Association for Monitoring and Advocacy of Government Pensions (AMAGP)

NPO Registration No: 198-822

SEMPER VIGILANS

The Association for Monitoring and Advocacy of Government Pensions: A volunteer independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

www.AMAGP.co.za

GEPF Watchdog - Waghond

GEPF your investment, your future

NEWSLETTER NO 10 of 2021

AMAGP – Association for Monitoring and Advocacy of Government Pensions
BOT – Board of Trustees [of the GEPF]
FSCA – Financial Sector Conduct Authority [previously the FSB]
GEPF - Government Employees' Pension Fund
PIC – Public Investment Corporation
PSA – Public Servants' Association
ROI – return on investment
SCOF – Standing Committee on Finance
SCOPA - Standing Committee on Public Accounts
SOE – state owned entities

The Government Employees Pension Fund (GEPF) is Africa's largest pension fund. We have more than 1,2 million active members, around 406 395 pensioners and beneficiaries, and assets worth more than R1,6 trillion. https://www.GEPF.gov.za/

BELANGRIK – LEES ASSEBLIEF EN TREE OP

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Daar is geen verpligtinge nie, behalwe om aan te sluit en oor u pensioen besorgd te wees.
Dankie

The Editor's Word

Note. The Fund's investment values, used in the newsletters, are from the latest GEPF Annual Report, said values probably 2018 terms as the figures in the Fund's 2019 AR is usually a year or more old.

The GEPF AR is due to be presented to parliament soon [we hope]. The past few years the presentation has been slick but with relatively few answers to questions. More information when the AR is released and AMAGP's experts have perused, dissected, inspected, discussed, condensed and distilled the essence of the meaning behind the figures, in words we all can understand.

The Fund has more than R66bn invested in real estate. There are about 180 properties listed in the Annual Report, ranging from Centre Point [about R265mn] to a stand in Mafikeng [R190 000]. Most of the property is in Gauteng and Cape Town, with some in Rustenburg area. Our property in Klerksdorp hasn't appeared in the AR yet.
No, I don't know which of our Fund's properties were damaged, if any, but we have over R9,7bn in Growthpoint, which must be the largest property owner and manager on the JSE, which must have had some damage. An annual valuation of the about 180 properties would be expensive but worth while, especially if disposal of useless property can result, or overdue development, such as Centre Point was before the activists caught up with the GEPF real estate and forced them to start working. I mean, why do we have property if we don't receive any rental from the property? Of course, ROI on a stand is often uncertain.

Each of the lockdowns has had a cumulative negative effect on the ROI of our investments in the alcohol sector. Added to that is the permanent increase in the illegal liquor and tobacco trade. A conservative estimate of illegal sales of alcohol is about 25% of total sales in SA currently, with a probable increase each time alcohol sales are banned. The cost of not exporting alcohol is also staggering, as is the excise loss, taken at about R11bn per lockdown for alcohol. Add 25% to that for illegal sales = R14bn.

The cumulative negative effect on micro and small traders such as B&B, shebeens, small breweries and wine farms - they won't recover or have closed already. The real story behind lockdowns is that the gap between massive corporates, being almost untouched, and small businesses has widened even further.

Note the mentioning of private security's and communities' role in limiting losses, in contrast to the 'governments' drive to disarm its citizens.

Now for news from the media

City lodge Group is selling its interests in East Africa to reduce debt levels in the group, increase liquidity, eliminate ongoing operating losses and further funding requirements. City Lodge shares rose by more than 6% after the news was released. Our investment in City Lodge is about R275mn.

Steinhoff has improved the settlement amounts, but litigation is still in process. We have to wait a while yet.

Any grant payment as a result of Covid, the accompanying economic frailty and the recent premeditated looting and destruction, can only be paid from our tax money, from the fiscus that has declared there aren't any funds left. I trust our BOT will nip any Fund looting thoughts in the bud.

Steinhoff is offering its creditors a substantial increase after its defeat in court. Still some litigation to come and go through before anything happens.

There are a number of reports about the cost of the looting to large companies. The influence on small businesses is still unknown, but drastically more serious than the large companies.

There is some talk of a basic income grant to all, those who pay tax won't be eligible for this grant, of course. This means that the ever decreasing tax base will be squandered on ever increasing grants. This money all goes back into the economy but won't benefit the taxpayer. The source of funding for this grant raises questions in my mind, all to do with protecting our Fund from looting to pay for grants.

The City of Cape Town, City of Johannesburg and Nelson Mandela Municipal Municipality has been downgraded by Moody's to junk status, reason unknown. And it is well managed city. Yes, we have City of Cape Town bonds.

