about cashing in some of their massive wealth. On the flipside, a Calgro M3* director bought in and there is only one reason to buy: you think the share offers a good deal. However, in this case the transaction was very small at some R360 000, so not really significant.

GOODERSON LEISURE

Time to check out

Gooderson released results and I think it is time I moved on from this stock. Sure it seems very cheap, but as I have written before, a serious lack of liquidity makes this a high-risk investment. Also, the results give only the bare bones of information and management does nothing regarding media relations, so we actually have very little insight into the company.

Sure it seems very cheap, but as I have written before, a serious lack of liquidity makes this a high-risk investment.

NAMPAK

African expansion ill-devised

Nampak results show that African expansion is not all a bed of roses and while I have criticised companies for sudden about-turns on their African expansion strategies, I have to wonder if all the strategies were properly thought through. I get a sense that some were planned when commodity prices (especially oil) were much higher, without taking into account any risks of a drop in the oil price. Frankly this is sloppy management.

TONGAAT HULETT

Boom possible, post-drought

Tongaat Hulett's results managed to sneak in positive growth at the top revenue level, but thereafter it all went downhill with all the important numbers being down. The starch and glucose operations and the land conversions did well, but the sugar operations got killed with profit down from R806m to R124m due to the impact of the drought and lower international sugar prices. If the drought is over and we return to normal rainfall patterns, Tongaat should be able to recover markedly in the next year's results. Land conversions have been doing really well for the company, but how much land does Tongaat have left? Well, there's a detailed 62-page document on its website (http://goo.gl/9cqarN) that gives great insights. While it only provides five-year targets, the level of detail is impressive and allays any fears that Tongaat may run out of land any time soon. Conversions will be a part of this company's revenues and profits for a long time to come. The price is already off the lows and I want to dig some more here – a return to normal rainfall patterns could see booming profits next year. ■

editorial@finweek.co.za

**The writer owns shares in Famous Brands and Calgro M3.*

Gallo Getty Images: iStockphoto

By Simon Brown

PORTFOLIO MANAGEMENT

Diagnosing a stock's health

If a stock in your portfolio seems to be stagnating, there are many factors that could be contributing. It's important to assess what is happening before dismissing the stock.

So what happens when you have a sick stock in your long-term portfolio? When I say sick, I don't mean a stock that is crashing – that scenario may prove fatal, unless it is as a result of an overall market crash, in which case the market is sick, not your stock. What I am referring to is a stock that is stagnating; it's been drifting in your portfolio for at least two or three years, paying dividends but not moving higher.

Firstly, as always, don't panic. This happens and may not be a worst-case prognosis – it could just be the flu. Over the last couple of years, the market as a whole has done little and many stocks have followed suit.

The reality is that stocks go up, they go down and sometimes they go sideways, which can go on for ages. With a stock that is experiencing a sideways range, one should not worry; three years is a blip on the radar when compared to a lifetime of investing that will span decades.

However, it is still important to check if you've erred in your selection, and consider whether you should exit the stock.

With a stock that is experiencing a sideways range, one should not worry; three years is a blip on the radar when compared to a lifetime of investing.

Gallo Images/iStock

The first thing to do is assess how its peers on the JSE have been performing. Are they soaring, crashing or also going sideways? If they're also stagnating, this could indicate a sickly sector, and it would be wise to investigate the sector as a whole. The sector could be in decline (like our local steel industry) in which case an exit may be the best route.

Or perhaps it got well ahead of itself and the sideways move is just the share price waiting for earnings (and valuations) to catch up. The latter has occurred in the retail space over the last couple of years to a degree, and many of the stocks are still off their highs. In this case the valuations had gone crazy, so they needed a rest.

But if it seems to be solely your stock that is suffering, you need to start digging deeper. Find the initial notes you made when you bought the stock for the first time. Were your assumptions and expectations realistic? Have things changed? Did you expect something to happen, which hasn't come to fruition? If it hasn't, why not? Were you wrong or too early? Basically, go and revisit all your theories about the stock that attracted you to it and ensure that you were right and that they still apply.

Things also change with stocks and that element that made a stock great may no longer be present.

So check it against its peers. What's happening to the margins of the competition versus the margins on the stock you hold? Are they under pressure? Is it the entire sector or only your stock? Is your stock losing market share? (Check like-for-like ex-inflation growth, for example.) I find industry publications and websites can sometimes be useful for doing some digging on these sorts of issues. Of course be careful as industry organisations may only be sharing the good news.

Check to see if any merger or acquisition activity occurred, which may have moved the marketplace in favour of, or against, a particular stock. A competitor conducting a significant merger or acquisition may have had a negative impact on the stock you're holding. Alternatively, perhaps your stock conducted a deal, for which it overpaid, or the synergies weren't as great as management promised.

Essentially, you need to go back to the beginning and start afresh. Review everything about the stock and if at the end of the process you're still happy to hold it, then hold. Don't worry about a few years of lacklustre performance. If you're not happy, then exit and find a new awesome stock to own. ■

editorial@finweek.co.za

By Craig Gradidge

REZCO VALUE TREND FUND

A fund for all seasons

In lieu of recent and upcoming economic events, it's important to focus on choosing a good manager with a solid track record, and give them the time and space to deliver the returns.

Recent conversations with clients and prospective clients have been dominated by the issue of the prospective credit downgrade. Now that the June announcement is behind us, and the downgrade has not happened as expected, the attention has turned to the possibility of a Brexit. After that I expect the local elections to feature in conversations before the possibility of a downgrade in December is back on the agenda.

The issue is not that we have these events dominating conversations from time to time, but rather that clients expect us to make changes to the investment strategy based on what they think the outcome will be. Many betted on the currency weakening sharply post a June downgrade, and expected that the offshore exposure in their portfolio would be increased before that. Instead the downgrade was avoided and the currency has been strengthening ever since.

A more prudent approach to investing requires a longer term perspective, and suitable diversification of the portfolio. It is for this reason that we continue to shine the light on multi-asset funds such as stable, balanced and flexible funds. These funds are able to allocate money across a number of asset classes (equities, cash, bonds, property, offshore, etc.) within certain restrictions and risk parameters. The important decision for investors is choosing a manager with an established track record of managing multi-asset mandates, at a fair price, and with the right attitudes towards risk. A fund that we have recently added to our shopping list that meets these criteria is the Rezco Value Trend fund (RVT).

The RVT fund is a balanced fund, meaning that it complies with Regulation 28 of the Pension Funds Act and is suitable for retirement investments. The fund is also suited to investors wanting to grow their capital over time but at moderate levels of risk. The fund ticks the boxes in terms of performance, price and risk attitudes.

Our only concern at this stage would be around the manager's ability to handle all the cash that is coming their way in the form of new investments.

From a performance perspective, it has outperformed the JSE since its inception in October 2004, a rare feat for a balanced fund. It has also won multiple industry awards for performance. From a pricing perspective, we do like the performance fee structure whereby the fund has to deliver positive returns, and above-market returns in order for performance fees to kick in. The fee is also capped at 0.75% p.a. and has a reasonable base fee of 0.65%, meaning that the total fee should be 1.4%. Finally, from an attitude to risk perspective, the Rezco investment philosophy starts as follows "it is fundamental to our approach that capital must be protected..." The fund currently has around 60% invested in cash, which shows a clear commitment to the philosophy. The graph shows performance since inception compared to peers and the JSE.

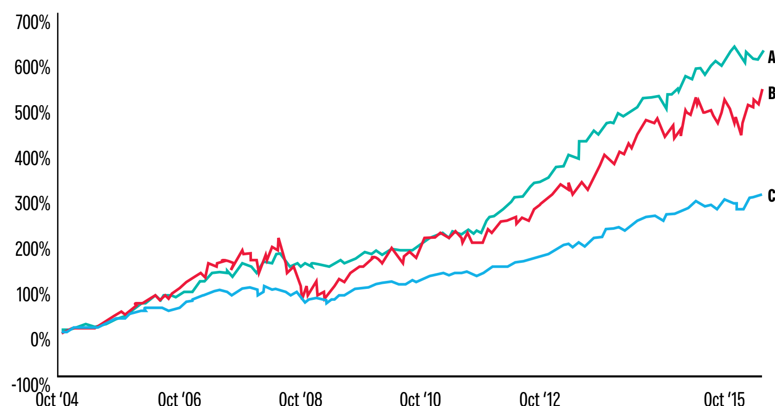
It took them nine years to reach R1bn assets under management, they were at R4bn a few months ago, and currently sit with around **R7.1bn** today.

While the fund has done well in terms of performance since inception, it has struggled of late. Our only concern at this stage would be around the manager's ability to handle all the cash that is coming their way in the form of new investments. It took them nine years to reach R1bn assets under management, they were at R4bn a few months ago, and currently sit with around R7.1bn today. There is anecdotal evidence of local funds delivering poor performance after receiving a flood of funds from the market. Fortunately, many of those are single-asset class funds.

While it can be fun to ponder how issues such as a credit downgrade, a Brexit, local elections or any other market event may impact on one's portfolio, the best thing for many investors is to choose a good manager with a solid track record, and give them the time and space to deliver the returns. On this score we think that the Rezco Value Trend would excel, and live up to the billing of a fund for all seasons. ■

editorial@finweek.co.za

RVT ANNUALISED TOTAL RETURNS VS PEERS AND JSE ALSI



A – Rezco - Value Trend A TR in ZA [625.03%]
B – FTSE/JSE All Share TR in ZA [544.25%]
C – SA Mt South African Multi-Asset High-Equity TR in ZA [313.26%]

SOURCE: Gradige-Mahura Investments

Craig Gradidge is a co-founder of Gradidge-Mahura Investments.

By Schalk Louw

PORTFOLIO MANAGEMENT

Keep an eye on those investment costs

As an investor, it is vital to know what fees you are paying, as these can have a massive impact on your returns.

Until recently, many local investors were not informed of what fees they were paying. Investment and insurance companies excused poor returns with statements such as "annuities and/or endowments are bad investments". And yes, in many cases that was the problem. But the point is that we never really knew what we as private investors were paying for and whenever investments performed poorly, the companies involved were not prepared to provide comprehensive answers.

Fortunately, this picture has changed for the positive over the last few years, due to the fact that all fees must now be declared to investors. In the last 10 years, structures have also changed with the implementation of new-generation products that show you exactly what an investment will cost you before you sign an application form. Unit trusts, as well as investment and financial adviser fees, have also become more transparent, allowing investors the opportunity to negotiate those fees.

Originally, fund managers only indicated their management fees as a single percentage on their fact sheets, now also known as Minimum Disclosure Documents (MDD), while other fees, such as performance bonus fees, demanded relatively little explanation on these fact sheets. Total Expense Ratio (TER), which indicates all fees and charges involved in the management of the portfolio/fund, was implemented a few years ago, however, as a compulsory requirement on unit trusts' fact sheets.

Investment and financial adviser fees have also become transparent, allowing investors the opportunity to negotiate those fees.

More recently, a new kind of fee has made its appearance on unit trusts' fact sheets, namely Trading Costs (TC). This is a percentage of the value of the fund used to pay for the buying and selling of the fund's underlying assets. Together, the TER and the TC is indicated as the Total Investment Cost (TIC) on unit trusts' fact sheets.

Before I discuss the costs on unit trusts in more detail, I need to point out something that can be found on more than 90% of all local unit trusts' fact sheets. A higher TER doesn't necessarily mean lower returns, in the same way that a lower TER doesn't necessarily mean better returns.

Also, just because a TER is high currently, doesn't mean that it's going to stay that high forever. TC, in turn, is also a very important aspect in managing the fund and it can be affected by an array of factors.

When I took a closer look at South African unit trusts, an interesting picture emerged. I focused specifically on the largest unit trust sector in South Africa, the SA Multi-Asset High-Equity Funds' Total Investment Costs.

My data is based on the following:

- Funds of funds and multi-managed funds have been excluded, mainly because their TICs would tend to be higher due to its double-layered structure.
- Only funds that indicated their TICs on their fact sheets were included (I was surprised to see many without it).
- Where more than one fund class was available, I chose A-classes.
- Data had to be at least one year old.

What a surprise it was to see just how big the difference was in average costs between the five most expensive funds vs the five cheapest funds (3.91% vs 0.79% – see table).

At this point I want to stress again that higher costs don't necessarily mean that the five most expensive fund managers (Long Beach, RECM, Perpetua, Contego and Warwick) will deliver lower gross returns when compared to the 72 cheaper funds that formed part of my analysis. The importance of this analysis lies in the fact that investors should know exactly what expertise and services they are paying for, so that they are able to compare it to whatever else is available on the market.

As an example, let's suggest a 45-year-old investor has R1m to invest. Let's also suggest that all the available SA Multi-Asset High-Equity Funds deliver the exact same returns (although this is nearly impossible) of 11% (expected inflation of 6% plus 5%) before costs. With the sector's average TIC of 2.13%, the investor's initial R1m investment should grow to R5.5m by the time they turn 65. At an average TIC of 3.91% (average of the five most expensive funds), the same investment would grow to only R3.935m over the same period.

