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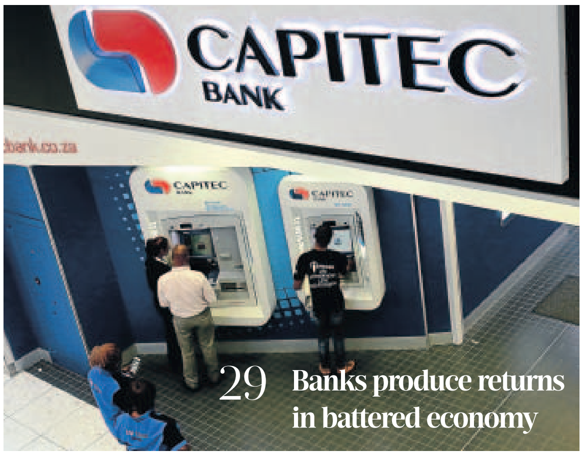


29 Banks produce returns in battered economy

METHODOLOGY

● The Sunday Times Business Times Top 100 Companies awards acknowledge those listed companies that have created wealth and value for shareholders.

The methodology for the Sunday Times Business Times Top 100 Companies was changed this year to focus on larger enterprises. In prior years companies listed on the JSE's main board, regardless of market capitalisation and with a minimum annual value traded of R20m, were ranked. This year only companies with a minimum market capitalisation of R5bn at the start of the review period were included.

The data is verified by Deloitte and is based on the market capitalisation as at August 30 2013 of all companies listed on the main board of the JSE. Companies were ranked based on the size of their market capitalisation with a minimum market capitalisation and annual value trade threshold of R5bn and R20m, respectively.

Selected companies that met the aforementioned criteria but are no longer listed on the JSE were excluded from the analysis.

The share performance analysis assumes an initial investment of R10,000 at the closing price on August 30 2013 and held for a period of five years from September 2 2013 to August 31 2018. This analysis assumes that a fraction of a share can be purchased.

Corporate actions during the review period were adjusted for as follows:

- Ordinary and special dividends: The net dividend per share (ie after taking into account the dividend withholding tax at the time) is assumed to be reinvested in the company on the dividend payment date at that date's closing share price.
- Scrip dividends: Assumed that the cash option was elected and that the net dividend is reinvested in the company as described above.
- Capitalisation issue: Shares received are held until the end of the review period.
- Unbundling: The shares in NewCo received are assumed to be sold for cash on date of receipt and reinvested in the company. No tax adjustments were made.
- Share split/consolidation: Share price data was adjusted for these corporate events. Companies that undertook this corporate action did not declare any form of dividend during the review period and therefore no further adjustment was required.
- Rights issue: Assumed that rights are not followed and therefore no adjustment made.

TOP 100 COMPANIES OVER FIVE YEARS

	Share name	Open (cents)	Close (cents)	*Final value (R)	Compound annual growth rate (%)
1	Capitec Bank Holdings	18,500	100,275	59,064	**42.65**
2	Sappi	2,447	10,039	42,439	**33.52**
3	Clicks Group	5,483	20,300	40,956	**32.58**
4	Naspers -N-	84,837	326,577	38,987	**31.28**
5	PSG Group	6,930	22,504	34,605	**28.18**
6	Mondi Ltd	15,703	41,020	29,923	**24.51**
7	Mondi plc	15,743	40,991	29,812	**24.42**
8	Bidvest Group	25,278	21,600	29,298	**23.98**
9	FirstRand	3,007	7,070	28,393	**23.21**
10	Telkom SA SOC	2,290	5,029	26,295	**21.33**
11	AVI	5,500	11,601	25,705	**20.78**
12	RMB Holdings	4,043	8,430	25,261	**20.36**
13	KAP Industrial Holdings	340	745	24,254	**19.39**
14	Italtile	700	1,380	22,940	**18.06**
15	The Foschini Group	9,623	17,459	22,048	**17.13**
16	Discovery	8,463	17,521	22,015	**17.10**
17	Pick n Pay Stores	3,829	7,250	20,816	**15.79**
18	The Spar Group	11,525	20,500	20,722	**15.69**
19	Mr Price Group	12,522	22,534	20,583	**15.53**
20	Sanlam	4,603	7,934	19,971	**14.84**
21	Santam	18,210	30,317	19,804	**14.64**
22	Standard Bank Group	11,450	18,634	19,734	**14.56**
23	Hyprop Investments	7,100	10,200	18,420	**12.99**
24	Nedbank Group	18,852	27,798	18,123	**12.63**
25	Rand Merchant Investment Holdings	2,587	4,084	17,871	**12.31**
26	Investec plc	6,550	9,677	17,611	**11.98**
27	Investec	6,644	9,617	17,267	**11.54**
28	Emira Property Fund	1,428	1,597	16,839	**10.98**
29	Old Mutual	2,900	3,040	16,611	**10.68**
30	Resilient REIT	4,900	5,699	16,604	**10.67**
31	Barloworld Ltd	8,776	12,500	16,590	**10.65**
32	SA Corporate Real Estate	384	438	16,370	**10.36**
33	Redefine Properties	916	1,035	16,091	**9.98**
34	ABSA Group	13,700	16,255	16,049	**9.92**
35	British American Tobacco	51,993	71,233	15,958	**9.80**
36	Reinet Investments S.C.A.	1,924	28,490	15,234	**8.78**
37	Pioneer Foods Group	7,860	10,550	15,135	**8.64**
38	Growthpoint Properties	2,375	2,544	14,803	**8.16**
39	Reunert	6,840	7,604	14,421	**7.60**
40	Compagnie Fin Richemont SA	9,714	13,052	14,315	**7.44**
41	Netcare	2,322	2,935	14,311	**7.43**
42	Anglo American plc	23,550	29,673	14,113	**7.13**
43	Sasol	48,183	57,600	13,999	**6.96**
44	Shoprite Holdings	16,116	20,400	13,964	**6.91**
45	BHP Billiton plc	29,755	31,502	13,876	**6.77**
46	Vodacom Group	11,606	12,639	13,843	**6.72**
47	Truworths International	8,202	8,604	12,884	**5.20**
48	Aspen Pharmacare Holdings	23,599	29,142	12,762	**5.00**
49	Remgro	18,700	21,441	12,470	**4.51**
50	Liberty Holdings	11,500	11,641	12,409	**4.41**
51	Wilson Bayly Holmes-Ovcon	14,141	14,980	11,967	**3.66**
52	Imperial Holdings	20,823	20,618	11,809	**3.38**
53	Exxaro Resources	16,239	14,885	11,738	**3.26**
54	Famous Brands	9,500	10,178	11,570	**2.96**
55	Adcock Ingram Holdings	6,610	7,126	11,464	**2.77**
56	Tiger Brands	28,277	28,627	11,456	**2.76**
57	Coronation Fund Managers	6,700	5,755	11,272	**2.42**
58	AECI	11,700	10,407	11,120	**2.15**
59	RCL Foods	1,650	1,698	11,047	**2.01**
60	Distell Group Holdings	12,410	12,200	10,908	**1.75**
61	MMI Holdings	2,057	1,715	10,780	**1.51**
62	Anglo American Platinum	40,975	43,000	10,655	**1.28**
63	Hosken Consolidated Invesments	13,250	12,600	10,304	**0.60**
64	Oceana Group	8,800	7,890	10,269	**0.53**
65	Tsogo Sun Holdings	2,480	2,102	9,997	**-0.01**
66	Capital&Counties Properties plc	5,058	4,931	9,943	**-0.12**
67	Sibanye-Stillwater	1,054	855	9,820	**-0.36**
68	Assore	39,200	30,700	9,557	**-0.90**
69	Brait SE	4,025	3,732	9,537	**-0.94**
70	Northam Platinum	4,170	3,896	9,343	**-1.35**
71	Woolworths Holdings	6,821	5,422	9,270	**-1.50**
72	Life Healthcare Group Holdings	3,540	2,666	9,051	**-1.97**
73	AngloGold Ashanti	14,000	11,790	8,515	**-3.16**
74	Mediclinic International plc	7,371	9,450	8,402	**-3.42**
75	African Rainbow Minerals	18,832	12,593	8,200	**-3.89**
76	Massmart Holdings	15,751	11,076	7,800	**-4.85**
77	Intu Properties plc	4,850	3,000	7,787	**-4.88**
78	Kumba Iron Ore	45,000	26,509	7,690	**-5.12**
79	Omnia Holdings	19,400	13,000	7,416	**-5.80**
80	Tongaat Hulett	11,800	7,908	7,398	**-5.85**
81	Datatec	5,701	2,358	7,307	**-6.08**
82	Gold Fields	5,391	3,600	7,006	**-6.87**
83	Murray & Roberts Holdings	2,590	1,551	6,705	**-7.68**
84	Harmony Gold Mining Company	3,865	2,392	6,404	**-8.53**
85	EOH Holdings	6,600	4,000	6,400	**-8.54**
86	Caxton and CTP Publishers, Printers	1,850	985	6,398	**-8.54**
87	Trencor	6,450	3,352	6,177	**-9.19**
88	Sun International	9,432	5,350	6,134	**-9.31**
89	MTN Group	18,785	8,899	6,132	**-9.32**
90	Nampak	3,000	1,576	5,817	**-10.27**
91	Grindrod	2,329	847	5,768	**-10.42**
92	Invicta Holdings	9,690	3,393	4,973	**-13.04**
93	Royal Bafokeng Platinum	5,700	2,300	4,035	**-16.60**
94	PPC	2,963	614	2,290	**-25.53**
95	Impala Platinum Holdings	11,350	1,790	1,583	**-30.83**
96	Steinhoff International Holdings NV	2,936	280	1,038	**-36.43**
97	ArcelorMittal South Africa	3,280	322	982	**-37.14**
98	African Phoenix Investments	1,633	59	363	**-48.49**
99	Aveng Group	2,724	5	18	**-71.64**
100	Lonmin plc	538,900	776	14	**-72.98**

Graphic: Ruby-Gay Martin

* Return over five years from September 2 2013 to August 31 2018, on a theoretical R10,000 investment. Verified by Deloitte.

PREVIOUS WINNERS

2017	Finbond Group
2016	Calgro M3 Holdings
2015	Fortress Income Fund – B
2014	Coronation Fund Managers
2013	Coronation Fund Managers
2012	Capitec Bank
2011	Assore
2010	Capitec Bank
2009	Basil Read
2008	Basil Read
2007	DAWN
2006	Mittal Steel SA
2005	Grindrod
2004	Grindrod
2003	Mvelaphanda Resources
2002	Mvelaphanda Resources
2001	East Daggafontein
2000	Dimension Data
1999	Adcorp Holdings
1998	Profurn

Keeping it simple is a winning formula

Capitec CEO Gerrie Fourie

Following its successes in SA's personal banking segment, disruptor Capitec feels ready to rattle some cages in other sectors and geographies

By **PENELOPE MASHEGO**

● Having shaken up the banking industry with a strategy based on simplicity and customer service, Capitec has now set its sights on its next disruption – business banking and fintech.

In the past few years the bank, which was built on a non-segregation strategy in which clients pay the same service fee for their accounts regardless of demographics and income levels, has emerged as a force in the industry.

In its annual results reported last month, Capitec said it had increased its active clients who deposit their salary into a Capitec account by 109,000 a month in the six months to August.

"We feel happy with the progress, I think we've done exceptionally well. If you look at the past year's growth to 10.5-million clients, I think that's a very good achievement," said Capitec CEO Gerrie Fourie.