Transnet is facing serious challenges, not just to do with the looting and burning. The unrest caused some delays but services have been reinstated. More serious is the targeted damage to rail services, disrupting the logistic and people flow. It seems too widespread to be coincidence.

Last but not least.
The ban on sales of alcohol has no basis in fact, irrespective of what the 'government' says. It has a huge negative effect on thousands of micro and small liquor and hospitality business, large companies and loss of revenue to the state.

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Synopsis

Steinhoff offers creditors a higher settlement

19 July 2021
INCE|Community
By The Finance Ghost

With SENS dominated by news of damage to property and shops for so many companies, Steinhoff reminded us that they are still dealing with damage to the balance sheet.

After a significant legal setback in the South African courts, Steinhoff took a 30% knock earlier this month. It's bounced around since then but had a particularly good day on Friday off the back of this latest announcement. Overall, Steinhoff is down nearly 13% in July.

As a quick recap, Steinhoff needs to achieve a settlement with the numerous parties that sued the company for losses. Some of the parties were very unhappy with the settlement proposal. Certain creditors were set to receive much better outcomes than others.

For the founders of Tekkie Town, the matter is so personal that they are willing to take it all the way to a liquidation. The liquidation application will be heard by the Western Cape High Court on 3 September 2021. It is being opposed by Steinhoff as well as the company's financial creditors.

Having taken a knock in court, Steinhoff has materially increased the offer under the settlement proposal, noting that the underlying businesses are performing much better than in 2020. That's true, but the offer probably wouldn't have been increased if the company hadn't lost in court on a Companies Act technicality!

While there are numerous legal complexities, including a possible appeal to the latest setback for Steinhoff in court, it seems as though the creditors are mainly fighting among themselves.

The higher settlement would see Deloitte and the insurers each cough up a further €78m towards the bill, so Steinhoff shareholders won't have to shoulder the entire burden.

The major risk for equity holders is the liquidation application. Beyond that, assuming the company survives, it becomes a matter of how much equity is left in the group once everything is settled. It's critical for Steinhoff shareholders that the underlying companies continue to perform well in order to maximise the equity layer in the group.

Comment

Although our share value in Steinhoff went from lots to nothing, the dividends will continue as long as the company remains in business. In the settlement we will probably gain some billions but not the value it was years ago. Let's see what it is at the end of 2022.

Synopsis

Retailers suffered extensive damage

19 July 2021
NCE|Community
The Finance Ghost

The property funds were the first with announcements on damage to properties.

Massmart

Walmart executives no doubt watched in horror from the US as their ever-suffering investment in South Africa faced more setbacks. The share price took severe pain last week, which was profitable for those on the right side of that trade. By Friday, there was a small recovery in the price based on an announcement from the company.

Massmart confirmed that 18 Cambridge, 10 Game, 8 Builders, 3 Cash & Carry and 2 Makro stores were looted. Two of the distribution centres were "directly impacted" (a euphemism of note based on the scenes on the news) and four facilities suffered significant fire damage.

Surprisingly, the group is upbeat about its ability to service the stock needs of its stores, through business continuity replenishment plans that shift capability to other distribution centres. If Massmart does manage to trade without suffering stock shortages, the group will need to take a serious look at why it carried so much stock in the first place!

A strong and necessary statement was made regarding Walmart's willingness to stick around and help rebuild our country. Walmart have "unambiguously expressed their commitment" to Massmart. That was enough for a 2,6% recovery in the share price on Friday, although it still ended over 11% down for the week.

The Foschini Group

TFG planned to open another 200 stores by the end of the 2022 financial year. That gives context to the shocking reality that approximately 190 South African stores were looted and damaged last week.

On the plus side, the supply chain was not materially impacted although there was damage to a distribution centre and a local supplier.

TFG did not give an indication of what the financial impact could be to this financial year. There was also no specific comment made about whether this could affect plans to open new stores. All stores in KwaZulu-Natal are not trading due to security concerns.

Pepkor Holdings

Thus far, 489 retail stores have been damaged and looted, representing around 9% of the group's retail footprint. One of JD Group's distribution centres in Cato Ridge was also looted.

JD Group has 16 distribution centres countrywide and the stores in KwaZulu-Natal, once reopened, will be serviced from those centres.

Spar

Spar's head office is in Pinetown. As the only food retailer headquartered in Durban, Spar was in the thick of the destruction.

It's worth remembering that Spar operates a franchise model. Where stores have been destroyed, these are typically family businesses rather than corporate-owned stores. This is a similar situation to Famous Brands where the listed company is less impacted than the families that bought franchises.

A total of 184 stores were looted and vandalised, including 62 TOPS liquor stores and 32 Build It stores. Spar has had a tough time with TOPS stores being heavily restricted from trading over the past year, so this is truly the icing on a revolting Covid cake.

