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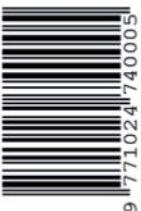
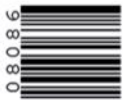
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from the editor

JANA MARAIS



What's in store for South Africa this year? That's the question a number of experts tried to answer at the recent Gibbs Economic Outlook conference – and it seems we may have some reason for optimism, even after President Jacob Zuma's disastrous State of the Nation Address earlier this month.

Yes, 2017 will bring more political and economic volatility, but a number of factors indicate that we may have hit the bottom in 2016.

Nick Binedell, former dean of Gibbs, says he is the most optimistic he's been about SA in four to five years. "We didn't realise then in how much trouble we were," he says. "I see 2016 as the first year of a cycle; the foundation year of 'the awakening'. We realised our politics is in a mess, and consequently our economy is in a mess." This led the private sector and civil society to become much more active, leading to crucial collaborations such as The CEO Initiative's work with National Treasury – work that is likely to expand to the benefit of the country.

Economically, there are some green shoots – net exports are expected to grow this year, inflation is peaking, interest rates are expected to remain flat, and investment is forecast to start picking up in the second half of the year, says Kim Silberman, head of macroeconomic strategies at Standard Bank.

As a small, open economy, our fortunes are determined to a large extent by what's happening in the world. This is illustrated by the recent rally in the rand, which has been driven largely by an improvement in commodity prices and positive market sentiment towards emerging markets, rather than a vote of confidence in South Africa.

The global macroeconomic picture is therefore important. Key risks for us would include the US Federal Reserve hiking interest rates more than what the market anticipates, a drop in commodity prices, or if global growth falters, says Silberman. Locally, the political environment and less rainfall than expected could also be detrimental to the economy, she says.

Politically, this year will be dominated by the ANC's succession fight, which will leave little room for focus on economic policy, she says, but even politically things may be looking up. During a recent trip to the UK to meet about 40 asset managers, Silberman noted that sentiment about SA's prospects was very positive: "They believe we are at a political trough, and are looking for entry points into the market." ■

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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
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How storytelling shapes economic strategy

As economics is an incredibly intricate field that the layperson often doesn't comprehend, simplified narratives about certain economic events can influence how people respond to them.

Storytelling is as old as civilization. Around the fire, in religious texts, and in children's books, stories give us identity, and inculcate in us the norms and values that help us make sense of the world around us.

Economists are beginning to understand that stories also shape behaviour, and therefore economic outcomes. In a new National Bureau of Economic Research paper, **financial economist and 2013 Nobel laureate Robert Shiller** calls for the study of 'economic narratives'. He argues that the way we talk about events, for example the Great Depression (of the 1930s), the Great Recession (of 2007-09) or Trump's economic policies today, affected (or will affect) the outcomes of these events. Business cycles, he explains, cannot only be explained by the rationality of numbers. The stories we tell, and how these stories spread, matter too.

Economic stories or narratives are simplified ways to help us understand the world. They can take many forms: from newspaper articles and books, to anecdotes and jokes. They often appeal to us not because they account for all facts, but because they explain the world in a way that strengthens our existing biases and beliefs.

Shiller uses, well, a story to explain the impact of stories. One evening in 1974, at a restaurant in Washington DC, economist Arthur Laffer had dinner with White House bigwigs Dick Cheney and Donald Rumsfeld. They discussed tax policy. Laffer took a napkin and drew an inverted-u graph. On the left side, tax rates were 0%, which means tax income was also zero. On the right side, tax rates were 100%, which meant no-one would work and tax income would also be zero. The point was to show that there is an optimal tax rate where tax income cannot increase further, whether tax rates increase or decrease.

This meeting in 1974 would have been forgotten, was it not for Jude Wanniski, who wrote a colourful article in *National Affairs* about it four years later. The story went viral, and had a massive impact on Ronald Reagan's election as US president in 1980 and his commitment to cutting taxes. (He argued that cutting taxes could increase tax revenue because the US was on the wrong side of the Laffer curve.)

Shiller is, of course, not the first to argue that stories matter. A few years ago, **Barry Eichengreen, professor of economics at UC Berkeley**, explained in his presidential speech to the Economic History Association that, while scientists use deductive or inductive reasoning in their research, policymakers often rely on analogical reasoning.

He knows this from experience: when the severity of the Great Recession became known in 2007, policymakers had

to act fast. Had they followed a deductive approach, they would have had to agree on the theoretical reasons for the crisis. Eichengreen argues that this was almost impossible given the deep divides in the field of macroeconomics. Had they followed an inductive approach, they would have had to rely on statistical evidence, much of which was not available immediately.

So instead they turned to an event that they had studied: the Great Depression. Ben Bernanke, a student of the Great Depression, used analogical reasoning to ensure that the same mistakes were not repeated. Expansionary monetary and fiscal policy followed. The analogy with the Great Depression made it easier to communicate their policy response to the broader public. Instead of trying to explain theory or statistics, they could construct a narrative that helped people understand why quantitative easing or fiscal stimulus was necessary.

If stories matter in shaping our response to economic events or in persuading us of the validity of some economic policies, what should economists do about it? Shiller suggests incorporating textual analysis into our research: "There should be more serious efforts at collecting further time series data on narratives, going beyond the passive collection of others' words, towards experiments that reveal meaning and psychological significance." But this is difficult: "The meanings of words depend on context and change through time. The real meaning of a story, which accounts for its virality, may also change through time and is hard to track in the long run." New techniques in data science may help.

Eichengreen proposes more emphasis on the study of history. **Consider the case of a bank failure in South Africa today. What will we use as policy response: theory, statistics, or earlier bank failures, like Saambou and African Bank? Probably the latter.**

Eichengreen warns, however, that there is not a single version of history. We all have our ideological glasses through which we look at the past – especially when the facts of what had happened during these past failures are not widely known. The recent Bankorp saga comes to mind.

Because "historical narratives are contested", Eichengreen suggests, we should see "more explicit attention to the question of how such narratives are formed". So to improve our understanding of the world and our ability to predict the future, economists should learn how people tell stories, and how these stories persuade us to behave differently. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.



Robert Shiller
Financial economist and
2013 Nobel laureate

The way we talk about events, for example the Great Depression (of the 1930s), the Great Recession (of 2007-09) or Trump's economic policies today, affected (or will affect) the outcomes of these events.



Barry Eichengreen
Professor of economics
at UC Berkeley

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By Tumisho Grater

GLOBALISATION

The populists' scapegoat

US President Donald Trump believes increased protectionism is the way to protect industrial sector jobs. However, smart policy responses will require politicians to focus on the impact of technological developments on the global economy.

At the 2013 World Economic Forum in Davos, **Christine Lagarde, managing director of the International Monetary Fund**, prophetically said: "You can be absolutely sure that nations will revert to their natural tendency of hiding behind their borders, of moving towards protectionism, of listening to vested interests, and they'll forget about transcending those national priorities."

Fast forward to 2017 and one can't help but find it ironic that **China's President Xi Jinping** defended the advantages of globalisation at the same forum. At the same time, Donald Trump was being sworn in as the 45th US president, where he reiterated his protectionist rhetoric, which goes against the very foundation of an open and global economy.

All of a sudden, investors need to start considering the implications of populism on their investment strategies as **there is a growing concern that we may be starting to witness the end of increased globalisation and global trade**. It has been anticipated that, while current trade deals may remain in place, no new deals will be signed.

There is of course also the view that we may be entering the beginning of de-globalisation. Trump issued a string of executive orders following his inauguration, which included pulling out of strategic trading deals with the aim of protecting American interests. The UK is formally leaving the EU's single market and other European states will hold elections over the next months, which may result in the further implementation of protectionist measures on the continent.

Many politicians have honed in on apparent socioeconomic failures such as growing income inequality and job losses (particularly in the manufacturing sector), and are promoting the adoption of protectionist policies, which has resulted in such policies' growing mass appeal.

Is globalisation truly to blame?

The imbalances created by globalisation have been well documented by the media. While these imbalances do exist, increased global trade has taken an unfair amount of the blame and has become the popular scapegoat for the chronic displacement of labour among undereducated and low-skilled workers. In fact, technology has had a much more profound impact.

The technology revolution began as early as the 1950s, accelerated with the introduction of personal computers in the 1970s and then again with the launch of the modern internet in the 1990s. Over the past 20 years, technological advancements have progressed at a rapid pace, with applications penetrating and altering nearly all business practices. This has had a significant impact on labour market trends and yet its influence has been understated by most politicians.

This is a critical point. Failure by politicians to recognise the driving force of technological innovation could result in disastrous policy mistakes. The world is often divided on what the "right" policies are and one may argue that the "right" policies are those that help global economies keep up with the speed of technological change – rather than those that forced economies to take a step back into the 1930s by boosting uncompetitive industries at the expense of other sectors of the economy.

Job losses as a consequence of technological transfer are just the beginning. So far, the major target has been the global manufacturing sector, but this is spreading to the service sector. We are familiar with the notion that manual work can be carried out by machines. The factors that determine which jobs are vulnerable to automation are not so much whether the work concerned is manual or white-collar but whether or not it is routine. For example, mechanisation in the mining industry has meant that it now requires a smaller and more

Failure by politicians to recognise the driving force of technological innovation could result in disastrous policy mistakes.



Christine Lagarde
Managing director of the International Monetary Fund



Xi Jinping
President of China

skilled workforce. It has essentially replaced the time-old pick and axe but allowed mining companies to mine deep orebodies more safely and profitably.

The case of South Africa

In a country such as SA, where the unemployment rate is incredibly high and the country has a sizeable inequality gap, technological advancements could create further difficulties. Adding fuel to the already-burning fire is the raging debate over a national minimum wage, which some believe may well lead to more job losses.

The arrival of Uber in SA disrupted the metered taxi industry and the fight for market share continues. Although there are other issues regarding regulation, the introduction of this technology is an example of how labour dynamics were changed and continue changing in a specific sector. The introduction of driverless cars is no longer science fiction and poses even greater challenges to the labour market as technology changes to meet the demands of emerging urban mobility patterns.

The only defence against the chronic displacement of labour is upskilling a country's workforce. Of course, this is an expensive exercise, especially in a country where there is a sizeable under-educated population. However, it is not sustainable to ignore the issues that this part of the population is facing. Social unrest may build, pushing policymakers to affect radical changes, as seen in the case of the UK and the US. We cannot ignore the common thread that runs through these events. ■

editorial@finweek.co.za

Tumisho Grater is an economic strategist at Novare Actuaries and Consultants.

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"The US economy is not only humming on all cylinders, but in our view the optimism associated with a clean sweep by the Republicans in Washington is likely to create a self-fulfilling period of strong markets and at least the potential for strong growth."

– **Analysts at Bank of America Merrill Lynch** in a recent note. The bank's survey of global fund managers, conducted during the first week of February, found the level of optimism is the highest seen since early 2011, Bloomberg reported. According to the bank, European elections posed the greatest threat, followed by a trade war and a crash in global bond markets, it reported.

"Markets are in a 'heads I win, tails you lose' mentality right now. You've assumed all of the good at this point. And you've discounted a decent amount of the bad."



Ian Winer
Director of equity trading at Wedbush

– **Ian Winer, director of equity trading at investment firm Wedbush**, commenting in an interview with ft.com about the new records hit by US equity markets. Winer said that while some of the tax proposals currently on the table in the US, like a lower corporate tax rate, may be bullish for business, others, notably a potential border tax adjustment that will impact imports, may have the opposite effect.



Mmusi Maimane
Leader of the DA

"WHEN THE PRESIDENT STOOD ON THIS PODIUM TO TALK OF RADICAL SOCIO-ECONOMIC TRANSFORMATION, HE WASN'T TALKING ABOUT SAVING THIS LOST GENERATION. DON'T BE FOOLED BY THE LANGUAGE IN PRESIDENT ZUMA'S SPEECH. HIS PROJECT, AND THAT OF THE ANC, IS THE ACCUMULATION OF PERSONAL WEALTH."

– **DA leader Mmusi Maimane** replies to President Jacob Zuma's State of the Nation in Parliament on 14 February. Maimane decried the fate of South Africa's youth, which he described as the "lost generation". Nearly 6m South Africans under the age of 35 are unemployed.

THE GOOD

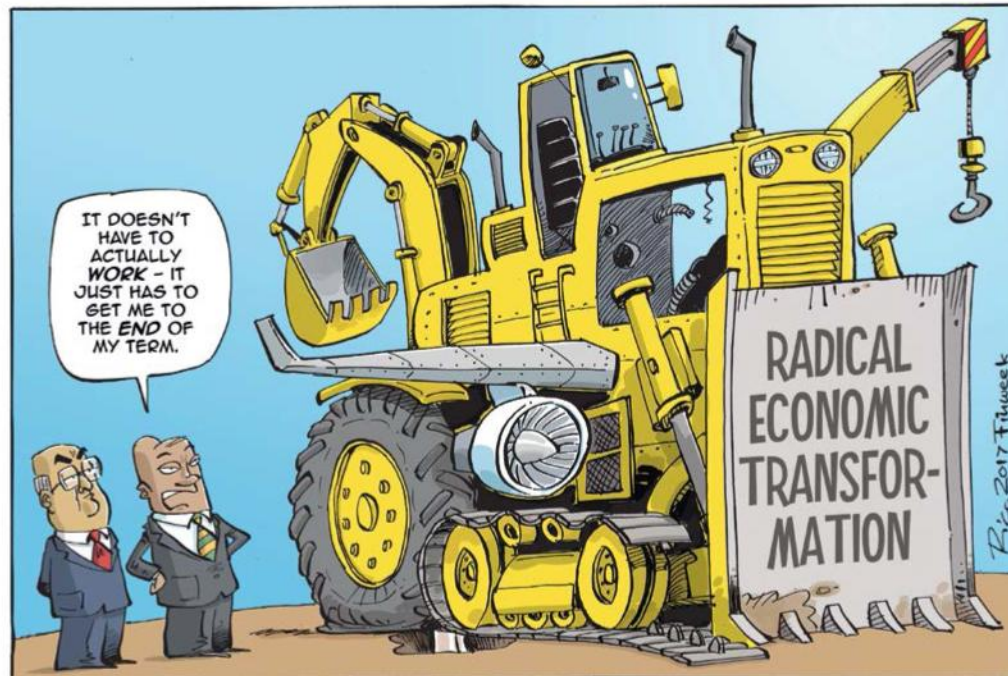
The rand rallied to its highest level in 18 months against the dollar on 14 February, reaching R13.07 in intraday trade, as positive investor sentiment and higher commodity prices boosted emerging-market assets. The stronger rand will have a positive impact on the outlook for inflation and interest rates, Old Mutual said. Nedbank Corporate and Investment Banking is forecasting a level of R12.80 in the short term, while Nomura is predicting that the rand will trade between R12.50 and R13 before weakening again in the second half of the year, with a year-end target of R15.50, *Business Day* reported.

THE BAD

There are question marks about the wisdom of Brait's 2015 acquisition of UK fashion retailer New Look, after the private equity firm had to revise New Look's net asset value (NAV) to R8.7bn in the December quarter, less than half the R18.7bn it reported in the September quarter last year. The market seems to be anticipating a rights issue to refinance New Look's debt, which totals about £1bn, *Business Day* reported. The retailer, which managed to grow revenue only 0.8% quarter-on-quarter, is highly geared. Brait's share price is down nearly 50% over the past year.

THE UGLY

Despite a recovery in commodity prices, the mining sector continues to shed jobs, with 65 000 jobs lost since the last quarter of 2015, according to the latest data from Statistics SA. In the last two quarters of 2016, 17 000 jobs were lost in the sector. Roger Baxter, CEO of the Chamber of Mines, said policy uncertainty, "including the nonfinalisation of the Mineral and Petroleum Resources Development Act, and uncertainty relating to the mining charter, have served to detract investment in the sector". Pali Lehohla, CEO of Stats SA, warned of more job losses to come in manufacturing, mining and agriculture.



S&P 500 RALLIES

\$20tr

The value of stocks listed on the S&P 500 has increased by nearly 25% over the past year, eclipsing \$20tr for the first time on 13 February. The rally is attributable to investor optimism over faster economic growth in the US and stronger corporate profits, ft.com reported. Other US indexes – the Nasdaq Composite, the Dow Jones Industrial Average, and the Russell 2000 – also reached new records, it reported. The US economy is forecast to have grown at an annualised rate of 2.7% in the first three months of this year, compared with 1.6% in the fourth quarter of 2016, according to a running calculation by the Atlanta Federal Reserve.

RECORD FOR GOLDMAN

10

Shares in Goldman Sachs rallied to its highest level in 10 years on 14 February, buoyed by hopes that US President Donald Trump's administration will bring a "profit-boosting mix of higher interest rates, lower taxes and lighter regulation", ft.com reported. Trump has hired a number of ex-Goldman executives, including Gary Cohn, Goldman's president until last year, as his right-hand man on financial regulation. Analysts said the rally, which saw Goldman shares close 1.3% higher at \$249.46, was thanks to healthy conditions in debt and equity markets, and pressure on regulators to relax restrictions that were placed on banks following the 2007/08 financial crisis, it reported.

AIR POLLUTION DEATHS

1.1m

India's rapidly worsening air pollution is causing about 1.1m people to die prematurely each year and is now surpassing China's as the deadliest in the world, nytimes.com reported, citing a new report by Boston-based research group the Health Effects Institute. Premature deaths from particulate matter have increased by nearly 50% between 1990 and 2015, an alarming rate, it said. Factors to blame include "the confluence of rapid industrialisation, population growth and an aging populace in India that is more susceptible to air pollution", nytimes.com reported. Globally, deaths from air pollution grew to 4.2m in 2015, from 3.5m in 1990.

OIL DISCOVERIES HIT LOW

174

Discoveries of new oil and gas fields have dropped to a 60-year low, as companies have cut exploration budgets and large untapped fields have become more difficult to discover, ft.com reported. Only 174 oil and gas fields were discovered last year, compared with an average of 400 to 500 a year up until 2013, according to research group IHS Markit. As it typically takes five to seven years to get a field into production, the lack of discoveries now means supplies will tighten in the next decade, ft.com said. Spending on exploration dropped from \$100bn in 2014 to \$40bn last year, according to Wood Mackenzie.

By Mariam Isa

Squeezing out another R28bn of tax revenue

Minister of finance Pravin Gordhan has a tough task ahead. He needs to find R28bn of extra tax revenue, but without damaging already fragile business and consumer confidence.

Finance minister Pravin Gordhan faces the most formidable task of his political career when he presents his Budget for 2017 next week, as he must squeeze an additional R28bn of tax revenue out of the flagging economy while simultaneously boosting its pace of growth and job creation.

Gordhan also has to meet the tough debt and budget deficit targets he set last October in order to steer South Africa clear of the credit rating downgrades which it narrowly managed to avoid last year, averting a steep jump in the government's cost of borrowing and an outflow of foreign capital.

He must meet a pledge to slash spending by R20bn this year, without affecting the social spending that now helps to support 17m people.

If revenues fall short of Treasury's mid-term budget projections in October, taxes may have to rise even further.

This all takes place in a precarious political environment, with different factions of the ANC jostling for power ahead of the party's elective conference in December. The global backdrop is not ideal either because of the lack of clarity around the impact of US President Donald Trump's policies, which look set to disrupt long-standing trade agreements.

Rumours of an imminent Cabinet reshuffle, which could include Gordhan's removal from office, have raised the stakes, as this would spook domestic financial markets and create perceptions that Treasury's sound economic policies are in jeopardy.