It is easy to forget that the bank is less than 20 years old, considering how long its rivals, FNB, Absa, Standard Bank and Nedbank, have been around.

Starting with one ATM in 2001 when it obtained its licence and listing on the JSE the following year, the bank made its name by quietly snapping up lower-income clients, and has since become a respected contender in the sector. Today Capitec boasts a R119.93bn market capitalisation and its profits grew by 20% in the six months ending August despite a tough economic environment and potentially detrimental allegations of unethical practices by research team Viceroy.

Capitec's stock has risen steadily in the past five years from R185 a share to R1,004 as at Friday afternoon, November 2. An investment of R10,000 in the bank in September 2013 was worth R59,064 in August this year.

Capitec is ranked No 1 in the 2018 Sunday Times Top 100 companies, having previously taken the top spot in 2010 and 2012.

The bank has now begun the next phase of its growth as it looks to grow market share by focusing on business and digital banking.

As part of its move into business banking, Capitec has bid for Caixa Geral de Depositos's (CGD's) Mercantile Bank, going up against two other shortlisted bidders, Nedbank Group made up of Bayport Financial Services and the Public Investment Corporation and a consortium consisting of Arise and Grindrod Bank.

Fourie said its bid was part of a strategy aimed at providing business banking for small and medium-sized enterprises (SMEs).

Capitec's growth ambitions have not been restricted to SA. In September, the bank completed its second tranche investment into Cream Finance, bringing its ownership in the company to 40.25%. It plans to make its third tranche investment in the European online consumer loans company early next year for a total of £21m.

Fourie said the idea had been for Capitec to make a small acquisition in order to test the waters outside SA. Cream Finance operates in several countries, including Poland, Latvia, Georgia, the Czech Republic, Mexico and Denmark.

Fourie said: "Cream has very similar traits to when we started Capitec, so we believe there is opportunity for us to grow it into a much bigger organisation."

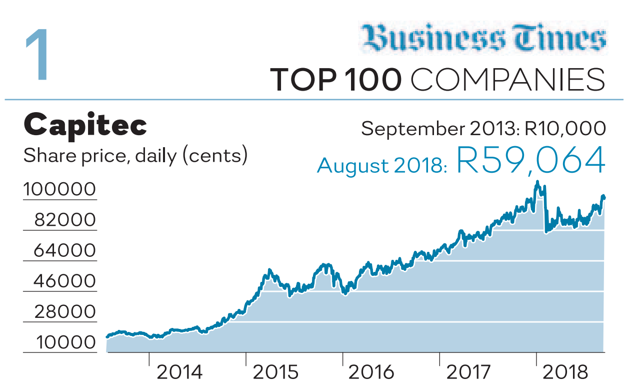
Digital disruption and increasingly independent clients with cellphone devices are what led Capitec to Cream Finance.

"I think what is also important is to work with the right fintech companies and to use fintech companies to the full extent to optimise client experience," Fourie said.

He added that the volume and security challenges fintech companies face offer established banks an opportunity to partner them and help resolve the challenges, while ensuring their clients' digital banking needs are met.

Satisfying clients' needs has been central to Capitec's business strategy. Fourie said that this, coupled with building a unique business and finding excitement in doing

● **Continued on Page 7**



Graphic: Ruby-Gay Martin

They offer a high level of service based on a very simple product set ... and that's the advantage

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that, is what Capitec has been good at.

What Capitec has done well in the past 18 years, is identify client needs and deliver suitable products.

Clients want products that they can understand, are transparent and give them control, with no hidden fee clauses, added Fourie.

"We always say at Capitec: simplicity plus transparency gives the client control and we are using those same fundamentals in overseas markets because they worked well here," he said.

Harry Botha, a banks and speciality-finance analyst at Avior Capital Markets, said keeping banking simple was a winning formula for Capitec.

"And therefore they can offer a very high level of service based on a very simple product set ... I think that's the advantage they've had in terms of attracting transactional customers but obviously at the same time they have built a pretty impressive unsecured-lending business," he said.

> **I always say you do four or five things extremely well, rather than 20 or 30 things [moderately well]**

Although Capitec has its eye on the international market, SA still plays a major role in its strategy.

Fourie said: "The focus for us is on SA. We believe SA has a lot of potential. We have grown quite a lot but we still believe in the credit side, in the insurance side ... there is a lot of potential that we will focus on. So our No 1 market will be in SA for the next five to 10 years."

Fourie, who has been with the bank since its inception, said although many people perceived Capitec as a "lower-income bank", the strategy from the beginning was to service 95% of SA's population and the roll-out of its credit card was a step towards attracting higher-income clients.

Capitec's steady, deliberate rise is based on its ability to remain focused on what it set out to deliver, and doing exactly that, based on its fundamentals of affordability, simplicity and personal service.

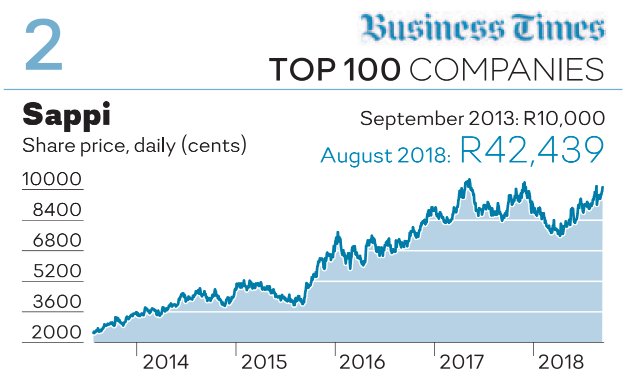
The bank's diversification strategy is in line with these fundamentals and it is this focus that keeps Capitec on course, so that it is not derailed by different opportunities that could result in it losing its identity and purpose.

"I always say you do four or five things extremely well, rather than 20 or 30 things [moderately well]," said Fourie.

"I think if you want to develop a brand, there are two words that come to mind – trust and consistency.

"And if you deliver on your service promise consistently you start building that trust – but then you need to stick to whatever your plan is or what the fundamentals of your brand are," said Fourie.

Sappi's 2020 Vision keeps targets in focus



Graphic: Ruby-Gay Martin

Paper and pulp company is a major forex earner for SA as it manufactures in rands and sells in dollars

By **SISEKO NJOBENI**

● Pulp and paper producer Sappi is on course to achieve the targets it set for itself in its aspirational 2020 Vision.

At the core of the vision is to substantially increase the company's earnings before interest, taxes, depreciation and amortisation (Ebitda) by 2020.

Sappi hopes to achieve this through a number of initiatives including reducing costs, restructuring declining businesses, strengthening its balance sheet and accelerating growth in high-margin segments.

The global business strategy, which the company is in the middle of executing, is rooted in the difficulties Sappi experienced in the early 2000s. "Sappi was going through some tough times. Our traditional market, which is graphic paper, was in decline and that was an area we had specialised in when we went on a global expansion. Unfortunately, the market turned with the advent of digital and smartphones," said Sappi CEO Steve Binnie.

When the company expanded internationally, it put a lot of debt on its balance sheet. This became unbearable and, between 2010 and 2015, the firm's focus was on reducing costs, strengthening the balance sheet and selling non-core assets.

At the same time, the group had to find new areas of growth. Vision 2020, which the company started implementing in 2015, prompted the company to take a step back and assess what constituted its traditional business. "We had to reposition the business and find areas which required investments," said Binnie.

Over the years Sappi has seen its traditional business of graphic paper decline. Despite that, he said, the group has no intention to exit the declining business segment.


Sappi CEO Steve Binnie

And the graphic-paper business still has potential. "It can still generate significant amounts of cash for us. The assets that we have are world class and competitive. You can still be competitive and profitable in a declining segment," said Binnie.

The company has identified three growth areas – dissolving pulp, packaging and biotech. And, in terms of Vision 2020, it has set targets for each of the businesses including graphic paper.

"Within those goals, we said we want dissolving pulp to be 40% of the profits, graphic paper 25%, specialities and packaging 25% and biotech 10%. As we have undergone this transformation over the past few years, we are well on our way to achieving those targets. We wanted to be very specific when we set our Vision 2020," Binnie said.

Within the four different business units, Sappi has set four pillars of its strategy, with the first being cost reduction in order to be competitive. Second, the company has prioritised strengthening the balance sheet.

"Because we had inherited a heavily geared balance sheet from the growth years, we needed to focus on restructuring our balance sheet". Initially, this entailed generating cash and reducing debt. In the 2009 financial year, the company's debt peaked at approximately \$2.6bn. By the end of the 2017 financial year, the debt had halved to \$1.3bn.

"A lot of the debt was expensive debt. A lot was negotiated during the global financial crisis and we spent a few years restructuring the balance sheet, lowering the debt," he said.

The company has a targeted leverage of less than two times net debt to Ebitda. The net debt-to-Ebitda ratio measures the number of years it will take a company to repay its debt if net debt and Ebitda are held constant. A high net debt to Ebitda is an indication of a company deep in debt.

"As we go forward, we use the two-times ceiling as a guiding principle. At the moment we are at 2.1 times because we have large projects that necessitate large capital outflows. It is not a straight line," he said.

The targeted leverage represents a balance between keeping the balance sheet under control and getting enough funds to invest for the growth projects.

"It is a fine balancing exercise. As a team we felt that, based on where we wanted to take the business, it was a sensible level of gearing," he said.

Thirdly, Sappi wants to "rationalise" declining businesses. At the moment, there is an annual 3%-4% reduction in overall market demand for coated graphic paper.

● **Continued on Page 10**

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“We are realistic about that and bring it into our forecasts. We try to anticipate where our capacity needs to be,” he said.

As a result, the group has been converting capacity away from graphic paper towards growth segments, especially specialities and packaging. This entails closing or converting mills. The company intends to accelerate growth in high-margin growth segments of dissolving pulp, speciality and packaging, and biotech.

Binnie said about a quarter of Sappi’s assets and sales are generated in SA, half in Europe and a quarter in the US. Although SA accounts for a quarter of assets and sales, it is the most profitable region and generates more than 40% of the firm’s profits.

At the end of the 2017 financial year, the Southern African region’s Ebitda margin was 28.9%, almost double the company’s overall Ebitda margin of 14.8%. These margins for North America and Europe were 9.3% and 10.2% respectively.

The Ebitda margin assesses a company’s operating profitability as a percentage of its total revenue.

Binnie said the South African business is most profitable because the company’s costs in dissolving pulp, which makes up the bulk of the local business, are low.

“Our costs are world class because we have low-cost timber in SA. Trees grow faster because of the warm climate. That is the predominant reason why we remain world class. The recent weakness of the rand helped us as well because we manufacture in rands and sell in dollars,” said Binnie.

The bulk of products made in SA are exported. “We are the second-largest exporter from the Durban port. One percent of the country’s revenue is from us. The company indirectly contributes 4% to the country’s exports revenue through the boxes it produces and supplies to the fruit industry,” he said.

The company in July announced a multibillion-rand capital investment at its Saiccor Mill in Umkomaas, south of Durban.

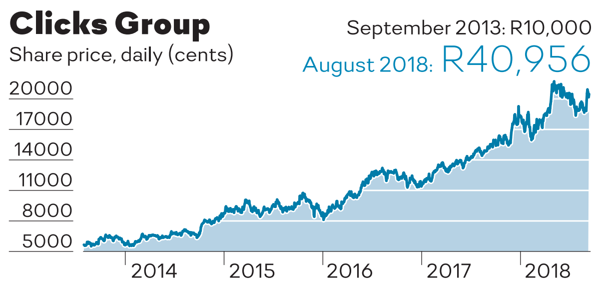
This included R2.7bn for capacity expansion projects and another R5bn over five years in various continuous-improvement initiatives and upgrades.