7% of the Spar network across Southern Africa has been impacted, which is substantial.

On the plus side, Spar planned to make deliveries over the weekend to all stores in KwaZulu-Natal that were able to open. This hopefully brought much-needed relief to the communities that struggled to obtain groceries and household items.

Comment

The scale of wanton destruction is immense, as is the footprint of these and other companies in South Africa.
We have about R927mn in Massmart; about R5,5bn in Foschini; about R648mn in Pepkor; about R5,7bn in Spar. The large businesses haven't been so badly affected as the small family businesses.

Synopsis

Property funds count their losses

15 July 2021
INCE|Community
The Finance Ghost

Several property funds released updates yesterday on their losses from the looting. I summarise those announcements here, in the most painful writing experience of my life. This is highly depressing for everyone involved but is important for investors to understand.

Resilient

Resilient has 28 retail centres, of which two have been damaged. In what sounds like a James Bond scene, a Pikitup truck was hijacked and used to break the perimeter gates of Jabulani Mall, in which Resilient has a 55% stake. The front door and shopfronts have been damaged, but it doesn't sound as though the damage to the mall is as bad as in many other places in the country.

At Mams Mall, in which Resilient has a 50% stake, shops were only partially looted before SAPS and the private security company got rid of them. The announcement notes that 140 people were apprehended over two days, although I'm unsure if that was linked to a single attempted looting.

Overall, six of the centres are closed. The four undamaged centres will be opened as soon as it is safe to do so.

Arrowhead

Of the 120 assets in the portfolio, only five have been damaged. In the case of Maverick Corner in Maboneng, Johannesburg, the damage was just a few broken windows.

Montclair Mall in eThekwini, KZN, has suffered substantial damage to shops and infrastructure. At Mkuze shopping centre, shops were looted but the mall itself only suffered minor losses.

Kyalami Industrial Park in Pinetown, KZN has been a high-risk property but the situation has been controlled with the assistance of private security and SAPS.

Mpumalanga has barely featured on the news. Unfortunately, three shops in the Matsulu centre were looted. It sounds like this was a relatively minor event, other than for the terribly unlucky owners of the shops in question.

Dipula

Dipula owns properties in many of the marginal areas that become highly problematic in times of unrest. Twelve of Dipula's properties have been affected, comprising 6% of total gross lettable area. Ten of these are retail centres in Gauteng and two are in KwaZula-Natal.

In six of the properties, the damage is "substantial but not structural" in nature, which suggests that rebuilds may be possible within a reasonable period of time. The rest of the portfolio is still trading and now has additional security.

Vukile

Six of Vukile's properties have suffered damage. Four of them are in Durban and two in Gauteng. The damage is concentrated around shopfronts and equipment. Crest and KwaMashu Shopping Centre.

A loss adjuster has already been appointed by SASRIA to assess the damage. You can decide for yourself whether "loss adjuster" is a term that makes you feel warm and fuzzy about what the next few months with SASRIA could hold.

Comment

We have about R1,8bn in Resilient; Arrowhead about R359mn; Dipula about R800mn; Vukile about R2,2bn.

Synopsis

Property updates keep coming

16 July 2021
INCE|Community
The Finance Ghost

This week, we've had a flurry of updates from property funds on the damage caused by the riots. This is a summary of the announcements released yesterday.

Redefine

Redefine is a large fund which lists 138 properties in its portfolio on the fund's website. Thankfully for the company, only six properties were looted and damaged.

The big win was the avoidance of any damage to Maponya Mall, thanks to extensive community involvement.

Approximately 2% of the fund (measured by value) has been affected. The actual damage cannot be quantified yet.

Fairvest

Around 48% of Fairvest's gross lettable area is split across Gauteng and KwaZulu-Natal, which must have seemed like an excellent idea before this week.

Of the 43 properties in the portfolio,12 have been affected. Whilst that is a significant percentage of the total, the good news is that the damage is mainly limited to shopfronts, roller doors, fixtures and fittings.

Exemplar Retail

Exemplar owns numerous malls in lower income areas. Unsurprisingly, the REIT has suffered damage this week to a number of properties. These include three malls in KwaZulu-Natal and two in Gauteng. Stakes in these malls range from 50% to 100%.

Stor-Age

The self-storage business has been the REIT to own through the pandemic, with fundamentals that aren't affected by empty malls and office buildings. Nevertheless, any good run of luck must end.

Stor-Age Waterfall, located in Hillcrest, was extensively looted and parts of the property set on fire. The damage hasn't been fully assessed yet as the area is still volatile. This is the only property affected out of 52 properties operated by the fund in South Africa.