So should TIC be the deciding factor in your choice to invest in a particular fund? Definitely not. But don't stick your head in the sand, thinking that if you don't see these costs, they don't exist. ■

editorial@finweek.co.za

TOTAL INVESTMENT COSTS ON SA MULTI-ASSET HIGH-EQUITY FUNDS ACCORDING TO RECENT FACT SHEETS

TOP 5 CHEAPEST SA MULTI-ASSET HIGH-EQUITY FUNDS

Fund	% TIC*
Prescient Balanced	0.6%
Nedgroup Investments Core Diversified	0.61%
GCI MET Balanced Plus	0.78%
Old Mutual Core Diversified	0.84%
Mergence CPI+6% Prescient Fund	1.12%
Average	**0.79%**
Sector average	**2.1%**

TOP 5 MOST EXPENSIVE SA MULTI-ASSET HIGH-EQUITY FUNDS

Fund	% TIC*
Long Beach Managed Prescient Fund	5.64%
RECM Balanced	3.9%
Perpetua MET Balanced Fund	3.51%
Contego B3 MET Protected Balanced	3.31%
Warwick MET Managed	3.17%
Average	**3.91%**

*Total Investment Cost

SOURCE: PSG Old Oak

Schalk Louw is a portfolio manager at PSG Wealth.

By Lucas de Lange

JSE

Blue Label a rose among the thorns

Sky is the limit for its virtual electronic products.

With one exception, the top 12 strongest shares on the JSE are commodity companies, with two marginal gold-mining groups, DRDGold and Harmony, at the top of the list. The exception is Blue Label Telecoms, which has been catching the eye of investors for some time, especially because it not only dominates the South African market in its niche, but also because of increasing signs that it's being successful in two huge foreign markets.

Its share price has doubled over the past 12 months.

In India, with its population of around 1.2bn people, more of its devices have been installed than in SA, while a far larger network has been established in Mexico with its fast-growing population of close on 130m.

Blue Label's core business is the secure virtual distribution of value tokens, predominantly for services such as prepaid airtime, electricity and the transfer of money. In SA it has already installed 150 000 point-of-sale devices in this respect. In India it has a network of more than 200 000 units in partnership with a local group, Oxigen Services, and it has hardly touched on that enormous market. In Mexico the network consists of about 650 000 units with thousands of new devices waiting to be added. Cellphone penetration in this country is close on 70%.

The strength of its position in SA is evident from the fact that all the large cellphone groups make use of its services. It effectively has a monopoly in this country.

But it is the rapid growth in e-trade that has made its financial services division particularly exciting. In India e-trade is still tiny in relation to the potential size of the market, but it's growing fast as, among others, cellphone penetration is increasing.

An important feature of the group is that it generates lots of cash and it is likely to produce excellent results for the year to end May. In the half-year to November, its revenue increased by 25% to R12.9bn, its gross profit rose by 17% to R919m and headline earnings increased by 25% to 53.26c/share.

But as is the case with other rapidly growing groups, for example, Curro, rapid expansion requires a lot of capital and one has to wait patiently for it to become profitable. For example, in Mexico, the group has to add new devices and services on a large scale to exploit the market potential, which means that for the foreseeable future it is unlikely to contribute any profit. However, once the market has matured, the cashflow would be exceptional.

Among the weakest shares, when measured in terms of the percentage differential between a share's price and its 200-day exponential moving average (EMA), Lonmin remains at the top of the list, with PPC, which is experiencing so many setbacks, in second place. Nampak is third, lying more than 20% below its average after it has, among other things, passed its interim dividend.

Among the shares that recently broke through their EMAs, African Rainbow Minerals (ARM), Wesizwe, Growthpoint, Implats, Glencore, Barclays Africa and Standard Bank look interesting. ■

editorial@finweek.co.za

In the half-year to November, its revenue increased by 25% to R12.9bn

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
DRDGOLD	54.9
HARMONY	43.2
ANGLOGOLD ASHANTI	39.7
ASSORE	29.3
PAN AFRICAN RESOURCES	29.1
BLUE LABEL TELECOMS	28.5
AMPLATS	23.7
ILLOVO	20.7
SIBANYE	20.2
ANGLO AMERICAN	18.2
CLICKS	17.9
SAPPI	17.5
NASPERS-N	16.9
RBPLAT	14.9
TIGER BRANDS	14.5
GOLD FIELDS	14.5
TSOGO SUN	13.5
CAPITEC	13.0
PICK N PAY	12.7
FORTRESS B	11.5
VODACOM	11.5
NORTHAM	11.3
BAT	10.7
SHOPRITE	10.6
NEPI	10.2
TFG	9.7
SOUTH32	9.6
SUPER GROUP	9.4
TELKOM	8.9
RESILIENT	8.4
SABMILLER	7.9
SPAR	7.6
SA CORPORATE REAL ESTATE	7.6
MASSMART	7.3
PIONEER FOODS	7.1
HYPROP	7.0
HOLDSPORT	6.8
STEINHOFF	6.3
M&R HOLDINGS	6.0
TONGAAT	5.2
WBHO	5.1

*Based on 104 largest market capitalisations

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EXPONENTIAL MA
LONMIN	-45.2
PPC	-31.2
NAMPAK	-23.7
MPACT	-19.8
MTN GROUP	-15.2
ARCELORMITTAL	-14.5
AVENG	-13.3
GRINDROD	-11.9
DATATEC	-11.8
RICHEMONT	-8.9
LEWIS	-8.3
REBOSIS	-8.0
ADCOCK INGRAM	-7.3
WOOLIES	-6.5
KUMBA IRON ORE	-5.5
NEDBANK	-4.9
INVESTEC PLC	-4.4
GROUP FIVE	-4.2
RMB HOLDINGS	-4.0

WEAKEST SHARES*

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
AFRICAN RAINBOW MINERALS	4.7
WESIZWE	4.3
RMI HOLDINGS	3.5
IMPERIAL	3.5
GROWTHPOINT	3.2
IMPLATS	2.9
REMGRO	2.9
ASPEN	2.3
GLENCORE	2.0
BARCLAYS AFRICA	1.6
STANDARD BANK	1.6

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
BRIMSTONE	MA Brey	27 May	Purchase	250,000	1300	3,250,000	31 May
BRIMSTONE	MA Brey	27 May	Purchase	1,000,000	1300	13,000,000	31 May
BRIMSTONE	N Khan	27 May	Purchase	100,000	1300	1,300,000	31 May
BRIMSTONE	T Moodley	27 May	Purchase	4,000	1300	52,000	31 May
BRIMSTONE	T Moodley	27 May	Purchase	4,000	1300	52,000	31 May
BRIMSTONE	LA Parker	27 May	Purchase	250,000	1300	3,250,000	31 May
BRIMSTONE	FJ Robertson	27 May	Purchase	1,000,000	1300	13,000,000	31 May
BRIMSTONE	FJ Robertson	27 May	Purchase	12,000	1300	156,000	31 May
BRIMSTONE	FJ Robertson	27 May	Purchase	35,000	1300	455,000	31 May
CALGRO M3	W Williams	2 June	Purchase	16,666	2150	358,319	3 June
CARTRACK	A de Villiers	31 May	Exercise Options	40,000	981	392,400	2 June
CARTRACK	JR Edmeston	31 May	Exercise Options	325,000	981	3,188,250	2 June
CONDUIT	S Riskowitz	31 May	Purchase	84,826	270	229,030	3 June
CONDUIT	S Riskowitz	1 June	Purchase	1,415,174	270	3,820,969	3 June
DISTELL	MG Lambrechts	3 June	Sell	4,000	15650	626,000	7 June
GRINDROD	DA Polkinghorne	1 June	Sell	21,071	1041	219,349	3 June
GRINDROD	AG Waller	1 June	Sell	42,142	1041	438,698	3 June
IMPERIAL	MV Moosa	31 May	Purchase	22,461	1796	403,399	3 June
INSIMBI	CF Botha	7 June	Sell	13,000,000	68	8,840,000	8 June
INSIMBI	F Botha	7 June	Sell	13,000,000	68	8,840,000	8 June
INSIMBI	EP Liechti	7 June	Sell	13,000,000	68	8,840,000	8 June
INSIMBI	PJ Schutte	7 June	Sell	13,000,000	68	8,840,000	8 June
LODESTONE	CB Hallowes	1 June	Purchase	40,052	685	274,356	7 June
LONMIN	B Magara	31 May	Exercise Options	3,600	$0	$0	2 June
MIXTEL	B Horan	2 June	Exercise Options	750,000	294	2,205,000	6 June
MIXTEL	SB Joselowitz	1 June	Exercise Options	1,000,000	294	2,940,000	6 June
MIXTEL	C Lewis	2 June	Exercise Options	500,000	294	1,470,000	6 June
MIXTEL	R McWilliams	2 June	Exercise Options	100,000	294	294,000	6 June
MIXTEL	R McWilliams	31 May	Exercise Options	225,000	112	252,000	6 June
MIXTEL	G Pretorius	3 June	Exercise Options	500,000	294	1,470,000	6 June
MIXTEL	ML Pydigadu	1 June	Exercise Options	750,000	294	2,205,000	6 June
MIXTEL	ML Pydigadu	31 May	Exercise Options	600,000	112	672,000	6 June
MIXTEL	CWR Tasker	1 June	Exercise Options	750,000	294	2,205,000	6 June
NEWPARK	BD van Wyk	1 June	Purchase	476,233	625	2,976,456	6 June
PIONEER FOODS	J Jacobs	2 June	Sell	4,091	17000	695,470	8 June
SABMILLER	M Bowman	31 May	Exercise Options	50,390	£42.83	£2,158,203	1 June
SABMILLER	AJ Clark	31 May	Exercise Options	246,571	£42.83	£10,560,635	1 June
SABMILLER	AJ Clark	29 March	Sell	51,352	£42.51	£2,182,973	2 June
SABMILLER	S Clark	31 May	Exercise Options	50,390	£42.83	£2,158,203	1 June
SABMILLER	J Davidson	31 May	Exercise Options	32,690	£42.83	£1,400,112	1 June
SABMILLER	D de Lorenzo	31 May	Exercise Options	133,559	£42.83	£5,720,331	1 June
SABMILLER	N Fell	31 May	Exercise Options	32,690	£42.83	£1,400,112	2 June
SABMILLER	K Lippert	31 May	Exercise Options	50,390	£42.83	£2,158,203	2 June
SABMILLER	A Mervis	31 May	Exercise Options	50,390	£42.83	£2,158,203	2 June
SABMILLER	J Nel	31 May	Exercise Options	32,690	£42.83	£1,400,112	2 June
SABMILLER	CA van Kralingen	31 May	Exercise Options	42,450	£42.83	£1,818,133	2 June
SHOPRITE	CG Goosen	3 June	Sell	30,000	17341	5,202,300	8 June
SHOPRITE	CG Goosen	3 June	Purchase	30,000	17629	5,288,700	8 June
SHOPRITE	FKG Muller	6 June	Sell	20,112	17500	3,519,600	8 June
SPAR	R Venter	7 June	Sell	157,000	21092	33,114,440	8 June
VUKILE	HC Lopion	1 June	Purchase	101,622	1753	1,781,433	8 June
VUKILE	S Moseneke	1 June	Purchase	79,719	1753	1,397,474	8 June
VUKILE	J Neethling	1 June	Purchase	68,603	1753	1,202,610	8 June
VUKILE	MJ Potts	1 June	Purchase	114,041	1753	1,999,138	8 June
VUKILE	LG Rapp	1 June	Purchase	227,928	1753	3,995,577	8 June

All data as at 8 June 2016 at 17:00. Supplied by INET BFA.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Coal of Africa	114	34.12
Kibo	118	31.11
Tawana	58	28.89
Rockwell	152	26.67
BSI Steel	37	23.33
WORST		
Stratcorp	1	-50
Greenbay	146	-27
Visual	15	-25
Resgen	42	-20.75
Ferrum	5	-16.67

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	54 305.72	1.47
JSE FINANCIAL 15	15 615.25	2.51
JSE INDUSTRIAL 25	73 840.47	0.53
JSE SA LISTED PROPERTY	663.74	2.17
JSE SA RESOURCES	17 700.36	3.33
JSE TOP 40	48 053.19	1.14
CAC 40	447 586	0.01
DAXX	1 028 768	0.82
FTSE 100	628 453	1.5
HANG SENG	2 132 824	2.73
NASDAQ COMPOSITE	496 175	0.19
NIKKEI 225	1 667 545	-1.65

*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
REBOSIS	120	12.3
DRDGOLD	80	10.7
OCTODEC	203	9.2
EMIRA	146	9.1
VUKILE	159	9
ACCPROP	54	8.5
LEWIS	416	8.4
FORTRESS A	129	8.2
PAN AFRICAN	26	8.2
REDEFINE	86	7.4

BREXIT: Blessing or balls-up?

On 23 June, the people of Britain will decide whether to remain a member of the European Union. Whatever the outcome, the effects will be rippling further than the English Channel. We consider the potential outcomes (positive and negative) for three JSE-listed stocks.

By Petri Redelinghuys

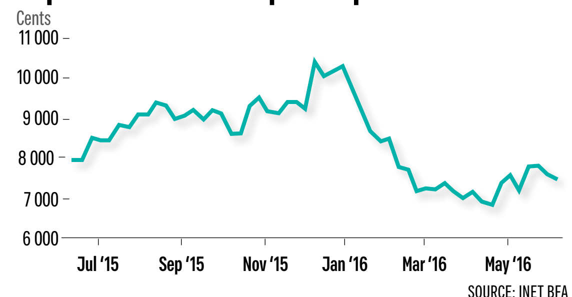
On 23 June, Britons will head to the polls to vote on whether or not they want to remain in the EU. There is much opinion out there on which way the vote will swing (see sidebars) and I for one certainly do not want to speculate on what the outcome of the referendum will be, even though for now it seems that most people are backing an "exit" vote. I do, however, want to look at what the potential impact would be on a selected number of shares listed on the both the JSE and the London Stock Exchange (LSE) in both the scenarios of an "exit" vote and a "remain" vote.