“We are going to increase our capacity at the mill by an additional 110,000 tons of dissolving pulp.

“We are also spending money on maintenance and improving our environmental footprint.

“All of that is going to be spent in the next few years. This is hard and real investment in the South African economy,” Binnie said.

3 Business Times TOP 100 COMPANIES



Graphic: Ruby-Gay Martin

Foresight gets clients to Clicks

By ADELE SHEVEL

● Many years ago, Clicks anticipated the inevitable change in regulations to allow for corporate ownership of retail pharmacies, which would allow them to convert independent pharmacies into the Clicks chain. That strategic foresight has paid off for the company, which is now the single biggest owner of pharmacies in SA.

The group continues to deliver great results in a retail sector that is hard-hit. The group has 662 stores (630 in SA) and more than 500 in-store pharmacies across the country. The plan over time is to have a pharmacy in each store.

There are 33 stores across Namibia, Botswana, Swaziland and Lesotho.

CEO David Kneale said Clicks operates in a resilient market, with an organic growth story that investors view as low risk.


Clicks CEO David Kneale

“Clicks is No 1 in the world in terms of return on equity in the drug-store sector.”

The share price was about R8 when Kneale arrived 13 years ago. The market cap of the group was R4bn in 2006; it’s now about R50bn and in June this year was elevated into the JSE top 40.

Over the same period, 2% of shareholders were foreigners when he started; today this stands at over 70%.

“The attraction for overseas investors is that they see a company in a well-run market with prospects for growth and world-class metrics.”

In 2011 the group implemented an employee ownership programme which does not include senior managers – and the first 50% vested in February this year and paid out R1.3bn to more than 5,800 employees who’d been there for three years. The next 50% pays out next year.

“It’s transformed people’s lives. Yes, our shareholders have benefited, but our employees have benefited enormously from the success and brand. That’s the thing I’m most proud of,” Kneale said.

Investors have been well rewarded. If you’d invested R10,000 in September 2013, in August this year your investment would be worth R40,956.

Another milestone is that Clicks is 50 this year. Founder Jack Goldin was inspired by

• Continued on Page 11

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the US drugstore model but the pharmacy side could be added only about 15 years ago when legislation was changed to allow corporate ownership of pharmacies.

Clicks is known for its three-for-two promotions, its private label ranges and exclusive product offerings. Promotions account for a third of its sales, with about 3,000 items on promotion each week.

One in three of the products they sell are found only in Clicks, such as Max Factor make-up, John Frieda hair care, and Kambrook and Safeway electrical goods. The ClubCard loyalty programme is one of SA's best, with 7.8-million active members.

"Internationally, drugstores aren't competitive with the food retailers. We stand apart by being price competitive."

What supports the brand is an efficient supply chain. Pharmaceutical wholesaler UPD has 26% of the local market. It's the only wholesaler with a national footprint, it has five distribution centres and supplies all of Clicks's 6,500 medicines up to twice a day.

“

Clicks is No 1 in the world in terms of return on equity in the drug-store sector

UPD also supplies major private hospital groups, 1,200 independent pharmacies and does the bulk distribution for more than 20 pharmaceutical manufacturers.

How does Kneale see his biggest impact?

"I'm pleased with where the brand is. We're voted SA's favourite health and beauty retailer. In October Clicks won the health & beauty category in the Sunday Times/Sowetan 2018 shopper survey.

"I take most pleasure in what we've done for the people in our business. Since I arrived we've employed 6,000 more people – we now employ 15,000. We've created so many jobs with the prospect of more to come."

Then there is the arrival of digital retailing. The group now has an app that allows customers to photograph their prescription and send it to a Clicks pharmacy for processing. When medication is ready for collection, the customer is notified. And the app includes a virtual ClubCard.

"That's gives a whole new way of talking to consumers and personalising what we offer. That's the way retail will move."

Kneale announced last month that he would be retiring in January.

Over the past few years an internal successor, Vikesh Ramsunder, was developed for the role "and he's ready to take over".

What about competitor Dis-Chem, which listed two years ago and now attracts a whole lot more interest?

Kneale said the listing levelled the playing field. "All the information we've put in the public domain they now have to. We welcome it."

As for the future: "The strategy is working and is not going to change. We've still got an exciting, organic path to grow to 900 stores."

Lifetime Achiever

A worrier with a positive outlook

Despite his undeniable global success, Discovery CEO Adrian Gore says he still worries about 'everything' and claims to be a slow decisionmaker

By ADELE SHEVEL

● Not many business leaders have navigated as many challenges as Discovery CEO Adrian Gore, let alone built such a large-scale success.

Gore is one of the country's top entrepreneurs and is globally recognised as an innovative thinker in wellness and behavioural change and how they integrate with health, life, insurance and incentivising people to look after themselves.

The business overhauled health care in this country by pioneering medical savings accounts. It rewards clients who regularly go to gym, have medical checkups and don't smoke. They get discounts on flights and Apple watches, and sometimes free smoothies.

Discovery changed the insurance landscape in SA. Now it's rolling out this model globally with foreign insurance giants.

And it's planning to start a bank.

The group has never made an acquisition. It's always been about organic growth and, increasingly, about partnerships with overseas insurers. Vitality is present in 19 markets through partnerships with major insurers John Hancock, Manulife, Generali, Ping An, AIA, Sumitomo Life and Hannover Re. It trades in the UK as Vitality UK, and then there are the local businesses it wholly owns.

Gore said: "To an extent, Vitality could have stayed a wellness programme but through the intellect and force of will of the team, we have evolved into a business model that's globally relevant. Every single insurer is trying to do the same thing."

The business the Discovery team and

Discovery CEO Adrian Gore

Gore built is complex, founded on academic rigour that weaves behavioural economics with actuarial modelling and technology. There's nothing stodgy about it, though, and it's kept energised and in "start-up mode" because of new ventures, ideas and a permeating dynamism.

The company started when, as a young actuary at Liberty, Gore saw the health-care insurance market as unsustainable and fundamentally broken and wanted to change it. At the age of 27 he approached RMB about a dormant insurance licence he'd heard about from a friend.

Discovery started a few months later, in February 1993. Shortly after, Barry Swartzberg, with whom Gore had worked at Liberty, came on board.

The purpose of the company then was to make people healthier, "pretty much the same as it is today" said Gore, 25 years later. It wasn't plain sailing: "I remember thinking, this is much harder than I thought."

The market capitalisation of the global company is now R97bn and the group serves close to 18-million lives.

The foray into the US health-insurance market was reversed. Gore doesn't refer to this as a failure, but as more of an evolution. He questions whether the group would be as global today had it not charged into the US.

"It gave us a global vision, a sense of how on top of things you need to be. It gave us experience of the most competitive market in the world."

There were stellar battles with government that took years to resolve.

In 1999 the Medical Schemes Act changed and virtually everything Discovery did was outlawed. Savings accounts were curtailed along with actuarial accounts and the use of reinsurance. It was acrimonious but gave Gore a deep conviction that you've got to run at problems, not from them. "I think the biggest learning I had in those days was that things will change, so embrace them."

There have long been critics of the group, and this continues. There are questions about its future in the face of National Health Insurance and criticism that money should be channelled into health care rather than for "bells and whistles" such as gym memberships. The administration fees are too high for some and the business and products too complex for many people to grasp.

Gore is being interviewed in his office on the eighth floor of the new mammoth head office that has a prime position in Sandton. The building houses just under 7,000 of the 12,000 employees within the group, and feels like a mother ship. The view is spectacular and the building feels as if it's built for the future. It has healthy restaurant options, shopping options and a gym. You can even buy Discovery-emblazoned track clothes.

On one side of Gore's office is a collection of toy cars (mostly Porsches). Gore likes cars and he likes speed but says he's quite conservative financially and in decisionmaking.

"I'm a very bad decisionmaker. I take very long. I build consensus with the team of about 20 smart people on the executive level."

On the other side of the office on the floor are dumbbells he uses when he can. At 54, Gore also takes time between meetings to run up and down the eight flights of stairs at least twice a day. This after a quick 10-minute run at the start of the day.

These days, Gore's office is meant only for the burning issues. "The bigger you get, there's always something burning," he said.

There is local uncertainty and there is global uncertainty, but Gore remains characteristically optimistic.

"I love the country, I love the people. I think it's a beautiful country. I'm inherently happy here. I'm not naively positive but have a deep conviction that seeking positive signals is a success attribute. It's not a tactic of

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mine but I can feel that when you think positively, you feel re-energised."

He believes SA's problems are not simple to solve; they really are complex.

"I'm just arguing a better way of solving them is setting a vision and inspiring people to feel better about their future. You've got a better chance of solving problems."

Gore has a "deep, deep conviction" that South Africans inherently frame the country negatively. While we're programmed to think our own future will be better than our past, we think the inverse at country level, he said.

How does he see his job?

"My job is to create vision and hope and inspiration for the organisation. At the same time, I'm very involved in detail in a technical sense.

"Leadership is about vision and driving people to a goal. Framing it, drawing it, illustrating it. Leadership is about giving people hope," said Gore.

He has often referred to Discovery as a "social disruptor".

"This in itself isn't important, but if you're disrupting for good, that's a good purpose ... otherwise what are you doing?"

Gore's father was a successful small-business entrepreneur (ironically a tobacco wholesaler). Gore said his father never really liked business and was an academic at heart. He went on to do a BCom, MBL, a higher diploma in computer science, a diploma in chemical technology and more – and then went back in his late 60s to study archaeology.

"My parents favoured knowledge and education over business – my mother has an inherent mistrust of big business. They revered knowledge above all else, and there was much debate and questioning of the way things are. Nothing was accepted at face value."

This culture of fierce intellectual debate is found in the executive decision making at the group. "I don't stick to the agenda. I'll burrow through a wall. I won't do things uniformly in a disciplined way. If we're launching a product I'll be pushing through whatever deadlines, I don't care how hard they are, to get to brilliance."

There's an obsessive element about Gore's behaviour, and he happily rejects the notion of balance in favour of the two big parts of his life: work and family. Nothing great was ever achieved with balance, he once said.

Now they're building a bank. Why?

"This is a deep conviction about merging technology and behavioural science, and harnessing those two megatrends in banking. We believe we can offer people great value."

How does he not feel arrogant about the success?

"Inherently, if you think the future's ahead of you, you don't feel arrogant. I'm not sitting here counting my blessings, drinking cognac. I'm worried sick about rolling out a long-term savings business in the UK, rolling out a bank that's taking billions to build. That's extremely exciting and creates an organisation with challenges. It's wonderful. But one thing it doesn't leave you with is hubris; quite the opposite."

Gore is a big believer in philanthropy.

"On an intellectual level, a market economy can only exist if those who make money give to the vulnerable and poor. The market economy can't work without it. I'm a deep believer in capitalism but it can work only with a committed philanthropic mindset. Emotionally, I'm moved by causes."

And his greatest success?

"Well, obviously, I feel really proud about Discovery; it's not only my achievement – there's been an incredible team building it over the years and I feel proud of what we've done. I still feel great when I drive in.

"And I am pleased about balancing family and business despite the scale of stuff. My biggest sense of joy is that I don't feel I've given up on anything. I've always been worried that I'll have regrets when pushing hard on something.