Budget strategy likely to meet aims

Nonetheless, the prevailing view is that Gordhan and his team at Treasury will set out a strategy that will meet all the requirements, at least for the time being. "We are in a low-growth economy but that does not mean we are trapped in it," says **Sizwe Nxedlana, chief economist at FNB.**

"I think if Treasury sticks to what it says and broadly speaking there is no fiscal slippage or political mishap, economic growth will be better than last year and the chances of

avoiding a downgrade are very high."

The International Monetary Fund (IMF) has predicted that the economy narrowly avoided a recession last year with growth of just 0.1%, and that the pace will pick up to a meagre 0.8% this year. This scenario is gloomier than the one painted by independent forecasts, which put growth last year at just below 0.5%, quickening to around 1% this year.

Only a modest acceleration is expected over the next two years, which will make little inroads into an unemployment rate hovering at around 26.5%.

"My view is that over the years the budget has become less and less flexible as fiscal parameters deteriorated. We are now at a point where we have less flexibility than there has been for decades," says Stanlib chief economist Kevin Lings.

Tax hikes must not stifle economy

The key question is what taxes can be raised without damaging fragile business and consumer confidence, which both fell in the final quarter of last year. Private investment contracted for the fourth quarter in a row.

Lifting the value added tax (VAT) rate by one percentage point to 15% would be one of the most effective steps to take, as it should boost tax revenue by between R15bn and R20bn. It would also make sense as SA's VAT rate is low by global standards – the average rate in Africa is 16%, and the level was last raised in 1993.

Lifting the value added tax (VAT) rate by one percentage point to 15% would be one of the most effective steps to take, as it should boost tax revenue by between R15bn and

R20bn.

But this is unlikely to happen as it would take a heavy toll on the country's poor majority without adjustments to offset the impact through increases in social grants or more exemptions on certain products, which would complicate administration of the tax. Politically, it is a hot potato.

"What Gordhan is left with is a solution whereby a selection of smaller taxes are cobbled together to raise the needed R28bn," says Nazmeera Moola, co-head of fixed income at Investec Asset Management.

High income earners may be targeted

Speculation is rife that high income earners

Pravin Gordhan
Minister of finance



will bear the brunt of likely measures to raise personal income tax (PIT), which generates more than a third of total tax revenue, making it the largest contributor to official coffers.

Increasing the marginal tax rate on the top tax bracket to 45% from 41% now could yield between R7.5bn and R10bn, according to Muziwethu Mathema, senior economist for KPMG in South Africa.

PwC's tax policy head in SA, Kyle Mandy, predicts a one percentage point increase in all tax brackets except the lowest, which would yield R10bn.

Nazrien Kader, head of taxation services at Deloitte Africa, believes that it is also conceivable that a special levy or surcharge may be applied to individuals with earnings above a set threshold until the economy strengthens – being temporary, it would be more palatable.

But raising taxes on high income earners could be very risky. According to last year's budget document, there are only 7.1m taxpayers. Of these, less than 1m have an annual salary above R500 000, and they already account for more than 60% of the total PIT intake.

There has also been talk of introducing a new tax bracket for people earning more than R1.5m, but as Moola points out, this would not raise meaningful revenue.

The problem is that squeezing more money out of these people could prompt "aggressive" tax planning. As they are generally highly skilled and mobile, the step could persuade many to leave the country for places where PIT levels are lower.

Mixture of tax measures

However, Treasury is very likely to avoid adjusting tax brackets for inflation, which could yield as much as R13.5bn, according to Kader. Last year, this step was taken for higher brackets and



Sizwe Nxedlana
Chief economist
at FNB



Nazrien Kader
Head of taxation services
at Deloitte Africa

Despite higher global oil prices, analysts believe that the fuel levy will be raised once again, as this would be more palatable than an increase in VAT.

resulted in a net tax increase of R7.6bn.

Almost equally certain are changes in tax policy around trusts, estate duty, and donations between spouses – all other forms of wealth tax that could raise between R3bn and R5bn per year. There's also definitely money in the pipeline from a "voluntary disclosure" programme on overseas assets, which runs until the end of August. The last amnesty in 2004 raised R2.9bn.

Corporate income tax will almost certainly not be increased as the economy is so weak, and at 28% it is already steep by international standards. The step would erode SA's competitiveness and ability to attract investment, Moola says. In addition, corporate revenue is also concentrated, with just 325 companies contributing 58% of tax collection.

Treasury announced last year it would introduce a tax on sugar-sweetened beverages

on 1 April in a bid to improve the population's health through curbing the consumption of sugar. This could yield R4bn in revenue annually, but as Deloitte points out, for the tax to be a credible health initiative, this money should be channelled into programmes to raise awareness about high sugar consumption and other lifestyle issues which contribute to obesity.

The Beverages Association of South Africa has warned that the tax could cost the economy R14bn and trigger job losses of between 62 000 and 72 000. But if the tax does go ahead this year, it will still take

several months to finalise governing rules and licensing applications.

A carbon tax has been on the table since 2010, but has been postponed several times and is now scheduled for implementation in 2018. Despite objections from industry, there is little doubt that it will eventually go ahead, given government's intention of complying with global climate agreements.

Despite higher global oil prices, analysts believe that the fuel levy will be raised once again, as this would be more palatable than an increase in VAT. Depending on the increase, this could raise between R5bn and R7bn.

"Sin" taxes on products like wine, spirits and tobacco products will undoubtedly rise once again, and could generate between R5bn and R7bn. However, KPMG warns that "disproportionate" increases could eventually encourage black market consumption.

Elephant in the room

The elephant in the room is the message which President Jacob Zuma sent earlier this month in his State of the Nation Address on the need for "radical" economic policy to further diversify the economy and address persistent income and ownership disparities between black and white South Africans.

But as Nxedlana points out, most of the policies which he highlighted are already in place, and are viewed by business as positive for the economy. "Using the government goods and services budget of R500bn to support social justice initiatives is not radical," he said.

"No-one disagrees with supporting new entrants, small business and people of colour. Accelerating diversification and increasing competition in the economy is a win-win for everyone." ■

editorial@finweek.co.za

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

ESTIMATES OF INDIVIDUAL TAXPAYERS AND TAXABLE INCOMES, 2016/17										
Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax and medical tax credits relief		Income tax payable after relief	
	Number	%	R billion	%	R billion	%	R billion	%	R billion	%
R0-R70 000*	6 619 854		178.2		-		-		-	
R70 001 - R150 000	2 583 046	36.3	271.9	12.5	12.6	2.8	0.6	9.1	12	2.7
R150 001 - R250 000	1 733 463	24.4	338.8	15.6	35.7	8	1.2	17.7	34.5	7.8
R250 001 - R350 000	1 071 798	15.1	317.9	14.6	49.5	11.1	1.3	20	48.2	10.9
R350 001 - R500 000	800 990	11.3	330.7	15.2	66.1	14.8	1.5	22.5	64.6	14.6
R500 001 - R750 000	497 722	7	300.7	13.9	75.9	17	1.1	16.3	74.9	17
R750 001 - R1 000 000	197 813	2.8	169.8	7.8	50.3	11.2	0.4	6.6	49.9	11.3
R1 000 000 - R1 500 000	136 782	1.9	163.4	7.5	53.6	12	0.3	4.6	53.3	12.1
R 1 500 001+	94 578	1.3	276.5	12.7	104	23.2	0.2	3.2	103.8	23.5
Total	7 116 192	100	2 170	100	447.6	100	6.6	100	441	100
Grand total	13 736 046		2 348		447.6		6.6		441	

*Registered individuals with income below the tax threshold.

SOURCE: National Treasury

By Mike Schüssler

The great annual national tax parade

South Africans are among the highest-taxed individuals in the world, while companies are more heavily taxed locally than businesses in many rich countries. This hampers investment and job creation.

Every year the fear of God is put into income taxpayers as accountants and other experts jostle for attention-grabbing headlines regarding personal tax increases. Managers and professionals all go to experts' presentations on how to handle this coming tax increase.

Yet every year the minister of finance gives "billions back in tax relief", the Treasury spin machine tells us, and the media sees no irony in the contradictions. This has been going on for nearly a decade or so.

In fact, in the last decade only one tax rate increase has taken place, while Treasury has only partly given personal taxpayers inflation relief. So the parades are all PR and marketing from all sides.

The tax burden on individuals increases as inflation lifts salaries, but tax brackets increase at half the inflation rate. So the small rise in brackets is then announced as "tax relief", while the under-inflation adjustment should be called a "tax increase". There is no increase in the actual tax rates, but ever-lower incomes get higher marginal tax rates.

In fact, the minister almost always talks about tax relief, while the markets and commentators foolishly cheer as they try their best to make some positive noises about the "well-balanced budget".

But looking at the numbers, one can see that they tell a different story. Personal income tax was 7.3% as a percentage of GDP at the start of 2007. In the third quarter of 2016, that ratio increased to 9.6%.

SA income taxpayers have gone from 18th-highest personal income tax burden to 14th-highest in the world. The trend is up and is likely to be that for some time to come.

Company tax income to GDP, while only 4.7% of GDP in 2015, is still higher than all Organisation for Economic Co-operation and Development (OECD) countries. Yes, SA has one of the highest and consistently high-income tax regimes in the world!

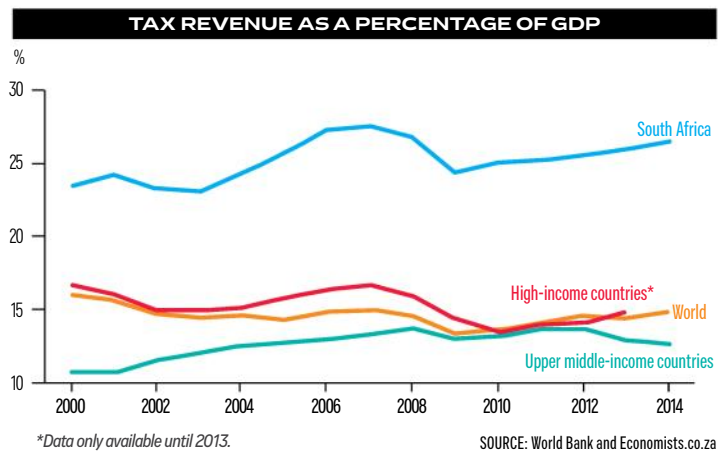
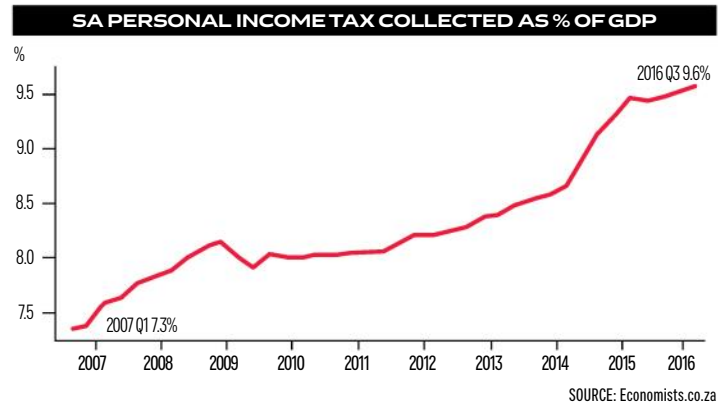
SA has one of the highest overall tax-to-GDP ratios in the world today. World Bank data shows SA is also part of the world's highest regional tax area.

We have been in the top 20 highest tax-to-GDP countries for about a decade now and were always in the top quarter. Now the tax burden is being raised by new taxes such as carbon and sugar taxes.

The graph shows just how high SA tax-to-GDP is and has been since 2000.

The alternative facts we have been living with tell me that one need no longer wonder why the South African economy is growing at half the rate of the world and a third of the rate of Africa. It also explains why Southern Africa, the region in the world with the highest tax rate, also has the highest unemployment rate.

South Africans get little value for the high tax burden if one



South Africans get little value for the high tax burden if one compares education and health outcomes across countries.

compares education and health outcomes across countries. Very large class sizes and too few doctors given the size of the population are just two examples, while our public service wage bill is the fourth highest in the world.

It's simple: companies and people who add value do not want to give up so much for so little in return. So the investment dries up as taxes increase, and employment growth suffers, and more people want services.

Ever more promises are made, and the cycle starts yet again. The tax burden is increased and sold as tax cuts. But those firms with calculators and information see the wood for the trees and quietly stay away.

A very prominent CEO told me, "When money arrives it is a fanfare, but when it leaves it is silent. Be worried when businessmen say nothing," as this is a good indication that their attention is elsewhere.

You should worry when accounting firms and analysts play along and tell you how good the balancing act was. They are either blind and deaf or have sold their souls. ■

editorial@finweek.co.za

Mike Schüssler, founder of Economists.co.za, has won the South African Economist of the Year award twice since 2005.

'Government is on a good mission' - Vedanta's Anil Agarwal

The Indian miner has enjoyed a smooth entry into the country and is even eyeing a potential merger between Anglo American and one of its subsidiaries, Hindustan Zinc.

There is the prospect of travelling in the Rolls to the Mount Nelson hotel in Cape Town's Gardens district, but I'm shepherded instead to a German sedan for the trip where Anil Agarwal and entourage await, in the Lord Nelson suite no less.

Agarwal is the founder and executive chairman of Vedanta, India's only mining conglomerate. Listed in London by former chairman Brian Gilbertson, the company is worth £3bn (R50bn) and comprises the bulk of Agarwal's \$3bn net worth which, according to *Forbes*, makes him India's 65th-richest person.

It is also the company that is investing \$1bn in the Northern Cape building the Gamsberg zinc mine. In a period of widespread disaffection for South Africa's mining sector, and where regulatory uncertainty and political inscrutability dominates, this is a rare show of confidence.

"Gamsberg will be a catalyst in SA," says Agarwal. "We are entrepreneurs and there are some risks we have to take. But the SA government and people have opened their arms. We don't get moved from pillar to post for approvals and SA operates by the rules," he says.

This is not what one has come to expect from mining executives operating in SA. Normally, the discourse is of inordinate delay, red tape; even obstruction. A High Court judgment found the department of mineral resources to have attempted to force Australian investor Aquila Steel, now owned by China's Baosteel, into sharing its manganese deposit in the Northern Cape by claiming overlapping prospecting rights.

Agarwal, however, seems to have a sanguine view of SA's progress as an investment destination so far. "Culturally, there is a good fit between India and Africa. And I haven't seen any other African country where Indian origins go back four or five generations like in SA," he explains.

"I am very new here, but there is a huge legacy of black and white. I go to some conferences and I find a lot of agony. But one thing I can tell you is that the government is on a good mission.

"I fully agree that foreign investment is not coming at the moment. They are very reluctant as they don't find much stability. That fear is always there, but I think it will improve. Africa has to do a lot of PR," he says.

Vedanta's plan, as described by Agarwal, is to have "one arm in India and another arm in Africa". He has also spoken about creating



Anil Agarwal
Founder and executive chairman of Vedanta



Brian Gilbertson
Former chairman of Vedanta



Mark Cutifani
CEO of Anglo American



Deshnee Naidoo
SA CEO of Vedanta



another Hindustan Zinc in Africa, starting with the Northern Cape. Hindustan Zinc is a subsidiary of Vedanta and the world's second-largest zinc producer.

It's also the company that was the subject of a telephone conversation between Agarwal and Mark Cutifani, CEO of Anglo American. According to Agarwal, there are good reasons for the two companies to be combined.

"We had a discussion with Anglo. Hindustan's assets are among the finest. It is sitting with \$6bn in cash and no debt and generates \$2bn in cash every year so putting it with Anglo would be one plus one making four," says Agarwal.

Cutifani seems to have turned down the offer, however – although intriguingly, Agarwal thinks discussions have just been paused. "The proposal went to the board but it was not the right time.

It was just a friendly idea. It is a transaction that still needs to be digested," he says.

As for Gamsberg, the initial \$400m investment to build a 250 000-tonne-a-year zinc mine is progressing at a rate of knots. An improvement in the zinc price has also given Vedanta fresh momentum to invest a further \$500m, taking production to 400 000 tonnes/year.

The expansion is under discussion. Says Agarwal: "I am very smart; not street smart, but no-one will push me to do the wrong thing." It's an outlook with which Vedanta's SA CEO, Deshnee Naidoo, can concur: "He tells us to focus on the operations; he'll do the M&A. Remember, he's an executive chairman."

So one shouldn't be distracted by the suite and the Rolls (even though we didn't ride in it?). "Definitely not," says Naidoo. "He's pushing us all the time. As for the Rolls, next time," she says. ■

editorial@finweek.co.za

As for Gamsberg, the initial

\$400m
investment to build a 250 000-tonne-a-year zinc mine is progressing at a rate of knots.

By David McKay

Will Anglo dispose of its coal assets?

While the past few years have been tough for Anglo American, a bout of restructuring – and improved metal prices – have seen the miner recover. However, some demergers may be in the Mark Cutifani-led outfit's future.

mark Cutifani, CEO of Anglo American, acknowledged it was wrong of him to have reacted angrily at the group's full-year results presentation last year when he was criticised for failing to see the steep decline in commodity prices.

Normally a persuasive and even-paced communicator, Cutifani lashed out at analysts, saying he hadn't noticed many of them predicting the price decline either. It was a human response to some of the teeth-kicking that was going on at the time.

February 2016 was probably the low point in the commodity market cycle. It was also the month in which Anglo posted a more than halving in its full-year profit – a performance that compelled one analyst to publicly regret having ever owned the share.

This year, however, Cutifani is hoping for a quite different response from the investment community when the group reports its full-year figures, scheduled for publication on 21 February (after this issue of *finweek* went to print). Anglo was one of the best-performing mining shares on the London Stock Exchange as commodity prices stormed back, including a doubling in iron ore while chrome prices have quadrupled.

"I usually don't get all that thin-skinned, but I was getting a bit frustrated in the conversation," said Cutifani of *that* moment last year. "It was the wrong response from me and I recognise that."

"I don't think people recognise how much we did in 2015. But in many ways, I think we got too much credit for 2016," he added. He is referring to the first round of restructuring in 2015, which was followed up by a sterner restructuring plan of \$4bn in disposals for 2016



Mark Cutifani
CEO of Anglo American

Anglo was one of the best-performing mining shares on the London Stock Exchange as commodity prices stormed back, including a doubling in iron ore while chrome prices have quadrupled.

in an effort to take net debt to below \$10bn.

As things turned out, not all the disposals were required owing to the cash flow generated from improved metal prices during the year. However, there is still a commitment to selling the SA coal mines, and quite possibly Anglo's 70% stake in Kumba Iron Ore – although analysts question whether it should happen. A demerger of the assets, possibly using Kumba as the vehicle, has been mooted as well as a straight-forward trade sale.

finweek quoted **Hanré Rossouw**, portfolio manager at Investec, for instance, in the story *Amplats surges on back of valuable by-product* (2 February edition) as saying Kumba was a good cash generator following a restructuring in which 4 000 jobs were cut.

Said Cutifani of the firm's SA assets: "Today we have businesses in SA that we've made hard decisions over in the last three years, and we've restructured. All of them are making cash and profits. So we're pleased with the progress."

"We don't need to change. It [a demerger] has to stack up against the value we see today and if it does, then we look at doing something. But there's a good chance we would stay carefully involved in certain assets in any case."

"But in the end, what we're looking for is more flexibility in the financial arrangements we have in South Africa. From our point of view, the current system works. We can make that work," he added.