First, though, we need to look at the potential impact either outcome could have on Britain and the EU before we delve into specific companies. Should the British public vote to leave the EU, it is largely expected that Britain's GDP will fall and that it would impact the labour market rather negatively, as well as lead to a weakening pound. It can also be expected that the euro will weaken somewhat as fears around the rest of the union breaking apart is likely to put pressure on its members' economies. On the opposite end of the spectrum, should the British public decide to remain in the EU, we could see a reversal of the current pound and euro weakness.

At this stage a Brexit poses a rather large risk to not only European financial markets, but also to global financial markets. So much so that US Federal Reserve chair Janet Yellen recently commented that it is one of the key risks to the global economy. Therefore developments in this arena need to be watched carefully and reacted to appropriately. The risk is that Brexit takes place and the fallout is felt by world markets at large.

Getty Images/Gary Waters

Capital & Counties Properties plc



52-week range:	R67.16 - R106.20
Price/earnings ratio:	-
1-year total return:	-2.7%
Market capitalisation:	R63.4bn
Earnings per share:	-
Dividend yield:	0.45%
Average volume over 30 days:	772 482

SOURCE: INET BFA

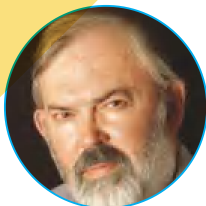
Capital & Counties (Capco) is a Real Estate Investment Trust (REIT) that is invested in three major, and rather exciting, properties in and around London. The share is listed on both the LSE as well as the JSE. The local listing has performed very well in recent years – it's up 250% over the past five years – as the rand continuously lost ground against the pound, and the value of the underlying property portfolio keeps growing along with revenues generated from rental income. This has been an exciting share to own and investors have done well. Since the beginning of the year though, the share has been under a substantial amount of pressure (it currently trades nearly 30% down from its December levels of above R100), likely with some help of the fears surrounding the looming possible Brexit.

It is reasonable to expect that, should Brexit go

ahead, the share will come under even more pressure and head down to test a support level around the R56 mark. This will likely be fuelled by falling property prices in the UK, as well as a significant weakening in the pound. Thus the age-old double-whammy of falling net asset value (NAV) and the inverse of a rand-hedge effect. It is likely that should Brexit happen, Capco will suffer badly.

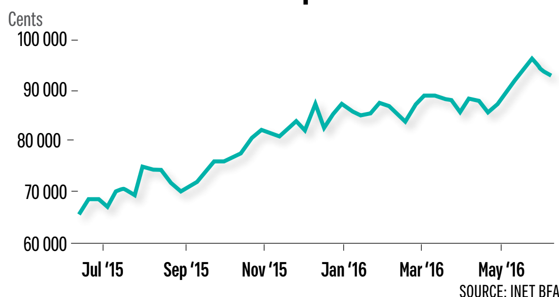
In the event that Brexit does not take place, it should be reasonable to expect that the pound will once again strengthen and that the rand-hedge effect will continue to bode well for Capco shareholders. I would imagine that should Brexit not take place, Capco could trade back up to its 2015 highs of around R95 to R100 a share.

Janet Yellen
Chair of the US Federal Reserve



Leopold Scholtz
Historian and independent political commentator

British American Tobacco plc



SOURCE: INET BFA

This is one of the heavyweights listed on the JSE. The company holds a lot of clout in our index due to its large market capitalisation and thus heavy weighting in our All Share and Top40 Index. It is also listed on the LSE and has an American Depository Receipt listed on the New York Stock Exchange (NYSE). As its name suggests, British American Tobacco (BAT) is in the cigarette business.

Again, this share – and investors who own it – has enjoyed the effects of the weakening rand for some time. (It has returned nearly 47% to shareholders over the past 12 months.) Should hard times befall the UK economy, people will keep smoking so there should really be no need to worry about revenue losses. Although, in the event of Brexit taking place, the rand-hedge effect will be reversed and BAT could, on our local exchange, find itself scrambling for support levels at around R810 a share. Not only will this make investors rather unhappy, but will put the Top40 Index under pressure (BAT's weighting in the index is 4.5%.)

52-week range:	R645 - R984.06
Price/earnings ratio:	18.4
1-year total return:	+44.3%
Market capitalisation:	R1.7tr
Earnings per share:	£2.31
Dividend yield:	3.57%
Average volume over 30 days:	1 250 103

SOURCE: INET BFA

If Brexit does not take place, it would be reasonable to expect that the share

Nationalism on the rise

By Liesl Peyper

The approaching referendum in which Britons would decide whether to remain in the EU has put the spotlight on the emergence of nationalism across the world.

Political commentator Allister Sparks wrote in a recent column in *Business Day*: "A surge of right-wing supernationalism appears to be sweeping across the world." He said one should consider the possibility that the four "nuclear powers" could be ruled by people like Donald Trump in the United States, Marine le Pen in France, the incumbent Vladimir Putin in Russia and Boris Johnson in Britain.

According to Sparks, the spate of nationalism could be attributed to the struggle of major economies to recover from the 2008 economic recession, coupled with an influx of refugees from North Africa and the Middle East.

Leopold Scholtz, historian and independent political commentator, told *finweek* the influx of immigrants into Europe is the biggest crisis in Europe since 1945 and is a significant contributor to the rise of nationalism.

"Especially in places such as Paris, Berlin, London and Amsterdam, residents feel as if they are foreigners in their own cities. Objectively seen, this feeling is exaggerated, as only 5% of the total population in the EU are Muslim, but immigrants are concentrated in the slums of these cities where the original residents feel threatened.

"The biggest support for right-wing nationalism comes from these ranks," Scholtz said.

In addition to the rise of nationalist leaders in big economies around the world, Britain's impending referendum is also a reminder of other recent secessionist movements.

The Catalan separatist movement in Spain received a boost this year when Catalonia's parliament swore in Carles Puigdemont, the mayor of Girona, as the new regional president. According to the BBC, the Catalanian president believes separatism will "win the day", as they are in the majority.

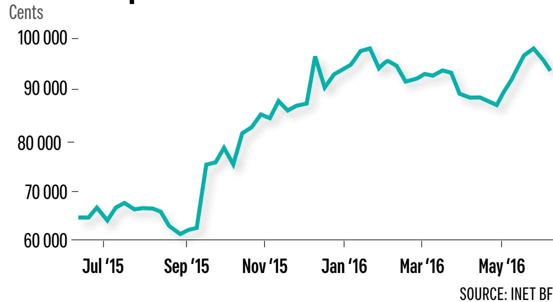
Closer to Britain, Scotland could have a referendum for Scottish independence within the next two years if the UK opts to leave the EU on 23 June.

Scotland's former first minister, Alex Salmond, has predicted that a vote to leave the EU on 23 June will put the question of Scottish independence back on the ballot within two years, *The Week* reported.

In 2014, Scotland voted to remain part of the UK in a referendum. ■

continues its slow grind higher and higher as it has been doing for the past several years.

SABMiller plc



52-week range:	R583.07 - R992.52
Price/earnings ratio:	37.4
1-year total return:	+45.8%
Market capitalisation:	R1.5tr
Earnings per share:	$1.68
Dividend yield:	2%
Average volume over 30 days:	1 794 255

SOURCE: INET BFA

Now we are looking at one of the true dual-listed heavyweights on the JSE. SABMiller holds a near 15% weighting on our Top40 Index, so we can expect that whatever happens to SABMiller will have a big impact on the rest of our local market. SABMiller is also listed on the LSE and again, enjoys all the benefits of being a rand-hedge stock. Let's assume that the AB InBev/SABMiller merger deal goes through and that the deal takes place at £42 a share (which at the time of writing equalled roughly R909 a share). That means that given the weakening we have seen in the pound over the last few weeks caused by talks and fears of Brexit, it is already overvalued on the JSE (it closed at R935.57 a share on 7 June).

SABMiller holds a near **15%** weighting on our Top40 Index, so we can expect whatever happens to SABMiller will have a mammoth impact on the rest of our local market.

Should Brexit happen, and the pound drastically weaken, this £42 buyout for local shareholders becomes less and less attractive. The share will have to re-rate and will likely trade down to the R680 a share level where it was trading before the AB InBev/SABMiller merger negotiations started. Again, this would have a large impact on the JSE's All Share Index.

Should Brexit not take place though, the pound could strengthen and the £42 price tag could once again offer some additional value for local shareholders.

As it stands now, it is anyone's guess as to what is going to happen with regard to Brexit. We simply do not know. All we have to go by is the past, and in the past, Britons voted to keep the UK in the eurozone. Either way, investors should probably prepare for volatility and adjust their portfolios in such a way that they are at the very least hedged for either eventuality. ■

Petri Redelinghuys is an independent trader, stockbroker and market commentator.

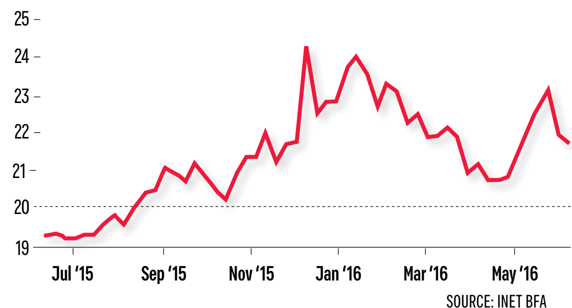
Battle of the big currencies

The values of the three shares focused on here are all very dependent on the £/R exchange rate. Given the fears around the impact Brexit could have on the UK economy, and the eurozone at large, it is reasonable to expect that there will be significant reaction to either outcome on the Brexit referendum.

The pound has weakened somewhat versus the rand since South Africa managed to dodge Standard & Poor's junk-rating bullet, although has been strengthening versus the rand on the whole for many years now. One could expect that if Brexit takes place, that the pound would lose ground versus most global currencies as investors in the UK financial markets pull out their investments and take their money somewhere that is perceived to be safer.

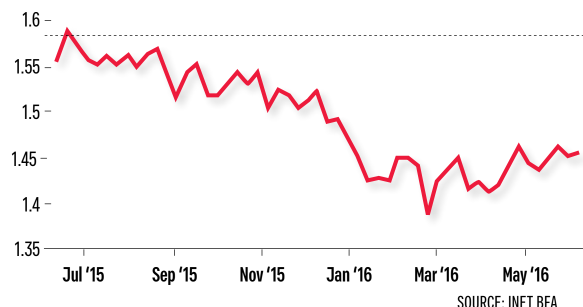
We can therefore expect that in the event of Brexit happening, the rand will continue to strengthen against the pound as it has been doing over the last week or so. We should also expect that the pound will weaken against the euro and the dollar.

Sub-R20 £/R in the event of Brexit?



Against the dollar, the pound has been losing ground for some time now, fuelled mainly by interest rate hikes, and expectations that the US Federal Reserve will introduce further increases. However, after the recent speech from Fed chair Janet Yellen, interest rate hike expectations are at a low and the pound once again looks set to strengthen against the dollar. Should Brexit not happen, we could see a rapid strengthening of the pound against the dollar.

£/$ to return to 1.581 should Brexit not take place?



The Pros and Cons

By Liesl Peyper

ARGUMENTS IN FAVOUR OF BREXIT

Pro-campaigners say Britain would save between £5bn to £8bn per year – the country's annual contribution to be a member of the EU.

The British economy would be freed from regulation and red tape, as the country would be able to negotiate its own trade deals without having to appease the other 27 member countries of the European Union (EU), according to *The New York Times.*

Campaigners for "out" say leaving the EU would allow Britain to trade with the rest of the world under rules set by the World Trade Organization (WTO), which will enable the country to unilaterally lower trade barriers, ft.com reported.

Some pro-campaigners believe they can negotiate a package of stopping free movement to the country, but still remain in the EU's single market for access to goods and services and trade, said ft.com.

The UK economy would be better off outside the EU and could be as much as 2% larger by 2020 if it left the bloc – and as much as 4% larger after a decade, according to a group of eight "economists for Brexit", *The Wall Street Journal* reported.

The UK economy would be better off outside the EU and could be as much as **2%** larger by 2020 if it left the bloc – and as much as 4% larger after a decade.

Brexit campaigner Michael Gove, a British cabinet minister, promises that leaving the EU would help Britain get migration figures under 100 000 per year. Remaining in the EU, on the other hand, will expose Britain to an uncontrollable migrant influx, similar to countries such as Germany and Italy. The latest statistics showed the annual net migration into Britain reached 333 000 in 2015 (including 184 000 that came from the EU, which mandates freedom of movement), according to the BBC.

Britain would create a "points system" similar to that of Australia, where economic immigrants need to be suitable for specific jobs and be able to speak good English, said former London mayor Boris Johnson, who is also eyeing 10 Downing Street.

There are many industries that would be insulated from a disruption if Britain were to leave the EU, due to their global or very local nature, says Taron Wade, analyst at Standard & Poor's (S&P) on ft.com. One such industry

The latest polls...

A recent poll put the Leave campaigners ahead of the grouping who want to remain in the EU.

According to a YouGov Poll conducted for the UK's ITV programme, *Good morning Britain*, the Remain campaigners are at 41% versus the Leave-campaigners at 45%. A total of 11% of poll participants are undecided.

A poll in *The Daily Telegraph* reflects an even bigger support for the Leave campaign, with more than two-thirds of subscribers voting in favour of Britain leaving the EU.