Safari Investments

Despite the name, Safari is the unfortunate owner of malls rather than bush properties far away from the madness.

Three of the retail centres in Gauteng targeted by the looters. The Thabong shopping centre in Sebokeng suffered severe damage to all shops. Denlyn Shopping Centre in Mamelodi and Nkomo Village in Atteridgeville were also breached, but damage was so minimal that the centres re-opened for trade on Wednesday.

Oasis Crescent Property Fund

Oasis Crescent has suffered significant damage to one of the properties in KwaZulu-Natal: The Ridge@Shallcross Shopping Centre. This includes fire damage.

Indluplace

Indluplace is a residential property fund, which has been the model of choice in the past week. Still, the fund has confirmed that its only issue has been minor damage to a building in Johannesburg. Other than that, the residential portfolio has not been affected.

Encouragingly, SASRIA has given the insurance companies authority to appoint assessors on their behalf to act efficiently. That's without doubt the green shoot of the day!

Comment

We have about R6,9bn in Redefine; about R35mn in Stor-Age; about R19mn in Safari Investments.

Synopsis

Government considers basic income grant after riots and looting in South Africa

BusinessTech
Staff Writer
19 July 2021

President Ramaphosa says that the government is currently investigating the feasibility of introducing a basic income grant in South Africa. Speaking at a Mandela Day memorial lecture on Sunday (18 July), the President said that the grant would show people 'that the government cared', BusinessDay reported.

"This will validate our people and show them that we are giving serious consideration to their lives." "We are giving active consideration to the grinding poverty that we continue to see in our country. We need to address the structural inequalities in our economy," he said.

Cosatu has also called for the introduction of a basic income grant as part of a response to the massive socioeconomic fallout from the riots in KZN and Gauteng.

"In responding to the crisis, the South African government has no choice but to abandon its austerity framework and choose an expansionary fiscal policy framework," Cosatu said. "This moment calls for a change of mindset and an acknowledgement of the fact that the current unemployment and poverty levels are not sustainable."

Under urgent consideration

Social Development minister Lindiwe Zulu said that the need to introduce a basic income grant has become an urgent consideration for the government. Presenting her departmental budget speech on 25 May, Zulu said her department has developed a Basic Income Grant (BIG) discussion document that it has started consultations on.

"These consultations are targeted at developing the BIG financing mechanism for the unemployed population group that is aged 19 — 59 years," she said. Zulu said that a secondary process around a new BIG is being discussed by the Nedlac.

The ANC has previously said that it will also look at the feasibility of introducing a basic income grant as part of a series of outcomes decided upon by its National Executive Committee (NEC).

Comment

Remember every time you hear or read about such a grant, it will come out of the tax money of those who work, to be paid to those who don't. Our tax base is decreasing, the fiscus is bare. If the tax money isn't available, such as now and the foreseeable future, where will the 'government' get it?

Synopsis

Civil society groups demand R1 268 per month basic income grant

Cape Argus
By Nomalanga Tshuma
20July 2021

Forty civil society organisations and activists are demanding that the government introduce, without delay, a universal Basic Income Grant (BIG) of R1 268 a month. The organisations, based in different provinces, said the state of the country and situation in some of the provinces was testament to why South Africans need the BIG.

Women's Legal Centre director, Seehaam Samaai, said the collective had come together when they realised how great the need for the BIG grant was.

"The South African constitution guarantees equality; it's there to protect all our rights. However, currently, a concerning number of people are living in poverty, barely able to access basic needs or services." "The BIG would be a grant that everyone in need can get. This is how we can ensure that everyone will receive support, that no one falls through the cracks, and everybody is provided for.

"Not only that, but the BIG would also enable more people to participate in the rebuilding of our economy, which before Covid-19 was already struggling," Samaai said.

The BIG activists are also demanding that the government reinstate the Covid-19 Social Relief grant and the Caregiver's grant. "Instead of further supporting people, the government decided to cut the Covid-19 grant and the Caregivers grant. While these grants did not offer a lot of financial support, people were able to do something, at least.

"Right now, communities across the country are feeling the pinch of not having this support, and there can be no justification for taking away what people need. It's also not to say the government cannot afford to give people the grant, they can. There are over 11 ways that the grant can be funded and people assisted," Samaai said.

Poverty and Inequality Institute director of Studies, Isobel Frye, said: "These demands have been put to the state in different forums for many months, but we have been told there is no money. We have no option now but to make this a national demand."

"The campaign will include a litigation strategy so the rule of law everyone talks of will be put to work for the millions of poor in this country. The litigation will be supported by a full campaign built on education, mass action, and continued engagement with decision-makers and a constant media platform to raise national participation."

On Friday, the group of activists and advocates for social change will meet to launch their strategy.