"I'm very close to my kids, my wife, my parents so being able to balance it out is something that gives me a sense of pleasure. A lot of people push hard and then it could feel counterfeit in the end when you get there." He is married to Lauren and they have four children.

Gore went to school at King David Linksfield and studied actuarial science at Wits University. He's a fellow of the Actuarial Society of SA, he chairs the SME Fund and used to chair the local chapter of Endeavour. He sits on the board of Business Leadership SA, the World Economic Forum global health advisory and the Columbia School of Health.

The accolades are too many to mention, but he has been recognised as SA's best entrepreneur by E&Y and was the Sunday Times business leader of the year in 2010. Last year he was named E&Y's global lifetime achiever.

Gore said he was "extremely honoured" to be recognised for his lifetime's work, but added, "give me another 10 years before you evaluate what I've done".

"Even to this day, as far as we've come, I worry every day about our competitiveness ... I'm worried all the time. I'll only relax when I leave this office one day."

And that is unlikely to be any time soon. Gore has a vision to roll out the Vitality and insurance model beyond the 19 current markets. He's quick to point out that this is embryonic at this stage.

There's still a long runway ahead.

... I'm not drinking cognac ... I'm worried sick about rolling out a savings business in the UK ... and a bank that's taking billions to build

Roll call of giants of SA's business scene

Previous winners of the Lifetime Achiever Award have all left their indelible footprints on the landscape of SA

By **MUDIWA GAVAZA**

● The Sunday Times Business Times Top 100 companies awards has recognised leaders for their contribution to SA. We look at a few of the previous winners of the Lifetime Achiever award.

PATRICE MOTSEPE 2017

Business mogul. That is probably the best way to describe someone as revered and accomplished as Patrice Motsepe.

In the year since receiving the Business Times Lifetime Achiever award in 2017, Motsepe has been busy.

Few South Africans have a reputation that at times seems to arrive at a venue, event, meeting or press conference before the person. Motsepe is one.

No platform demonstrated Motsepe's influence and place in South African society more than when he shared the stage on behalf of the business community with President Cyril Ramaphosa and former US president Barack Obama in July, as part of the Nelson Mandela Centenary celebrations.

Motsepe is steeped in business, policy-making, advisory, industry bodies and philanthropy. He is concurrently the chairman of Africa Rainbow Capital (ARC), Africa Rainbow Minerals (ARM) and Mamelodi Sundowns Football Club.

An intense critic of the corruption prevalent in SA, Motsepe said to Business Times in 2017: "You have to encourage the government to do business with all its citizens on a competitive and ethical basis. There should be zero tolerance of corruption."

In his Mandela Centenary speech Motsepe highlighted that a corrupt politician is often in partnership with a corrupt businessman. He said private-sector greed was at the root of public-sector looting.

Motsepe has been honoured in a number of capacities in SA and abroad. In 2002 he was awarded Sunday Times Business Times Business Leader of the year.

He received an honorary doctorate in commerce from Stellenbosch University in March this year. In his speech Motsepe underlined that inclusive growth is the way forward for a nation that has been ravaged for so long by social division.

Though others might use such an influential position for a career in politics, he says he never will. "Some of us have to live a life where you don't seek the votes of people but focus on uniting and bringing South Africans of different races and languages together."

As he put it last year: "In the private sector it is the very best that always prevail."

LAURIE DIPPENAAR 2013

Lauritz Dippenaar, often referred to as Laurie, was the Sunday Times Business Times Lifetime Achiever in 2013.

He retired in March as chairman of FirstRand, the financial services giant, which owns and operates FNB, WesBank, RMB and Ashburton Investments.

Dippenaar co-founded Rand Consolidated Investments with partners GT Ferreira and Paul Harris in 1977. It led to the birth of FirstRand in 1998.

Dippenaar said in the current South African business landscape a banking chairman has to make courageous decisions.

Speaking to a class at GIBS Business School in 2016, Dippenaar said: "The tone in a business is set from the top." He believes that if leaders in an organisation take a stance against corruption and greed, that stance permeates through the ranks, especially if backed by strong action and policy.

Dippenaar believes FirstRand's growth has benefits and costs. As a large player in the sector it is able to scale product offerings across retail banking, investment banking and asset management quite easily. But that size increases exposure to macroeconomic conditions and movements in the economy.

New entrants to the market are most welcome, he says. He thinks increased competition, particularly the new Discovery Bank – which they held shares in through Rand Merchant Investment Holdings (RMI) – will force FNB to up their game.

In 2017 he told Business Day of his disappointment in the number of large corporates complicit in state capture. Dippenaar and others who have held FirstRand's chairmanship have used the annual chairman's report to take a hardline position on matters concerning the country and society at large.

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STEPHEN KOSEFF
2009

Who would have thought a part-time job would lead to becoming one of SA's top JSE CEOs?

Banking and investment legend Stephen Koseff this year officially handed over the reins of Investec, a business he joined on a part-time basis in 1978. Investec is a specialist bank and asset manager that has been listed on the JSE since 1986.

At 67 years old Koseff shows no signs of slowing down.

The company said he will remain an executive director for the first six months after October, and then serve as a nonexecutive director.

Koseff could be viewed as a Warren Buffett-like figure in the local financial services industry. His clear knowledge of the markets and banking and his overall humility have given Koseff a reputation as an authority and respected businessman.

With a business that spans SA, Australia and the UK, Koseff has had to mould his mind to keep up with different operating environments. With Brexit, for example, he has to grapple with the impact on the more than £100bn Investec has under management in the UK. But he is used to challenges.

Koseff says he's been through five major crises in his 40-year career – the 2008 global financial crisis being the one that seems to have had the most impact on him as a banker. Investec was able to go through the period relatively unscathed despite its exposure to international markets.

He often credits Investec's ability to weather the markets to the challenges faced in SA. Coping with volatility locally has given their outfit a unique understanding on how to manage risk in other parts of the world.

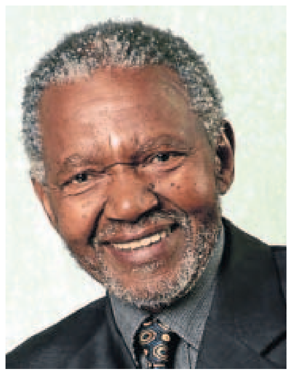
Apart from guiding the next generation of leaders at Investec, Koseff looks to advocating for improvement of the South African education system and tackling youth unemployment.

As co-convenor of the Youth Employment Service (YES) – an initiative launched this year by President Cyril Ramaphosa – he is putting his money where his mouth is.

YES seeks to create a million new jobs for SA's unemployed youth through a partnership of the government and business.

Koseff feels that township economies have within themselves massive potential for job creation.

NTHATO MOTLANA
2005



The story of Dr Nthato Motlana is the celebration of life for one of SA's pioneering figures in business and the struggle against apartheid.

Having died in November 2008, Motlana was 80 years old when he was awarded the Sunday Times Business Times Lifetime Achiever award in 2005.

A man with the zest and energy to get things done, Motlana is remembered for carrying his age with grace.

A businessman for close to four decades, Motlana will perhaps be best remembered for his role with New Africa Investments Ltd (Nail). In August 1994, Nail became the first major black company to list on the JSE.

At its listing, Nail's holdings had sizable investments in some of SA's largest corporations that included 30% of Metlife, 52.5% of Sowetan and 7% of cellphone operator MTN and total assets worth more than R7bn.

Motlana's journey began as one of only two black doctors in Soweto in 1957 to becoming a titan of the boardroom.

As he said to the Business Times in 2005: "I bought my first business in the early 1970s – Sizwe Stores, a little grocery shop in Mofolo. I bought it so that in case I went to prison I could feed my children."

Motlana is part of the legacy of great African leaders that passed through Fort Hare university.

He was arrested in 1952 for being a leader in the anti-apartheid Defiance Campaign. He was given a nine month suspended sentence, receiving one of the first banning orders under the Suppression of Communism Act. He was arrested with former president Nelson Mandela, Walter Sisulu and others.

In 2018 Motlana's legacy can still be felt through some of the businesses and organisations that he helped to shape and build.

The Sizwe Medical Fund, established in 1977 by Motlana, continues in the local medical aid industry. He was the fund's chairman until 2005. Lesedi Clinic – founded in 1982 – is another of Motlana's businesses still in existence. This was the first privately owned black hospital in Southern Africa.

Motlana received an honorary Doctor of Laws (LLD) degree from the University of KwaZulu-Natal in 2002, as well as an honorary degree from Dartmouth in the US.

RAYMOND ACKERMAN
2001

A retail icon, Raymond Ackerman has won numerous awards, accolades and notable mentions over the years.

Ackerman bought into Pick n Pay Stores in 1967 and served as its chairman from 1967 to 2010. He often corrects those who think he founded Pick n Pay. Ackerman bought an existing business that already had three supermarkets and grew it from there.

The Sunday Times Business Times Lifetime Achiever in 2001, Ackerman is now guiding the company and not running it.

The growth that Pick n Pay has experienced in half a century makes sense when one considers the character of Ackerman and the knowledge he brought to it from the start. Before Pick n Pay he had started Checkers stores as part of the Greatermans group. At Greatermans he helped to grow Checkers before internal politics forced him out of the company.

Once out, Ackerman was able to buy, at age 35, into the small Pick n Pay chain through his interaction with its founder, Jack Goldin.

He served as the CEO of Pick n Pay Stores for 32 years until 1999. The group now comprises 989 company-owned stores and 686 franchise stores.

Ackerman has since passed on the baton of leadership to the next generation. His son, Gareth Ackerman, is now chairman of the Pick n Pay Group, while he serves as an adviser to Pick n Pay Stores Ltd.

Ackerman now focuses on social responsibility and works with his wife Wendy on philanthropic projects, which she started when Ackerman first bought the business.

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Health
Technology is an investment that helps to give patients an integrated, seamless experience with electronic health records that extend beyond practices, hospitals and medical aids.

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Whether you are grappling with adopting automation to bring down costs, IoT, M2M or Cloud Computing, data analytics or business application modernisation, we can help.

Manufacturing
It is all about smart factories, robotics, automation, data analytics, and tapping into the power of cloud computing and the Internet of Things (IoT)

Retail
We already partner with 70% of the retail sector and have the largest footprint of in-store support in South Africa.

Public Sector
Helping you transform service delivery and leave behind a positive legacy that will uplift South Africa and our citizens.

Technology and Telecoms
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Your world. Our solutions.

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Cloud Computing
Agile cloud services built to drive digital transformation and expedite the path to business value.

Unified Communications and Collaboration
Integrate multiple communication services such as voice, mobile and collaborative messaging for the ultimate converged solution to take your business forward.

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Mobility
Allow your workforce to connect and collaborate anytime and increase productivity by giving your business and employees the freedom to do more.

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Introduction to our social impact mission.

At BCX, transformation is multifaceted and is an ethos shared by all employees. We pride ourselves on driving transformation through innovation, but the foundation of our business practice has always been about people – helping to provide them with support to grow their businesses and lives holistically.

Our vision is to create:

- Start-ups who forge ahead with their own momentum;
- Meaningful roles for emerging businesses, offering them a footing within the supply chain; and
- Diversity, with workforces that are well equipped to power our vision forward.

Spotlight on social investment initiatives

We partner with organisations who share the same ethos about accelerating the future of South Africa.