A survey of close to 19 000 subscribers showed 69% are backing a Brexit. The results also revealed massive support for Boris Johnson to dethrone David Cameron as the next leader of the Conservative Party, with 42% saying they prefer him to Cameron, Reuters reported.

According to Bloomberg, the battle between those in favour of leaving and those who want to remain has split Britain's ruling Conservative Party and is putting downward pressure on the pound.

Britons will go to the poll on 23 June and in the run-up to the election the campaign leaders for the "for" and "against" are deepening their arguments. The Remain campaign is focusing on the economic dangers of a Brexit, and the Leave campaign is fuelling concerns of uncontrolled immigration. ■

Getty Images/Nicola Tree
www.spcapitaliq.com
Getty Images/Carl Court

If Britain is no longer part of the single market as a member of the EU, it could lead to a recession as a result of a sudden outflow of money from the UK, which could make it difficult for the country to finance its account deficit of 5% of national income.

Michael Gove
British cabinet minister

would be aerospace, where the UK is very important to the EU's aerospace strategy, and its competitiveness would protect it from disruptions, following a Brexit.

Post-Brexit changes could be positive for Britain's energy sector, according to an ft.com report. UK regulations are hampered by EU directives that complicate subsidies for renewable energy generation. The oil and gas sector could benefit if lower trade barriers were to be negotiated, following a Brexit, as Britain recently became a net importer of petroleum products.

Taron Wade
Analyst at
Standard & Poor's

ARGUMENTS AGAINST BREXIT

Some economists predict that by 2020, Britain's GDP could be over 3% smaller than with continued membership of the EU. This could cost a British household approximately £2 200 per year. By 2030, GDP could be 5% lower, costing £3 200 per household, according to a report by the Organisation for Economic Co-operation and Development (OECD).

If Britain is no longer part of the single market as a member of the EU, it could lead to a recession as a result of a sudden outflow of money from the UK, which could make it difficult for the country to finance its account deficit of 5% of national income, *Financial Times* reported. This in turn would mean a sharp fall in the pound and the prices of UK assets.

Boris Johnson
Former London mayor

Leaving the EU is "no panacea or silver bullet" for immigration, says James Brokenshire, Britain's immigration minister, according to *The New York Times,* as there are no quick fixes or simple solutions for the flow of immigrants to Europe.

Britain will find it difficult to secure trade relationships as favourable as is currently the case as an EU member. This in turn could have a detrimental effect on small- and medium-sized companies that will have to comply with trade rules of the countries of origin, as opposed the simpler agreements when a country belongs to a single market.

Labour MP Chuka Umunna campaigns for the Labour – IN campaign on 5 June in London, persuading voters to back staying in the EU.

Britain's Treasury says no other country has been able to agree to uncomplicated access to the single market without adhering to EU regulations, such as the free movement of people and contributions to the EU budget, *The Economist* reported. Neither would Britain's trade deficit with the EU put it in a more favourable position to bargain, as only 3.1% of the EU GDP depends on trade with Britain, whereas 12.6% of Britain's GDP depends on trade with the EU.

If the UK leaves the EU without a free-trade deal, 90% of British exports to the EU could face tariffs that will hit the textile and transport equipment industries especially hard, according to *The Guardian.* In addition, unwise EU procurement rules could cost the UK £1.6bn a year, *Financial Times* reported.

If the UK leaves the EU without a free trade deal, **90%** of British exports to the EU could face tariffs that will hit the textile and transport equipment industries especially hard.

The UK's unemployment rate, currently one of the lowest in the EU at 5.1%, could rise between 2 and 3 percentage points if the country were to leave the EU, said the *The Guardian.*

The cost of labour could increase if the free movement of workers across Europe is curtailed, according to *Financial Times*, as Britain relies significantly on migrant labour.

Brexit could also have an adverse effect on tourism, says *The Independent.* According to Deloitte, 63% of inbound holidaymakers to Britain are from EU countries. Tourism accounts for one-eleventh of Britain's GDP and provides more than 3m jobs. ■

editorial@finweek.co.za

WHAT OPEC HAS IN STORE FOR THE OIL INDUSTRY

Where the oil price is headed is anybody's guess. What is starting to become clear is that a great oil shakedown is in the making, with oil rigs all over the world shutting down, and some countries keen to capitalise on this situation. We take a look at the winners and losers.

By Petri Redelinghuys

There is certainly no shortage of theories in the world of finance about what is happening in the oil market. While cases can be made for oil to rapidly trade back up to the lofty $110 a barrel mark, equally convincing and rational cases can be made for oil to trade back below $30 a barrel. Reading the oil market is difficult and trying to understand all the various factors at play can be confusing. This article is then no different to so many others as it will offer yet another theory about what is truly happening in the oil market. Whether or not that theory is correct, only time will tell.

Let's start with what everybody knows already. Oil prices had declined by some 70% from August 2014 to February 2016, the worst price crash in a decade, on the back of slowing global demand and an ever-increasing supply of oil to the market. Shale producers were popping up everywhere while green energy was starting to gain traction. The world seemed to be moving on from pumping out crude oil in order to fuel the global economy.

A brave new world was being created by everyday people who would no longer be dependent on liquefied dinosaurs in order to fuel their cars. The price of petrol was coming down, so those people who were not completely sold on the idea of a green world without oil were also smiling as their gas-guzzling pollution machines cost less and less to run. Good times.

It may have been good times for consumers, but producers paid the price. Smaller oil producers, such as the shale producers in the US, were coming under a lot of pressure as the lower price of oil was making their operations unsustainable. Rigs started shutting down, yet the oil price kept falling. On a year-on-year basis, the active rig count in the US has fallen by 471 rigs to 404. This is a decline of over 50%.

US oil production in March was down about 500 000 barrels a day from its April 2015 peak, according to the US Energy Information Administration (EIA). Canada has seen a similar percentage change, with that country's rig count falling by 55 to only 43 active rigs as at the last count on 27 May by oil field services company Baker Hughes.

Focusing on the bigger of the two producers in this part of the world – the US – we need to look a little further back than just 12 months in order to see the real impact that the falling oil price has had. In August 2014, when the price of oil started its epic decline from $105 a barrel, there were a total of 1 931 actively drilling oil rigs in the US alone. On 27 May 2016, that number has fallen to 404, a 79% decline – all due to the falling oil price.

Graph 1 to the right indicates the utter devastation that has taken place amongst oil rigs in the US.

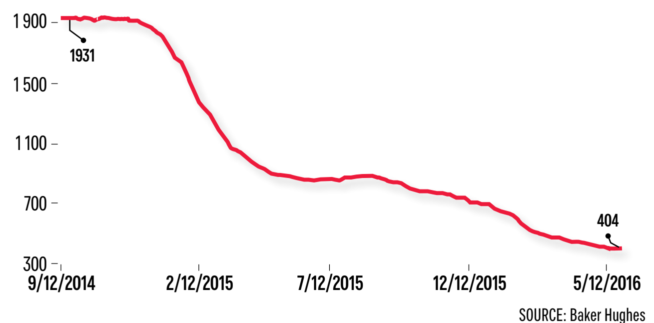
As can be seen in Graph 2, the US isn't the only victim. Most notably the European and Asia Pacific regions have been feeling heat as well. European rig counts are down from 143 in August 2014 to 90 in April 2016, a 37% decline. Asia Pacific rig counts are down from 255 in August 2014 to 179 in April 2016, a 29% decline. This is while the rig count in the Middle East is little changed at 384 in April 2016, down 5.4% from 406 in August 2016. And even so, the Saudis are managing to produce more oil than ever before.

PRICE RALLY

Now the first thing you'd ask is: "But from the end of February until now the oil price has rallied substantially... Why are oil rig counts falling when the price of oil is on the up again?", and this is a good question.

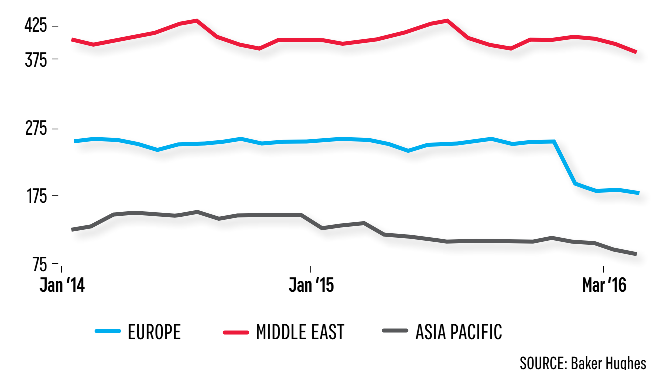
There are two reasons for this, I think. The first being that smaller oil-producing operations (companies) are literally going out of business and shutting down, and the second is that the rigs that remain active are significantly more efficient than the ones that are being shut down.

GRAPH 1: US OIL RIG COUNT – AUGUST 2014-MAY 2016



SOURCE: Baker Hughes

GRAPH 2: RIG COUNT BY REGION



SOURCE: Baker Hughes

The Athabasca oil sands operations in Alberta, Canada, were impacted by a raging wildfire this year.

Another reason that could perhaps have had an influence here is that the supply-side constraints, which we have seen coming in thus far this year, are all of a temporary nature. Fires in Canada, the Niger Delta Avengers (a rebel group in Nigeria) blowing up Chevron's oil wells in Nigeria, among other random supply-side shocks, are not exactly the types of events that are going to keep the Organization of the Petroleum Exporting Countries (Opec) from relentlessly increasing its production. And it has been doing just that so far.

Now here is where we get to the theoretical part, mixed with a touch of conspiracy theory. Opec – and its most powerful member, Saudi Arabia – has been steadily increasing the amount of crude oil it produces, even when oil prices were rapidly falling. The country has also not been shutting down nearly as many rigs as the rest of the world has in order to curtail production. If you look at the rig counts, you'll see that it has instead maintained its rig numbers.

Let's ignore Opec member Iran, which currently exports around 2m barrels per day with the aim of increasing output to 3.8m barrels a day as it enters

Getty Images/Guillermo Perales Gonzale

Getty Images/Darryl Dyck/Bloomberg

Liquidations (to date)

Pacific Exploration & Production
$5.3bn worth of debt

Samson Resources
$4.3bn worth of debt

Ultra Petroleum
$3.9bn worth of debt

the ongoing fray for market share. Iran is trying to get oil production back up to and beyond what it was before it was sanctioned out of the picture. Now that sanctions have been lifted, the country wants to reclaim its place as a major oil producer and of course turn around (rescue) its economy. I think that is fair enough and its efforts are also small enough not to really matter in the bigger picture.

Saudi Arabia's competitors, however, are seriously feeling the pressure and are being forced to shut down rigs and stop production as the price of oil is too low for them to be profitable. In some cases, as is the case of Russia, it has tipped economies into recession. This matters very little though to those who stand to profit from the Russians' losses. Another interesting side note here is that the Abu Dhabi Sovereign Fund, which is essentially the pension fund for Saudis, was buying large numbers of Sasol shares when it was trading at around the R400 mark.

KILLING THE COMPETITION

So the theory is this: this is economic warfare on a grand scale. Opec has essentially recognised that it is losing its relevance because it was losing market share to US and other competitors in the oil production market. This led it to flood the market with oil, driving down prices and forcing its competitors out of business, thus cementing its position as leader in the oil production game. (Opec output has averaged more than 32m barrels a day in 2016, compared with its former target of 30m barrels a day, according to ft.com.)

In the process it has managed to prevent new exploration projects from coming to market as banks are now extremely reluctant to fund oil exploration and production projects due to the massive losses many US shale producers are taking.

Note that there have been 15 liquidations to date that are significant. These include: Pacific Exploration & Production, which buckled under $5.3bn worth of debt; Samson Resources, which caved under $4.3bn and Ultra Petroleum, which collapsed under $3.9bn worth of debt. The list goes on. Those with small bank rolls could not survive the downturn.

The Saudis, however, don't have small bank rolls. They have been earning some very healthy profits from oil for decades and even though they want to change the way in which their economy functions (by reducing their reliance on oil), they understand that there are a few more good decades of earnings to be had in this oil production game. The threat to that though was shale gas and green energy.

They may not have managed to stop the threat completely, but they have managed to delay it for at least one more commodity super cycle, and are currently in the process of cementing their position as the main source of the thick bubbly black stuff that the world is slowly realising it actually still needs. Opec estimates that non-Opec supply peaked in 2015, and is expected to drop by 740 000 barrels a day this year as producers cut investment and production to conserve cash.

Considering that we are starting to see three major things happening, I would say that the Saudis' plan is working. Firstly, the oil rig situation, as explained. The ability to compete against the Middle East in the production and supply of oil is greatly reduced.

Secondly, oil is currently trading in backwardation. What this means, in a nutshell, is that the spot price of oil (for immediate delivery) is more expensive than the forward price for oil (purchases for delivery at some point in future). This means that all purchases that are taking place on the spot market for oil are being made for immediate consumption and not the building up of stockpiles as was the case just a few months ago.

> **Opec estimates that non-Opec supply peaked in 2015, and is expected to drop by 740 000 barrels a day this year as producers cut investment and production to conserve cash.**

Thirdly, there has been a fairly consistent monthly draw on crude oil inventories over the last couple of weeks. When considering that oil purchases are still being made (in the spot market under backwardation conditions) it necessarily follows that consumption is outpacing production, thanks largely to the vast number of oil rigs that are no longer operational. The pieces are starting to fall into place, and this is being reflected in the steadily rising oil price.