Tim Clark, head of mining research at Standard Bank Group Securities, said these comments were an indication that Anglo might seek concessions from government in how it was able to mobilise cash from its local assets.

National Treasury still exerts a level of exchange control which limits the amount of cash earned in the country that can be sent to foreign accounts. "Anglo doesn't need to sell any assets and its priority will be on getting its investment-grade rating back and paying dividends," said Clark.

"But it does need to invest in its export coal mines in a couple of years whilst its UK shareholders probably want less exposure to SA. Thermal coal is not a popular commodity at the moment and Kumba Iron Ore is a high-cost producer of iron ore. So Anglo may have good reasons for doing the demerger, it is probably wanting government to give it the flexibility so it can do the unbundling," he explained.

Other assets that Anglo said it would



52-week range:	R82.13 - R236.87
Price/earnings ratio:	-
1-year total return:	154%
Market capitalisation:	R293.2bn
Earnings per share:	-\$2.65
Dividend yield:	-
Average volume over 30 days:	2 206 676
SOURCE: INET BFA	



Glencore soars, expands its domain



Hanré Rossouw
Portfolio manager at Investec

sell – such as its Minas Rio, an iron ore mine in Brazil that it built from scratch at great expense – may be kept within the group. “The question will be asked by investors in February – which is the right question: ‘Okay, got your 2014 strategy; you’ve done a pivot, do you pivot back or are you working from a different position?’” said Cutifani.

The first pivot was to make the restructuring more profound. The second pivot may be to retain assets and hold them for their cash-generating capability. Cutifani indicates it might be time to do this.

“If you remember, we said: one – we’ve got the basics right. We’ve rebuilt all of our processes and we’ve ticked that box. Two – we’ve focused on the quality of the portfolio, so we’ve got more aggressive in the asset we have. We can now assess how far we’ve gone and [whether] we need to do more,” he said.

The other parts of the strategy about which investors will hear more later this month is the firm’s marketing project in which it has attempted to sell its minerals to customers just as De Beers sells rough diamonds to the diamantaires: carefully and to known “clients”.

“We’re doing at least 3% better on platinum and in some areas even a bit better than 3% depending on the nature of the contract,” said Cutifani. This is not trading minerals better, or taking advantage of time and geography to arbitrage the price of the metal as Glencore has done over the years.

“We’re not Glencore. We can’t do what Glencore does [...] We’re delivering consistently to customers and we’re creating a different relationship that gives us some percentage points [on the price]. And it’s very different: it’s a marketing model as opposed to a trading or a sales model,” he explained. ■

Shares in Glencore have increased about 134% in the past 12 months, but analysts believe the company has still some way to go because the market hasn’t properly digested the enormity of its balance sheet restructuring.

“The deleveraging strategy that began in autumn [northern hemisphere] 2015 has now been largely achieved and the company continues to deliver consistent guidance and good operational and cost control,” said Credit Suisse analyst Liam Fitzpatrick in a note in mid-February.

“We do not believe the reduction in debt levels and recovery in cash flows has been fully priced in by the market, the business is well diversified, the copper outlook is improving and latent capacity growth in copper and zinc has the potential to expand group production volumes by about 20% by 2019 at very low capex,” he said. Glencore took net debt down about \$10bn in 18 months to \$17bn to \$16bn today.

Following the release of Glencore’s production figures on 2 February, Myles Allsop, an analyst for UBS, said that Glencore offered leverage to commodities that have the best fundamental outlook “and it should deliver material volume growth from latent capacity”.

The cash-flow generation, breathing space on the balance sheet and an improved outlook for commodities are also seeing Glencore capitalise on the organic or brownfield growth opportunities that the group’s CEO, **Ivan Glasenberg**, said he much prefers over riskier greenfield developments.

Take for instance the bid for 100% of Mutanda Mines, and an increase to about 87% of its stake in Katanga Mines earlier in February – a bet on the prospect for copper production from the Democratic Republic of Congo. On the face of it, the Mutanda deal – in which Glencore is taking out the 31% share owned by Dan Gertler’s Fleurette Group – is a \$922m transaction, being the value placed on the asset by BMO Capital Markets.

In actual fact, given that Fleurette Group has loans with Glencore, the cash outlay is only \$534m, an amount that also includes the Katanga shares. “This is the kind of transaction we prefer,” said Charles Watenphul, spokesman for Glencore.

Earlier this year, the company unveiled its first so-called “bolt-on” deal in which it said it would join its 9% shareholder Qatar Investment Authority in a €10.5bn swoop for 19.5% of Russian oil company Rosneft.

Said Credit Suisse: “Given the deleveraging delivered through 2016, the company has returned to mergers and acquisitions and, if focused on minority deals and bolt-ons, should be a relatively low risk way of driving future growth.” ■

editorial@finweek.co.za

The business is well diversified, the copper outlook is improving and latent capacity growth in copper and zinc has the potential to expand group production volumes by about

20%
by 2019 at very low capex.



Ivan Glasenberg
CEO of Glencore International

By Glenda Williams

Joburg's air passenger growth marks return of Emirates' A380

Emirates' deployment of the A380 underscores confidence in the SA market.

For a few short months in 2011/2012, Emirates operated its massive wide-body long-haul Airbus A380 on the route between Johannesburg and Dubai. But passenger numbers fell short of expectations, as the market had not yet matured as Emirates had hoped. So the airline withdrew the A380 from the route and replaced it with the smaller Boeing 777.

Since then, Emirates' passenger numbers on the route between Johannesburg and Dubai have grown by 47% over the last five years, says Orhan Abbas, Emirates senior vice president, commercial operations, Africa. This has meant the return to the route of the popular double-decker A380 with its extra seating

capacity, on-board lounge and showers.

"And this time it's going to stay," says Abbas.

Emirates' Boeing 777-300ER aircraft will continue to serve the remaining three flights as well as the three daily

services between Dubai and Cape Town and the daily flight between Dubai and Durban.

"There will be more [A380s]," says Abbas. But perhaps this will not be the case on the Cape Town route. "The capability of the airport – runway length and turning angles – does not allow for the A380. If those technicalities were solved, we would look at Cape Town."

Rising visitor numbers

Accessibility to South Africa has seen a rise in tourists travelling to the country. "We saw a 37.4% growth from the Middle East from January to October 2016 compared to the same period in 2015," says Sisa Ntshona, CEO of South African Tourism.

Johannesburg as a city destination may have only grown by 2.1% in 2015, according to Euromonitor International's Top 100 City Destinations Ranking report, but Abbas says aside from those passengers that come to SA for tourism, leisure or business purposes, passenger growth on the route has much to do with connectivity.

"Johannesburg's connectivity for surrounding countries is key," Abbas tells *finweek*. "Johannesburg is like the mid-point in Southern Africa. It's where Africa and the East meets."



An Airbus A380 at Dubai International Airport.

Emirates' passenger numbers on the route between Johannesburg and Dubai have grown by **47%** over the last five years

AIR PASSENGERS TO DOUBLE BY 2035

The International Air Transport Association (IATA) foresees a doubling of passengers, from the 3.8bn passengers in 2016 to 7.2bn passengers in 2035. The biggest driver of demand will come from the Asia-Pacific region, expected to be the source of more than half the new passengers over the next 20 years.

For Africa, the projected 5.1% annual growth means an additional 192m passengers for a total of 303m passengers by 2035, while the Middle East's annual growth forecast of 4.8% equates to an extra 244m passengers.

Africa trumps in the top ten fastest-growing markets in percentage terms. Sierra Leone, Guinea, Central African Republic, Benin, Mali, Rwanda, Togo, Uganda, Zambia and Madagascar are expected to grow by more than 8% annually over the next 20 years.



Emirates' senior vice president, commercial operations, Africa, Orhan Abbas (L) with Fouad Caunhye, regional manager, Southern Africa.

Five percent of traffic from countries in the region, like Gabon, Mozambique and Namibia is generated through SA's gateways, and it's growing, adds Fouad Caunhye, Emirates' regional manager, Southern Africa.

So what's driving growth in the South African market?

Mainly leisure, says Abbas. "Leisure traffic into SA is growing massively, especially from dollar-based countries. The [SA] currency is very attractive. And Dubai is becoming a top destination with South Africans as well."

Broadly speaking, tourists make up 70% of traffic with business travellers making up the balance of 30%, adds Caunhye.

Asked about the impact of US President Donald Trump's blocking of visas for seven Middle Eastern and African countries (a ban which has since been lifted but may be reintroduced), Abbas says: "We have seen a slight impact on the airline with regard to certain destinations where we have to refuse people, but we have to abide by the law of the US." ■ editorial@finweek.co.za

ArcelorMittal appeals for more safeguards

South Africa's largest steel producer wants government to impose additional duties to protect local manufacturers from low-cost Chinese imports.

Despite a decision by government last year to provide ArcelorMittal South Africa (Amsa) with certain tariff protections to buffer the local steel producer against invasive cheap Chinese steel imports, the company continues its call for intensified market safeguards.

Amsa secured a 10% base protection on a range of steel products introduced in 2015 and 2016 and is lobbying government for the imposition of additional duties to protect local manufacturers from low-cost Chinese imports. This application is currently being considered by the International Trade Administration Commission of South Africa (Itac).

Amsa CEO Wim de Klerk told investors at the company's annual results presentation earlier this month that the domestic and export steel markets in which the company operates continued to be "extremely constrained", with minimal growth as a result of import substitution, minimal local investment and little infrastructure spend.

Despite the introduction of the fair pricing model, Amsa reported that 1.2m tons of steel – or around a quarter of overall domestic consumption – had been imported into the country in 2016.

This reflected the urgent need for safeguard measures for primary steel manufacturers to address the surge in imports, said De Klerk.

"Around 75 countries have instituted heavy penalties against China's dumping of steel in their markets. I fear that those countries with no protection will be targeted with China's overcapacity, and we'll see more imports taking

place into Africa and South Africa.

"Hence the drive from us and industry to really protect the local industry," he commented.

De Klerk, meanwhile, countered concerns from government that additional safeguards would push up steel prices to the downstream market.

"Bringing safeguards won't lead to higher prices to the downstream industry, because our price is essentially regulated [by its tariff agreement with government], it is just fighting the influx of low-cost material into this country.

"We've started a process to involve the downstream industry in detail, and we'll jointly go to government [with a proposition]. So there will be a big effort with the downstream industry to [approach government] and hopefully find a solution that's workable for SA and the entire industry," he said.

Trade and industry minister Rob Davies

last year defended government's decision to provide tariff protection to Amsa.

Davies told Parliament that the crisis in the steel industry, which employs around 190 000 people and contributes R600bn to the country's GDP, had been "one of the biggest drags" on manufacturing performance in the country, Engineering News Online reported at the time.

"We have had to make choices to preserve steel manufacturing.

To do that, we have made some advances on policies in the past and balanced downstream and upstream industries, otherwise we would have significant plant closures," Davies was quoted as saying.

Despite the continued influx of Chinese steel, Amsa narrowed its loss for the year to

Despite the continued influx of Chinese steel, Amsa narrowed its loss for the year to end December 2016 from R4.73bn in 2015 to

R1.09bn.



Wim de Klerk
CEO of Amsa



Rob Davies
Minister of trade and industry

end December 2016 from R4.73bn in 2015 to R1.09bn, while its headline loss (which excludes one-off items) reduced from R5.37bn to R2.58bn.

These performances were achieved through an 8% increase in average net realised steel sales prices, sustainable cost improvements and a reduction in one-off items.

Global steel markets, meanwhile, remained depressed due to a prolonged lack of demand, while in SA key market segments, including manufacturing as well as mining and utilities, recorded negative growth.

"The building and construction sector, which typically accounts for almost two-thirds of all steel consumption, registered a lacklustre growth rate," the company reported.

In the second half of the year, however, world steel prices began to rally, driven primarily by steel producers being forced to increase prices in the face of sharp increases in key input costs, notably iron ore and coal.

Amsa's revenue increased by 5% to R32.73bn, mainly due to an 8% increase in average net realised steel prices, from R6 727/tonne to R7 282/tonne, partly offset by lower sales volumes.

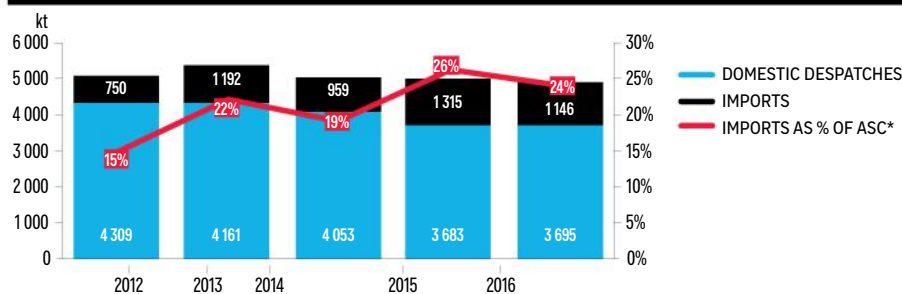
The group's total steel sales volume decreased by 44 000 tonnes, with export sales declining by 26% due to the oversupply of steel in the global market.

Amsa expects domestic steel demand to remain subdued in 2017 due to low economic growth and a lack of infrastructure spend, which will be mitigated by import substitution and new products.

"Export markets are likely to be more resilient, however, authoritative projections being that Africa will experience demand growth in the order of 4%," the company noted. ■

editorial@finweek.co.za

APPARENT STEEL CONSUMPTION



*ASC = Apparent steel consumption (local sales plus imports)

SOURCE: Amsa

market place

THIS WEEK:

- >> **House View:** Famous Brands, PPC *p.19*
- >> **Killer Trade:** Truworths feels the pinch *p.20*
- >> **Simon Says:** Views on Anchor Capital, MTN, fishing companies, maize price *p.21*
- >> **Invest DIY:** Finding the next Capitec *p.22*
- >> **Investment:** Regulation 28's effect on your retirement annuity *p.23*
- >> **Retirement:** The importance of asset allocation *p.24*

FUND IN FOCUS: ALLAN GRAY OPTIMAL FUND

By Niel Joubert

Steady absolute returns

The fund aims to provide investors with long-term positive returns higher than those available in the money-market sector, irrespective of stock market returns.

FUND INFORMATION:

Benchmark:	Daily interest rate
Fund manager:	Ruan Stander
Total expense ratio:	2.21%
Fund size:	R1.5bn
Minimum lump sum / subsequent investment:	R20 000 / R500 monthly
Contact details:	0860 000 654 / 021 415 2301

TOP 10 EQUITY HOLDINGS

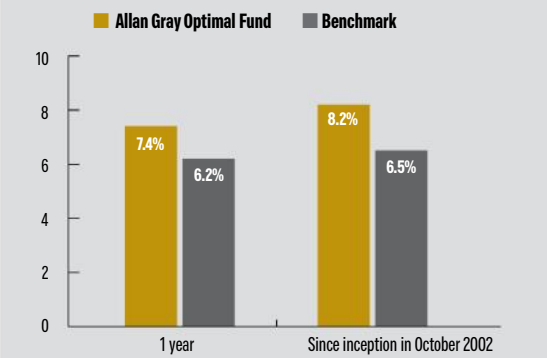
As at 31 December 2016:

1	Naspers*	20.6%
2	Sasol	10.6%
3	British American Tobacco	10.4%
4	RMB	5.1%
5	Capitec	3.8%
6	Life Healthcare	3.2%
7	RMI Holdings	3.1%
8	WBHO	2.9%
9	Remgro	2.4%
10	Reinet	2%
	TOTAL	64.1%

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

PERFORMANCE (ANNUALISED AFTER FEES)

As at 31 January 2017:



Fund manager insights:

The Allan Gray Optimal Fund is suitable for investors looking for steady absolute returns that are unrelated to returns from shares or bonds.

The goal of the Optimal Fund is to deliver long-term positive returns, better than cash in the bank, regardless of stock market conditions, says Ruan Stander, fund manager.

Investors should consider this fund if they want to capture a portion of the returns generated by Allan Gray's stock selection without exposing themselves to the level of volatility they would typically experience in a pure equity fund. Investors must also ideally be willing to invest for at least three years, says Stander.

"To achieve the Optimal Fund's goal, we invest in shares that our thorough research process indicates are undervalued and we seek to reduce stock market risk via a process called hedging."

This means that the fund sells exchange-traded equity index derivatives against the shares in the unit trust.

According to Stander, this enables them to deliver steady returns under different market conditions by earning a return either from their share selection, or from the derivative contracts.

The unit trust's return therefore depends on the performance of the selected shares relative to the stock market index, as well as on the level of short-term interest rates.

The Optimal Fund's maximum net equity exposure is 20%.

Stander says it is very hard to forecast returns, but that they aim to do better than short-term interest rates over the next three years.

"The short-term volatility in the fund could well be higher than the last three years, but we aim to make use of this to buy undervalued companies and sell companies that meet or exceed our estimates of intrinsic value."

In 2017, the return of populist politics across the world could cause a number of surprises, says Stander, but "we don't try to forecast these since it is very hard to be better than the average political forecaster (who we found out last year is not very good either)".

"We don't have a positive outlook for the South African economy, but that does not mean we will not buy local cyclical shares," he adds.

Why finweek would consider adding it:

The Allan Gray Optimal Fund was awarded a Raging Bull Award for the Best South African Multi-Asset Low-Equity Fund on straight performance to 31 December 2016.

Since inception and over the last 10- and five-year periods, the fund has outperformed its benchmark.

The fund has not yet experienced a negative return over any rolling 12-month period, while the stock market has experienced negative returns over some 12-month periods since inception of the fund. ■

editorial@finweek.co.za

FAMOUS BRANDS*

BUY SELL HOLD

By Simon Brown

Price is right to buy

At one point back in October, Famous Brands was trading as high as R186 and I wrote that while I liked the stock, it was expensive and I was not adding to my position at these levels and we should wait for a lower price.

At that time, results saw a suspension of the dividend to help the company pay down the loan the company took out for the **UK GBK** transaction. This was a surprise (the dividend being suspended) as it has a strong balance sheet that certainly could take on a lot more debt, but it opted for the more



conservative approach.

Now, with the price around R145, Famous Brands is finally in my buy zone and I will be adding to my position, although we may see the price weakening further in the months ahead.

Results for the year to end February are due at the end of May and I expect modest single-digit headline earnings per share (HEPS) growth as inflation would have been putting pressure on the company's margins – but this remains one of my top stocks for a

long-term investment portfolio. ■

*The writer owns shares in Famous Brands.

BUY Tax-Free Portfolio
16 February issue

BUY Kumba Iron Ore
9 February issue

BUY CSEW40
2 February issue

BUY Richemont
26 January issue

Last trade ideas

PPC

BUY SELL HOLD

By Moxima Gama

Looking to compete globally

PPC's shares have rallied on an announcement on 13 February that it has revived merger talks with rival AfriSam. Talks between the two cement producers were abandoned two years ago, but the companies said the time is now right to create a major African player that can compete more comfortably in the global cement market, *Engineering News* reported.

The combined group will have a market share of more than 60% in South Africa, raising concerns that it may struggle to obtain permission from the competition authorities.

Darryl Castle, PPC's CEO, told Reuters that the cement maker thinks that "consolidation in the industry will start to happen and we've got to make a choice as to whether we want to be the architects and lead that [...] or let it happen around us and not be sure of the outcome". Two new entrants – Sephaku Cement and Mamba Cement – have entered the local market since 2014.