At a glance, we're engaged with:

i am the CODE
we think code_
EXPLORE DATA SCIENCE ACADEMY
CiTi CAPE INNOVATION & TECHNOLOGY INITIATIVE
UNIVERSITY OF THE WITWATERSRAND JOHANNESBURG
Wits Business School

Spotlight on National Innovation Programmes

Our National Innovation Programmes are 5-stage incubator programmes, co-created with leading experts in the SMME development sector.

Some of our initiatives include:

CiTi Woodstock Bandwidth BARN
TSHIMOLOGONG
TECHNVST
propella

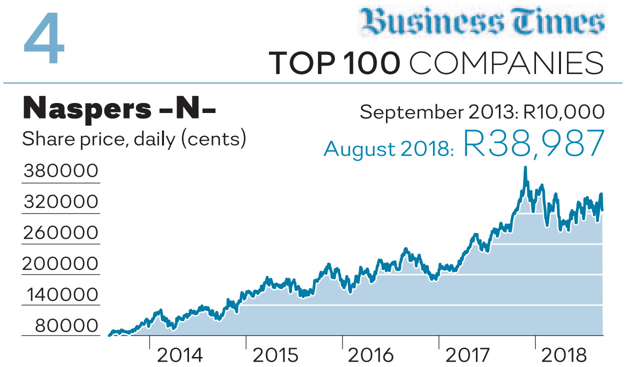
CEO says Naspers's fundamentals 'are much stronger than they've ever been'

JSE giant ready to control its destiny

By NICK HEDLEY

Naspers CEO Bob van Dijk

> **Early-stage internet investments are starting to pay off and translate into profitable and fast-growing companies**



Graphic: Ruby-Gay Martin

● A once-in-a-lifetime bet on a small Chinese internet start-up back in 2001 continued to propel Naspers to new heights.

"The reality is that Tencent is a magnificent success that stands out as one of the best investments ever by anybody," Naspers CEO Bob van Dijk said.

There is no hiding from the fact that Naspers's transformation into one of the world's largest internet companies, and Africa's biggest listed group, is largely thanks to that initial $32m investment. Technically, the market ignores everything else in the group's portfolio because Naspers trades at a hefty discount to the value of its 31% stake in the Shenzhen-headquartered owner of WeChat.

The discount remains stubbornly high and is a source of frustration to shareholders, who could have made even better returns on their Naspers shares if the market valued the group on a sum-of-the-parts basis.

But Van Dijk and his team are on a mission to change that. They have been investing funds from Tencent and pay-TV business MultiChoice — which is soon to go its own way as Naspers unbundles it on to the JSE early next year — to build a global e-commerce empire.

After trimming its stake in Tencent and selling its investment in India's Flipkart to Walmart, Naspers now has about $10bn (R144bn) on its books for that very purpose.

"Some of that capital is reserved because we have a number of options to buy out minority shareholders [of group companies], who are typically founders in certain businesses, over the next few years," Van Dijk said.

At current valuations, Cape Town-based Naspers could spend more than $2bn on buying out those minority shareholders.

The other $8bn or so will go towards new growth opportunities, particularly in classifieds, online food delivery and fintech, Van Dijk said.

He cited the group's recent R1.4bn investment into used-car marketplace Webuycars as an example of the kind of assets Naspers was looking for.

Webuycars offers a car-buying service to sellers and will work closely with the group's Autotrader classifieds business.

"It's a good example of an amazing business that's really close and adjacent to our core ... It's an excellent illustration of the kinds of opportunities we're keen to deploy our capital on — it gives convenience to customers and it's highly synergistic with the businesses we're in already."

Van Dijk said Naspers would look for early-stage investments that other internet companies had yet to discover.

He said Flipkart and OLX Group are good examples of businesses that Naspers got into early and helped grow with both capital "and advice".

"What we showed at our last set of results is that the investments we've done in relatively early-stage internet businesses are starting to pay off and translate into profitable companies that are still growing fast.

"Yes, they have consumed cash for a number of years, but profitability is improving rapidly."

While the total e-commerce segment is yet to break even, Van Dijk said more than 20 businesses in that division were now profitable, and the segment as a whole was fast closing in on profits.

At the same time, Naspers wants to unlock value for shareholders by exiting mature businesses.

"When we believe it's the right time to crystalise value, we do that for our shareholders. Our Allegro and Flipkart sales were good examples of where we thought it was in the best interests of shareholders to take that capital, crystalise the value, and find higher growth opportunities."

These and other measures are partly aimed at closing the group's valuation discount, which exists in part because Naspers has outgrown the JSE and so fund managers have had to reduce their relative exposure to the company.

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Unbundling MultiChoice will be a step in the right direction, Van Dijk said. And exiting pay-TV will, for all intents and purposes, finalise Naspers's transition into an internet-only conglomerate.

The unbundling – which will not result in a capital gain for Naspers – is possible because the group is no longer heavily reliant on MultiChoice's strong cash flows to fund its e-commerce segment.

To address the discount, "there are other structural options that we're looking carefully at," Van Dijk said, declining to provide further details at this stage.

A significant shareholder in the group, Van Dijk is adamant that Naspers still offered good value to shareholders despite its stellar run over the past five years.

"A lot of my future is tied to the future of the company."

While "market noise" had caused a sharp sell-off of Tencent and Naspers shares in recent months, "in the long run the fundamentals of our core business are really strong".

"It's on the right growth path and I think that will translate into good value over time. It's hard to predict when the market will be up or down, but I think the fundamentals are much stronger than they've ever been."

Analysts are still overwhelmingly bullish about Naspers and Tencent's prospects. Despite some regulatory hurdles in China that have affected Tencent's gaming business, only one of the 50 analysts tracked by Bloomberg recommends that investors reduce their exposure to the Chinese firm.

This is despite the fact that Tencent's share price has sharply pulled back from its January highs. Its fall is the result of disappointing first-quarter earnings, tighter regulations in China which have delayed approvals for new games, the trade war between that country and the US, and a broader sell-off of technology stocks.

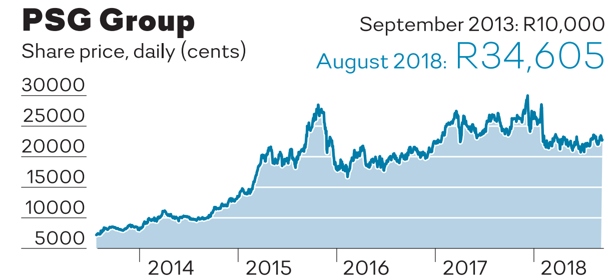
Still, of the 12 analysts who follow Naspers, not one has a sell recommendation.

JP Morgan wrote in a research report in October that while it had reduced Naspers's price target due to lower growth expectations for Tencent, Naspers's recent asset disposals "reinvigorate the investment case".

However, while the US bank is bullish, it warns that Naspers's high exposure to emerging markets came with some risk.

"Any increase in emerging-market risk aversion will likely have an adverse impact on market valuations for Naspers, Tencent and other international internet associates."

5 Business Times TOP 100 COMPANIES



Graphic: Ruby-Gay Martin

A resilient stock to buy, even if down this year

The share price is down 20% year to date, but it is up 225% over five years

By **LONDIWE BUTHELEZI**

● The company's share price is down 20% so far this year, and PSG's underlying investments have lost R7.5bn in fair value over the same period. But the group's five-year share price movement to September 2018, which is up 225%, reflects a resilient player that has been able to swim against the tide when the financial index grew by only 40% over the same period.

A small number of analysts that rate the company on Sharenet shows that it is a stock to buy and PSG Group CEO Piet Mouton attributed this to being willing to venture where others are not.

"We've had massive success in building companies from an early stage, alongside brilliant management teams," he said.

Though the company is trading at 18% below its net asset value, Mouton is not worried. "There could be various reasons but it is most likely as a result of a significant increase in liquidity, coinciding with an emerging-market sell-off and SA-related issues resulting in more sellers than buyers," he said.

David Talpert, an equity analyst at Avior Capital, said all of PSG's businesses had lots of growth potential and the share price decline this year was driven mostly by the underlying investments. "Fifty-nine percent of PSG's net asset value is in Capitec ... Capitec is down 8% year to date and is probably the reason PSG is underperforming for the year."

> **"Capitec is down 8% year to date and is probably the reason PSG is underperforming**

Talpert said Steinhoff's sale of its 25% stake in PSG most likely contributed to the widening of the group's share price discount to its net asset value as it created a bigger free float. The discount has widened from a historic average of 5% to about 18% at present.

• Continued on Page 20

PSG Group CEO Piet Mouton

● **From Page 19**

When the PSG group was established in 1995, its market capitalisation stood at R7m. Today, the group has invested in more than 20 companies, and has a market capitalisation of about R47bn.

Mouton said while the group had evolved and the way in which it dealt with the market had changed a lot, one thing that PSG hadn't changed – and which Mouton believes is behind its persistent performance – was the entrepreneurial way it is run and the way it chose new investments.

"We try to build businesses that will make a positive difference to all stakeholders. [We are] constantly looking for new investments and when we look for new acquisitions, we look for large markets. Not everything we try becomes a success but when it is, we don't want to be limited by the size of the market in which the investment operates," said Mouton.

For this reason PSG shied away from companies that have market dominance. It also avoided acquiring fully fledged businesses or complete buyouts. The group also preferred that the management teams of the companies they bought into had a sufficient stake in their venture.

"We do early-stage investing, and if we are successful it is as a result of real and significant revenue growth, whereas many other investment companies and private equity firms buy into existing businesses and try to improve or rationalise the business which in many instances results in retrenchments. Or else they introduce leverage to enhance returns," said Mouton.

Once the group had satisfied itself that there would be a sufficient future market for its new investments, it then looked at whether the potential investment would enable it to fill spaces that no-one else was looking at or whether it had a way of improving existing market inefficiencies.

"For instance, there's no point for us to try to build new hospitals. The companies in that space are good at what they do. Whereas when we looked at the education space, we saw that the few existing players were focusing on the higher end of the market and by focusing on the more affordable segment there was a huge market we could tap into."

It is the same principle of choosing new investments that led PSG to invest in retirement village owner and operator Evergreen in 2017. Mouton said since there was no player providing retirement villages across the country, PSG saw an opportunity to team up with Amdec, which was already in the process of building "a true national player" where quality of facilities and standard of service offered would be at the highest level.

"But ultimately it's all about the management. You can have good investment ideas but you need a direction-driven management team. When we engage with them initially they must be able to do things differently. They must differentiate themselves in one way or another from the incumbents."

PSG is becoming more diversified, with the share of its financial services portfolio declining to 72% currently while 100% of its assets were in financial services when it started. Today the PSG empire spans banking (Capitec), financial planning and wealth management (PSG Konsult), private education (Curro and Stadio), agribusiness (Zeder), energy (Energy Partners) and retirement villages (Evergreen). Though still dominantly a financial services group, Mouton said they see themselves as more of a diversified investment holding company in future.

He said when his father, Jannie Mouton, founded PSG no-one could have envisaged what it has become today. It was initially intended to be a financial services company. Five of Jannie's ex-stock broker colleagues joined him in February 1996, the first step in what would become PSG Konsult.

Two years later the company bought 300 micro-lending branches and today those branches have become SA's fourth-largest bank, Capitec. The bank is PSG's largest investment, making up 58% of the group's assets as at August 31 2018. It contributed 64% of PSG's consolidated recurring earnings for the six months to August after posting a 20% increase in headline earnings per share.