Opec met on 2 June. Delegates didn't agree to limits in terms of maximum production but, as expected, most came out of the meeting saying that no member country indicated a desire to continue increasing production. They also said a level of co-operation has been reached unlike they've had in many years.

This, to me, indicates that a stabilisation of oil production will be reached without major agreements needing to be made. Also, Opec members agreed that their next meeting will be held a month earlier than scheduled. It is starting to look like the next agreement that will come out of an Opec meeting will not be one of capping oil production, but rather an agreement on a cut in oil production.

It's starting to make sense. Flood the market, drown out the competition, reclaim dominance, then turn off the taps and reap decades' worth of profit. The great oil shakedown, masterfully orchestrated. ■

editorial@finweek.co.za

Petri Redelinghuys is a stockbroker, trader and market commentator.

SUBSCRIBE NOW!

SUBSCRIBE TO THE PRINT EDITION AND SAVE UP TO 40%

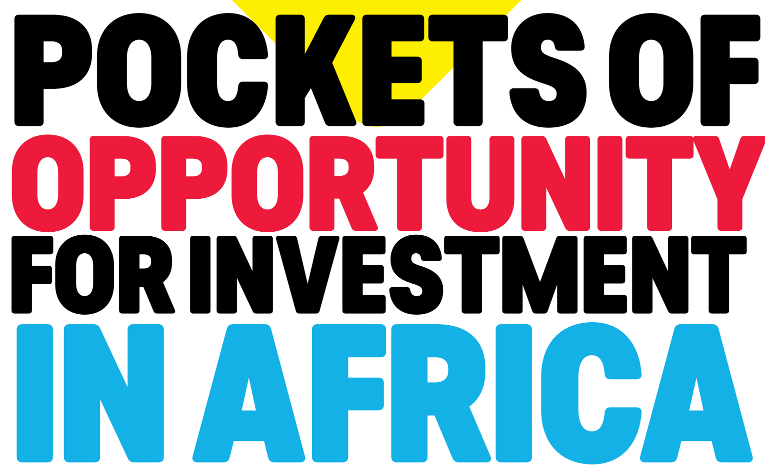
***FINWEEK* IS SOUTH AFRICA'S LEADING WEEKLY INVESTMENT AND FINANCIAL MAGAZINE. WE DELIVER IN-DEPTH REPORTING ON BUSINESS AND THE ECONOMY, EQUIPPING OUR READERS TO MAKE SOUND INVESTMENT AND BUSINESS DECISIONS.**

SUBSCRIPTION OPTIONS*:
1 YEAR : R1872.50 – 40% = R1124
6 MONTHS : R936.25 – 30% = R656
3 MONTHS : R486.85 – 20% = R390
OFFER EXPIRES ON 30 JUNE 2016.
*INCLUDES ALL POSTAGE OR DELIVERY COSTS, SOUTH AFRICA ONLY.

CONTACT US:
TEL: 087 740 1019
FAX: 086 298 3809
SUBS@FINWEEK.CO.ZA

Sandton, in Johannesburg, remains ever popular with developers. Experts suggest that the trick to property development in sub-Saharan Africa is to concentrate on individual cities and nodes within cities, rather than on regions as a whole.

By Glenda Williams



POCKETS OF OPPORTUNITY FOR INVESTMENT IN AFRICA

Success in Africa requires extensive research and an understanding of the nuances of each region.

During 2015, sub-Saharan Africa experienced its lowest economic growth rate since the 2008 global financial crisis. Growth rates of above 5% are likely to drop to below 4% in 2016, says Dr Dirk Prinsloo of Urban Studies with whom JHI, a subsidiary of Excellerate Property Services, has partnered to produce its first *Africa Property Report*.

Following years of high growth expectations for the continent, investors, property developers, retailers and fund managers are now, unsurprisingly, looking at Africa with a somewhat more jaundiced eye.

This is partly because of the underperformance of some of the newly-opened shopping centres on the continent. Some retailers and developers who moved into the region aggressively have pulled back, worn down by difficulties that include challenging regulations, infrastructure problems and markets that they perhaps thought they understood, but didn't.

Understanding a particular country and the different nuances of each region is a key to success, according to JHI. The multidisciplinary property services group manages more than $10bn in assets – over 2 300 buildings with almost 21 250 tenants – via its footprint in 17 African countries.

The property boom in Africa peaked during 2011.

Today it is one third of that. But when it comes to property development in sub-Saharan Africa, the trick, says Adriaan Otto, General Manager of Excellerate Property Services Africa, is to concentrate on individual cities and nodes within cities, not the region as a whole.

"In spite of headwinds in many African economies, brought on by reduced commodity prices and a decline in demand from the Chinese economy, there are still indications of optimism in selected markets," says Marna van der Walt, CEO of Excellerate Property Services.

Drivers of opportunity

URBANISATION: Real potential is tied to urbanisation, one of the major drivers of property markets. Prinsloo says the continent's urbanisation rate is expected to reach 50% by 2037. In sub-Saharan Africa urban dwellers are expected to increase from the 400m in 2010 to 1.26bn in 2050. "In the coming decades, migration towards Africa's cities will account for 90% of the population movement," explains Prinsloo.

According to the JHI and Urban Studies *Africa Report 2016*, urbanisation and urban growth is expected in large cities like Kinshasa, Lagos and Dar es Salaam. Development in African cities is not only directed at these mega cities, but also to the intermediate cities that are directly associated with their surrounding environment. These are also the cities where future growth in terms of shopping centre and housing development will occur.

THE MIDDLE MARKET: Much is made of the growing middle class in Africa, estimated to be around 330m people in 2010, says the report. And Standard Bank's report *Rise of the middle class in sub-Saharan Africa* published in August 2014, says the 11 fastest-growing countries in Africa (Angola, Uganda, Nigeria, Ghana, Kenya, Tanzania, Ethiopia, Sudan, South Sudan, Mozambique and Zambia) will have increased their middle class from 15m households in 2014 to 40m by 2030.

"It's a growing middle market. But it takes time. Take South Africa, where the middle market has only started growing since 2002. The middle market in most African cities is still very small. So too is the affluent market," says Prinsloo.

RESIDENTIAL: There is a dire need for affordable and social housing within cities. As small as it currently is, there is no space for the middle market so that too presents opportunities for developers, says Otto. Growth also exists for good-quality space in the specific affluent markets, while densification is creating a need for more multiple-type unit residential developments close to CBDs and job opportunity areas, he adds.

ROAD INFRASTRUCTURE: The biggest infrastructure drive in most African economies is road development, says Otto. With this comes pockets of development opportunities that are linked to this, Otto says.

ECONOMIC INDICATORS BY COUNTRY

Country	GDP 2015	GDP 2016 est.	GDP per capita ($ 2015 est.)	Inflation rate (CPI - annual)	Prime Interest rate
Angola	2.6%	2.2%	5 240	7.5%	16.4%
Botswana	2.0%	3.8%	7 084	3.1%	9.0%
DRC	7.5%	6.2%	485	2.0%	18.7%
Ghana	4.0%	4.5%	1 312	17%	26%
Kenya	5.3%	5.7%	1 377	8%	15.5%
Mozambique	6.0%	5.6%	555.8	5.1%	15%
Namibia	6.0%	5.6%	5 450	4.8%	10.25%
Nigeria	3.1%	3.7%	2 860	9.5%	16.5%
South Africa	1.3%	0.8%	6 365	6.1%	10.25%
Tanzania	6.9%	7.3%	869	5.9%	16.3%
Zambia	3.7%	3.5%	1 292	18%	11.6%
Zimbabwe	<2%	ND	816	-3.29%	18%

ND = No data
SOURCE: JHI/Urban Studies *Africa Property Report 2016*

DISTRIBUTION AND LOGISTICS: New mall developments need to be supported by warehouse and distribution hubs to support the growing consumer market, providing opportunities within this sector, says Van der Walt.

Challenges for those venturing into Africa

Understanding the market: "In many African cities, 60% of urban dwellers are still in the informal housing sector. You need to understand the composition of a city and make sure that you are focusing on the correct suburbs," says Otto.

"In many African cities, 60% of urban dwellers are still in the informal housing sector. You need to understand the composition of a city and make sure that you are focusing on the correct suburbs."

The African shopping environment is less sophisticated than South Africa's and still needs to see a shift from non-formalised shopping into a formalised environment. In addition to filling malls with a good tenant mix, shifting that informal shopping behaviour can pose a challenge for developers.

SIZE DOES COUNT: "Understanding the people in the catchment area is vitally important, including what their income levels and disposable incomes are. The middle market in many of these catchment areas doesn't even exist," says Prinsloo. Overestimating a catchment area size by concentrating only on household numbers may be one of the reasons for the underperformance of some malls. Currently, the size of a number of regional strip malls are being scaled down in size – proof perhaps that some mall developments have been too large for those markets.

TRAVEL TIME AND SHOPPER BEHAVIOUR: Consumers in these markets are often impacted by lengthy travelling times or even ability to get to malls. They just shrink the area in which they operate and also undertake fewer daily activities, explains Van der Walt, often shopping in the evening or late afternoon to combat these difficulties and link it to the entertainment experience.

INFRASTRUCTURE: PwC research suggests that

Dr Dirk Prinsloo
Managing Member of Urban Studies

Adriaan Otto
General manager of Excellerate Property Services Africa

Gallo Getty Images: iStockphoto

infrastructure spending in sub-Saharan Africa will reach \$180bn annually by 2025. Much of the spend will come from government partnerships with the private sector. In many African countries property developers have to supply their own infrastructure; from power to sewerage works and even soft services. That said, lack of infrastructure does not hold back the development of a city in Africa. "In Africa, infrastructure is just created differently. But it will not hold urbanisation back. That happens in spite of a lack of a formalised infrastructure programme because informal infrastructure takes its place," Van der Walt tells *finweek*.

Risks

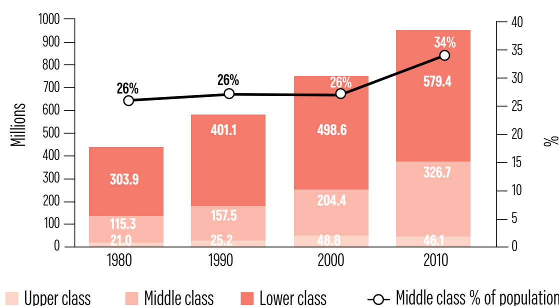
Apart from political and social instability; changing government policies and an overdependence on natural resources; legal aspects, such as property ownership rights and investment restrictions; the timeframe of investments; and the restrictions on possible exit strategies are just some of the risks associated with development in Africa.

Putting figures into context

Using socioeconomic status as a measure of where property development potential exists, a report by Higgs & Swanepoel (*2015 Pan African Socioeconomic Status Measures* by TNS) rated Mauritius, SA, Cape Verde and Botswana as those countries with the highest development opportunities. Potential from a number of countries in the middle segment included Ghana, Kenya, Namibia and Zambia. This however needs to be seen in a much broader context cautions Prinsloo, citing the level of activity in SA that is of a much greater scale compared with other sub-Saharan countries.

A sense of that scale is better understood when you learn that the entire economy of Rwanda (around which there has been much positive noise) is one tenth of Johannesburg's. From a property development perspective Johannesburg's office space alone will soon exceed 10 million m². That's 3 million m² more than the whole of the rest of sub-Saharan Africa.

AFRICA'S GROWING MIDDLE CLASS



SOURCE: PwC analysis, Middle class defined as those earning \$4 to \$20/day

RENTS, BUILDING COSTS

Main city and country	Rents $m²/month			Building costs ($m²)	
	Retail	Office	Indust.	Ret.	Office
Luanda, Angola	100-120	100-150	15-25	1855	1920
Gabarone, Botswana	32	11	7	ND*	ND
Kinshasa, DRC	30	30	5	800-1 000	1 000-1 200
Accra, Ghana	43	32	10	1 100	1 300
Nairobi, Kenya	35-40	12-17	8-10	1 005	1 300
Maputo, Mozambique	28-38	25-37	8-12	1 300	1 400
Windhoek, Namibia	24	14	5	780	780
Lagos, Nigeria	40	30	18	4 109	3 625
Dar es Salaam, Tanzania	30	21	5	1 255	1 195
Lusaka, Zambia	35	22	7	1 115	1 445
Harare, Zimbabwe	25	10	4	1 300	1 000

Note: South Africa's retail rentals are set at a base rate plus 1.75%-8% of tenant turnover. Monthly office rents vary from \$14-\$18/m² for P-Grade (prime space) to \$10-\$14/m² for A-Grade office space. Industrial rents are set at \$3-\$5/m² per month. Building costs in South Africa range between \$1 170/m² for a major retail centre, \$1 510/m² for prestigious high rise office space and \$405-\$465/m² for industrial buildings.

*ND = No data
SOURCE: JHI/Urban Studies *Africa Property Report 2016*

SA is ranked 6th in the world in terms of the number of shopping centres. Shopping centre development in SA during 2014/15 comprised 1.5 million m² compared with around 900 000m² committed space for the whole of Africa.

Finally, there is SA's rapidly expanding middle class. Since 2002, 4m middle-income households have been added to the market, a large part of the reason for the exceptional growth in shopping centre development in SA.

Shopping centre development in SA during 2014/15 comprised **1.5 million m²** compared with around 900 000m² committed space for the whole of Africa.