PPC has faced lacklustre sales growth, partly due to a lack of fixed investment spending in

SA. In addition, it borrowed heavily to finance an ambitious expansion programme abroad, building factories in Ethiopia, Rwanda, the Democratic Republic of Congo and Zimbabwe. Its fragile finances led the firm to lose its

investment-grade credit rating in 2016, forcing it to do a deeply discounted R4bn rights issue to shore up its balance sheet.

How to trade it: PPC has breached the resistance trendline of its long-term bear trend (dated back to 2007). A positive breakout was confirmed above 655c/share. But because the three-week relative strength index (RSI) is overbought, a near-term pull-back is pending. If support holds firmly at 585c/share, go long above that level and increase positions above 655c/share. Maintain a fair trailing stop-loss as PPC targets its prior high at 835c/share in the short term. Otherwise, refrain from going

long if PPC corrects and fails to hold at 585c/share – go short instead. Key support at 485c/share could then be tested. ■

editorial@finweek.co.za



Darryl Castle
CEO of PPC

Its fragile finances led the firm to lose its investment-grade credit rating in 2016, forcing it to do a deeply discounted

R4bn
rights issue to shore up its balance sheet.

BUY DRDGold
16 February issue

BUY Kumba Iron Ore
9 February issue

BUY MTN Group
2 February issue

BUY Richemont
26 January issue

Last trade ideas



TRUWORTHS

Feeling the pinch

Local clothing retailers are struggling due to a tough economic environment and increasing competition from international retailers. But despite this, Truworths has experienced an increase in sales in recent months.

Local retailers are facing increased competition from global powerhouses like Zara, H&M and Topshop, whose merchandise increasingly seems to be hitting the mark for local shoppers from a fashion and price perspective. Although South African clothing retailers such as Edgars, Truworths, Foschini and Mr Price would hate to admit to this, the expansion of these international retailers will continue to erode market share.

In addition to this, new affordability assessment regulations that require banking statements and proof of income for credit to be provided to clients, have weighed on credit sales, traditionally a key driver for clothing retailers.

Truworths said in a trading update for the 26 weeks to 25 December 2016 that it was experiencing a challenging trading

environment, leading diluted headline earnings per share to decline by between 2% and 6% year-on-year. "Factors contributing to the tough environment included low economic growth, high product inflation resulting from rand weakness, reduced foreign revenues when translated into rand arising from sterling weakness, and the negative impact of the credit affordability assessment regulations in SA," it said.

The impact of the regulations is reflected in the "market decrease in active accounts and credit sales"

52-week range:	R61.21 - R112.50
Price/earnings ratio:	12.54
1-year total return:	-5.9%
Market capitalisation:	R37bn
Earnings per share:	R6.68
Dividend yield:	5.41%
Average volume over 30 days:	4 992 932

SOURCE: INET BFA

relating to customers who have been on the group's debtors book for less than 12 months, it said.

Increased pressure on consumers from rising inflation, especially in food prices, and a weak employment market characterised by job losses and soft real growth in incomes have also impacted the group's performance, Truworths said. Its brands include LTD, Identity, Daniel Hechter, Naartjie and Earthchild. It expanded to the UK and Europe in December 2015 with a £256m acquisition of fashion retailer Office, which only offers cash sales.

Truworths said its total retail sales rose 21% to R10.2bn, including the contribution from Office, with cash sales (up 53%) accounting for all the growth. Credit sales comprised 50% (2015: 60%) of group retail sales. The group is expected to release

its results on 16 February, after this issue of *finweek* went to press.

Technical view:

Truworths has been consolidating in its primary bull trend within a huge range band between 6 120c/share and 11 740c/share. Though it did breach key support at 6 120c/share in November last year, it rapidly regained composure and traded through the resistance trendline of its long-term bear trend.

A positive breakout must still be confirmed above 8 185c/share, potentially triggering further gains once the three-month relative strength index (RSI) defies its major resistance trendline (dated back to July 2012). Compared to its peers, TFG is currently outperforming Truworths.

However, Truworths' return on equity (ROE), which measures the ability of a company to generate profits from its own equity, is at 35.2%, compared with TFG's 24%. Although Mr Price Group's ROE is at 50.3%, Truworths is starting to outpace the group on the charts.

Go long: A neutral long should be initiated above 8 185c/share, with an incremental increase above 9 555c/share – Truworths could then complete a 100% retracement to its major resistance level and all-time high at 11 740c/share in the medium term.

Go short: A reversal below 7 500c/share could see Truworths retest support at 6 485c/share – go short. An aggressive sell-off to the major support trendline would be triggered on failure to hold at 6 485c/share. ■

editorial@finweek.co.za

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



SOURCE: MetaStock Pro (Reuters)



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.

FISHING COMPANIES



Flurry of activity

Hot on the heels of the soon-to-be listed Premier Fishing, Brimstone announced it will be listing [Sea Harvest](#) in late March. So with Oceana already listed, we'll soon have three dedicated fishing stocks on the JSE. A few points on fishing companies. Quotas are their lifeline and they need excellent BEE credentials to maintain these quotas. But there is always the risk that the quotas will be reduced (even if just for environmental reasons). Filling the quota is not directly an issue as you just keep sending the boat out until you do, but that increases costs if you must repeatedly try and fill your quota. Fishing stocks have diesel as one of their main costs, so lower oil prices are good for the companies. The question now is which, if any, is worth buying. Premier Fishing was certainly on my list for 2017, but I still need to see details and may end up preferring Sea Harvest. But what this sudden proliferation of fishing stocks may do is take some money out of Oceana as investors move into the new stocks, and this could see value in Oceana, although a stronger rand is hurting its recent offshore acquisition. For now, I am waiting for details before deciding which, if any.

MAIZE PRICE



Keep an eye on whether armyworm is winning

There is growing concern about armyworms and how they may destroy crops – stalling the increased production we've seen from recent rains. Notwithstanding some sensational news articles, the fall armyworm is pretty much under control locally for now as evidenced by the continued decrease in maize prices. Now that it has been identified, the correct insecticides are being deployed and any impact should be modest. This is good news for those, such as myself, who have positions in stocks benefitting from the returning rains. But we need to keep an eye on the situation and the maize price is the easiest way to do so – any sudden move higher could be an alert that the worms are winning.

We need to keep an eye on the situation and the maize price is the easiest way to do so – any sudden move higher could be an alert that the worms are winning.

MTN



Unlikely to get any worse

The MTN update was a classic "kitchen sink" update. In other words, an all-new management team making things sound as bad as possible, writing down everything and getting all bad news into the market to set them a low bar as they settle into their new jobs. A loss for MTN was not a surprise and the issues the telecoms operator has are well-known, especially Nigeria. **What was a surprise was the underperformance of MTN South Africa, which was blamed on "poor postpaid performance"**. We'll need to see details, especially regarding the dividend, when the results are out on 2 March. For those wanting to buy MTN (I am not one of them) this may be your entry point. The bad news is in, and it is unlikely to get any worse. While things remain tough, they'll likely start improving over the next few financial years.

ANCHOR CAPITAL

Prospects remain solid

The Anchor Capital update shows a very disappointing second half with assets under management (AUM) up only R300m to R45.9bn. Further, after headline earnings per share (HEPS) of 34.6c in the first half of the year, we will see only 57c to 61.8c for the full year. Overall a very tough second half to the year as growth slowed – I had been expecting HEPS of at least 80c. The share price has been under pressure with a rumoured large seller. Even with lower-than-expected HEPS, the forward price-to-earnings ratio is under 12 times and dividend yield should be around 4.5%. The update reflects tough times, but the company's prospects remain solid and this is a good entry point for those who missed buying the stock during its mad dash higher after its listing. ■ editorial@finweek.co.za

How to spot the next big share

Investors often think the best way to find the next Capitec is by looking for a brand new company in an emerging sector, but this is not necessarily the best strategy.

The big question on every investor's mind is how to find the next Capitec*, that investment that goes to the moon and beyond. Having listed in 2002 at 200c, Capitec now trades at around R700, so it's possibly the best JSE investment in the past 15 years.

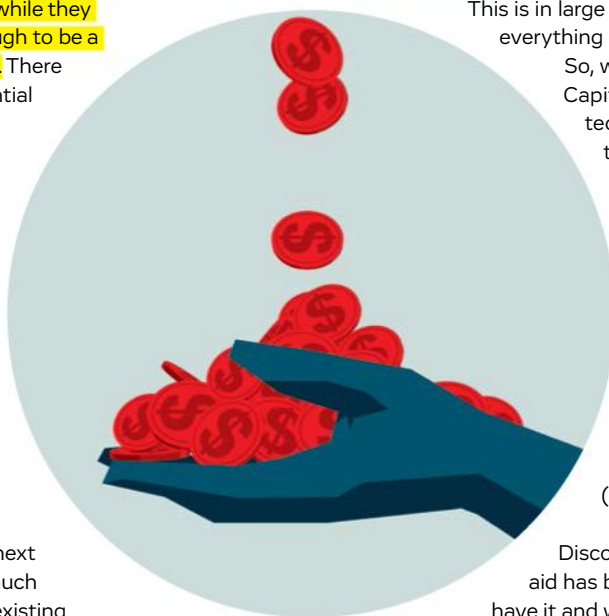
Typically, when we're on the lookout for that next amazing stock, we head off to find new technologies being offered by small start-up businesses taking on entirely new challenges. But usually these new businesses fail. Often, it is not good to be a first mover; the company is on its own and trying untested ideas – while they may have potential, it's incredibly tough to be a pioneer in a completely new industry. There is no track record to follow and potential customers must first be convinced that this new product or service is something they need. Further, first-generation products are usually buggy and complicated as users essentially act as beta testers.

Now, sure, there are exceptions, Amazon being the one true first mover that became successful. But others such as Tesla and Solar City (now part of Tesla) were not first movers. They were early movers but a lot of the initial groundwork had already been laid by others who failed.

So, rather than trying to find the next huge winners in new spaces, we're much better served trying to find them in existing boring spaces and banking is a perfect example. Banking has been around forever and little has changed. Technologies that changed banking include credit cards in the 1970s, ATMs in the 1980s and online banking in the early 2000s, but they did not alter the very core of the industry. These changes just affected how customers interacted with their banks. Banking is the same as it always has been – boring, but critical to the functioning of society.

The disruption from Capitec was based on price and convenience. Everybody has a bank account or six, despite the fact that we all feel the service is sloppy at best and that the charges are excessive. But yet we will all die with a handful of bank accounts.

For every
100c
in income earned, Capitec
makes
20c
more than the big banks.



Rather than trying to find the next huge winners in new spaces, we're much better served trying to find them in existing boring spaces and banking is a perfect example.

Capitec with no legacy systems came along and did it differently, offering cheap services and branches that are open at times that are convenient for their customers. (If you're old enough you'll remember banks being closed on Wednesday afternoons!)

Without legacy systems hindering it, Capitec's cost-to-income ratio is around 35% and while it may rise, the figures for the big banks are at around 55% and not dropping. In other words, for every 100c in income earned, Capitec makes 20c more than the big banks. This is in large part their secret sauce with everything centralised and computerised.

So, when looking for the next Capitec we need to look less at new technologies and hope we pick the right winner. Rather look at boring, staid industries that have new entrants doing it better and cheaper.

Amazon is a perfect example – the company just sells things and people have been doing that forever, but what the e-commerce giant did differently was that it stocked everything and delivered everywhere cheaply (and still does).

Taking this into account, Discovery* is one I like. Medical aid has been around for ages; we all have it and we all feel we're being ripped off. Discovery is trying to change that and its winning strategy is Vitality. Using this reward programme, Discovery knows exactly who you are and how healthy you are. The programme encourages clients to be healthy, thereby reducing the number of claims they make and increasing profits.

Discovery's move into banking is going to be interesting to watch. It will also have no legacy systems and will be able to innovate and cross-sell to existing customers.

Look for new companies doing old things in better ways; they have great potential to be the next winner. ■

editorial@finweek.co.za

*The writer owns shares in Capitec and Discovery.

RETIREMENT



Is Regulation 28 limiting the growth of my retirement annuity?

There was much debate in 2011 when Treasury decided retirement annuities also have to comply with some regulations of the Pension Funds Act. But in turbulent times this factor is often a blessing in disguise.

We currently find ourselves in the middle of February, a time many refer to as RA season. Strangely though, many investors become uneasy whenever I mention retirement annuities (RAs) and the majority are reluctant to consider it as an investment option. There are two main reasons why investors feel this way. First, the costs related to older-generation RAs weren't cheap, but RAs and similar products have become a lot more attractive cost-wise over the last 10 to 15 years. Another big concern for investors was the regulations that governed these older-generation RAs.

In 2001, when the rand weakened to levels of around R12/\$, investors and advisers could easily have allocated 100% of the available capital in their RAs to offshore investments, only to lose more than 50% of its value less than five years later. This is why National Treasury decided after 31 December 2011 that RAs also have to comply with Regulation 28 of the Pension Funds Act.

The Act itself is nothing new to investors and it's been in operation in our pension funds since 1962. In short, Regulation 28 was implemented to minimise risk by forcing investors, to a degree, to diversify their RAs.

Of course, this caused a massive debate, because investors were now suddenly restricted to a maximum of 75% allocation in shares. The simple reason for the debate was that shares managed to outperform all other asset classes over the long term. Over the past 25 years, despite having experienced three massive corrections, the local stock market still

managed to provide investors with a return of inflation plus 8 percentage points.

From the perspective of a young investor in their early 30s with at least 25 years left before retirement, the opposition to Regulation 28 becomes obvious and you will have a tough time to convince them that Regulation 28 is to the benefit of all.

Regulation 28 wasn't implemented, however, to simply move investors from one negative environment to another. On the contrary, this risk management method was implemented to benefit broad spectrum investors in both good and bad market environments.

So, we all agree that the past 25 years was a good time to be invested in shares. If you had invested 75% of your capital in the FTSE/JSE All Share Index and 25% in the FTSE All World Index 25 years ago, you would have earned an annual return of 14.5%. If you had to invest within the restrictions posed by Regulation 28, and allocated 50% of your capital to local shares, 25% to offshore shares, and 25% to local bonds, you would have earned an annual return of 14.1% at a fraction of the risk (volatility).

It is precisely when the markets become volatile, as we were recently made well aware, when Regulation 28 should offer you more investment protection.

The key to managing a successful RA is not to put it on a shelf and forget about it until the day you retire. Start your RA with greater exposure to shares while you are still young, and continue to actively manage these weights as you move closer to your retirement age. ■

editorial@finweek.co.za

Schalk Louw is a portfolio manager at PSG Wealth.



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14.1%

at a fraction of the risk (volatility).

Regulation 28 was implemented to minimise risk by forcing investors, to a degree, to diversify their RAs.

THE ACT EFFECTIVELY OUTLINES THE MAXIMUM PERCENTAGE ALLOCATIONS ALLOWED PER ASSET CLASS AS FOLLOWS:

REGULATION 28

ASSET CLASS	LIMITS
SA cash and money market	100%
SA government bonds	100%
Bonds underwritten or guaranteed by SA banks (against their balance sheets)	75%
Bonds underwritten/guaranteed by state-owned entities	25%
Other bonds	25%
Unlisted bonds	15%
Listed preference and ordinary shares	75%
Kruger Rands and other exchange-traded commodities	10%
Fixed properties	25%
Listed properties	25%
Foreign assets	25%
Hedge funds and private equity	15%

SOURCE: National Treasury

By Wouter Fourie



PORTFOLIO MANAGEMENT

The importance of asset allocation

Asset allocation has a major influence on whether you will meet your financial goals, as it impacts your ability to build wealth and provide for retirement.

With thousands of shares, bonds and unit trust funds to choose from, picking the right investments can be confusing. But if you don't do it correctly, you can find yourself saving and investing and still undermine your ability to build wealth and a nest egg for retirement.

BEATING INFLATION

Inflation will impact on you in both the build-up stages and, more particularly, in retirement. While it is clear that you need to start saving early, you also need to be sure that you are accumulating your retirement wealth at a rate that is greater than inflation.

This means that the R100 you have and spend today will not be worth R100 in 10 years' time. In simple terms, if your investment returns (after costs and tax) don't outperform inflation, you can save yourself poor. Keeping up with and outperforming inflation should be your priority when investing. An investment's real rate of return takes the impact of inflation into account.

ASSET ALLOCATION

Asset allocation is one of the most important decisions that investors make. Investments are conventionally divided into four main asset classes: cash, bonds, equities and property, and also exotics (e.g. collectibles such as art and jewellery).

The different characteristics of the four main asset classes make them suitable for different investment objectives:

- **Cash** (including money markets and fixed deposits) is considered a short-term investment with a low risk level. One problem is that these investments offer very low or negative real returns. While the balance on your account might be increasing, you are losing money in real terms.
- **Bonds** (long-term debt instruments) are considered medium- to long-term investments and carry a relatively high degree of risk. A safer form of bonds would be something like RSA retail bonds.
- **Property** (residential and listed property funds) is considered a long-term investment with its own unique risk. Investors have several options when it comes to property funds and it is important

to understand the differences between the types of funds, i.e. a property unit trust (PUT) and a real estate investment trust (REIT).

■ **Equities** (shares in companies) are generally considered long-term investments with a degree of high risk over shorter periods.

Equity-based investments are the most volatile asset class; the value of investments rises and falls according to the prevailing market conditions. Historical analysis, however, indicates that returns on equity investments have been superior to any other class of investments over the long term.

The graphic shows the different asset classes with their historic real returns and the risk per category.

Asset allocation is important because it has a major impact on whether you will meet your financial goals. If you don't include enough risk in your portfolio, your investments may not earn a large enough return to meet your goals.

On the other hand, if you include too much risk in your portfolio, the money for your goal may not be there when you need it.

A portfolio heavily weighted in equity, for instance, would be inappropriate for a short-term goal, such as saving for a family summer vacation, while investing only in cash over a long time will leave you poor at retirement.

To illustrate the effect of asset allocation, let us consider two portfolios: a money-market fund and a multi-asset, high-equity portfolio. Although money markets, as in 2016, might outperform equity over short periods, equity will be the superior performer over longer terms (seven years plus).

An upfront investment of R1m in a money-market portfolio (100% cash exposure; estimated total expected return of 1%) will leave you with about R1.16m in 15 years' time. In contrast, a multi-asset portfolio (75% equity, 10% property, 10% bonds, and 5% cash, with a total expected return of 5.95%) will be worth an estimated R2.38m in 15 years' time.

CONCLUSION

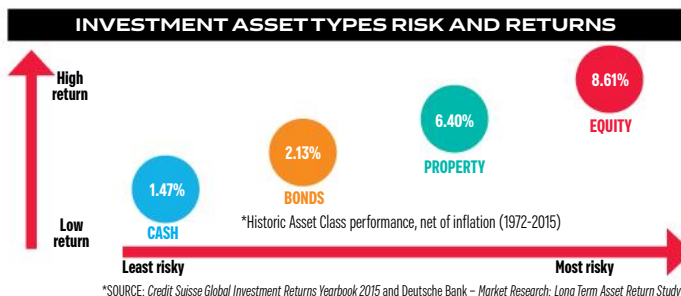
Some financial experts believe that determining your asset allocation is the most important decision you'll make with respect to your investments – even more important than the individual investments you buy.

I must emphasise that there is no simple formula that can find the right asset allocation for every individual – if there were, I certainly wouldn't be able to explain it in one article. With that in mind, you may want to consider asking a certified financial planner to help you determine your initial asset allocation and suggest adjustments for the future. ■

editorial@finweek.co.za

Wouter Fourie is a director of Ascor Independent Wealth Managers and the Financial Planning Institute of SA (FPI). He is an award-winning certified financial planner.