Comment

Don't you admire the suave reference to forty civil society organisations with no idea or fact or any indication who they are, and if these 'forty' represent more than their founding member? Interesting that the publisher of these unrevealed organisations is Sekunjalo, which, surprise, belongs to one of our debtors – Surve. A moot point how taking our tax money and giving these grants will rebuild the economy; creating a culture of entitlement instead of work. These organisations might be a bit economical with the truth. Furthermore, who is funding this? I keep feeling the eyes on our Fund.

Synopsis

Truworths dragged down by UK business

2 July 2021
INCE|Community
The Finance Ghost

Overall, Truworths managed to grow sales by 0.5% for the 52 week period to 27 June 2021. Credit sales comprised 52% of the total, slighted higher than in the comparable period. This may be a flat sales result overall, but there are significant swings in the underlying operations.

In case you think the grass is always greener on the other side, the Truworths announcement is a reminder that the UK has been through a tough patch as well. They don't even have decent weather to make them feel better about it.

The group's stores based in the UK were not allowed to open between 5 November and 2

December 2020 and again between 5 January and 12 April 2021. Online trading was allowed, which helped as Truworths' Office segment has a strong e-commerce presence.

Despite the vaccine programme gaining momentum in the UK, retail footfall is still being negatively impacted by low tourism and generally reduced mobility of people who now enjoy work-from-home arrangements.

UK sales in local currency plummeted by 17,2%. In rand terms, that's a 12,9% drop. Online sales contributed 63% of sales in the period, due to the extensive lockdowns. In the comparable period, online sales were 44% of the total.

The group decreased its trading space in the UK by a substantial 22%, which demonstrates the shift in bricks and mortar vs. online retailing. The impact of Covid on certain industries will be felt forever.

The Africa segment, mainly in South Africa, achieved growth of 5,5% in sales. This segment contributes R13bn of the R17bn in group sales, or over 76% of the total. Credit sales locally are a much higher proportion of the total than in the UK, contributing 68% of segment sales.

Trading space decreased 1,1% in the period. Woolworths also reported an overall decrease in trading space in its latest update. None of this is good news for property funds.

Civil unrest update

As if the results to end June aren't tough enough, the group had to contend with the riots last week that fall outside of this reporting period. Out of 758 South African stores, 57 were impacted severely. This represents 7% of local sales. A further 160 stores were temporarily closed as a precautionary measure.

The distribution centres are located in the Western Cape and were unaffected. However, the unrest has caused supply chain disruptions particularly in KwaZulu-Natal, which is negatively impacting the stores that are still trading.

Some suppliers have also suffered losses but are expected to be fully back to operations this week. Most local suppliers are in the Western Cape which has proven to be a useful strategy in the past week.

Comment

We have about R4,37bn invested in Truworths. Trading figures aren't encouraging.

Synopsis

Mining houses on the right side of the cycle

21 July 2021

INCE|Community

By The Finance Ghost

A few of the biggest names in mining released production updates or trading statements yesterday. The production updates in particular are highly detailed and investors in these companies are encouraged to access the full results.

BHP Group

The mining giant announced robust production volumes, including record iron ore production in Western Australia. BHP is highly diversified in terms of underlying commodities and geographical locations, with investors enjoying bumper profits as a result of high commodity prices.

The announcement gives numerous details related to underlying production and investors should read it accordingly. The CEO's statement refers to the "megatrends of decarbonisation, electrification and population growth" which suggests that further portfolio changes within the group may be coming.

We already know that BHP is selling its 33,3% stake in Carrejon, a coal venture in Columbia, to Glencore. Anglo American was BHP's partner in the project and is also selling to Glencore, a company that isn't scared of coal exposure. BHP is recognising a $85m impairment related to this asset.

With substantial petroleum and coal interests in the group, it's uncertain what the future may hold.

Anglo American

With the exit from thermal coal in its final stages, Anglo is focused on "future-enabling metals" - a nod to decarbonisation which is now a core theme among the world's largest mining houses.

Interestingly, a recovery in consumer demand has led to an increase in rough diamond production of 134%. PGM production increased 59%, iron ore production was up 6% (driven by Kumba - more details below) and copper production inched upwards by 2%.

Kumba Iron Ore

Kumba increased production by 12% but sales grew by only 3%, as the company dealt with rail constraints and weather issues at Saldanha Port.

Export sales were up 5% but domestic off-take was down. The group exported 99% of its production. The high quality of the ore helped Kumba achieve a realised price of $220 per dry metric tonne (dmt), significantly higher than the benchmark price of $166 per dmt.

So, although sales volumes were only slightly higher, the favourable commodity prices put Headline Earnings Per Share (HEPS) on a rocketship, expected to be between 171% and 182% higher than in the six months to June 2020.