Size and scale aside, hurdles to success in Africa often come with a lack of sensitivity to local conditions, says van der Walt. Price point too is a sensitive issue. What may be deemed an entry-level tenant in SA is often top-tier in other African countries. That also impacts the number of formal retailers as tenants, currently very limited in these regions. Yet, that does not mean opportunities do not exist for further development. While a cautious approach is promoted, JHI's report points to pockets of opportunity that exist for those with well-executed research and a good understanding of Africa. JHI appears to be demonstrating that by rolling out its services to a wider African platform that includes Morocco.

There is a place for investment to flow to Africa, says Van der Walt. "The world cannot ignore Africa. Africa provides them with opportunities for growth that they are not seeing in their own markets. That growth and the opportunities for growth on the African continent will drive a growing property market."

"But the better you understand Africa and the more practical in your solutions you become, the higher your success rate will be." ■

editorial@finweek.co.za

Marna van der Walt
CEO of Excellerate Property Services

THE STATE OF OUR MUNICIPALITIES

By Lameez Omarjee

The nation gears up for municipal elections in August. What are the issues plaguing municipalities? And what action can citizens take to ensure better service delivery?

Gallo Images/Foto24/Denzil Maregele

The financial health of a whopping 92% of South Africa's 278 municipalities remains a concern and intervention is required if some of them are to continue functioning, warns auditor-general Kimi Makwetu. This is up from 82% in the 2012/13 financial year, when the Auditor-General of SA (AGSA) first introduced overall assessments.

The auditor-general's annual report on the audit outcomes of local government, which includes 52 municipal entities (this includes, for example, Rand Water and Pikitup), shows a steady improvement in audit outcomes, with 53% having improved from the period 2010/11 to 2014/15. Over the same period, 13% of municipalities regressed, while 34% remained unchanged.

> "There is a high risk of uncertainty about their ability to commit to service delivery in the foreseeable future."

Speaking at a press briefing on 1 June, Makwetu highlighted that the financial health of most municipalities was at risk as they were spending in excess of available resources, leading them to incur deficits. Current liabilities exceed current assets, making liquidity an issue. Municipalities are also struggling to collect revenue from ratepayers, he explained.

In total, there is uncertainty whether 26% of municipalities will be able to continue functioning in future – 10 more municipalities than in the 2012/13 financial year. "There is a high risk of uncertainty about their ability to commit to service delivery in the foreseeable future," said Makwetu. The challenge is twofold:

services are being delivered in areas where there are poor households and high unemployment, limiting the municipalities' ability to generate revenue. Additionally, there are poorly administered monitoring controls, as those employed by the municipality lack the "technical capacity" required, the auditor-general said.

Service delivery

Generally, the quality of performance reports submitted has improved over the past five years, with the proportion of reports with no material findings increasing from 20% in 2010/11 to 38% in 2014/15. However, the reliability of information submitted regarding service delivery is still in question, explained Makwetu.

"At best, in municipalities where their finances are shambolic, we can assume that their operations are equally shambolic," says Frans Cronjé, CEO of the South African Institute of Race Relations (IRR). Poor financial management is an indicator of poor management overall, he adds. Some municipalities continue to deliver basic services while running into high debt levels due to unpaid rates and service fees. "So delivery service against uncertain debt is incurred." However, high levels of municipal debt are not necessarily an indication of poor service delivery in some cases, he explains.

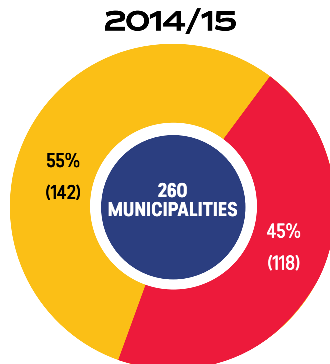
Besides the issue of municipalities in poor areas that don't have the capacity to raise revenue, another factor contributing to poor service delivery is weak management, according to Cronjé. "This entails issues of corruption, political infighting and instability and cadre deployment of unsuitable and unqualified individuals."

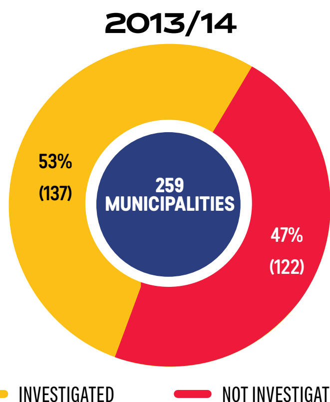
The IRR proposes a Build, Own, Operate (BOO) model where a third party has the responsibility to deliver basic services. A competitive tender process is launched for a basic service, such as water purification. The local authority or municipality determines the standard and quality at which the service should be delivered. The third party is then chosen based on its ability to meet that standard. If the third party fails to meet the set standard, then the tender process is reopened, explains Cronjé.

"The municipality sets the standard of the service delivery, but does not have to deliver the service," he says. This process does not reduce the power of government, and it doesn't put the private sector in charge of the entire country. Yet it improves the quality of life and standard of living for people living in these municipalities. It also supports emerging business and creates employment within the private sector, he adds.

Professor Jannie Rossouw, head of the School of Economic and Business Sciences (SEBS) at Wits University, believes that if citizens pay rates and taxes, then local government should deliver basic services. "If local government does not deliver these services, then what are we paying tax for?" he asks. "Citizens pay for services like electricity, water and sewage removal

INVESTIGATION OF UNAUTHORISED, IRREGULAR AS WELL AS FRUITLESS AND WASTEFUL EXPENDITURE*



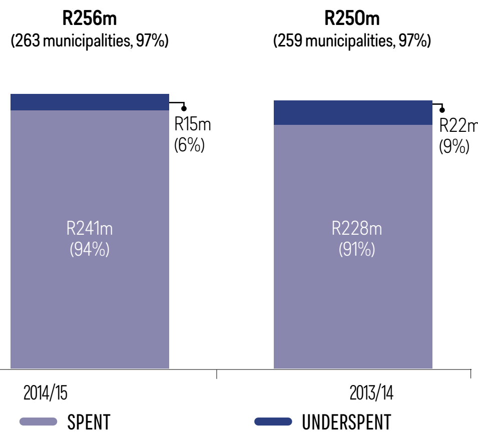


INVESTIGATED — NOT INVESTIGATED

*The figure shows that in 45% of the municipalities (2013/14: 47%) the council failed to conduct the required investigations for all instances of unauthorised, irregular and fruitless and wasteful expenditure. Furthermore, 87 of the municipalities that failed to conduct investigations in 2013/14 attracted similar findings in 2014/15.

SOURCE: Auditor-General of South Africa

SPENDING OF MUNICIPAL SYSTEMS IMPROVEMENT GRANT*



*The municipal systems improvement grant is an allocation aimed at capacity building for improving financial and performance management in local government.

SOURCE: Auditor-General of South Africa

PROPOSED SOLUTIONS FROM THE AUDITOR-GENERAL

In order to improve audit outcomes, municipalities should do the following, according to the Auditor-General of SA (AGSA):

- Political, municipal and provincial leadership should commit to filling key positions with competent people, and minimise the turnover rate of these positions.
- Leadership should deal with transgressions and poor performance by insisting on credible and continuous in-year reporting by local authorities. This will improve year-end audit processes, which will contribute to better decision-making for the year ahead.
- The proportion of municipalities that failed to prepare annual performance reports decreased from 14% to 4%. This is attributed to the increased accountability and transparency of local government, according to AGSA.
- Municipal managers and senior managers should improve financial and performance management by implementing audit action plans that address audit findings and the root cause of issues. Management should improve record keeping at municipalities, enable monitoring and oversight through regular and credible reporting for supply chain and contract management.
- Improve governance of municipalities by introducing well-functioning audit committees and internal audit units. Councils and municipal management are to implement recommendations of audit committees and use internal audits to identify risks and take action to mitigate these risks.
- Management and political leadership should respond to risks that AGSA has highlighted and improve their internal controls. The majority of municipalities' status on control is of concern, according to the AGSA report. IT controls in particular need to be addressed. ■

with the expectation that it will be delivered." If local government contracts a private company to deliver services, then they should pay for those services using rates and taxes, at no additional cost to citizens, he explains.

Local politics

Both agree that a long-term solution for better service delivery starts at the voting polls. It is the people living in municipalities who determine the quality of basic service delivery they will receive when they pick the councillors who will deliver these services during local elections, says Cronjé. If local authorities struggle to deliver basic services, then it is up to citizens to resolve the problem with the choices they make in elections. "If you don't like the policy in an area, then elect a new local government."

Individuals who choose to withhold their rates and taxes, sue municipalities, or protest are not wrong to do that. But taking that route would not be effective in the long term, says Cronjé. The problem is political and citizens should vote differently, he says.

The auditor-general notes the improvements made over the past five years, as well as the shortcomings that need to be addressed. As minister of co-operative governance and traditional affairs, Des van Rooyen put it: "We are not there yet, but we are not where we were yesterday". As the nation prepares to head to the polls in August, the incoming councillors have to try not to regress from what has been achieved in the past five years, said Makwetu. ■

editorial@finweek.co.za

Professor Jannie Rossouw
Head of the School of Economic and Business Sciences (SEBS) at Wits University

Frans Cronjé
CEO of the South African Institute of Race Relations

Image: Bram Lammers

LIVING IN COMFORT?

The South African Institute of Race Relations (IRR) recently compiled a Deprivation and Comfort Index for South Africa's municipalities. It looks at the relative levels of well-being and deprivation experienced by South Africans. The higher the Comfort Index score, the more comfortable life is, and the higher the Deprivation Index score, the more difficult life is, explains Cronjé.

The Comfort Index measures factors such as attainment of higher education; ownership of a refrigerator; use of electricity for heating; having a flush or chemical toilet; and individual monthly income of R25 601 or more. The Deprivation Index measures factors such a lack of schooling; the unemployment rate; no access to piped water; no access to a toilet; and a monthly income of R1 600 or less.

On the whole, municipalities in the wealthier parts of the country perform better on the Comfort Index, regardless of the governing political party. "These areas are more prosperous and have a naturally competitive economic advantage over rural areas," says Cronjé. Municipalities that scored high on the Comfort Index include Johannesburg and Cape Town.

Municipalities with poor financial management often score highly on the Deprivation Index. This is mainly because the people in these municipalities are living in worse circumstances, he explains. Some of the municipalities that scored highly on this index were the Eastern Cape's OR Tambo (includes Mthatha) and Alfred Nzo (includes Mount Ayliff), and KwaZulu-Natal's uMkhanyakude (includes Mkuze) and uMzinyathi (includes Dundee), all scoring above 40 out of 60. ■

THE AUDITOR-GENERAL REPORT IN A NUTSHELL

▶ The provinces with the highest proportion of municipalities with **clean audit opinions** in the 2014/15 financial year were the Western Cape (73%), Gauteng (33%) and KwaZulu-Natal (30%), according to the report. Municipalities in the North West, Limpopo and Northern Cape remain in the "red zone" as they reported "disappointing" audit opinions, the report said.

▶ The number of municipalities that received **unqualified audit opinions** improved from 13 in 2010/11 to 54 in 2014/15. The proportion of unqualified opinions (or clean audits) increased from 47% to 59% over the past year.

▶ Municipal entities such as Rand Water and Pikitup also reported clean audits. The additional 18 clean audits from municipal entities bring the total number of clean audits to 72.

▶ **The number of adverse and disclaimed audit opinions** reduced from an excess of 30% in 2010/11 to 11% in 2014/15. The amount of adverse and disclaimed opinions decreased from 33% to 11%.

▶ **Total municipal expenditure** amounted to R347bn for 2014/2015, up from R315bn in 2013/14. Municipalities with clean audits accounted for R134bn (39%) of total spending, while those with unqualified opinions with findings accounted for R143bn (41%). Municipalities with qualified opinions accounted for R49bn (14%) of spending, and those with adverse and disclaimed opinions accounted for R20bn (6%). Municipalities with outstanding audits accounted for R1bn of the total expenditure budget.

▶ **Irregular expenditure** has more than doubled since 2010/11 to R14.76bn, and is incurred by an increasing number of municipalities. Much of this irregular expenditure is attributed to non-compliance with Supply Chain Management (SCM) legislation. There has been "inadequate" contract management, and little effort made since 2011/12 to address uncompetitive and unfair procurement processes, according to the report. "Compliance with prescripts is not observed, hence leading to irregular expenditure," said Makwetu. Cases of possible fraud and improper conduct in SCM processes are increasing, and are not being investigated, most of the time, he said.

▶ **Fruitless and wasteful expenditure** increased by more than R1bn from 2010/11 to R1.34bn in 2014/15. This was mostly related to failure to pay suppliers in time, leading to interest payments not budgeted for, explained Makwetu. The Nelson Mandela Bay Metro in the Eastern Cape accounted for most of this expenditure at R422.6m, followed by the Matjhabeng in the North West with R151.8m. "The two of them account for almost more than half of that expenditure [increase]," explained Makwetu.

▶ **Unauthorised expenditure** has increased more than threefold since 2010/11 to R15.32bn. The main reason for the unauthorised expenditure remains overspending of the budget; however, more than 60% of the overspending related to non-cash items, for example, estimates of depreciation or impairments that were not correctly budgeted for. ■

on the money

THIS WEEK:

>> **Entrepreneur:** ChesaNyama's recipe for success *p.42*
>> **Management:** The power of being a good negotiator *p.44*

CEO INTERVIEW

By Buhle Ndweni

TFG navigates bumps with aplomb

Despite a tough operating environment, TFG has been on an expansion drive. We spoke to the group's CEO, Doug Murray, and chief financial officer, Anthony Thunström, about future plans, debt levels and the influx of international clothing brands.