In simple terms, if your investment returns (after costs and tax) don't outperform inflation, you can save yourself poor.



DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ALTRON A	MJ Leeming	8 February	Purchase	1,411	1000	14,110	10 February
ALTRON A	MJ Leeming	8 February	Purchase	65,000	975	633,750	10 February
ALTRON A	MJ Leeming	9 February	Purchase	102,000	968	987,360	14 February
ALTRON A	MJ Leeming	10 February	Purchase	20,000	970	194,000	15 February
ALTRON A	MJ Leeming	13 February	Purchase	7,861	996	78,295	15 February
ARGENT	SJ Cox	13 February	Purchase	20,000	490	98,000	13 February
BARLOWORLD	PJ Blackbeard	9 February	Sell	10,000	11750	1,175,000	14 February
BARLOWORLD	L Nkombisa	7 February	Sell	3,404	11315	385,162	8 February
BARLOWORLD	DG Wilson	9 February	Sell	48,000	11633	5,583,840	14 February
CSG	NG Thiert	10 February	Sell	2,222,223	135	3,000,001	14 February
DELPROP	BA Corbett	2 February	Sell	67,253	824	554,164	8 February
DELPROP	BA Corbett	3 February	Sell	25,000	809	202,250	8 February
DELPROP	BA Corbett	6 February	Sell	60,000	816	489,600	8 February
DELPROP	BA Corbett	7 February	Sell	70,000	812	568,400	8 February
EFFICIENT	AP du Preez	9 February	Purchase	64,561	515	332,489	10 February
EFFICIENT	AP du Preez	8 February	Purchase	850,000	515	4,377,500	10 February
EFFICIENT	MM du Preez	8 February	Purchase	850,000	515	4,377,500	10 February
EFFICIENT	MM du Preez	9 February	Purchase	12,288	501	61,562	10 February
HUDACO	GR Dunford	3 February	Purchase	7,932	12607	999,987	14 February
NAMPAK	FV Tshiqi	13 February	Purchase	50,000	1790	895,000	15 February
NUWORLD	R Kinross	8 February	Purchase	1,000	3000	30,000	14 February
NUWORLD	R Kinross	7 February	Purchase	1,000	3100	31,000	8 February
NUWORLD	DD MacDonald	6 February	Sell	600	3180	19,080	8 February
NUWORLD	DD MacDonald	2 February	Sell	321	3180	10,207	8 February
NUWORLD	DD MacDonald	7 February	Sell	1,200	3100	37,200	8 February
NUWORLD	DD MacDonald	8 February	Sell	11,508	2974	342,247	14 February
PHUMELELA	WA du Plessis	8 February	Purchase	809	1739	14,068	10 February
PHUMELELA	WA du Plessis	8 February	Purchase	249,034	1739	4,330,701	10 February
PHUMELELA	WA du Plessis	8 February	Purchase	516,861	1739	8,988,212	10 February
PHUMELELA	AW Heide	8 February	Purchase	37,738	1739	656,263	10 February
PHUMELELA	MJ Jooste	8 February	Purchase	968,956	1739	16,850,144	10 February
PHUMELELA	B Kantor	8 February	Purchase	968,956	1739	16,850,144	10 February
PHUMELELA	VJ Moodley	8 February	Purchase	21,276	1739	369,989	10 February
PHUMELELA	JA Stuart	8 February	Purchase	58,536	1739	1,017,941	10 February
PHUMELELA	CJH van Niekerk	8 February	Purchase	10,342	1739	179,847	10 February
PHUMELELA	JB Walters	8 February	Purchase	9,827	1739	170,891	10 February
PIONEER FOODS	PM Roux	6 February	Exercise Options	30,509	16602	5,065,104	8 February
PIONEER FOODS	PM Roux	7 February	Exercise Options	30,509	16710	5,098,053	8 February
STEFSTOCK	JWLM Fizzle	13 February	Sell	11,840	430	50,912	14 February
STEFSTOCK	LB Sithole	13 February	Sell	24,240	430	104,232	14 February
TRADEHOLD	KR Collins	9 February	Purchase	10,000	2060	206,000	13 February

All data as at 17:00 on 15 February 2017. Supplied by INET BFA.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (C)	CHANGE (%)
BEST		
Wearne	8	33.33
Afdawn	67	19.64
Brimstone	1600	18.52
Sabvest - N	3000	17.65
Phoenix	50	16.28
WORST		
Resource Generation	80	-42.86
eMedia	688	-23.56
Ferrum	4	-20
Visual	12	-14.29
Adapt IT	1351	-9.63

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	52 465.63	1.28
JSE FINANCIAL 15	15 225.93	4.14
JSE INDUSTRIAL 25	66 253.07	0.4
JSE SA LISTED PROPERTY	649.91	3.05
JSE SA RESOURCES	19 528.46	0.43
JSE TOP 40	45 437.28	1.14
CAC 40	489 582	2.71
DAXX	1 177 181	1.98
FTSE 100	726 856	1.11
HANG SENG	2 370 301	0.93
NASDAQ COMPOSITE	578 257	1.76
NIKKEI 225	1923 898	1.22

*Percentage reflects the week-on-week change.

P/E RANKING

SHARE	FORECAST
PAN AFRICAN	5.16
ARM	5.18
ASSORE	5.64
SOUTH32	6.90
M&R HOLDINGS	7.32
TEXTON	7.67
RAUBEX	8.3
LIBERTY HOLDINGS	8.31
LEWIS	8.56
EXXARO	8.68

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
TEXTON	105	13
EMIRA	143	9.7
REBOSIS	125	9.5
ACCPROP	58	8.7
REDEFINE	93	8.2
FORTRESS-A	136	7.8
SA CORPORATE	43	7.5
GROWTHPOINT	195	7.3
CORONATION	452	6.8
ASSORE	1930	6.8

EPS RANKING

SHARE	F'CAST (C)	F'CAST AS %*
NASPERS-N	6144	2.9
ASSORE	5055	17.9
BAT	4162	5.2
SASOL	3812	10.06
CAPITEC	3320	4.6
TIGER BRANDS	2355	5.5
NEDBANK	2321	9.3
ARM	2192	19.4
BHP BILLITON	2088	9.1
KUMBA IRON ORE	2073	9.9

*Forecast EPS as a percentage of current share price



Themba Mkhwanazi
CEO of Kumba Iron Ore

FRAUD, LIES AND VIDEOTAPE

INSIDE THE CHAOS ENGULFING THE PUBLIC BROADCASTER



While the SABC has been in a shambles for years, it has suffered particularly under the leadership of former chief operating officer Hlaudi Motsoeneng. A parliamentary committee report reveals details regarding irregular procurement practices, unfair dismissals and a broadcaster in dire financial straits.

By Lloyd Gedye



Hlaudi Motsoeneng
Former chief operating officer of the SABC



Mbulaheni Maguvhe
Former chairman of the SABC

The SABC reported a net loss of R411m for the 2015/2016 financial year. The broadcaster reported it suffered a further loss of

R496m

in the first five months of the 2016/17 financial year.

The mismanagement of the SABC is said to have led to the embattled public broadcaster bleeding viewers and ad revenue, with the collateral damage spreading far beyond its head office in Auckland Park.

Independent television producers and filmmakers say former chief operating officer (COO) Hlaudi Motsoeneng has done untold damage to the industry, urging Parliament to speedily appoint an interim board that can reinstate fair and transparent processes to deal with a number of critical issues, including the commissioning of content and the payment of actors.

The SABC, which has been the subject of an enquiry by an ad hoc parliamentary committee, started the new year without its controversial former COO or its last board member, chairman Mbulaheni Maguvhe, who stepped down in December, thereby leaving the SABC rudderless.

The speedy appointment of an interim board is of utmost importance in order to stabilise the broadcaster, interest groups say. The board will face a mountain of work: it will need to deal with the investigation of numerous allegations of censorship, victimisation, corruption and improper procurement transactions that have been aired over the last few years.

A new board will also have to report to minister of communications Faith Muthambi, who has been singled out for some harsh criticism in the ad hoc committee's interim report, potentially

having broken various laws and allegedly having interfered in the SABC's operational affairs. (The final report is expected near month-end. Neither the department of communications nor the SABC responded to *finweek's* requests for comment.)

Financial troubles

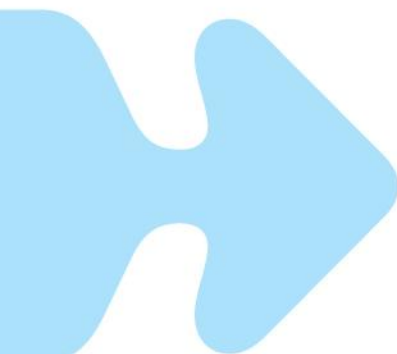
Most pressingly, the board will have to address the "looming financial crisis" at the SABC, with the committee noting "with concern the evidence about the SABC's financial management and sustainability".

"In addition, there is reference in the management letters that point to material uncertainty on the going concern assumptions," reads the report. "In this regard, the funding model is of concern, particularly in light of the SABC's mandate as a public entity and a commercial enterprise."

The SABC reported a net loss of R411m for the 2015/2016 financial year. The broadcaster reported it suffered a further loss of R496m in the first five months of the 2016/17 financial year.

Partly to blame is Motsoeneng's unilateral implementation of a 90% local television quota, which has hit the broadcaster hard. Figures show that the resultant new schedules had an almost immediate effect, with profits on SABC3 down by almost 35% in July 2016 after implementation, and continuing to slide.

SABC insiders say that in October 2016, SABC3, historically a big money-spinner



In October 2016, SABC3, historically a big money-spinner for the broadcaster, posted a loss for the first time, with the channel meeting only 50% of its advertising quotas.

for the broadcaster, posted a loss for the first time, with the channel meeting only 50% of its advertising quotas. Audience share is dropping month by month on both SABC2 and SABC3, according to insiders.

Suspicious transactions

Irregular expenditure of billions has also weighed on the SABC's finances, with the auditor-general saying that supply-chain management processes and policies were not being followed. Poor record management, policies lacking alignment and inadequate compliance monitoring contributed significantly to the SABC's irregular expenditure, according to the auditor-general.



The SABC's head offices in Auckland Park, Johannesburg.

In 2014, the SABC incurred irregular expenditure to the amount of R990.7m, while a further R2.4bn was incurred in prior years but only discovered in 2014, resulting in a cumulative figure of R3.4bn. In 2015, a further R389.2m in irregular expenditure was incurred, followed by R441.1m in 2016. Again, irregular transactions in previous periods, to the tune of R322.3m, were identified, resulting in the escalation of irregular expenditure in recent years to a whopping R5.1bn. The ad hoc committee's interim report has identified a number of "suspicious transactions".

Included is the SABC MultiChoice* agreement for the SABC News and

PROCUREMENT PURGE

Over the past two years, the Commission for Conciliation, Mediation and Arbitration (CCMA) has heard a whopping 190 cases between the SABC and its staff members.

Former and current SABC staffers interviewed over the past few months describe the SABC as a workplace driven by "fear" and "intimidation". Former chief operating officer Hlaudi Motsoeneng went as far as roping in the State Security Agency to help investigate staff.

The suspension of experienced SABC staffers' contracts is escalating and almost always involves payouts. The ad hoc committee's interim report said most of the fruitless and wasteful expenditure relates to settlements reached after employment contracts were cancelled, or salaries paid to SABC employees while they are on suspension.

SABC insiders talk about common tactics used to force a staffer out. Tactics include placing someone on

suspension or giving them an instruction they will refuse and then accusing them of insubordination.

"They place you on suspension and then hope you will jump," said one SABC insider who said the rough handling throughout the suspension, disciplinary or CCMA processes is also aimed at making sure you don't want to return.

SABC insiders describe how staffers who stood in the way of decisions that came from Motsoeneng or his

trusted senior executives were dealt with. One staffer said it was as if Motsoeneng had come in to break the SABC so that in the dysfunction he could do what he wanted.

In one case that made the headlines in November 2015, three SABC senior procurement officials were suspended: executive head of procurement Madoda Shushu, and general managers of procurement Irene Marutla and Tumiso Radebe.

At the time, their suspension was linked in the

SABC Encore channels that air on MultiChoice's DStv platform, a deal with the Gupta family's New Age Media Group, and the purchase of a controversial R42.3m new rugby studio from Randburg company Vision View.

The interim report also highlights testimony from the SABC's former executive head of procurement Madoda Shushu, and former risk and governance group executive Itani Tseisi, who flagged deals with auditing company SekelaXabiso, recruitment agency Talent Africa, licence fee collector Lorna Vision and auditing firm PwC as being allegedly irregular (see box below).

Included is the SABC MultiChoice agreement for the SABC News and SABC Encore channels that air on MultiChoice's DStv platform, a deal with the Gupta family's New Age Media Group, and the purchase of a controversial

R42.3m
new rugby studio from Randburg company Vision View.

Television commissioning 'unfair and corrupt'

Motsoeneng's apparent disregard for procurement processes, which led him to throw out the Request for Proposals (RFP) book for content commissioning, have hurt independent television producers in particular. (He was removed from the board after his appointment as COO was set aside by the Western Cape High Court late last year, and the SABC has been denied leave to appeal.)

The broadcaster's 2014 RFP book



Jacqui Hlongwane
Programming director for SABC2

was sent to independent producers in a bid to commission new TV shows, but Motsoeneng cancelled it.

Explosive Commission for Conciliation, Mediation and Arbitration (CCMA) and Labour Court hearings have revealed how, following the cancellation of the RFP book, Motsoeneng allegedly commissioned television content irregularly, ignoring the SABC's own commissioning policy, as well as the regulations of industry regulator the Independent Communications Authority of South Africa (Icasa).

Motsoeneng did this by setting up a new SABC division called Special Projects to commission R600m worth of television shows from local producers.

To do this, he seconded two senior staff in the SABC – head of education, Danie Swart, and **SABC2's programming director, Jacqui Hlongwane** – to the unit.

SABC insiders insist that those who had access to the 27th floor, where Motsoeneng's office used to be located, were making all the new content. Motsoeneng has maintained that Special Projects is dealing with emerging producers and growing new talent.

The Independent Producers'

"I have a problem with tenders. I prefer that a company come and make a presentation to us," Motsoeneng said. "If we are happy, we give them the job."

press to the controversial R42.3m deal where the SABC purchased a new rugby studio. In September 2015 the SABC unveiled the new set, to be used for its broadcasting of the 2015 Rugby World Cup.

At the launch, communications minister Faith Muthambi said that procuring the studio was a three-year project that had been completed in a short space of time, while Motsoeneng boasted that the studio would save the SABC about R11m.

But by the following month the Sunday newspapers were

reporting that the set was in fact "little more than a hi-tech presenters' table with multiple screens" and that the deal had been awarded without going to tender.

SABC staffers familiar with the deal argue that the set is worth less than R4m.

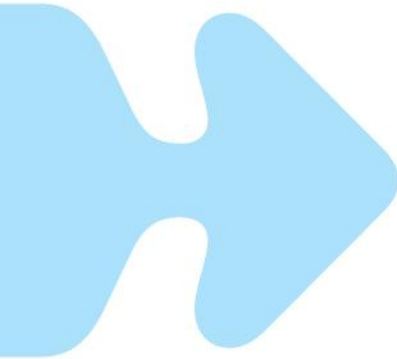
Motsoeneng has repeatedly stated that the entity did deviate from the normal procurement process. "I have a problem with tenders. I prefer that a company come and make a presentation to us," he said. "If we are happy, we give them the job."

However, it has since

emerged in Radebe's CCMA hearing last year (see sidebar on page 30) that SABC procurement officials were allegedly suspended in a bid to protect more than just one suspect deal the public broadcaster had entered into.

SABC insiders have backed up the procurement officials, telling *finweek* that it was Shushu, Marutla and Radebe's decision to not approve irregular contracts and payments that led to them being suspended.

"They asked questions," said one SABC source familiar with the suspension. "They wanted to see audit trails." ■



Rehad Desai
Documentary filmmaker and member of the South African Screen Federation



Jack Devnarain
Member of the SA Guild of Actors

“We need proper financial management and a return to high-quality television. Holes in schedules these days at the SABC are filled up with cheap, meaningless drivel.”

Organisation (IPO), which represents television producers at the “coalface of the crisis”, said it is aware of Motsoeneng’s parallel commissioning process for his “chosen handful of aspirant producers”.

“They are often actors or recognised industry persons who are not experienced producers,” the IPO said.

Independent producers have fought hard for independent commissioning, and fair and transparent procedures, says the IPO. It decries the “unfair and corrupt commissioning practices” that have crept into the public broadcaster.

“The independent production sector is an essential public broadcast stakeholder, critical to the fulfilment of the mandate of the public broadcaster,” it argues.

Motsoeneng has downplayed critics’ concerns, suggesting that the production

houses that were complaining were not prepared for transformation.

‘Catastrophic’ impact

Documentary filmmaker Rehad Desai, speaking on behalf of the South African Screen Federation (Sasfed), decried the scrapping of the RFP book and the resulting uncertainty that had arisen within the sector.

He said that production houses had spent time and money getting pitches ready for the RFP book, all of which had been in vain when it was abandoned.

Desai said the SABC is currently lacking in accountability when it comes to the commissioning process. **“Those with a telephone line to Hlaudi were getting the productions,” he claimed. “It’s been complete chaos.”**

Desai said the effects have been

It’s not just about Hlaudi

An explosive CCMA judgment handed down in September last year revealed that SABC procurement officials were suspended in a bid to protect a number of suspect deals that the public broadcaster’s executives had entered into.

Tumiso Radebe, SABC general manager: procurement operations, was suspended by SABC acting CEO James Aguma on 26 November 2015.

During the arbitration hearing in September 2016, Radebe testified that Aguma had given him an instruction to draw up a

purchase order for R10m for a deal with PwC, when the PwC contract was only valued at R8.25m. The deal was for PwC to investigate a R370m tax liability raised by the auditor-general.

Radebe also raised issues around the contract award being “irregular”, alleging that Aguma, who had negotiated the deal, was in conflict as PwC was his former employer.

SABC insiders insist that no proper procurement process was followed for the PwC deal. “He started negotiations and concluded the deal, no tender,

nothing,” said one source.

The SABC’s former executive head of procurement, Madoda Shushu, and former risk and governance group executive, Itani Tseisi, also flagged the PwC deal during testimony before the parliamentary ad hoc committee.

The CCMA arbitration award called Radebe’s actions in defying the “unlawful instruction” from Aguma “laudable and courageous”.

“The employee was perfectly entitled, indeed obliged, to refuse to approve the PwC purchase order for

James Aguma
Acting CEO of the SABC



R10m, and the allegation that the aforementioned refusal by the employee amounted to misconduct by him is simply incomprehensible,” reads the arbitration award.

The CCMA ordered the SABC to allow Radebe back to work by 26 September 2016 and ordered it to pay him R170 571.38 on top of the R852 856.90 leave pay he had received while being suspended for 10 months. ■

"catastrophic" for a "fragile" television industry.

The South African Guild of Actors (SAGA) said it has a long list of issues to discuss with the interim board of the SABC. **Jack Devnarain**, speaking on behalf of the guild, said that the number one issue is payment of residuals.

A residual is a payment made for subsequent screenings of a show or film.

Actors are "deeply concerned" about being owed residuals from the SABC and MultiChoice deal, Devnarain says, adding that since the SABC archive is being used as the content for the SABC Encore channel, the actors should be paid residuals.