Anglo American Platinum

To put Kumba's iron ore performance in context, Amplats demonstrated how profitable mining can be when commodity prices head in the right direction.

HEPS for the six months to June 2021 is expected to be between 560% and 578% higher than the comparable period. It's useful to put real numbers to that. Headline Earnings will grow from R6,9bn in H1 2020 to around R46bn in H1 2021.

A 29% increase in the rand basket price, combined with higher sales volumes as a result of fewer Covid-19 disruptions, helped drive this result.

Comment

We have about R29bn in BHP; about R64bn in Anglo; about R1,7bn in Kumba; about R 6,4bn in Anglo Plats .Our ROI looking good.

Synopsis

Pick n Pay and Shoprite give their riot updates

21 July 2021

INCE|Community

By The Finance Ghost

The market has been waiting for updates from Shoprite and Pick n Pay on the damage from the riots last week. Updates have already been given by Woolworths and Spar.

Pick n Pay

A significant portion of the property portfolio was looted or damaged, with 212 stores finding themselves on the receiving end of criminal elements.

Under the Pick n Pay banner, damage was suffered by 28 corporate-owned supermarkets, 15 franchise stores, 29 Pick n Pay Clothing stores, 14 Express Convenience stores and 9 independent market stores, taking the total to 68 Pick n Pay stores.

Boxer also suffered damage to 68 stores, of which 64 are supermarkets. Boxer is Pick n Pay's lower-LSM business and the stores are thus located in more vulnerable and volatile areas. Considering Boxer is also headquartered in Durban and is relatively stronger in KwaZulu-Natal than in some other provinces, I'm not surprised to see that the damage is extensive.

The remaining 76 damaged stores are liquor outlets across Pick n Pay and Boxer.

Of the 136 non-liquor stores, 32 have already been cleaned and repaired and either have reopened or will reopen by the end of this week. By that stage, 7% of the store footprint will still be closed. On top of this, two distribution centres in Pinetown were damaged. Impressively, both DCs have been repaired and restocked.

The food supply chain is far more localised than the general merchandise items sold by the likes of Game, so the food retailers are able to recover faster than groups like Massmart.

Food retail is clearly a massive social responsibility and the group made use of its centralised distribution capability to get supplies into the affected regions. In addition, the Feed the Nation programme was used to provide emergency relief to communities.

Shoprite

In a prime example of "owning the narrative", Shoprite introduced its announcement by noting that the remainder of nationwide operations traded so strongly last week that the RSA Supermarkets segment still achieved positive turnover growth.

Of course, we know this was due to stockpiling. That toilet paper will last a while, so sales for the month will almost certainly feel the impact of the looting.

119 stores in the group were severely impacted by the looting. This includes 69 Shoprite, 44 Usave and six Checkers stores, including one hypermarket that became a favourite of the news channels for its fiery personality. 54 of the LiquorShop stores were also impacted.

This is approximately 10% of the group footprint, hence why the sales performance last week can only be a result of stockpiling across all other regions.

The fresh produce distribution centre in Durban was looted but has since been restocked. Other distribution centres were back in operation by Thursday last week.

The Furniture division wasn't spared either, with 35 stores severely damaged out of a total footprint of 340 stores. The OK Franchise division got off lightly, with only 16 stores damaged out of a total of 444.

Transpharm, the wholesale pharmaceutical business, escaped unharmed. That's obviously an important piece of positive news for medicine availability in affected regions.

Comment

We have about R3,5bn in PicknPay; about R10,6bn in Shoprite.

Synopsis

Mr Price gives another civil unrest update

22 July 2021
INCE|Community
By The Finance Ghost

Before you panic, there isn't further unrest. In fact, the latest announcement starts off by noting that unrest has "almost completely subsided". It's amazing to think it was only a week ago that a large portion of our country was a warzone.

Mr Price was one of the first retailers to update the market on the damage last week and I felt that they gave a measured view on the practicalities around Sasria claims. The latest announcement is final confirmation of the damage suffered by the group.

A total of 111 stores were looted. At one point, over 500 Mr Price stores were temporarily closed. This has decreased to 20 temporary store closures. By Tuesday this week, all distribution centres were fully operational.

However, the Durban Port is still experiencing some bottlenecks, which is creating challenges for supply chains in a number of industries in South Africa. Speaking of the supply chain, the impact on local suppliers is thankfully not as bad as Mr Price originally feared.

In another measured view that I've come to respect about this management team, Mr Price notes that they intend to reopen all stores but will need to consider each reopening based on the "specific circumstances of each store location and the status of the individual shopping centres in which these stores are located" - one wonders what the assessment criteria might be.