It should come as no surprise that TFG's CEO Doug Murray is keen to acquire or start new businesses.

The group bought UK-based business Phase Eight last year, and announced in March that it bought another UK brand, Whistles (through Phase Eight).

The impact of its recent acquisitions is telling. The group's turnover for the financial year to 31 March 2016, excluding Phase Eight, was up by 11.6%. When Phase Eight is included, it is up by 31.2% (to R21.2bn).

"At the moment we have a business [Phase Eight] we acquired 16 months ago and we had the opportunity to acquire Whistles, probably earlier than what we would have liked to. But it's such a great business," says Murray.

While they are keen to grow the group, Murray and TFG chief financial officer Anthony Thunström say they first want to allow time for Whistles to be integrated into the TFG business before looking for more opportunities. "There's no shortage of opportunities, but at the end of the day, there are limited [human] resources to effectively run these businesses," says Murray.

The group does not currently see any opportunity to acquire any significantly sized assets in South Africa. Rumours that TFG might be interested in acquiring Edcon are unfounded, they say.

"We are not just building a portfolio of brands – everything we do is carefully thought through. And for the offshore business, the acquisition of Phase Eight had very clear criteria, as did Whistles," Murray says. "Time and effort need to go into the bedding down of those businesses."

Thunström agrees: "We've just bedded down Phase Eight. I think we've got some work to do to bed down Whistles. It will probably take six to eight months to start to realise the synergies, the cost savings [and] the uplift in revenues."

> "We are not just building a portfolio of brands – everything we do is carefully thought through."

Credit sales

Many of TFG's markets, including SA and the rest of Africa, proved challenging environments in which to operate over the past 12 months, says Thunström. One of the reasons for this is stricter affordability assessment regulations on credit agreements in SA, which came into effect in September 2015.

The new rules, which include a requirement for three months' bank statements or payslips, led to a decline in credit approvals for most retailers, including TFG, which derives more than 40% of its total sales from credit purchases.

Thunström says a large chunk of the population works in the informal sector

and therefore does not necessarily have access to bank statements or salary slips. Customers who would have previously been granted credit are now either paying cash or opting for the lay-by option at TFG and paying off the amount owed over three months, he explains.

Despite the challenges, TFG yielded solid results, he says. Group retail turnover, including Phase Eight, grew 31.2% to R21.1bn, while total headline earnings per share (HEPS) were up 31.2% to R10.24.

"To have produced the turnover – in addition to the earnings growth under those circumstances – has been a great achievement," says Thunström. "I believe the building blocks that were put in place and the reinvestment in the business for the past five or six years have positioned the group to reach this point; this is not something you achieve in a year."

Murray says the group's bad debt is moving in the right direction, even though it's still at a high level due to the current economic cycle. In the past financial year, net bad debt was 7.4% lower year-on-year, declining from R1.02bn to R947.7m.

"It's still a very tough environment out there for the consumer and one of the reasons we have been doing better on our bad debt is that we have invested quite significantly in data analytics, which informs us when we should be contacting consumers who show a propensity to get into a delinquent state," says Murray.

Anthony Thunström
Chief financial officer
of TFG

TFG maintains the influx of [international] retailers, mainly focused on female fashion, has not had a negative impact on TFG, since only

11%

of its business is focused on the mass female market.

"It's not just by luck that our bad debt is coming down. We've been doing a lot of work in terms of controlling the bad debt and improving our collections and the result is a better bad debt result," he adds.

Trends and repositioning of brands

"Ath-leisure" clothing has been gaining popularity, both locally and abroad for a number of years. This is good for TFG's sportswear division. "We just happen to be well positioned and strong in that regard," says Murray.

TFG has repositioned its value for money, or more affordable brands, like Exact and the rebranded "The Fix" (formerly Fashion Express). "The Fix is going to be our business that we are going to position at a younger fashion value end, which will take time to position," he says.

Exact was taken down a few price points over a year-and-a-half ago to deliberately compete directly on value, since the prices where similar to that of Foschini's offerings. "It has done unbelievably well; it's one of our top-performing brands at the moment," says Thunström. "The reality is there's no question that South African consumers are under financial pressure. They are looking for good quality at the right value."

The group has been focusing on the roll-out of online platforms for their brands.

In August 2015, Totalsports, Sportscene and DueSouth were taken online and have been successful. In July, Markham, Fabiani, @Home Furniture and Foschini Cosmetics will go online and next year more brands will be added to the omni-channel roll-out.

"We've got world-class omni-channels platforms in place; we are just rolling out our group brands at a rate that we think is appropriate for the market," says Murray.

International competition

International fashion retailers Zara, Cotton On and H&M have entered SA in recent years. TFG maintains the influx of these retailers, mainly focused on female fashion, has not had a negative impact on the group, since only 11% of its business is focused on the mass female market.

"We have a very large sports business, which is our biggest division; we have cellphones, homeware, furniture, cosmetics and jewellery," says Murray. The group sees very little, if any, international competition in those categories, he says. "Even on the clothing side, there's no [international retailer] coming in on the sports division when you think about Zara, Cotton On and H&M. The rest are sub-scale and don't really have volume."

While many retailers source internationally, TFG has been investing in local sourcing and manufacturing of its womenswear. "We are very supportive of local manufacture because its gives us quick response benefits," says Murray. "And that gives you a competitive advantage." ■

editorial@finweek.co.za

ABOUT DOUG MURRAY

Management style: Open, honest, collaborative. Business is all about people so communication is crucial. Set clear strategies and monitor them. And give the responsibility to the individuals to execute the strategies – only get involved when they may need assistance. I don't like surprises; I like to be kept in the loop.

How do you relax and keep inspired? I like spending time with my family and friends. I like playing golf and exercising whenever I get the chance, but there is limited time. My family is big on cycling and they drag me along, but my preference is golf.

Qualities I admire in a leader: Honesty, openness and approachability. Someone who is happy to debate issues with people and trusts people – through healthy debate with people you trust, you tend to reach the right conclusion on matters. I have tremendous respect for our chairman, Michael Lewis. I think he has a lot of those attributes.

Favourite gadget: My iPhone and iPad.

By Lameez Omarjee

Getting ready to braai abroad

Fast-food restaurant ChesaNyama started as a single outlet at Wits University in 2012. With the franchise now boasting over 300 stores, founders Stelio and Praxia Nathanael have their sights set on expansion to the US.

Stelio Nathanael
Chief operations officer of Gold Brands Investments

Gold Brands Investments, the holding company, listed on the JSE's AltX earlier this year, raising

R25m.

ChesaNyama Grill House on Bertha Street, Braamfontein, Johannesburg.

Since the establishment of the first ChesaNyama, formerly known as Butcher's Grill, at Wits University's Matrix food court in 2012, the fast-food "traditional braai" offering has grown its footprint to over 300 across Southern Africa. Over the past four years, the franchise's holding company, Gold Brands Investments, has diversified its food offerings to include 1+1 Pizza, Mediterranean offering Opa!Pitaland, Chicken Wild Wings and rib and burger joint Blacksteer.

Gold Brands Investments listed on the JSE's AltX earlier this year, raising R25m. Chief operating officer Stelio Nathanael says this will fuel the South African fast-food franchise's plans to expand to the USA later this year, and acquire a few international brands. The company currently boasts a market capitalisation of R110m.

Despite the diversification strategy, ChesaNyama remains the star of the group, says Nathanael. 1+1 Pizza currently has 12 stores, owned corporately by Gold Brands. There are six Chicken Wild Wings stores, four in South Africa and two in Botswana. Gold Brands acquired Blacksteer from Famous Brands in April 2015; it is currently growing at a rate of two stores per month and there are now 14 of these outlets.

"My vision and goal was to provide customers with value for money with a good-quality product," says Nathanael, who's been in the food business since the age of 16. After working as a waiter overseas, Nathanael returned to SA at the age of 21 and got involved with the Squires steakhouse brand. "That was my passion and I believe if anything is your passion, stick to that. You will become successful where your passion lies."

Business advice

Nathanael describes himself as an innovative businessman who listens to what the customer wants. "I put myself in the customer's shoes to see what is missing in the market [to decide] what we can offer, and will be a success story."

After recognising that there was no braai offering in the fast-food market, ChesaNyama was formed to fill that gap, he explains. Taking this innovative approach is risky, he admits. But having drive and passion will lead you to success, most of the time, he adds. The best business advice he ever received was to "be hands-on in whatever you do".

Keeping up with the competition

The increasing number of international brands – recent entrants include Burger King and Krispy Kreme – in the local fast-food market is not a threat to local players, says Nathanael. "I believe it's keeping us on our toes in SA." Having international brands brings a lot of "knowledge" into the food industry, and it drives local brands to continue improving the quality of their offerings. "We've also got a lot of local brands that are of the same calibre as international brands."

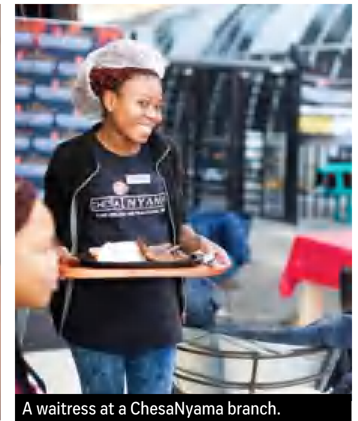
Not every international brand that enters the South African market will make it. The opposite is true about South African brands entering foreign markets, he says. "It depends on the country if the brand is going to succeed." Having witnessed international brands fail to make a mark in SA over the past 20 years, and seeing South African brands remain successful, shows that local brands are competitive too, he says.

Acquisitions

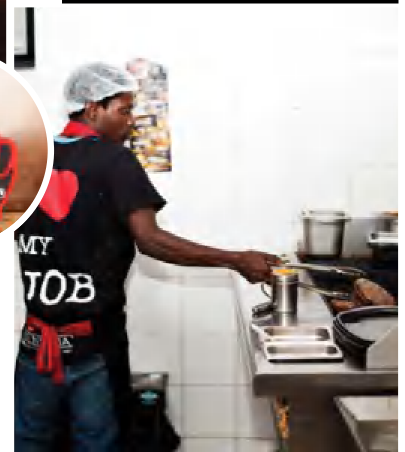
Gold Brands is in negotiations to bring in a few international brands. It is finalising negotiations to acquire UK-based fish and chips restaurant, Harry Ramsden's. This will be an opportunity for Gold Brands to tap into the middle- to upper-LSM market, says Nathanael. Gold Brands will take two approaches, one will be a family restaurant and another will be an "assisted-diner" service.

"There is a gap for fresh fish and chips in the South African market. That's why I believe it will do well in the middle-to

ChesaNyama's founders saw a gap for a braai offering in the local fast-food market.



A waitress at a ChesaNyama branch.



Burger patties being taken off the grill.

upper-LSM market." Harry Ramsden's differs to the Fish and Chip Co., which Nathanael sold to Taste Holdings in 2012, in that it was targeted to the lower- to middle-LSM consumer, he says.

Listing on the AltX has also solidified Gold Brands' expansion plans. "It provides future incentives for our franchisees…and it motivates every single staff member," he says. It has given Gold Brands the opportunity to improve its logistics chain to reach outer provinces such as the Eastern Cape and Limpopo by expanding its distribution points beyond its Centurion-based kitchens, he explains.

"I believe if anything is your passion, stick to that. You will become successful where your passion lies."

Lessons learnt

Nathanael tells *finweek* that sticking to his goal of providing customers with value for their money has led him to constantly find ways to improve the product offering. It is possible to cut costs, while still providing consumers with a quality product, he says. Due to the drought, the prices of meat and vegetables have ballooned. "We've had to find ways and means to still offer consumers the same quality product without cutting corners," he explains.

Keeping franchisees on par with his vision has also been challenging over the years. The success of Gold Brands depends on the success of the individual franchisees. "They have to work the business the way you do, with the same drive, and always be hands on," he says.

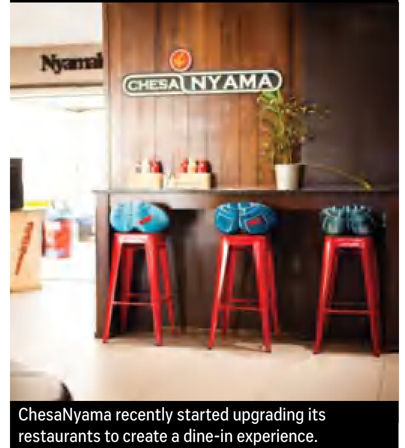
Expansion plans

As for future goals, Gold Brands plans to expand into the US over the next five years, where "barbecue is big", he says. The first ChesaNyama will be opened in Tennessee in October this year. Tennessee has over 150 000 South African families, but the aim is to reach middle-income earners, says Nathanael.

"Our vision is to open 50 stores over the next two years in the US." These will be assisted diners, with a "South African feel", says Nathanael. Each store will be themed around a South African tribe. "Our aim is to show the American market what the South African market is about."

ChesaNyama represented South Africa in the Jack Daniels barbeque competition in 2013 and won the best international barbeque brand award. ChesaNyama also scooped the Restaurant Association of South Africa's Best Take Away award for 2015. The secret to the success of ChesaNyama lies in its strong ties to culture and tradition. "It's what South Africans are about," he says. ■

editorial@finweek.co.za



ChesaNyama recently started upgrading its restaurants to create a dine-in experience.