Former SABC chair Ben Ngubane told the parliamentary inquiry that actors were being paid residuals. "We'd love to know where he gets his information from," says Devnarain. "Because we know they are not."

The guild wants to see the interim board put in place the systems and schedules to make sure these residuals are paid, Devnarain adds.

Hope for a new board

The IPO has insisted that the new board of the SABC should not be appointed through a process that involves only party political representatives.

"Procedures for the appointment of the board should include non-party political roleplayers too, including public broadcast industry stakeholders, constituted as an independent statutory panel," says the body.

"This is vital for the appointment of board members who would be accountable to an optimally shared vision of the public broadcaster and its values, and mitigate the politicised appointment of the board, one underlying factor for the failings of successive boards of the SABC."

Parliament's communications committee has met and agreed that the matter of appointing an interim SABC board is "very urgent". However, members of the committee will submit their preferred candidates to their political party parliamentary chief whips to be considered.

Communications minister **Faith Muthambi** answers questions during the parliamentary ad hoc committee inquiry into the fitness of SABC members to hold office in December.



MUTHAMBI FALLOUT

The parliamentary ad hoc committee's interim report singles out **communications minister Faith Muthambi** for some harsh criticism, suggesting she may have potentially broken various laws and interfered in the SABC's operational affairs.

The committee "notes with concern" the minister's role in the removal of non-executive SABC board members and also notes that Muthambi "may have, covertly or overtly, pressurised the board to appoint Mr. [Hlaidi] Motsoeneng in the COO [chief operating officer] position".

The interim report states that in both cases Muthambi "may have contravened" the Constitution, the Broadcasting Act, the Executive Code of Ethics and the Privileges Act.

"Witnesses suggested that the minister at times interfered in the board's business in the guise of holding the SABC accountable to the Shareholder Representative, and in so doing disregarded the board as the primary mechanism to promote accountability," reads the interim report. "This was most notable in the circumstances surrounding the permanent appointment of Mr Motsoeneng as Chief Operating Officer (COO) soon after the minister took office in July 2014." During the hearing it was alleged that Motsoeneng's appointment was in contravention of the SABC's own recruitment policies.

"Evidence by most former board members who gave evidence suggested that the minister was at the centre of the appointment and removal of board members, and curtailed the functions and responsibilities of the board," reads the report. ■

The IPO has called for "a bold, dynamic and visionary" commissioning structure at the SABC. It wants to see an unquestioned commitment from the SABC to independent commissioning and policies that are transparent and fair; a return to a public broadcaster with integrity.

The SOS Coalition, an organisation concerned with the state of the public broadcaster and the local independent production sector, has recommended to the parliamentary ad hoc committee that the new interim board conducts a "forensic audit" and identifies all "irregular, fruitless and wasteful expenditure".

It suggested that a team from Treasury should be brought in to run the finances in the short term, and called for an investigation into the impact of Motsoeneng's decision to implement a 90% local content quota on the SABC. The ongoing staff purge at the SABC warrants further investigation too, according to the SOS Coalition.

SAGA wants to see a turnaround strategy from the interim board to give the sector some hope that the public broadcaster can pull itself out of the financial hole it finds itself in.

"We want to see the interim board hand the baton to a properly constituted board that will maintain corporate governance and not get caught up in political agendas," said Devnarain.

Desai agreed, saying it is imperative to get the systems back in place at the SABC.

"We can't waste any time, we need proper financial management and a return to high-quality television," he said. "Holes in schedules these days at the SABC are filled up with cheap, meaningless drivel." ■

editorial@finweek.co.za

*MultiChoice is owned by Naspers, the owner of finweek.

A BRUISED INDUSTRY

South Africa's wine industry is facing a number of challenges, which has seen the number of wine producers shrinking. But these conditions won't persist indefinitely.

By Natalie Greve

despite their liquid yields being imbibed by oenophiles the world over, South African wine producers are facing bruising market headwinds, battered by low-cost competitor products, low domestic rainfall, stagnant prices and cost inflation.

According to industry body VinPro, only a third of local grape producers currently farm at financially sustainable levels, while return-on-income levels have dropped to below 1%. Around 44% are operating at a breakeven level and 40% are making a loss.

The total number of grape producers and areas under vineyard has, meanwhile, declined from 3 232 to 3 139 and from 98 596ha to 96 753ha respectively, with subsequent job losses.

Critically, the average net farming income currently languishes at around R45 000/ha – some R25 000/ha below what is required in order to remain sustainable over the longer term.

"We need to increase wine prices collectively to get to that level," **VinPro chairman Anton Smuts** told attendees at the Nedbank VinPro Information Day in Cape Town last month.

"[We need to] stop the dumping of wine at cheap prices in our export markets – it hurts the industry as a whole," he said.

And it's not an industry that South Africa can do without. According to the South African Wine Industry Information and Systems (SAWIS), local revenues from the wine industry contribute more than R36bn to the national GDP, while the sector provides employment to more than 300 000 people.

While it was encouraging that the industry saw export value growth of 10% to nearly R9bn, and volume growth of 3% to 428m litres in 2016, bulk wine, which is sold at lower prices, remains the biggest contributor in terms of volume.

This is far below the industry's Wine Industry Strategic Exercise (WISE) target for bulk versus packaged wine, which aims for a ratio of 40:60 by 2025, VinPro managing director Rico Basson added.

Currently, the ratio of bulk wine to that of packaged stands at 61:39.

"This ratio has weakened due to the continued growth in bulk exports. Packaged products has, however, grown by 11% in value and total exports has achieved a record R8.9bn of export value to South Africa – the second largest of all agricultural commodities," he noted.

Calming influence

But Professor **Nick Vink**, dean of Stellenbosch University's agrisciences faculty, has attempted to allay fears of an industry downswing.

"If the wine industry is in a difficult spot, don't worry – it's normal," he told the Nedbank VinPro Information Day.

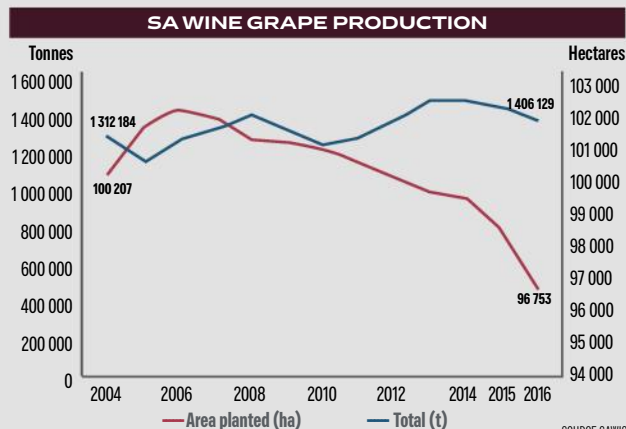
"Since the start of the industry in the 17th century, contractions would last for a decade and be much more severe than expansions that lasted around 8.5 years."

Contractions were also steeper, at 2.9%, than expansions, at 2.4%.

According to Vink, producers and wineries have traditionally focused on driving quantity rather than quality and, although this started to change in the 1970s, sanctions curtailed exports and domestic sales were



Anton Smuts
Chairman of VinPro



**FIRE
THREAT**

Depressed local rainfall is not the only environmental threat to local grape yields. In January, a spate of fires in the winelands of the Western Cape again brought the issue of the wine producer's risk to the fore, with several wine farms affected by the rampant blazes. News24 reported at the time that minister of cooperative governance and traditional affairs, Des van Rooyen, had initiated an investigation into the cause of the fires – which some believe were started maliciously. City of Cape Town mayoral committee member for safety and security, JP Smith, has estimated that the wildfires, which were particularly devastating around Paarl and Somerset West, caused around R60m in damages.

"As you are all aware, something that is very, very concerning to all of us [is that] most of the ignition sources, according to representation and information that I've received earlier on, [...] are mainly human,"

Van Rooyen said during a media briefing at the Strand fire station last month.

Among the wine farms damaged by the fires were the 300-year-old Vergelegen Estate, outside Somerset West, and portions of billionaire businessman Christo Wiese's nearby Lourensford vineyard.

Shehnaz Somers, head of commercial underwriting at Santam, said in a recent statement that the company was still assessing the damage and loss as a result of fires spreading through established vineyards.

The company insures close to 200 of the 600 wine farms in the Western Cape, providing cover against specific risks including liability, contamination and recall of products.

"Our claims team is assessing about 50 claims related to the recent fires, most of which are related to buildings and vineyards, but it is still too early to report on the exact extent of the damage. We know that last year runaway fires destroyed vineyards in Stellenbosch, Overberg, Simonsberg and Kogelberg early in 2016, resulting in losses estimated at around R240 000 per hectare. This included the loss of income to the farmers and the additional labour costs required to re-establish the vineyards," she commented.

According to Somers, it could take between five and seven years for an average wine vineyard to become productive again after a loss or significant damage. In 2016, Santam paid out 596 claims worth more than R9.4m to the wine industry. ■

The local market has grown more than

14%,

or by 50m litres, over the past two years to more than 400m litres at the end of December 2016.



Nick Vink
Dean of Stellenbosch University's agrisciences faculty

primarily focused on the white consumer.

"Since [the dawn of] democracy in 1994, the industry has become heavily dependent on exports, which is now seeing slow growth. It's time to get back to that earlier drive of quality and refocus on the domestic market to get us out of the current slump," said Vink.

Basson agrees that **a stronger domestic market focus, ingenious marketing and a collective drive towards higher price points could return the industry to previous highs.**

Moreover, a new EU wine agreement as from January is expected to assist value growth, with an additional tariff-free quota of 110m versus the current 48m litres.

Domestically, South Africans appear to be increasing their uptake of the locally made product. The local market has grown more than 14%, or by 50m litres, over the past two years to more than 400m litres at the end of December 2016.

This growth, Basson asserts, has largely been driven by the bag-in-box segment.

"While this is positive to expand the consumer base, from a value perspective more than 80% of local wine volumes are still sold below R26 per litre and less than 5% of volume above R65 per litre," he laments.

China focus

Further afield, Chinese appetite for wine imports appears to be accelerating, providing a fertile market for local wine.

Industry association Wines of South Africa (Wosa) says China was identified well over five years ago as a "major" future growth market for the South African wine industry.

Wine producers and exporters have since worked to establish distribution partners and networks in various cities throughout China, Wosa communications manager Maryna Strachan tells *finweek*.

"Due to its level of importance in the wine market, Wosa opened an office in Hong Kong in October 2014, with the intent to mainly focus on China, Hong Kong and Japan. Currently, China is recognised in our strategy as a focus market for future growth and thus has a large proportion of the organisation's marketing budget allocated to it," she explains.

According to Strachan, China is currently SA's ninth-biggest wine export market, realising exports of around 15.7m litres in 2016 – a growth of 39% on 2015.

China is one of three international markets that are expected to continue offering South African winemakers a growing demand for their product, with domestic wine exports to China having seen an 18.9% year-on-year increase in terms of value, VinPro reports. The local industry will also look to expand its market share in the US as well as elsewhere in Africa.

According to SAWIS, China's overall wine imports grew both in volume and value terms in 2016, bolstered

by strong demand for bottled wine from Guangdong, Shanghai, Beijing and the country's coastal regions.

According to the latest figures released by that country's customs department, its wine imports totalled 638m litres in 2016, a year-on-year increase of 15%. Its import value also grew by 16.3% year-on-year to \$2.364bn. Bottled wines still dominated the majority of the country's imports, taking up 92.8% of all the value imports.

In 2016, China imported 481m litres of bottled wines worth about \$2.194bn, representing a 17.12% jump in value compared with 2015, despite a 3.8% drop in average price for bottled wine to \$4.56 per litre.

"France remained China's primary source for imported bottled wines, Australia came in second, followed by Chile, Spain, Italy, the US, South Africa, Argentina, New Zealand and Portugal," SAWIS reported.

A good year for wine?

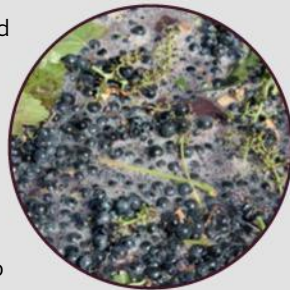
Looking ahead to 2017's grape production, wine producers and viticulturists expect a harvest close to last year's size of 1.47m tonnes (compared with the previous year's harvest of 1.51m tonnes), owing to heat, drought, black frost, wind and a decline in area under vines.

On the upside, the dry, windy conditions will result in healthy vines, uneven bunches and smaller berries with greater colour and flavour intensity.

"We can really expect good-quality wines from this harvest," said Francois Viljoen, manager of VinPro's viticulture consultation division.

Due to the smaller harvest, as well as an increase in local demand, stock levels are projected to be the lowest in five years at the end of 2017. ■

editorial@finweek.co.za



Due to the smaller harvest, as well as an increase in local demand, stock levels are projected to be the lowest in five years at the end of 2017.

WISE KEY INDUSTRY TARGETS

2015 REALITY

- ▶ Producer return on investment (ROI): 2%
- ▶ Production-driven – 80 000t surplus
- ▶ Black-owned land and water: 1.5%
- ▶ Local wine sales: 350m litres
- ▶ Bulk:Packaged export: 60:40
- ▶ Ethical accredited volume: 20%
- ▶ Only two Free Trade Agreements
- ▶ Markets USA:China:Africa (3%:2%:5%)
- ▶ Wine tourism: R6bn
- ▶ Industry levies: R80m, government: R11m
- ▶ Job creation: 275 000

IDEAL FUTURE STATE 2025

- ▶ Producer ROI: CPI + 5%
- ▶ Market- and value-chain driven
- ▶ Black-owned land and water: 20%
- ▶ Local wine sales: 450m litres
- ▶ Bulk:Packaged export: 40:60
- ▶ Ethical accredited volume: 100%
- ▶ Key markets, lead Africa
- ▶ Markets USA:China:Africa (7%:7%:10%)
- ▶ Wine tourism: R15bn
- ▶ Matched funding
- ▶ Job creation: 375 000

SOURCE:Vinpro

THE WAGE DEBATE

In recent years, South Africa's wine farming industry has found itself the target of criticism over alleged low farmworker wages. In October last year supermarkets in Denmark had reportedly started removing South African wines from their shelves following a controversial documentary on conditions for farmworkers on some of the country's top wine estates.

The documentary *Bitter Grapes – Slavery in the Vineyards* by Danish filmmaker Tom Heinemann in Denmark and Sweden, alleges widespread violations of labour laws.

According to a report by the *Sunday Times*, **this included workers receiving R105 for a 12-hour shift, exposure to toxic pesticides without protective gear or training in how to use the chemicals, unacceptable living conditions, deductions of up to 80% from wages and an unofficial "dop" system.**

VinPro has since expressed its concern over what it claims is the "one-sided and biased approach" in the compilation of the documentary, as well as the potential detrimental effect the documentary could have on the South African wine industry at large.

"The legitimacy of several aspects of the documentary has also already been questioned, both locally and in Scandinavia," Basson said in a statement shortly after the film's release.

Exports of wine to Denmark had soared 78% over the past 10 years, the *Sunday Times* reported, while the Scandinavian region consumes 50m litres of South African wine a year.

More recently, in January, workers at Robertson Winery accused the cellar of renegeing on a November wage deal that saw members of the Commercial, Stevedoring, Agricultural and Allied Workers Union (CSAAWU) securing a R400 increase in a three-year agreement, and an end-of-year bonus. This followed a 14-week strike by workers.

GroundUp reported that, prior to the strike, a casual worker earned R2 900 per month and a permanent worker R3 405. Their original demand was R8 500, but the company refused.

Workers now claim that the company is not honouring the agreement, as it has not backdated the pay to 24 August 2016 – when the strike began.

Workers have allegedly also not received their full-year bonuses. Robertson Winery said in January that it was "in full compliance" with the agreement.

The minimum wages for farmworkers in South Africa are set to increase by 8% on 1 March 2017, after the department of labour last month announced the new minimum wages for employees in the farm and forestry sectors.

Farmworkers are set to receive an hourly rate of R15.39, a daily rate of R138.52 – provided they worked nine hours a day – and R692.62 a week. ■

THIS WEEK:

- >> **Entrepreneur:** When the shoe fits *p.37*
- >> **Book review:** The art of a good business strategy *p.39*
- >> **Artificial intelligence:** Machines really will take over *p.40*
- >> **Technology:** Why are we so mean on social media? *p.42*
- >> **Personal finance:** How to make sure a life insurance policy pays out *p.43*
- >> **Management:** Tips to keep your reputation untarnished *p.44*

CEO INTERVIEW

By Jana Jacobs

Say hello to the future

In 2005, Nadir Khamissa quit his very successful job at Deutsche Bank in London to start Hello Group. This start-up has since ruffled a few feathers and is becoming a formidable player in the fintech space.

At the age of 23, **Nadir Khamissa** was a vice president (VP) of derivatives trading at Deutsche Bank in London and he was good at it. He attributes part of this success to his entrepreneurial DNA: "Throughout my career at the bank, every incremental step, every big promotion of mine was driven by some sort of business that I had built internally."

It was this entrepreneurial ability to identify a problem that needed solving, and good timing, that led to him creating Hello Group with his brother.

"When I was living in London, I couldn't understand why it was costing 10 times as much for someone in SA to phone me in London," Khamissa tells *finweek*.

At the time he was asking this question (in 2005), two things were taking place in the telecommunications space that gave them the luck they needed, according to him. "The telecoms industry in SA was being deregulated – so they were allowing in a number of new licensees outside of the Telkom, Vodacom and MTN oligopoly that was present."

Voice Over IP was just being developed, a technology that was changing the way voice traffic was running – something the brothers could tap into.

"The timing was right for us. The rest is history."

An innovative evolution

It wasn't smooth sailing from the outset. For Khamissa, the goal in 2005 – when they started their companies in the UK as well as South Africa – was simple at that point: "I was a pure capitalist; I just wanted to make money, there was no heart. I was sort of overly confident with all my success at the bank and I kind of walked out thinking I am a superstar trader. Honestly, if I can trade derivatives, I can do anything. So how hard could telecoms be? I soon took some crash courses in humility."

Within the first six months of starting out, Khamissa lost 90% of the life savings built up through his job at the bank.

Failure was a reality. In order to stay afloat, he sold his car and put that last little bit of money into the business.

It was at this juncture where the business philosophy of the group was born.

"We realised that finding a gap or opportunity to make money in isolation is

the quickest way to lose a lot of money, and the quickest way to fail because you are purely focused on the reward, on the output, and you are not focused on the input or the value you actually create for society," explains Khamissa.

This evolution in their approach turned their focus to creating value for customers.

"Our success was amazing and the big guys tried to kill us, but we managed to survive and business really thrived."



In 2016, Hello Paisa was awarded the Mastercard Foundation's Clients at the Centre award.

And in the case of people in South Africa, for example, needing to make international calls to their families back home, the value-add comes not only from offering a low-cost alternative, but improving the entire experience, which at the time saw people standing in long queues at public payphones, come rain or shine, with bags of coins in hand to make the call.

The solution? "You need to make it a far superior experience. Instead of standing at a public payphone, let them do it anywhere, anytime, and lastly, make it insanely simple," says Khamissa.

By combining different technologies, the group was able to officially launch their low-cost, consumer-friendly mobile service in October of 2005. Business boomed.

Telecoms, disrupted

"Our success was amazing and the big guys tried to kill us, but we managed to survive and business really thrived," says Khamissa.

In 2006, the group entered into a

partnership with Cell C, whereby the operator provided Hello with access numbers that gave them security and longevity.