Mouton said while PSG often got asked whether it was concerned about its large exposure to Capitec, its answer remained a resounding "no".

"There are various reasons why Capitec will remain successful for a very long time. To name but a few, it has a high quality innovative management team, relatively low share of the total credit market, by far the best banking product at a significantly reduced cost, and a technologically superior banking system."

Talpert said all of PSG's management had a good track record of investing in good businesses and it was not surprising that its underlying investments were growing rapidly.

"I think there is a lot of potential in the unlisted businesses within PSG Alpha, especially Evergreen and Energy Partners."

> **Ultimately it's all about management. You can have good investment ideas but you need a direction-driven management team**

Mondi driven by sustainability

Viv McMenamin, CEO of Mondi SA.

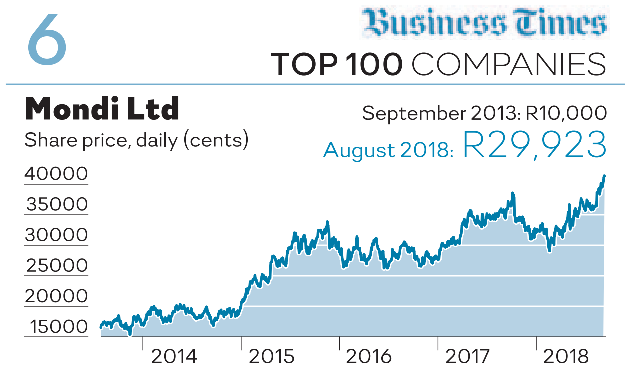
The global packaging and paper company says it's not a trend but a requirement

By **MUDIWA GAVAZA**

● Sustainability goes beyond hugging trees and reducing CO^2 emissions. Economic efficiency, environmental responsibility, equity in society and ethics in business. These "4Es" are the hallmarks of a sustainable enterprise.

Mondi Group is striving to be sustainable in all aspects of its day-to-day operations and in its vision to still be in business in decades to come.

This year Mondi Ltd takes the No 6 slot in the Sunday Times Business Times Top 100 survey, and its parent company, Mondi plc, takes seventh place. Mondi plc was No 6 on our Top 100 in 2017. The results are based on a measurement of a return over the past five years from September 2 2013 to August 31 2018, on a theoretical R10,000 investment. The ranking includes companies with a market capitalisation of R5bn or more and an annual value trade threshold of R20m.



Graphic: Ruby-Gay Martin

Mondi Group's strategy has been to deliver incremental growth by driving performance along the value chain; investing in assets with cost advantage; inspiring its people; growing responsibly and looking to customers as partners for innovation.

At the heart of Mondi's philosophy is sustainability. The company says it is leading the industry's response in addressing key environmental and social challenges.

Peter Oswald, Mondi Group CEO, said: "As a global packaging and paper group, it is essential for our business, as well as the planet, to drive innovation and change throughout the value chain. We don't see sustainability as a trend, it's a requirement."

By taking a holistic view, Mondi believes it can meet the needs of each customer, improve its products and protect the planet. The group takes a science-based approach and works with partners to develop innovative and sustainable solutions.

"Mondi's unique offering of high-performance paper, plastic and hybrid solutions means we can find the most sustainable fit for each application," says Oswald.

In SA, Mondi sees itself at the forefront of sustainable business practices. Viv McMenamin, CEO of Mondi SA, says: "It's exciting to be playing a leading role in Mondi's sustainability story." This includes growing trees that use less water and protecting water catchment areas and wetlands.

"And then there are our globally competitive operations that produce quality fully recyclable products from sustainably sourced fibre."

As a level 3 B-BBEE contributor, Mondi is managing its business to ensure that manufacturing operations maintain their cost advantage, that forestry operations are managed to ensure a secure timber supply, and investing in the development of its people and the communities in which they operate.

Established in 2007, Mondi Zimele is the group's small-business development organisation. Working with partners such as the department of trade & industry's Forestry Contractor Incubator Programme and Jobs Fund, the organisation implements the group's enterprise development strategy by supporting businesses along its value chain.

Initially focused on accelerating black economic empowerment, the focus has expanded to supporting community-based small businesses around Mondi's operations. Loans of about R100m for more than 200 local businesses have created 2,800 jobs.

These efforts have resulted in Mondi's ability to maintain a steady supply of high-quality fibre from a network of small forest enterprises. An average of 89,000 tons of the timber supplied to its Richards Bay mill is from supported businesses and suppliers.

Mondi continues to invest in skills and leadership development. A point of pride has been the progress made by women at Mondi SA, who hold positions such as artisans, foresters, safety managers, nursery managers, as well as in engineering, finance in-

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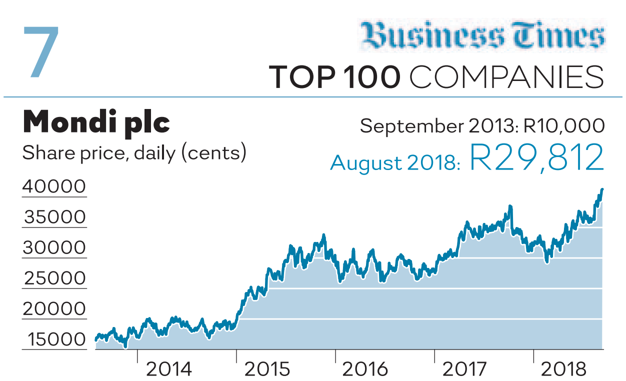

Graphic: Ruby-Gay Martin

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cluding as CFO, procurement director, head of Mondi Zimele, and many others.

Mondi SA focuses on investing in communities living on company land or near its operations. Community development initiatives include the Mkondo Development Project in Piet Retief, which is a public-private partnership focused on improving living conditions in villages on forestry land.

The pilot project Jabulani Agri-village is Mondi's attempt to reimagine rural development and distribution of land. It sees households owning plots of 2,500m^2 with the collective profiting from tourism and forestry.

As a global packaging and paper producer with a broad geographic footprint and product offering, Mondi faces challenges but sees opportunity in trends such as e-commerce and the demand for sustainable products.

The sustainable management of operations is key in managing the overall environmental impact, helping to protect ecosystems and developing resilient landscapes.

The company works to certify its forests with credible external certifications. In 2017, 71% of total procured wood by Mondi was certified by the Forestry Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC), with 93% of externally procured pulp from FSC or PEFC-certified sources. In 2016, these numbers were 67% and 89% respectively.

Water management is an ongoing challenge. The importance of water to Mondi's business, local communities and other stakeholders has the company striving to

It is essential for our business, as well as the planet, to drive innovation

manage water use wisely and efficiently.

Mondi has continued to look for opportunities to improve water security, focusing on reducing consumption, in particular at the Richards Bay mill. It is committed to reducing the specific contact water consumption of pulp and paper mills by 5% by 2020, against a 2015 baseline. In 2017, a 27% reduction was achieved at Richards Bay. Overall, its South African mills reduced specific contact water consumption by 16% in 2017.

Land is undoubtedly an issue in SA. Mondi has developed a sale and leaseback model with a mechanism for settling claims with, and supporting, land claimant communities.

Following a successful land claims process, communities have ownership of the land and associated rental revenues but also receive help to develop sustainable forestry enterprises and related skills.

With its key operations in central Europe, Russia, North America and SA, Mondi can harness opportunities in areas that account for about half the global packaging market.

McMenamin adds: "Our South African business continues to be a strong contributor to Mondi's success."

Focus on entrepreneurs in SA brings its rewards

Bidvest is now a diverse group of companies spread across Africa, the UK and Ireland

By **MUDIWA GAVAZA**

● It's a big number, 130,000. It is the number of people employed by Bidvest across more than 300 businesses the group has interests in.

In the Sunday Times Business Times Top 100 Company awards Bidvest is ranked No 6. Last year the company was ranked 25. The methodology for the rankings has been changed in 2018, with only

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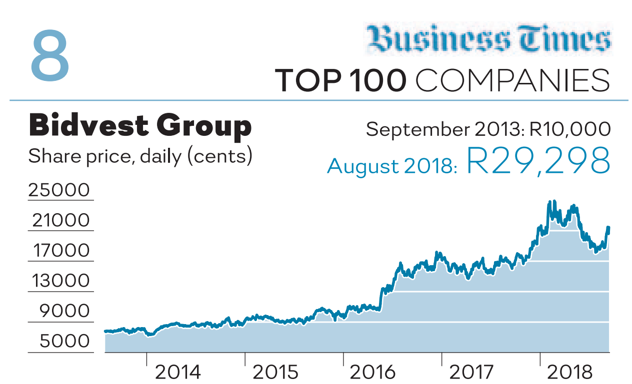
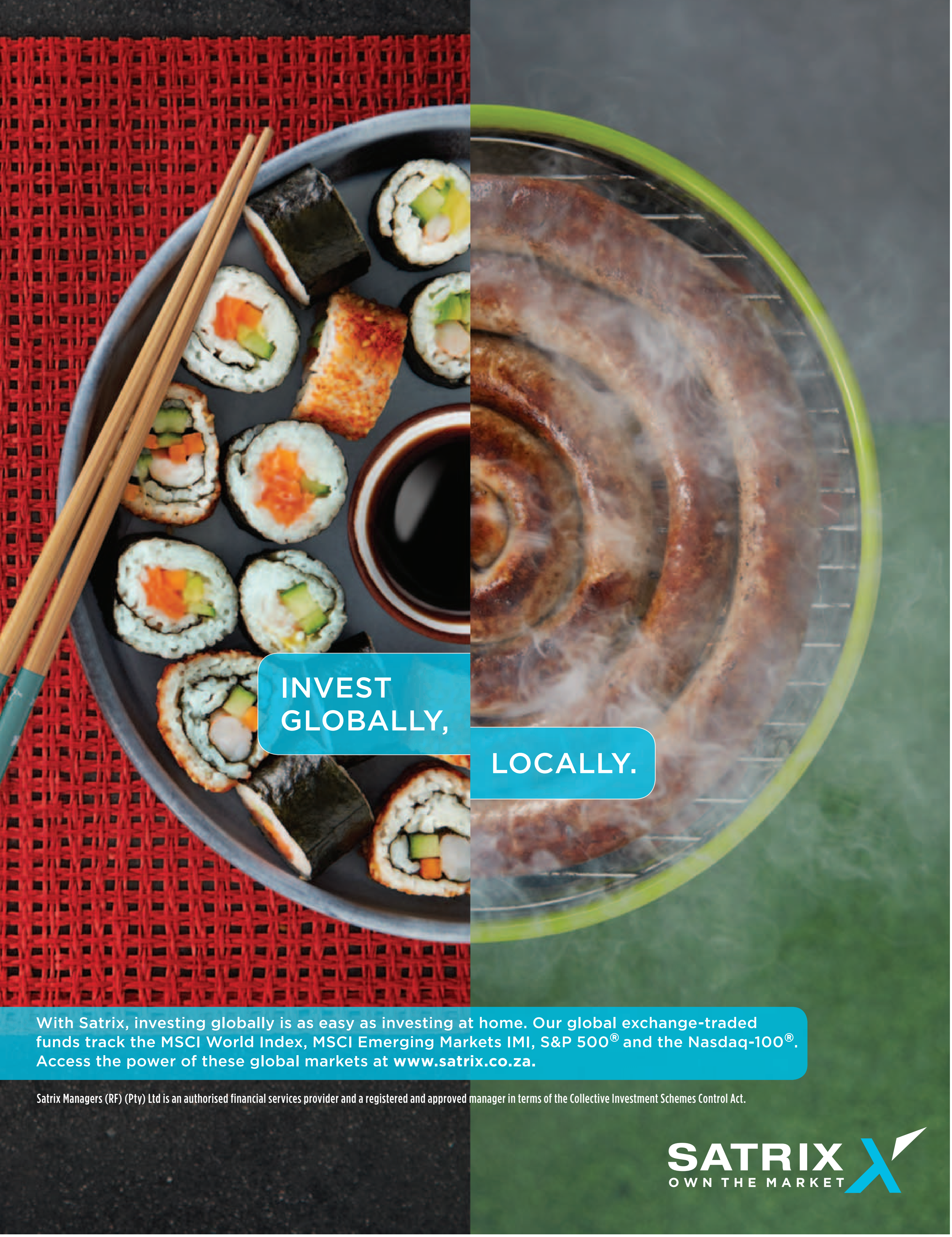


Graphic: Ruby-Gay Martin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SATRIX
OWN THE MARKET

● From Page 22

companies with a market cap of R5bn or more and annual value traded of R20m listed. Results are based on measurement of return over the past five years from September 2 2013 to August 31 2018, on a theoretical R10,000 investment.