The share price hasn't quite recovered to pre-riot levels but is well up since the dip last week.

Comment

We have about R6,5bn invested in Mr Price. Good to hear the company is so quick to reopen business.

Synopsis

City of Cape Town downgraded to junk status by rating agency

Weekend Argus
By Velani Ludidi
20 July 2021

Credit rating agency Moody's downgraded South African urban municipalities to junk status on Friday, citing uncertainties about the quality of their revenue collection and mounting financial challenges.

The City of Cape Town is among the three municipalities downgraded to junk status, which include the Nelson Mandela Metropolitan Municipality and the City of Johannesburg.

In their report, Moody's said the downgrade was due to liquidity pressure as a result of material shortfalls in revenue collection and weak growth. "In this environment, the reviews for further downgrade reflect high uncertainty about the RLG's (regional and local governments) capacity to secure financing well in advance of debt and other payments being due," reads the report.

The rating may come as a surprise to many as the same rating agency just last month acknowledged that the City consistently reflects prudent and strong financial performance with a stronger liquidity position than that of its peers in South Africa.

Moody's further acknowledged in that report that the City's overall financial performance also remains stronger than that of rated peers in South Africa. In the latest report the agency said that on average, rated municipalities generate more than 80% of their operating revenues from fees for services provision.

"Based on currently available information, very weak growth is likely to result in more marked decline in their collection rate than Moody's previously expected," said the agency.

Deputy mayor and mayco member for finance Ian Neilson, said they were waiting for further clarity from Moody's on the City's downgrade being in contradiction to what was stated a month ago by Moody's. "The City of Cape Town has written to the rating agency Moody's to clarify the outcome from a ratings report that has included the City in a general municipal governments' downgrade due to the weak collection ratios of local government in general.

"The City is, however, of the opinion that its cash flows are resilient with a collection rate of 98,9% – a rate that is unprecedented among South African municipalities. This is in fact one of the reasons that Moody's in a recent report on 10 June 2021 stated it was maintaining the City's credit rating because of the metro's 'strong financial performance, supported by prudent financial management'."
He added that the City's cash position also remains positive to meet its ongoing creditors' obligation and other future obligations such as bond repayments.

"In addition, the City's cash liquidity is sufficient to continue the roll-out of the City's 2021/22 capital programme. The working capital is currently equal to approximately 1,9 months of expenditure. The National Treasury guidelines are that municipalities should have working capital of between one and three months of expenditure, which is within this norm and considered appropriate at this time."

Sandra Dickson from lobby group Stop CoCT said: “The City seem to have fallen victim to its own conflicting messages it sends out regarding the ’healthy debt collection rate of 98,9% as quoted in their media release. At the same time, the City also says that it is writing off R4 billion in bad debt. Which of these is the lie?

“In the Credit Rating Opinion by Moody’s on 10 June 2021, it states that the City borrowed R1,1bn in the 2020 financial year. The report further says that the city plans to borrow R2,5bn in fiscal 2022 and a further R4,5bn in fiscal 2023. As result, the City's net direct debt will increase to R8,9bn by fiscal 2023, with net direct and indirect debt as a percentage of operating revenue rising to 18%. The report goes on to say that the liquidity of the City is good. Again a contradiction. Why make these borrowings in the light of this positive liquidity status?”

“It appears that Moody's is seeing what Stop CoCT sees. The City is incoherent with the way it portrays its financial status to the public.”

Comment

We have about R730mn in CoCT and about R615 in CoJ bonds. The downgrading is in line with other ‘government‘ institutions‘ downgrading recently.

Synopsis

Durban harbour File picture: African News Agency (ANA)

Transnet dealing with bottlenecks as supply routes reopen after week of violence

Transnet

By Vernon Mchunu
20 July 2021

Heavy bottlenecks are among the challenges being dealt with at the ports of Durban and Richards Bay as Transnet rushes to normalise operations following civil unrest that forced a week-long shutdown of its entire supply value chain.

Operations at the two harbours were heavily disrupted after the N2 and N3 supply corridors were closed, hampering several industries and operations at the country’s seven other ports of East London, Ngqura, Port Elizabeth, Mossel Bay, Cape Town and Saldanha, which feed from the Durban port’s reefer container operations.

The local citrus industry’s international shipment business was among those stifled during the violence which included the burning of about 28 trucks en route on the N2 in the North Coast region and the N3 in the Midlands.

Transnet said that while the two harbours had remained open, their entire supply value chain had been shut down, including warehouses and cold storage facilities.

While the citrus value chain had been impacted by disruptions to the Durban port, growers in the northern provinces of Limpopo and Mpumalanga had diverted fruit to other ports across the country, with citrus from other regions continuing to be exported from Cape Town and Ngqura ports.