"Cell C has always been pro competition and pro consumer, and they also had a lot to gain [from the partnership]. At the time, 95% of our customers were Vodacom and MTN subscribers. So Cell C would purely earn revenue from a Vodacom or MTN subscriber with zero infrastructure cost," explains Khamissa.

By aligning their interests with Cell C, Hello gained the capacity to become even more innovative. And between 2006 and 2010, they were able to route "hundreds of millions of minutes" through the operator.

This was just the beginning for Hello.

"In the spirit of creative destruction, which is something we deeply believe in, we have got to invent a way to destroy or disrupt our own business before somebody else does," says Khamissa.

He looked for weaknesses in the business model and found two: the two-stage dialling process, which made for an inferior user experience, and the monoline revenue stream as a result of the purely international call focus.

"We needed to tap into some kind of revenue stream through customers' domestic voice usage as well as data usage."

In 2010 they entered into a deal with Cell C that saw them create a mobile virtual network operator (MVNO), called

Hello Mobile serves
1.5m
customers. International calls can be made for 50c/minute, from a cellphone anywhere, anytime.

Hello Mobile – which is now the largest MVNO on the continent by customer usage, according to Khamissa.

Hello Mobile serves 1.5m

customers. International calls can be made for 50c/minute, from a cellphone, anywhere, anytime. This is a huge leap from the R5 to R10 a minute at a public payphone that consumers faced some 10-odd years ago.

"It was a complete game changer and made a huge social impact," says Khamissa.

Fighting for financial inclusion

When Hello Group started moving Hello Mobile SIM cards, they built a distribution business that allows for distributors to earn commission on the SIM cards they deliver directly to vendors.

Getting to know Nadir



Nadir Khamissa
Founder of
Hello Group

BEST BUSINESS ADVICE YOU HAVE EVER RECEIVED:

When I was considering giving up my VP job to start a telco company, my uncle – one of the mentors in my life – told me that I should take people's advice on board but, ultimately, the final decision is mine. This support made me understand that you don't need permission to live your life.

And my business management lecturer at Tuks reminded us in every lecture: "Remember, you're young enough to lose everything and start again tomorrow."

If you believe in something, just roll the dice.

CURRENTLY READING:

Too many books! *Bold* by Peter Diamandis is amazing, as well as *The Sovereign Individual* by James Dale Davidson.



HOW DO YOU MAINTAIN A WORK/LIFE BALANCE?

I don't.

WHAT IS YOUR MANAGEMENT STYLE LIKE?

We have amazing people working here. I draw the broad strokes of what's expected and then let them run with it, with the full understanding that they bear the consequences of both the upside and the downside.

Ultimately we believe in transparency and run a meritocracy, so the guys at the top who typically report to me understand that they are responsible for a whole bunch of other people.

GADGET YOU CAN'T DO WITHOUT:

iPhone, totally.

BUSINESS MIND YOU ADMIRE:

Elon Musk, without a doubt. The guy is a genius.

"Today our distribution business is the third-largest distributor of prepaid SIM cards in SA. We have 50 000 points of presence in terms of resellers and distributors, most of them in spaza shops and street vendors, and these guys cumulatively earn about R30m a year in commission."

Previously, the [traditional distribution] channel would have consumed this R30m, adds Khamissa.

In keeping with his entrepreneurial flair, Khamissa is constantly looking for new ways to improve customers' experiences by solving key needs. From this came financial services company Hello Paisa in 2015 – based on mobile money.

This business has over 300 000 customers and Hello Paisa has moved R4.5bn since launching, according to Khamissa. For him, the important thing is that this is money that pays for food, school fees, clothes and the like.

"We have taken money that was going through informal, illegal money transfer channels and brought them into a formal, regulated space. We've given hundreds of thousands of people their first digital financial services experience," he adds.

Where to next for this constantly evolving group?

"I see great potential in our telecoms and distribution business to make incremental gains," says Khamissa.

It's in financial services that more disruptive potential lies for Khamissa.

"As I see it, we have proven that we can play in financial services, and we have taken a very small slice of that cake. I think there is an opportunity for us to create value for customers across the stack. Our vision here is to serve across the banking stack, which would probably mean expanding our regulatory licensing, whether it is our own bank licence or partnership with a bank. We are exploring multiple options right now." ■
editorial@finweek.co.za

A shoe business with a different beat

Corrida Shoes has been around for more than three decades, but it is their Tsonga brand that the company is best known for.

Shoe manufacturing is extremely complex, far more so than the clothing industry, says **Peter Maree, owner of Corrida Shoes.**

Product development requires engineering, shoemaking skills and fashion knowledge.

This starts with the last – the form that the shoe is made on that must fit the foot but conform to the dictates of fashion. To produce the soles for a new design, 14 sets of engineered moulds consisting of a standard size curve and lefts and rights must be made.

This is the starting point before a single shoe can be produced. The cost must be amortised over the life cycle of the product. The challenge facing the industry, like most industries, is a diminishing pool of skilled designers and product engineers.

Maree tells *finweek* how he overcame these challenges to build his shoe empire.

How did you get involved in the shoe industry?

I went for job interviews at various companies after finishing my B.Econ degree at Stellenbosch University. Panther shoe company offered a two-year management trainee programme and I fell in love with the idea of making shoes after visiting their factory.

After finishing the trainee programme, I went to the UK to gain overseas experience in the field. It was in the 1970s and very few people were travelling or working abroad back then. I did not care that I was not paid to work in the factories, as I saw it as a valuable opportunity to get design and development experience and see how other countries were operating. The exposure gave me insight and experience of all the processes and factors involved in making good quality shoes.

The thing about shoemaking is that you really have to know something about every process involved in the manufacturing of

shoes, along with a good sense of what is happening with the market.

When did you start Corrida Shoes?

On returning, I worked for various companies gaining experience in product development, marketing and brand management. I ran a company's shoe factory during the last two years before I started my own company.

After 13 years' experience, I had good grounding in the industry and decided to open up my own company. I was confident in my ability to compete with the existing businesses and wanted to create a business that would have my ethos and signature. Another reason, perhaps, was that I never really liked the corporate environment.

I started Corrida in Pietermaritzburg in 1983. The name came from Quincy Jones' 1980s song *Ai No Corrida*, Corrida meaning bullring in Spanish.

Where did you get start-up capital?

A combination of personal savings, goodwill from material suppliers built up during my career and, ultimately, assistance from the banks. Banking was much more personal in those days. Bankers were involved with their clients, with bank managers being able to use their personal assessment of clients' potential as motivation to grant credit. Were it not for our bank manager seeing our potential, Corrida would probably not have existed today.

I was also fortunate to start the company with a good client, Scotts. They encouraged small start-ups by paying on a weekly basis. These regular payments enabled me to meet the weekly wage bill and pay creditors on time.

Why did you start Tsonga?

We started Tsonga in response to the massive influx of cheap Chinese imports



Father and son team, **Peter and Adrian Maree**, have been weathering the volatile shoe market through strong branding.

that flooded South Africa in the late 1990s. Most factories at the time decided to close manufacturing and import. I took the contrarian view and decided to create a niche African brand to sell around the world.

The name was inspired by the African legend that the Tsonga people were the first to make shoes to improve their hunting skills. This was the seed for the brand name – we wanted a uniquely

African name that could be registered internationally. The plan was to make beautiful soft, flexible hand-stitched shoes with leather lining.

We launched Tsonga in September 1999 at the Global Destination of Shoes and Accessories (GDS) in Düsseldorf, Germany, where it was well-received. To grow the brand locally we opened our own

We started the business with six employees making 100 pairs a day and now produce 2 000 pairs a day employing

250 people.

retail stores aimed primarily at the tourist trade. The first store opened in Constantia around 2002. It was a big shift to go from manufacturing into retail as well.

Tsonga is also involved in community empowerment. How does it work?

We have bought a smallholding in Lidgetton, about 40km from Pietermaritzburg, where we make handbags and teach the community to hand-stitch shoes. Participants may take the shoes home and are then paid when they return the shoes.

How has the business grown since you started it?

Tsonga is only one of our brands. Corrida started out only manufacturing ladies' shoes, but later launched the brands Newport and Alfa, consisting of men's shoes and sandals. In addition we produce Omega, a high-quality range, under licence.

We started the business with six employees making 100 pairs a day and now produce 2 000 pairs a day employing 250 people. We have 15 retail stores.

What do you see as your biggest break?

In the mid-1980s, South African Breweries, through their subsidiary Coshu, bought up most of the men's shoe factories in SA in an attempt to capture the men's market. I realised that this offered an opportunity to create a dynamic, flexible competitor to compete with a large, slow-moving corporate.

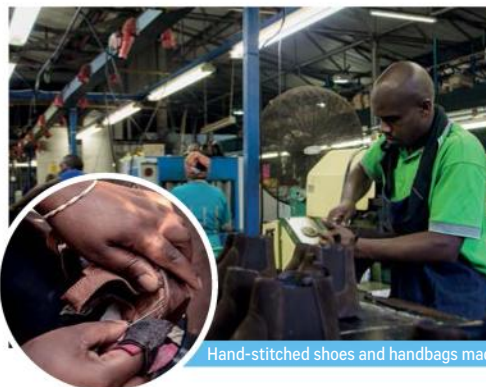
This was when I opened our men's shoe division, which today represents 70% of our business.

And your greatest setbacks?

Perhaps our biggest setback was when I fell ill in 2008 and was sidelined for a lengthy period. Fortunately Adrian, my son, had joined the business and although still fairly inexperienced at the time, he, together with our general manager, managed to maintain momentum for the business during a very difficult period following the financial collapse of 2008. They have subsequently taken over the running of the business and have done a fantastic job despite the weak economy and collapse of consumer confidence.

How has your son's involvement in the company changed things?

Adrian is like a breath of fresh air. He has



Hand-stitched shoes and handbags made by the community of Lidgetton near Pietermaritzburg.

great ideas and is very much in touch with the demands of the younger market. He is now the joint managing director with responsibility for sales, marketing and product development. He joined the business 15 years ago after completing his degree at Stellenbosch University.

What would you say has been the greatest challenge to the business?

The influx of cheap imports from China. We have managed to overcome these challenges by building strong brands and not being a commodity broker reliant on house brand business from the large retailers. In addition, we have developed an export market to Australia and opened our own Tsonga retail stores in SA.

What do you mean with a commodity broker?

You need to manufacture something unique or special, otherwise your shoes will become a commodity and you will become a price taker. It creates a vicious circle as sales become completely price-driven, with no guarantee that buyers will return the next year.

You say a strong brand can help you break out of the commodity market. How do you build a strong brand?

That is a long story. The bottom line is that you need to create a brand through integrity, good service delivery, advertising and marketing.

You also need to believe in the brand. The only thing of value in this business is your brand. Without the brand you lose

your identity. Once that happens you become a price taker and the retailer will only make use of your services as and when they need you.

What is competition like in the shoe industry?

Competition is fierce and comes from both local and international sources. The biggest challenge comes from India and

China. They have the ability to mass produce shoes at very competitive prices due to their labour costs that are significantly lower than ours.

The weakening of the rand against major currencies have helped to remedy the situation somewhat.



The bottom line is that you need to create a brand through integrity, good service delivery, advertising and marketing.

What do you think has been one of the biggest contributors to your success?

The ability to adapt to the market, creative and innovative product development and a determination to succeed in the face of

fierce competition.

Where are your main markets?

SA and Australia, where we have managed to maintain a competitive edge by creating niche brands offering unique products.

What has been the best advice or biggest lesson you have learnt?

To create long-term, sustainable brands. To survive in the shoe industry as a commodity broker in this day and age is extremely difficult. ■

editorial@finweek.co.za

BOOK REVIEW

How to strategise with artful thinking

Business strategies are fundamental to the consulting world. But do you know how to turn them into reality?

A new business reality is providing companies with many opportunities to adjust their strategies and make some changes – to do things differently and be more inclusive.

Business strategies form a fundamental – and evolving – part of the consulting world. This sector is composed of the global consulting sphere, where each consulting business has its own best practices and ways of doing things. In order to ensure that they maintain their competitive advantage, such businesses do not easily share these practices.

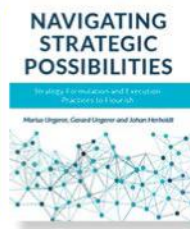
There is also a “second-tier” consulting level. This sphere, as well as the path to the development of effective and suitable business strategies, was highlighted at USB Executive Development (USB-ED) and *finweek*'s *We Read For You* (WRFY) presentation, which was recently held in Cape Town.

The two new books reviewed were *Navigating Strategic Possibilities* and *Crystallising the Strategic Business Landscape*, both co-authored by Prof. Marius Ungerer, Gerard Ungerer and Johan Herholdt.

The first title focuses on the invention and reinvention of an organisation. Here the key strategic choices related to the competitive advantage and positioning of an organisation are presented in an integrated strategic architecture perspective. The strategy navigation tools contained in this book provide the identification and execution methods that businesses need in order to flourish.

The strategy book, *Crystallising the Strategic Business Landscape*, provides readers with a solid point of departure for conducting impactful, relevant and future-orientated strategy analyses and syntheses. The strategic business landscape is brought into focus by viewing it from different vantage points to inform the development of strategic foresight, insight and cross-sight.

According to Prof. Marius Ungerer from the University of Stellenbosch Business School (USB), who was the presenter at the event, there are many new concepts for businesses putting up multi-channels of operations. “For example, there is the concept of ‘e-value’, which differs from ‘customer value’ in the retail sector.”



“A strategy is about explaining how an organisation wants to move forward and how it wants to advance the interest of stakeholders.”



Prof. Marius Ungerer
University of Stellenbosch
Business School (USB)

In most cases books on strategy will tell a good story and provide a large number of principles, but they will seldom tell you how to make these strategies a reality.

“This was one of the contributions we wanted to make. We were explicit in helping readers and practitioners on how to make this a practice. It is only when you can put these ideas through a specific framework into a specific application template that you can go forward,” Ungerer said.

A strategy is seen as the collective, emerging pattern – based on strategic choices – an organisation consciously exhibits and executes over time to ensure its sustainable longevity. It does this by differentiating itself in a unique way to create and add value for stakeholders.

“A strategy is about explaining how an organisation wants to move forward and how it wants to advance the interest of stakeholders. Organisations become what they execute,” according to Ungerer.

“With developing a strategy there are no recipes or guarantees, but there is such a thing as artful thinking to navigate in a competitive environment. It always involves risk as we do not know for sure how our choices will turn out. Uncertainty is the companion of strategy.”

Ungerer emphasised that **there is a critical need for new executive thinking to leverage rapidly advancing technologies to enable breakthrough innovation and growth**. The concept of exponential technologies and their implications is currently gaining a lot of traction.

It is against this backdrop that Stellenbosch University and its innovation partners have taken the initiative to found The Exponential Africa Institute (xA) with the purpose of exposing decision-makers to exponential technologies and to cultivate a non-linear mindset in order to harness the power of exponential trends – a first for South Africa. Their first event will be held in Stellenbosch in May. ■

editorial@finweek.co.za

This article is based on USB-ED's recent *We Read For You* event that focused on the mentioned books. *finweek* is the USB-ED's media partner in its *We Read For You* series. The next event will be held on 7 April in Bellville. Prof. André Roux will discuss Paul Mason's book *Post Capitalism – A Guide to Our Future*. To register, please visit www.usb-ed.com/WRFY. Attendance is free.

By Jessica Hubbard

Rise of the smart machines

There are widely conflicting views on the topic of artificial intelligence. What is not in dispute, however, is that it's very much a reality that will impact businesses in a variety of ways.

Have you noticed that some of your beloved technology tools and platforms are becoming unnervingly smart of late? Your smartphone has a better understanding of your daily work and personal life than you do, and your flashy new car is better off parking itself than taking instructions from you. Whether you are comfortable with the changes or not, we are being propelled into the era of artificial intelligence (AI), whereby connected machines and devices make instantaneous decisions (and take actions) that would normally take humans many hours, days, months or even years to make.

Depending on whom you choose to listen to, AI has the potential to be hugely transformative and beneficial, or just downright evil. Many of the IT research houses, for example, trumpet the benefits of AI within the enterprise – and are urging businesses to invest quickly into AI tools and platforms. Others, and most notably the outspoken **founder of SpaceX, Elon Musk**, warn against a doomsday scenario in which intelligent machines turn against their creators.

His fears have been echoed by Microsoft co-founder Bill Gates, who revealed his views on the popular social news aggregator Reddit in 2015: "I am in the camp that is concerned about super intelligence. First the machines will do a lot of jobs for us and not be super intelligent. That should be positive if we manage it well. A few decades after that, though, the intelligence is strong enough to be a concern. I agree with Elon Musk and some others on this and don't understand why some people are not concerned."

In South Africa, there are equally conflicting views as to how businesses and developers should view and approach AI.

'Human-centric technology'

Rory Moore, innovation lead at Accenture South Africa, argues that technology's great new strength is in its "growing humanity". In his view, tools that interact with people, learn from those exchanges, and adapt for future exchanges make the experience of using them all the more human.

"A technology like artificial intelligence will speed up that interaction process," says Moore. "It is the next wave of change that will radically alter user experiences in the business world, including in Africa."

Indeed, within its annual technology report,

Depending on whom you choose to listen to, AI has the potential to be hugely transformative and beneficial, or just downright evil.



Rory Moore
Innovation lead at
Accenture South
Africa

Accenture Technology Vision 2017, the firm cites AI as among the top technology trends set to impact business in the next several years, noting that "AI is becoming the new user interface (UI), underpinning the way we transact and interact with systems". According to the report, 79% of global survey respondents agree that AI will revolutionise the way they gain information from and interact with customers.

Up to now, only local financial services and technology companies have had the means to meaningfully experiment with AI, but Moore believes that Africa is ideally placed to reap the rewards of innovation within AI.

"Adoption is still at a nascent phase in most countries in Africa but adoption rates are set to accelerate because Africa is ready to embrace new technology like this – it is not as encumbered as many countries are by legacy architecture," he explains. "Banks are taking a leading role and are actively doing

test case studies on the potential uses of AI within their organisations."

With regard to future investment into AI among local companies, Moore says that it will initially be most notable in smaller things such as voice searches for data and translation services.

"But it will become more relevant in numerous other areas, like reducing time and costs of banking and trading," notes Moore. "These will be game changers for numerous customer-facing industries, but also for industries like agriculture where it will assist in improving crops and food supplies in Africa. It is notable that 85% of executives in *Tech Vision* reported they will invest extensively in AI-related technologies over the next three years."

Trading in the 'trust economy'

One thing that the research houses are failing to acknowledge in their optimistic projections for AI, argues Arthur Goldstuck, is the growing distrust of big tech among consumers. Goldstuck, managing director of local IT consultancy World Wide Worx, says that many of the technology forecasts – including those for AI – contain an "over-emphasis on the utopian outcomes of current technology breakthroughs and innovations".

"Two elements that have not been taken into account in rolling out new technologies, interfaces and offerings is the extent to which users need to be educated on them, and the extent to which providers,



suppliers and manufacturers need to win the trust of users," he explains.

"We believe the trust factor will be a major obstacle to wider take-up of AI, for example, and will result in resistance to big data initiatives – from both consumers and authorities."

In order to win the trust of consumers, Goldstuck urges businesses and technology developers to build trust and security into the very fabric of any new technology product or service. It should be part of the initial planning or conceptualisation – instead of something that is tagged on after the product or service has been developed.

This will be especially critical with the rollout of AI and big data initiatives, which often overlook the mammoth issues of customer privacy as well as enterprise security.