The company, which describes itself as a services, trading and distribution group, marked three decades in business this year. CEO Lindsay Ralphs says: “About 63% of our business is service related and 37% is trading, which is a comfortable balance.”

Bidvest has a market capitalisation of R63bn at the time of writing with revenue in the year ended June 30 2018 in excess of R77bn. Shares in the group are at about R185, down from a high earlier in the year of R255 a share, according to Bloomberg data.

Ralphs emphasises that “the group’s strategy is focused on its commitment to home-grown entrepreneurship”. Investing in South African businesses over time, and nurturing these companies to deliver above-average shareholder returns annually has brought great returns for Bidvest.

The partnerships formed with South African entrepreneurs, and other acquisitions along the way, have resulted in a diverse group of companies across the spectrum of South African business, focusing on delivering products and services in, largely, a business-to-business model.

Through implementation of the group’s strategy “we have developed these respective entities into large, formidable and market-leading companies that today, collectively, represent a microcosm of South African business”.

Bidvest founder Brian Joffe — who was awarded the Sunday Times Business Times Lifetime Achiever Award in 2011 — created a highly entrepreneurial and decentralised approach to the management of the group’s businesses and other assets. This core principle has been refined and developed since then and continues to guide the efforts and activities of the group.

A look back over the past 30 years shows one distinguishing characteristic of the company is the people that make up the Bidvest family. “This team of people have transformed a collection of home-grown South African businesses into industry leaders, which have delivered numerous benefits to a wide range of stakeholders and created more than 130,000 jobs,” said Ralphs.

Bidvest points to SA’s economic, political and social instability as challenges continuing to affect the country and its businesses.

Ever-rising unemployment, constraints on consumer spending, a scarcity of foreign investment together with increasing demands on the state to provide adequate services and facilities for the growing population ultimately have a negative impact on Bidvest’s bottom line.

Bidvest CEO Lindsay Ralphs

Considering next year’s national election, “we are not expecting any short-term change or improvement in economic reform

Considering next year’s national election, “we are not expecting any short-term change or improvement in economic reform”, says Ralphs.

He added that “the non-availability of funding for adequate investment and upgrades to infrastructure, including within state-owned entities, will prevent any real improvement or job creation”.

According to Bidvest, investment is desperately needed to kick-start the economy. Failing this, and indicative of the caution from rating agencies, the country could ultimately see further downgrades to its sovereign credit rating. “Post-election we are optimistic a recovery will materialise. Bidvest remains exceptionally well-positioned to take advantage of and react appropriately to any positive change to SA’s economic circumstances.”

Five of Bidvest’s seven divisions — services, freight, commercial products, office and print, and financial services — as well as Bidvest Properties, have delivered growth in trading profit over the past year.

Ralphs said: “The value of a diversified portfolio, which spans SA’s broad economic spectrum, and the quality of the underlying businesses continues to manifest in the performance of Bidvest.”

Bidvest considers its roots to be “embedded in its home soil in SA”. They have a continued faith in the future of SA and the group is actively spending capital on various projects, specifically within the freight division, and are also continuing their strategy of bolt-on acquisitions across all divisions.

“We believe that government alone cannot deliver the requisite and much-needed upgrades to infrastructure to move the country forward, and all entities should contribute wherever, and as best possible,” Ralphs comments.

Bidvest remains committed to an ongoing programme of investment, no matter the country’s economic situation, within the seven core divisions.

Recently, Bidvest acquired Noonan, which is based in the Republic of Ireland and also operates in the UK. Noonan delivers integrated management services, ranging from cleaning and security to building services and facilities management in various jurisdictions, and it has a similar foundation to that of Bidvest’s services division.

Analysts agree that an issue plaguing small businesses in SA is effective support from the public and private sector. Funding, mentorship, strategy, implementation and scaling are all issues that are not being addressed effectively. Perhaps some state institutions mandated to help small business can take a page out of Bidvest’s book on how to effectively support local entrepreneurs to create real value for the marketplace.

Ralphs says: “The strong capability of the Bidvest family’s entrepreneurship will ensure another 30 years of exciting growth for this extraordinary group.”

This philosophy, together with the ability to provide, guide and support the leadership teams, fund businesses for growth and continually invest significant funds for local infrastructure and logistical development, is what keeps Bidvest moving forward in an ever-changing operating and macroeconomic environment.

Competing for and keeping customers

FNB, SA's oldest bank, is like a supermarket for financial services

By **MUDIWA GAVAZA**

● At 180 years old, FNB is SA's oldest bank. Now a division of FirstRand Bank, FNB is undoubtedly the darling of the group, bringing in 85% of its revenues in the past year.

FirstRand CEO Alan Pullinger described their operations as integrated financial services. "We are like a supermarket for financial services."

The group includes WesBank, Rand Merchant Bank (RMB) and Ashburton Investments.

This year the company is ranked No 9 in the Top 100 in the Sunday Times Business Times Top 100 companies survey.

Pullinger said the group's strategy for growth is a three-pronged approach.

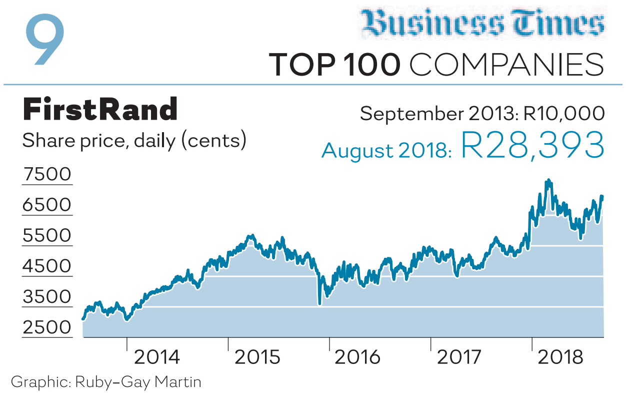
Protecting and growing the banking business is the first order of business. FNB commands a healthy market share in the banking space locally. The bank's focus is growing that share with a "switch campaign" that has to do with creating value with the aim of drawing customers to their offerings.

Once someone has an account, the second phase of the strategy is increasing product take-up per customer. As a diversified financial services business, FirstRand can offer customers a wide range of products and services that include retail banking, motor vehicle financing, insurance and investment facilities. The more services a customer subscribes to, the more likely they are to stay with the bank, and the more revenue received as they transact more.

FirstRand CEO Alan Pullinger

In recent years FNB has innovated through the use of technology and has driven digital adoption in the banking sector. This makes up the third strategic element, which Pullinger referred to as "channel strategies". By migrating customers to digital channels of banking like online, mobile and the banking app, the bank hopes to use comfort and ease of use to increase the volume of transactions on its platforms which would increase revenues.

A good plan is useless if it's not implemented properly. FirstRand knows this well.



Graphic: Ruby-Gay Martin

The business has seen good growth in recent years, which Pullinger attributed to a number of factors. By engendering a sense of ownership in staff, FirstRand employs an "owner-manager" operating culture. This simply means they have a culture in which staff are given the ability to take ownership of their roles.

The bank's journey in digital innovation has been a major driver of growth, said Pullinger. He considers FNB an innovation leader in the industry with its diverse technology offerings for customers. Earlier this year FNB released a new feature which allows people to open a bank account by simply taking a "selfie" with their mobile app, making use of biometric data from the department of home affairs.

Technology as a driver is quite apparent with the results experienced by its popular rewards programme "eBucks", which has been successful in driving interest for the bank's products. With billions of rands paid so far and an earn-to-spend ratio close to 98%, eBucks is a powerful tool the bank is using to drive adoption of its technology and influence customer behaviour.

The fourth factor driving FirstRand's success is effective management of its financial resources which sees a disciplined and mature approach to the allocation of funds. Even after being in business for close to two centuries, sticking to the budget is still a virtue at the bank.

"Whenever I think of financial services, I think of people," said Pullinger reflecting on the importance of people to their business and challenges they face because of the prevailing macroeconomic environment. Rising prices, a weakened rand and increasing unemployment are difficulties South Africans face on a daily basis. "When our customers aren't doing well, we aren't doing well."

With earnings growing a meagre 8% in the financial year to June, it is clear that FirstRand is facing a tough operating environment. Gone are the days when banks could expect revenue growth of 15% or 20%. The industry itself is characterised by a competitive landscape. FirstRand is one of five major banking groups in SA.

Pullinger said they constantly had to fight hard to retain customers, win new customers, switch over customers, attract great talent to their various teams and remain aware of new entrants to the market, such as the upcoming Discovery Bank.

Despite the tough realities facing the business, Pullinger is optimistic about the future. He sees FNB continuing to be the

● **Continued on Page 26**

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main driver of growth in the next 18 to 24 months. In the long-run he proffers that RMB will likely contribute more to the bottom-line as the investment cycle improves. The economy is in a downturn but as it improves in the next two years, the appetite of investors is likely to improve, which will help to rebuild RMB's portfolio and also breathe new life into its private-equity operations.

FirstRand operates a number of businesses outside SA. With its international subsidiaries, the bank operates across nine African countries, in addition to its presence in the UK and Asia. International operations currently account for about 20% of the group's revenues, evidence that SA is central to the bank's survival. Pullinger expected solid growth internationally in the long term which could add substantially to overall earnings.

Challenges and the economy aside, Pullinger saw this as a great time to be in financial services. The banking industry has changed. Old players have to change with it. That is the reality of the sector in 2018. Technology has ushered in a new way of doing business with big data in particular providing an opportunity for businesses like FirstRand to understand their customers even more, which is key in an increasingly competitive environment.

Increased competition means it is a good time to be a customer of financial services at the moment. As banks compete, they're forced to become more innovative and offer more value to customers, driving down costs and increasing choice. "Great businesses are built in tough times," said Pullinger.

New entrants to the market are a welcome development, said Pullinger. The market is ripe for niche concepts, increased digital innovation and overall new thinking, which forces FirstRand to constantly work to innovate.

So how does a diversified financial services group continue to grow despite an economy in a downturn, increased competition and decreasing margins?

First, a concerted team effort is how FirstRand has done things and continues to operate. "Have the right people in the right places; equip and empower them ... then stand back and allow them to do the work."

Second, have a corporate culture that emphasises hard work and delivering the best service possible, while promoting self-reflection and the ability to see what works and what does not.