One of the franchise's challenges is to keep its offerings affordable without compromising on quality.

Images: Lourens Reyneke

By *finweek* team

How to ace any negotiation

Whether you are trying to reach an agreement on a major deal, bargaining to get a raise, or simply trying to get your co-worker to see reason, negotiating is a daily part of working life. Here's how to hone your skills.

When it came to negotiations, the American oil billionaire Jean Paul Getty followed the advice of his father: "Never try to make all the money that's in a deal. Let the other fellow make some money too, because if you have a reputation for always making all the money, you won't have many deals."

Accordingly, successful negotiations should be less tug of war, more give and take.

A sustainable deal can never be a zero-sum game, and coming to the table with only one desired outcome is ill-advised. Instead, the key to successful negotiations is devising a number of creative solutions that can benefit both parties.

This starts by being clear about what you want to achieve, and then crafting different terms that would be acceptable to both yourself and the counterparty.

Jean Paul Getty
American industrialist
(1892-1976)

The key to successful negotiations is devising a number of creative solutions that can benefit both parties.

Here's how to get to the ideal deal:

Establish the terms of engagement

Make sure you understand what the process of negotiation will entail, who all the stakeholders are and who will make the final decision on the deal. Avoid the anti-climax of painstakingly negotiating a deal, only to find out that a different party has the final veto.

Do proper homework

You need to have all the facts and figures about the situation before you start to negotiate. As importantly, you need to understand the motivations of the counterparty. What are their interests and what do they want to achieve? Considering the situation from the other side's perspective will be crucial in achieving an agreement. However, don't over-empathise. There's a difference between *seeing* their point and *feeling* their pain, which may cloud your perspective. This is called the empathy trap – the counterparty may inadvertently (or advertently) guilt you into a deal you don't want.

Lose the fear

When the stakes are high, apprehension and anxiety about not achieving your goal can be debilitating, or make you overly aggressive in negotiations. Make sure you are calm, well-prepared and have back-up plans and counter-offers. Also, don't take any criticism or rejection personally.

Never negotiate via email

Messages can easily be misconstrued.

Present multiple equivalent simultaneous offers

Multiple equivalent simultaneous offers (MESO) is a negotiation strategy that involves coming up with at least three different options that are all at equal cost to yourself. All of these options are then offered to the counterparty as part of the negotiations. Research from two US academics shows that this strategy yields results: negotiations that involve MESO have a higher deal rate, and the party who presents the different options is seen as flexible and accommodative. The only downside is that this strategy requires much more preparatory work.

Listen carefully

Pick up on every point and make sure you understand all the issues by asking questions. Repeat the statements the counterparty makes back to them, confirming to them that you recognise and appreciate their concerns. Also, listen to how the counterparty speaks. Match their speed of talking. If they favour a measured approach, don't overload them with loads of facts and fast talking.

Never use round numbers

Demonstrate that you've put in the hard graft by presenting amounts and numbers that are well calculated, not imprecise thumb-sucks.

Gallo Images/Getty Images

Avoid the 'hard no'

If you can't reach an agreement, don't push too hard until the other party has to reject the terms. Instead, take a break and come back with different and credible counter-offers that may be more acceptable.

Silence is golden

Often, loose lips sink deals. "Never forget the power of silence, that massively disconcerting pause which goes on and on and may at last induce an opponent to babble and backtrack nervously," the veteran journalist Lance Morrow once wrote. The compulsion to fill awkward silences often leads to nervous verbiage, which may cost you the upper hand in negotiations. By talking constantly, you may give away too much of your position. Instead, get comfortable with staying quiet and listening intently to what the other party is saying.

> If you can't reach agreement, don't push too hard until the other party has to reject the terms.

Mind your manners

Be polite and avoid losing your temper in all situations. Be diplomatic and respectful. Don't issue ultimatums. At all costs, avoid escalation into hostility. Strip out all emotion and focus the conversation on the facts. Recognise that all parties need to save face.

Sunil Bharti Mittal
Chairman and group CEO of Bharti Enterprises

Don't compromise your values

Make sure that your conduct and the terms of the deal always correspond with what you value in life. This will earn you respect.

Lock in and leave

When you have agreed to an acceptable deal, get out as soon as possible. For many negotiators, this is the danger area. There is nothing to gain from hanging around and chewing the fat. Often, this is when some of the gains negotiated in a deal are sacrificed.

> "For me, the relationship is very important. I can lose money, but I cannot lose a relationship."

When you have reached an agreement, immediately sum up your understanding of what has been agreed upon and send it back to the parties for official agreement.

Lastly, remember that according to the Indian telecoms mogul, Sunil Mittal, the test of a good round of negotiation is that both parties must smile. "For me, the relationship is very important. I can lose money, but I cannot lose a relationship." ■

editorial@finweek.co.za

Let's get those neurons firing with this week's quiz! Should you wish to complete an online version, it will be accessible via fin24.com/finweek from 13 June. Good luck!

1. The editor of *City Press* recently announced that she was leaving the newspaper. What is her name?
2. Which late sportsman's birth name was Cassius Clay?
3. Who seems set to be the Democratic Party's nominee for US president?
4. Who is the Auditor-General of South Africa?
   - Kimi Makwetu
   - John Mkhize
   - Thuli Madonsela
5. **True or false?** President Zuma will visit Mauritius for talks on the Southern African Customs Union (Sacu).
6. In which city was South Africa's fastest supercomputer unveiled recently?
   - Port Elizabeth
   - Stellenbosch
   - Cape Town
7. **True or false?** The French capital has been heavily affected by flooding in recent days.
8. Name the credit ratings agency that reaffirmed SA's rating on 3 June.
9. **True or false?** Cell C was the first cellular network in the country to offer WiFi calling.
10. **True or false?** The Jesus Dome, which burnt down on 7 June, was situated in Bloemfontein.

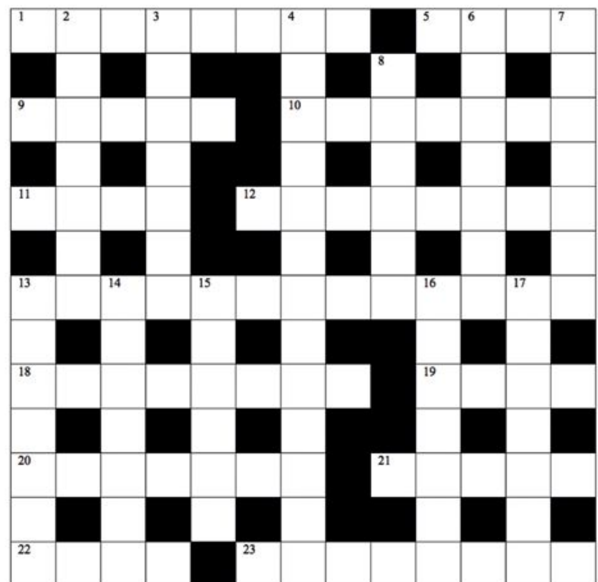
CRYPTIC CROSSWORD 635JD

ACROSS

1 Rate highly from a lowly level? (4,2,2)
5 Sand banks and the means to open land banks, we hear (4)
9 Need to change those characteristic attitudes (5)
10 Attempt to equal monetary arrangement at last minute (7)
11 Yokel is thickest without match (4)
12 Positive change that isn't hollow (8)
13 Worry about one's security after years off work (4,3,6)
18 Withdraws from French territories (8)
19 Secure capital in the Netherlands (4)
20 Agreement it's the correct house (5-2)
21 Attempt too detailed designs (5)
22 Female donkey left before (4)
23 Helpful bunch of engineers to call (8)

DOWN

2 Non-member of the profession right away is excluded (7)
3 Rapper's opportunity (7)
4 Appreciate collection of hidden riches (8,5)
6 A rebel writer succeeds in world of learning (7)
7 Style we develop musically (7)
8 Sounds like new tree, a coypu's hide (6)
13 State law enforcement agent introducing real changes (7)
14 Criminal agent with thousands of embryo soldiers (3-4)
15 Loyalty is large indeed at the association (6)
16 It's diverting to have a shot at identification of a mushroom, say (7)
17 Excellent rating (6-1)



Solution to Crossword NO 634JD

ACROSS: 1 Computerise; 9 Ejector; 10 Under; 11 Inept; 12 Schleps; 13 Inrush; 15 Bantam; 18 Inquiry; 20 Snack; 22 Noise; 23 Handgun; 24 Jellied eels

DOWN: 2 Obese; 3 Petites; 4 Thrash; 5 Rough; 6 Saddest; 7 Definitions; 8 Dressmaking; 14 Require; 16 Absence; 17 Lychee; 19 Ideal; 21 Angel

On margin

Workplace horoscope

Astrology tells us about you and your future simply by looking at your birthday. The Chinese Zodiac uses the year of your birth. The Corporate Zodiac goes a step further: simply by looking at your job title, people will have you all figured out:

MARKETING: You are ambitious yet stupid. You chose a marketing degree to avoid having to study at university, concentrating instead on drinking and socialising, which is pretty much what your job responsibilities are now.
SALES: Laziest of all signs, often referred to as "marketing without a degree", you are also self-centred and paranoid. Unless someone calls you and begs you to take their money, you like to avoid contact with "customers" so you can "concentrate on the big picture". You seek admiration for your golf game throughout your life.
TECHNOLOGY: Unable to control anything in your personal life, you are instead content to completely control everything that happens at your workplace. Often even YOU don't understand what you are saying, but who the hell can tell?
ACCOUNTING: You are mostly immune to office politics. You are the most feared person in the organisation; combined with your extreme organisational traits, the majority of rumours concerning you say that you are completely insane.
HUMAN RESOURCES: Ironically, given your access to confidential information, you tend to be the biggest gossip within the organisation. Possibly the only other person who does less work than marketing, you are unable to return any calls today because you have to get a haircut, have lunch, and mail a letter!
MIDDLE/SENIOR MANAGEMENT: Catty, cut-throat, yet completely spineless, you are destined to remain at your current job for the rest of your life. Unable to make a single decision, you tend to measure your worth by the number of meetings you can schedule for yourself.

SOURCE: Comedy Central

John Collison @collison
I worry less about the AI [artificial intelligence] apocalypse when Google, despite a decade of use and being logged in, shows foreign-language results when I travel.

Matt du Plessis @mattduplessis
Shem. When someone boasts about their IQ test results and you have to decide whether to tell them it's not out of 100.

Jabulani Sikhakhane @Dlaziphi
Nice to see SABC crow about 40th anniversary of 1976 student uprising which it wouldn't have shown footage of based on its new policy.

The Eh Factor @AngelaEhh
I just want to be rich enough that I can buy my furniture already assembled.

Heather lou* @heatherlou
I'm sorry I didn't answer when you called my phone. I don't use it for that.

Comedywire @comedywire
How come if you eat those tiny candy bars they're "fun sized" but when you drink the tiny bottles of rum at your desk at 10am you're an "alcoholic"?

Adam McKay @GhostPanther
"Oh, I'm from the late 20th, early 21st century. We turned the simple joys of singing & dancing into nasty judgmental competitions."

very good boy online @UniqueDude2
COOKING HACK: if you put too much water in your rice, toss a few phones in there.

"A nation of sheep will beget a government of wolves." – Edward R. Murrow, American journalist and broadcaster (1908-1965)

SUBSCRIBE NOW

SUBSCRIBE TO THE DIGITAL EDITION FOR ONLY R100 PER MONTH AND SAVE 20%

INVESTMENT
BUILD YOUR PORTFOLIO LIKE A PRO

CEO INTERVIEW
RICHARD PIKE: HOW ADCORP DODGED THE LABOUR LAW BULLET

MANAGEMENT
HOW TO LEAD IN LEAN TIMES

ENGLISH EDITION
finweek
9 June 2016
fin24 FIND US AT: fin24.com/finweek

INSIDE ALTRON'S REBOOT
A RISKY BUY?

SHARE VIEWS ON:
TASTE HOLDINGS
LEWIS
NAMPAK
BALWIN PROPERTIES

FUNDFOCUS: 10TH ANNIVERSARY EDITION

HERE'S HOW:

1. Register an account at www.mysubs.co.za OR log in to your account.
2. Go to the page of the item you would like to purchase and select your subscription option.
3. Click on Add to Cart and then Checkout.
4. Pay now.
5. Select your method of payment and your order will be confirmed.
6. Download the MySubs+ app from the relevant app store and log in with your MySubs details to read your publication. Your magazine will appear in your library. Simply download and enjoy!

mysubs

CONTACT US ON:

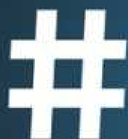
0861-697-827 SUPPORT@MYSUBS.CO.ZA

TERMS AND CONDITIONS
Offer expires on 30 June 2016. If at any time you choose to discontinue your subscription, call 0861-697-827 or email support@mysubs.co.za.

CHANNEL 410

DStv

What you know, puts you first.



CNBC Africa is Africa's leading business and financial news channel, providing a unique blend of international and pan-African business and economic news, making it an essential tool for the African investor to feel the pulse of the market. CNBC Africa, the television channel broadcasting business news to 48 African countries, 24 hours a day.

#FirstInClass

FIRST IN BUSINESS WORLDWIDE.

CNBC Africa Headquarters: +27 11 384 0300 | Nigeria Bureau: +234 806 304 0692 | Kenya Bureau: +254 202 252 150

Visit: www.cnbcafrica.com Follow @cnbcafrica

AN ABN COMPANY

THOMSON REUTERS

Strategic Partner of CNBC AFRICA across Africa