"Today, companies are in such a rush to get out first with new technology that they forego the

more 'boring' element of trust," he adds. "Critically, businesses that are rolling out new products and services in the tech sphere don't realise that they are engaged in the trust economy – not only the transactional economy."



Elon Musk
Founder of SpaceX

A business imperative?

While there are vastly conflicting views on the potential of AI to turn sour, there is general consensus that every business leader should be considering ways to incorporate AI in the next one to three years.

"Companies need to act sooner than they think to employ solutions that will ensure they stay ahead – leaving it too late due to fear of the unknown will just leave them playing catch-up to their competition," urges Moore. "Often it's best to identify test opportunities and demonstrate AI in action. Seeing is believing." ■

editorial@finweek.co.za



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By Lloyd Gedye

ONLINE BEHAVIOUR

Battling trolls and other vile creatures

Most internet users report being harassed or even extorted online on a regular basis. Now Microsoft has launched a pledge calling for people to treat one another civilly on the web.

As our lives are increasingly shifting online, it's important to spend a bit of time thinking about how we behave in the digital world.

One thing is for sure: how we behave on the internet does not reflect how we treat one another in real life, as many people act entirely differently online than they do in person. Some become more aggressive, others become more passive.

Most people would never call someone an idiot in a real-life situation, even if that was what they are thinking. But for some reason our inner censor is less active online.

Could this simply be because the consequences for negative behaviour online are not the same as in real life? If you were to aggressively threaten someone in real life, this could likely lead to consequences, be they legal or perhaps in the form of a physical attack.

Have we allowed the same behaviour online to become inconsequential? In much the same way that, if someone punched you or a friend in the face, you would scream assault, but when a Springbok throws a punch on the field, it's just part of the game?

Has threatening, aggressive behaviour just become part of being online? We have new words to describe new forms of online harassment, words such as trolling, sexting, cyber bullying, revenge porn, and sextortion. Never mind that many internet users express sexist, racist, classist views on a daily basis and even resort to hate speech.

It was concerns like these that prompted Microsoft to conduct its first Digital Civility Index, released at the beginning of February. The index measures consumers' exposure to online risks across 14 countries, using four categories: behavioural, reputational, sexual and intrusive.

The bad news is that South Africa came

in last in terms of digital civility, with a rating of 78%. The UK came in first with a rating of 45%. What does this mean?

Well, almost eight in 10 South Africans have experienced some form of online risk in their lifetime. But four out of 10 South Africans surveyed reported experiencing an online risk within the last month, while 11% of those surveyed said the incident had occurred in the last week.

Intrusive risks were reported by 67% of South Africans, behavioural by 48%, sexual by 35% and reputational by 22%. **Sixty percent of South Africans reported unwanted contact online, 17 percentage points higher than the international average.** And 33% reported being treated in a mean way online, 11 percentage points higher than the international average.

Twenty-seven percent of South Africans reported being trolled, while another 27% reported receiving unwanted sexting.

Twenty percent reported being victims of hate speech and discrimination; 14%, sexual solicitation; 12%, cyber bullying; 6%, sextortion; and 3%, revenge porn. The most likely consequence from online risk exposure was a loss of trust, both online (33%) and offline (23%), the report said.

As a result, people tended to become

Angela Schaerer
Teacher Engagement
Lead for Microsoft
South Africa



more stressed and withdrawn. Joining SA at the bottom of the rankings was Mexico (76%), Russia (74%), Chile (72%), Brazil (71%) and Turkey (71%).

Angela Schaerer, Teacher Engagement Lead for Microsoft South Africa, believes we all have a responsibility to be civil in our digital lives.

"Embracing digital civility will give us an opportunity for a 'digital reset' – a time to take stock of online habits and practices to ensure we're putting our best digital foot forward and in doing so, it will make it easier to establish and help foster safe as well as inclusive interactions online," says Schaerer.

Microsoft is encouraging global consumers to take the Digital Civility Challenge. The goal of the challenge is to raise awareness about the need for "digital civility" and to pledge to live up to the four digital civility ideals every day.

Those taking the pledge promise to act with empathy, compassion and kindness in every interaction, and treat everyone they connect with online with dignity and respect. They will also appreciate cultural differences and honour diverse perspectives. And lastly, they promise to pause before replying and to stand up for themselves and others, which includes offering support to those who are targets of online abuse or cruelty and reporting activity that threatens anyone's safety. ■

editorial@finweek.co.za

Internet users can pledge their digital civility on social media using the hashtags #challenge4civility and #im4digitalcivility.

The bad news is that South Africa came in last in terms of digital civility, with a rating of

78%.



LIFE INSURANCE

Avoiding a declined claim

Here are three ways to ensure that your life insurance policy is paid out after you pass on, ensuring that your loved ones are able to take care of themselves.

When you make the effort to take out a life insurance policy, you are generally trying to ensure that your family will be adequately provided for when you die.

Unfortunately, if you fail to read the fine print or meet your obligations as a policyholder, your family's insurance claim could be declined – leaving them high and dry.

HERE'S WHAT YOU NEED TO TAKE INTO ACCOUNT AND DO TO ENSURE THAT YOUR CLAIM IS NOT DECLINED:

1. Non-disclosure

When you take out an insurance policy, the onus is on you to provide the insurer with as much information as possible so that the company can correctly assess the risk it is taking when it insures you.

For example, if you regularly engage in activities that are considered high risk, such as bungee jumping or abseiling, you should disclose this upfront, particularly if the insurer includes a question about risky activities at application stage. If you fail to do so and you then die while engaging in such activity, your life insurance claim can be declined on the grounds of non-disclosure.

What you can do: It may seem onerous but be pedantic about how much information you supply to the insurer upfront. **Don't leave out any detail, no matter how trivial it may seem.**

2. Pre-existing medical conditions

If you take out a life insurance policy after you have already been diagnosed with a serious health problem, the insurer has the right to exclude that condition. For example, if you had to have a bypass operation on your heart before you took out your life insurance policy, the policy may exclude heart attacks.

So if you were to die from a

pre-existing condition or a heart attack, your policy would not pay out. Don't make the mistake of thinking that life insurers will not check. If a company suspects that you had a pre-existing condition, it will ask your medical practitioners and other sources for all your health records.

What you can do: Take out life insurance while you are still young and relatively healthy. In some cases, insurers will cover a pre-existing condition. It is worth making enquiries with several different insurers to find the best cover for you. Be honest about any pre-existing conditions you may have, even if you don't think it is a serious one. If you are taking out a policy later in life, check your medical records to make sure that you have not forgotten anything important.

Jennifer Preiss, deputy ombudsman at the office of the long-term insurance ombudsman, says you must remember that the insurer can rely on non-disclosure or mis-disclosure even if you die from a cause unrelated to the non-disclosed or incorrectly disclosed information.

For example, if you failed to disclose your bypass operation and you die in a car accident, the insurer may repudiate the policy on the grounds that it would not have issued you with a policy if you had disclosed the operation. "The duty to disclose is quite onerous and should be taken seriously," she says.

There are some policies where the insurer does not ask any medical questions, but the policy excludes benefits if the cause of death is related to a pre-existing medical condition. "So the fact that there are no medical questions at applications stage does not necessarily mean that the insurer will not take your medical condition into account at claim stage. It is important to read the policy carefully," she cautions.

3. Lapsed policies

Check the fine print on your insurance



Be honest about any pre-existing conditions you may have, even if you don't think it is a serious one.

policy. If you miss a certain number of premium payments, your insurer will lapse the policy. This means that the policy will cease to exist and you will no longer have cover. The number of premium payments that you can miss before a policy lapses varies between insurers. In some cases, the policy will lapse if you miss just one payment and in other cases, you have to miss three consecutive premium payments before the policy lapses.

What you can do: Set up a debit order for your life insurance premiums to ensure that you never miss a payment, and make sure you always have enough funds in your bank account to honour the debit order. ■

editorial@finweek.co.za

Neesa Moodley has been a personal finance journalist for 12 years. You can find more of her articles on www.moneyissues.co.za.

By Helena Wasserman

How to manage your own reputation

Your reputation is your most important asset. Don't squander it.

Recently, one of the world's oldest car makers allowed its reputation in South Africa to collapse faster than you can say: "Watch out, exploding car!" Ford's inept handling of the crisis with its Kuga models again focused corporate minds on the importance of managing a company's reputation.

Clearly, one misstep can blow up your brand. Through social media and other digital channels, negative information about your company will spread to millions of people in an instant. It can take a long time to claw back the trust a company spent vast amounts of money and energy to build.

This is also relevant for your own personal reputation. In fact, it's your most important asset. If your reputation is questionable, no amount of qualifications or experience will get you that job or promotion.

"Managing your own personal brand" sounds trite, but unfortunately perceptions are everything. If you are not known for the qualities associated with a position, you will struggle to convince anyone to give you the benefit of the doubt.

"The Chinese say that your name will arrive at a destination long before you do, so best make sure you have a good name," says **Deon Binneman, an independent reputation management adviser and trainer in Johannesburg.**

"Your reputation is your stock in trade. It is a commodity that speaks volumes about trust and integrity."

How to make sure your reputation is sound

You need to confirm what you are known for, and then make sure that it is aligned with how you want to be known.

First, "audit" your current reputation. What is the feedback you are getting about your skills, what you contribute, your attitude and your values? How do you make people feel? Remember, even if people like you and want to hang out with you, this does not necessarily reflect your

professional reputation. Are you getting sufficient feedback confirming that people think you have the necessary professional competencies?

Then, think about what you want your reputation to be. What do you want to be known for? What are the values that are most important to you?

Your reputation needs to be intrinsically linked with who you are as a person and what motivates you. People instinctively gravitate towards someone who is authentic. So don't try to project an image of someone who is obsessed with details, when you are more of an ideas person.

Reputation requires a careful examination of your own actions, words you use, personal and social media behaviours, says Binneman.

Don't try to be perfect. Strive instead to be authentic and consistent in who you really are.

Also, you need to practise what you preach to build trust in your character. Ford should have listened to the words of their founder, Henry Ford, who once said: "You can't build a reputation on what you are going to do." ■

editorial@finweek.co.za



"Your reputation is your stock in trade. It is a commodity that speaks volumes about trust and integrity."



Deon Binneman
Independent reputation
management adviser
and trainer

MANAGING YOUR ONLINE REPUTATION

Robert Scoble, a well-known tech blogger who was formerly with Microsoft, famously said that the biggest lesson he learnt in his career is that it takes decades to build up a reputation, but only 140 characters to destroy it.

Social media has the breathtaking power to amplify whatever you do to your reputation, whether you build it, or destroy it. Be very careful with everything you post, and make sure that you are reinforcing your values at all times.

You can strengthen your professional reputation online by creating your own content, particularly on LinkedIn. Writing short posts (that appear in the news feed of your connections) will help you stand out – even more so if you use video or infographics

that help inform and educate other users.

Also consider joining some of the more than 1m LinkedIn groups to discuss topics that are of interest to you with other enthusiasts. Make sure you are an active member by regularly commenting on articles, and posting your own contributions.

Importantly, make sure that you are aware of negative information about you online. Regularly Google yourself, and set up a Google alert to let you know if your name is mentioned.

You can also consider buying a domain name for your name (for example, www.chucknorris.co.za). Even if you build a rudimentary website, regularly uploading interesting content will go far in burying the negative. ■

LINKING YOURSELF TO THE COMPANY BRAND

Reputation management adviser Deon Binneman says there is a growing recognition that a company leader's reputation has a strong impact on how a company is perceived. He quotes a study by the global communication group Burson-Marsteller which interviewed more than 1000 US managers, investors, journalists and analysts – half of whom attributed a company's reputation directly to its CEO's reputation. Ten years ago, only 20% of those who took part saw a link.

Among investors, a stunning 95% stated that the CEO's reputation influences their decisions to invest in a company and almost 90% would consider working for a company if the CEO has a good reputation.

THE BURSON-MARSTELLER STUDY CITED THE FOLLOWING AS KEY DRIVERS OF CEO REPUTATION:

1. Being believable
2. Demanding high ethical standards
3. Communicating a clear vision inside the company
4. Maintaining a high-quality top management team
5. Motivating and inspiring employees

Binneman says aligning the leadership's branding with a corporate brand can be a differentiating factor, and a leader's strong reputation can help bolster a brand. The alignment can be achieved by extensive public relation activities, media interviews, philanthropy, writing articles or books, speaking engagements and a strong focus on how employees are treated.

"It requires integrating the CEO's brand DNA into how the company is viewed publicly. Though it happens naturally, CEOs need to be forward-looking in strategising their brand – or reactive in managing it," he says. ■



Robert Scoble
Tech blogger

Congratulations to Marius Botha, who won a book prize in a recent giveaway. Well done! If you would like to complete this quiz online, it will be available on our website fin24.com/finweek from Monday, 20 February.

- 1 What type of weather system was Dineo, which approached SA from the east?
 - A local private investigator
 - The president of Ireland
- 2 True or false? 11 February marked 21 years since Nelson Mandela was released from prison.
- 3 Who won Album of the Year at this year's Grammy awards?
 - India
 - Japan
 - Argentina
- 4 Fans clashed violently at a recent soccer match. Name one of the two teams that were playing.
 - An Australian business tycoon
 - A local private investigator
 - The president of Ireland
- 6 Who is Paul O'Sullivan?
 - An Australian business tycoon
 - A local private investigator
 - The president of Ireland
- 7 In which Johannesburg suburb are the SABC's headquarters situated?
- 8 True or false? Jamaica's flag is black, yellow and red.
- 9 What was *finweek's* cover story for the issue of 16 February about?
 - Mining
 - The state of SA's dams
 - Energy
- 10 True or false? Russian President Vladimir Putin made an official call to President Jacob Zuma recently.

CRYPTIC CROSSWORD

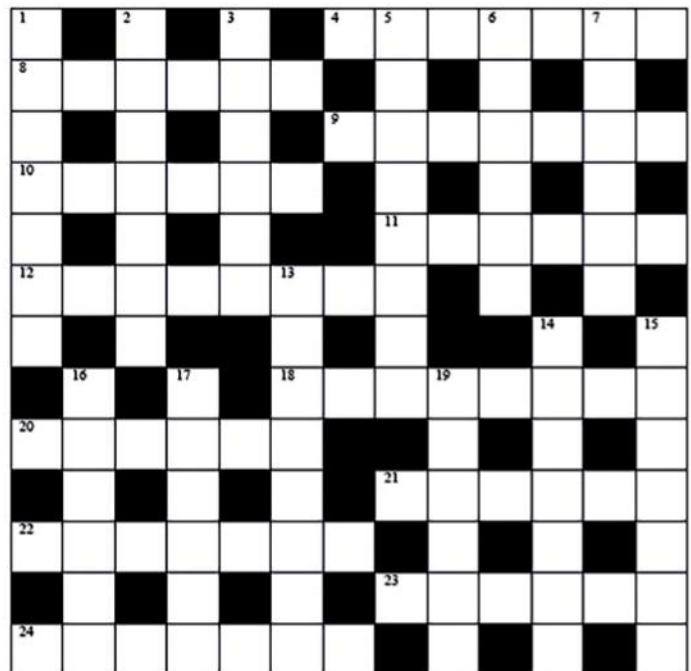
NO 668JD

ACROSS

- 4 Animal enthusiast often has time off (7)
- 8 Old army chap's lost my propeller (6)
- 9 Heiress without a book to be handed down (7)
- 10 Youth a recipient of doctor's letter (6)
- 11 First no-go province's for African residents (6)
- 12 Roughly back when star became an adventurer (8)
- 18 Home letter's rent is inclusive of food (8)
- 20 My, the French female's with us, scrambling to get home (6)
- 21 A world away from home (6)
- 22 I'm annoying after making first move (7)
- 23 Woolly historian (6)
- 24 Put out when having to make preliminary investigation (7)

DOWN

- 1 Turn round to check outer fulcrum (7)
- 2 Bond for semi-detached (7)
- 3 Superintendent enrolled nurse to head department (6)
- 5 Tip from serviceman, resubmit your computer ID (8)
- 6 Point to alternative cause (6)
- 7 Season the Italian vegetable (8)
- 13 Instrument recorded abnormal measurement in October (8)
- 14 Tragedy or two initially welcome (7)
- 15 Blind numb after third English loss (4-3)
- 16 Seek false praise (6)
- 17 Blooming Lady Luck's left! (6)
- 19 Pigeon club (6)



Solution to Crossword NO 667JD

ACROSS: 1 Specific; 5 Club; 9 Recap; 10 Diocese; 11 Pish; 12 Esterify; 13 Head over heels; 18 Retiring; 19 Amid; 20 Corncob; 21 Audit; 22 Tidy; 23 Tethered
 DOWN: 2 Precise; 3 Cha-cha'd; 4 Indiscernible; 6 Lee side; 7 Bye-byes; 8 Joseph; 13 Haricot; 14 Altered; 15 Ocracy; 16 Erasure; 17 Laicise

On margin

Devoted and determined

During World War II my parents had planned a romantic Valentine's Day wedding. Suddenly my father, then stationed at Camp Edwards in Massachusetts, received orders to prepare to ship out, and all leaves were cancelled.

Being a young man in love, he went AWOL. He and my mother were married and he returned to base to an angry sergeant.

After hearing the explanation, the sergeant understandingly replied, "Okay, okay!" Then, as an afterthought: "But don't let it happen again!"
- Contributed by Sandra L. Caron to RD.com

Irresistible irony

About a year had passed since my amicable divorce, and I decided it was time to start dating again. Unsure how to begin, I thought I'd scan the personals column of my local newspaper.

I came across three men who seemed like they'd be promising candidates. A couple of days later, I got a phone message from my ex-husband.

"I was over visiting the kids

yesterday," he said. "While I was there I happened to notice you had circled some ads in the paper. Don't bother calling the guy in the second column. I can tell you right now it won't work out. That guy is me."

- Contributed by Pat Patel to RD.com

What women want

Phil, a smart and handsome young man, dressed in the latest fashion, walked into his local bar. He noticed a woman gazing at him intently from across the room.

Phil felt flattered so he walked up to the woman and said in his deepest voice: "I'll do anything you wish, beautiful lady, for just R100, but on one condition."

The woman appeared to be trapped in the moment and asked as if in a trance, "What's your condition?"

Phil answered: "Tell me your wish in just three words."

There was a long pause, the woman opened her purse, counted out the money and handed it to the man along with her address.

She then looked deeply into his eyes and whispered: "Clean my house."

SOURCE: guy-sports.com



50 Nerds of Grey @50NerdsOfGrey

He loved his girlfriend. She was like the square root of minus one – mysterious, sought after by millions... and imaginary. #Valentines

VeryBritishProblems @SoVeryBritish

Bumping into someone you know in the supermarket when your basket contains three bottles of wine, a pork pie and a magazine about fitness.

Sarina Frauenstein @Sarinatjie

Not to brag or anything, but I finished this 14-day diet in about three hours...

#BlackAce_Moeng @BlackAce4Real

I just wanna make that type of money where mid-month still feels like payday.

Jackie Bouvier @jackiebouvier

I'd like to test the theory that money can't buy you happiness.

Namrata Datta @candimam

Spoke to my ex after 10 years. "Miss or Mrs?" he asks. "Dr," I said.

Bill Murray @BillMurray

Just how hairy was the dude who invented a shampoo called Head & Shoulders?

Adam Liaw @adamliaw

Everyone thinks they're a free-thinker, but how come I can work out your position on climate change based on whether you agree with abortion?



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