"We take our business seriously but we don't take ourselves too seriously."

Telco giant with a reimagined future

10

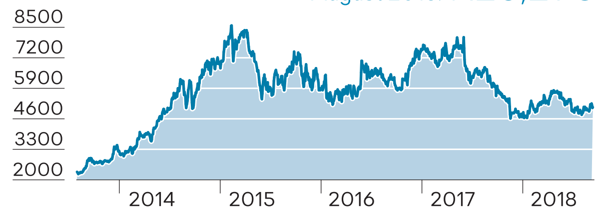
Business Times TOP 100 COMPANIES

Telkom SA SOC

Share price, daily (cents)

September 2013: R10,000

August 2018: R26,295



Graphic: Ruby-Gay Martin

Telkom has achieved much but CEO Sipho Maseko admits there is still a lot to be done

Telkom CEO Sipho Maseko

By **ASHA SPECKMAN**

● Under CEO Sipho Maseko, Telkom may yet shed its identity as the fixed-line telecoms behemoth it has been for decades.

Fixed-line revenues continue to fall, remaining an area where Maseko has been unable to reverse losses in the five years that he has been at the helm. But now the former BP Southern Africa and Vodacom executive is drawing inspiration from the acquisitions by US telco giant AT&T of media conglomerate Time Warner.

Telkom has even recently ventured as far afield as Zimbabwe in search of new growth opportunities.

Domestically, consolidation of the highly concentrated and competitive telecommunications market is inevitable "as pricing becomes more and more pressured and volumes will be the order of the day", Maseko said.

Telkom is ranked 10 in the Sunday Times Business Times Top 100 Companies.

How consolidation of the local telecoms market will play out is anyone's guess – for now. It may see a telecoms company acquiring another, or a telecoms company snapping up a media firm in a similar deal to AT&T's $85bn merger with Time Warner this year. Mobile phone giant AT&T bought the mega media assets to boost its transformation into a media powerhouse and aid its ambition to go head to head with the likes of

● Continued on Page 28

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streaming content services Netflix and Amazon.

Maseko hints that, back home, Telkom has been on the prowl for media assets although he will not confirm what the company has in its sights.

"We constantly look at how we can grow the company and the dimensions of growth that we are looking for are in the following way: First, how can we grow beyond connectivity? That's why we bought BCX [a business-to-business digital services provider such as cloud computing], so we can grow into content and other services."

The next consideration is regional growth. "We've had a look at some opportunities that may be in Zimbabwe, but in other places as well."

This is Maseko's first public admission that the firm has been on a mission to Zimbabwe since Robert Mugabe was toppled last year. Maseko will not admit that Telkom is in any particular merger and acquisition discussion in Zimbabwe, although Bloomberg, citing the head of Zimbabwe's privatisation agency, reported this month that talks with Telkom had begun about a potential joint venture with NetOne, one of the country's three state-owned mobile operators. Zimbabwe is selling state assets to raise cash for critical infrastructure.

Maseko said Telkom may not seek opportunities just in telecommunications.

"We may also want to look at how we can grow in adjacent sectors, maybe its content, maybe its financial services but, most importantly, how do we diversify away from fixed voice?"

If JSE-listed Telkom, which has more than 40% of its shares held by the government, is to steer into a new direction it would require a fresh perspective and under Maseko the role of chief investment officer was created with former chief financial officer Deon Fredericks the first incumbent, although he has now been seconded to SAA.

Maseko said customers were becoming more discerning and were looking to buy more services from one place. This made consolidation inevitable especially in light of more demanding regulation to lower the cost of communication.

Telkom has said it may have to revisit retrenchments if call termination rates do drop to 3c by 2020 from 12c previously as per the Independent Communications Authority of SA's (Icasa's) plan. These are rates telecoms operators charge to accept a call from another network, whether mobile or fixed line.

"Regulators tend to focus only on one

component of regulation but we need to focus on the other components as well: how can we reduce the cost to communicate and at the same time, for example, continue to attract investment while maintaining employment — and what are the trade-offs we are going to make?"

Maseko acknowledges that regulators have to balance an array of factors, but says: "Telecommunications is the only sector I know where customers want more for less." He says people accept that electricity will cost more "but when I have to pay more for power I have to find ways of recovering the higher cost".

He added: "Consumers want more for less, shareholders are looking at returns and employees want salary increases. It's tricky."

Telkom has had to demonstrate that it is neither inefficient nor wasteful and that it reinvests as much of its income as it can into better and newer technology.

But there must be something Telkom has done right to be the only telecommunications company ranked in the top 10 of the Sunday Times Business Times Top 100 Companies.

The results are based on the return on a

> **Consumers want more for less ... and the employees want salary increases. It's tricky**

theoretical R10,000 investment over the five years from September 2 2013 to August 31 2018. A R10,000 investment in Telkom five years ago would now be worth R26,295.

By market capitalisation Telkom is ranked 81st.

The company was loss-making when Maseko was appointed CEO in April 2013. Its market capitalisation has seen a compounded annual growth rate of 21% over the period, growing from R11.9bn to R25.7bn. Telkom's share price has appreciated from R22.90 to R50.29 in the same period.

"Seeing things change has been just fascinating. I'm lucky to be here at this time," said Maseko, who doesn't see his exit any time soon.

"Looking back, I think we had a sound strategy. It enabled us to weather the rough times and to make timely adjustments so that we could remain competitive. It also prepared us for the next phase of the transformation of the company," Maseko said.

Crucial elements of the strategy may appear insignificant now but counted much, he said. "This included clarity of roles between the management and board, asking ourselves why we did certain things, and taking difficult decisions."

In 2015, Telkom announced plans to cut 4,400 jobs and transfer a further 3,400 to outsourced companies to trim its staff complement to around 10,000.

Improvements in customer service was another area Maseko tackled, although he acknowledges it still requires attention. Allocating resources appropriately and based on financial returns and strategic objectives was another fundamental change after years of wasteful expenditure.

"... And also not to wallow in the success that we have, to really think about what else we need to do to get better," he said.

Recruiting "very good people", especially younger talent, transitioning from copper to optic fibre, separating its wholesale and retail businesses and creating Open Serve, an open-access network, were other strategic moves. This was alongside insisting on transparency of performance and no cross-subsidisation among the various divisions.

Paul Chakaduka, a senior trader at GT247, said Telkom had managed in the past two years to reshape its business. But he added: "What's been critical is to try to monetise some areas, especially the data side, which has been the main focus of Telkom in the past two years, moving away from landline to focus a lot more on digital."

Maseko said Telkom is redesigning for the future: "We are trying to reimagine society and the role that we will play in the 2020s."

Capitec emerges as a strong challenger

The bank is gaining clients hand over fist and can catch up to the leading banks

By **ASHA SPECKMAN**

● In an economy that has seen better days, companies in banking and financial services, retail, packaging, media and telecommunications have emerged steaming ahead.

The winner of this year's Sunday Times Business Times Top 100 Companies, Capitec, once the underdog, is adding clients at a rate of 109,000 monthly. The bank is now in a strong position to catch up to Standard Bank, Absa and FirstRand. The latter also made it into the top 10 of this year's survey. Back in 2013 over the same time frame Capitec had 5.8-million customers and now boasts more than 10-million.

Capitec's success factor has been the scale-down in its lending to small businesses that are vulnerable to economic conditions. SA's economic growth rate has declined from 2.2% in 2013, the year of measurement of the 2018 Top 100 survey, to 0.7% forecast by the Reserve Bank for this year.

The tightening of credit standards that began in 2015 has helped banks reduce their exposure to the household sector

Recent data from the Reserve Bank indicate that SA's business cycle has been in the longest downward phase since records began in 1945. In September 2018 the business cycle slipped for the 58th successive month. The indicators gauge production, sales, prices and employment.

SA now also has 6.1-million people without jobs and an unemployment rate of 27.2%. Joblessness in 2013 was about 25%.

Lucie Villa, a Moody's vice-president and senior credit officer, said tighter credit standards had made SA's banking sector risk "low". "The tightening of credit standards that began in 2015 has helped banks reduce their exposure to the household sector, which is the most vulnerable to interest-rate shocks, and redirect it towards corporates that have a better debt-servicing capacity."

FirstRand's retail bank, FNB, continues to grow customers, volumes and its balance sheet through cross-selling strategies, FirstRand's CEO Alan Pullinger said in September. But the group's vehicle financing division WesBank continues to face a tough selling environment.

The strain on consumer spending saw

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household consumption expenditure decline by 1.3% in the second quarter of this year, affecting retail sales.

Retail and health-care group Clicks has seen its share price rise over 2,000% on the JSE in the past 13 years – the period during which Clicks has been under the management of outgoing CEO David Kneale. The company has outperformed the six other companies on the JSE's food and drug retailer's index, which Bloomberg tracks. Kneale is credited with appointing a strong leadership team to drive the company's commercial success.

Growth in demand for fibre packaging, consumer packaging and uncoated fine paper and higher prices has contributed to improvements in Mondi's financial performance.

Naspers, which owns 31.2% of Chinese social media giant Tencent, has seen much of its fortunes improve due to that investment.

Retail and health-care group Clicks has seen its share price rise over 2,000% on the JSE in the past 13 years

But disappointing financials out of Tencent in recent months have raised questions about the quality of the investment.

A JPMorgan review on Telkom published in September shows its preference for the partially state-owned company compared to others, with it saying: "We believe Telkom is best placed among SA telecoms to mitigate SA regulatory risk."

MTN has battled regulatory disputes over dividends it is said to have repatriated illegally from its business in Nigeria. Back home, regulators may also require Vodacom, Cell C and MTN to open their network infrastructure to competitors, something that Telkom had already previously undertaken with its own fibre network.

More broadly deteriorating global financing conditions for emerging markets, and the beginning of a negative cycle for emerging-market assets in 2013, have also constrained the economic climate. In 2013 the US signaled it would start to gradually buy less bonds which had stimulated the economy for several years since the global economic recession of 2008/2009.

Emerging-currencies began to weaken through 2013 to 2015 with the commodities price crash in 2014 to 2015 putting further pressure on commodity production countries such as SA.

SA's currency has weakened, also due to political tensions under Jacob Zuma.

Compounding a weaker currency was higher inflation, in part due to a drought that deepened between 2015 and 2016 and led to further interest rate hikes. The Reserve Bank began hiking in 2014 and by March 2017 had hiked by a cumulative 200 basis points.

Though inflationary pressures have since declined and inflation remains benign and within the central bank's 3%-6% target range, SA and other emerging markets now face pressure to raise interest rates as rising US rates will entice yield-seeking investors to US assets.

Higher rates in SA raise borrowing costs and constrain consumer power but protect the value of the rand, which will be the central bank's "balancing act" in a weak economy over the coming months, Francois Groepe, one of the three deputy governors of the Reserve Bank, said recently.

Dennis Dykes, chief economist at Nedbank, said in October the Reserve Bank's monetary policy committee was unlikely to raise interest rates at its policy meeting in November 2018. Movements in the rand/dollar oil price would determine the central bank's decision.

"A rand in the lower R14s to the dollar or even below R14 would help the case for keeping interest rates on hold, while an oil price below $80 would also help. The Reserve Bank will probably want to keep interest rates as low as possible for as long as possible given the weakness of the economy, but global factors are pushing the other way, with US monetary tightening leading to interest rate hikes in several other emerging economies." Dykes said if SA's Reserve Bank hiked rates this year it would do so by only 25 basis points.


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