“Shipping delays (of reefer containers) are expected due to bottle-necks caused by last week’s shutdown, which could also have a knock-on effect at ports in the Eastern and Western Cape that are reliant on reefer containers flowing from the Durban port,” said Justin Chadwick, the CEO of the Citrus Growers’ Association of Southern Africa.

“Transnet has been engaging all impacted customers throughout this time, to ensure that services can resume as quickly as possible, and where required, to deal with bottlenecks caused by the protests,” said spokesperson Ayanda Shezi.

“The reinstatement of the supply-chain on the key national roads, the N2 and N3 has increased activities at the port terminals as trucks continue to call at the ports. The two ports remained open throughout the protests of last week, but the operations were significantly impacted by the shutdown of the warehouses and cold storage facilities, public transport as well as limited truck movement," said Shezi.

As operations resumed in the last two days, Richards Bay's Multi-Purpose and Dry-Bulk Terminals handled seven vessels over the weekend.

"Pier 2 in the Port of Durban serviced four vessels while Pier 1 continues to work on the two-berthed vessels," said Shezi.

In addition, the company said the rail-corridor network between Gauteng and Durban, which was also negatively impacted by the unrest, had been reopened with train services running since Friday.

Transnet Freight Rail had also since managed to run 42 trains since its re-opening on Friday, and would continue to run more trains as efforts to stabilise this key network intensify, said Shezi.

"The challenge of cable theft continues unabated along with community encroachment on the network. To deal with these problems all our trains will be accompanied by security to ensure that we are able to provide a reliable service," he said. "The Transnet Pipelines network remains operational. Additional patrols have been deployed across the entire network," said Shezi, who added the company would remain on high alert with additional security remaining in place.

Comment

We have about R21bn in Transnet bonds. The continuous damage to Transnet infrastructure is interesting.

Synopsis

Transnet continues to be the fly in the soup

22 July 2021
INCE|Community
By The Finance Ghost

The soup is brilliant. It's the chef's specialty.

Creme de la Commodity Prices is the meal that South Africans have been waiting for since FIFA left our shores. After a decade of low prices, labour unrest, electricity disasters and all the other joys of operating in South Africa, the soup finally arrived.

It's delicious enough that nobody is sending it back. Yet, there's an annoying buzz that is ruining the entire experience. The fly in the mining industry soup is Transnet.

Under riot conditions, it's entirely understandable that our country's infrastructure suffered a wobbly. Still, the impact on companies has been substantial. Sappi released an announcement yesterday noting that delays in dissolving pulp exports in Durban will contribute to a negative impact on EBITDA of approximately R220m.

Richards Bay is critical for our coal exports. Whatever your views on ESG, large emerging markets around the world still depend on coal and South Africa benefits greatly from this reality. The price of coal has doubled year-to-date, positively contributing towards our current account surplus that kept the rand in one piece last week.

Transnet has confirmed that the Ports of Durban and Richards Bay have both reported normalised levels of operations over the past two days, which is certainly a relief.

The major issue is on the rail network, where cable theft remains an issue. Social media has been awash in recent months with images of destruction to our rail networks and associated infrastructure.

In Kumba's update this week, the company noted that rail and port constraints led the company to cut 1 million tonnes from its sales target. At an average price of around R3 200 per tonne, that's R3,2bn in sales that Transnet is costing not just Kumba, but our country's GDP.

These aren't new issues. Transnet is a serious headache for numerous South African companies. With these kinds of numbers at stake, it's another excellent example of how the government is dropping the ball for our private sector.

With our exports stronger than they have been in recent memory, a huge effort needs to be made to provide companies with the infrastructure that their taxes should be paying for.

Comment

ESG – environmental, social, governance
EBITDA - earnings before interest, taxes, depreciation, and amortization: gross profit before all the deductions to get net profit.
Note the continuing damage to rail infrastructure again.

Synopsis

Major retailer pushing for alcohol ban to be lifted as SAB loses case

File picture: African News Agency (ANA)

By IOL Reporter
22 July 2021

Retailer Pick n Pay has urged the government to reopen liquor sales to help sustain its businesses. This comes as a legal bid by SA Breweries (SAB) against the government's latest alcohol sales ban under the adjusted level 4 lockdown was dismissed with costs by the Western Cape High Court.

Yesterday, judgment was reserved in a case that saw wine industry body Vinpro seeking an urgent interdict to allow the Western Cape government to decide on the need for alcohol sales bans in the province. Vinpro wants liquor sales bans to be determined at a provincial level.

Pick n Pay chief executive Pieter Boone has been visiting damaged stores, warehouses and distribution centres in KwaZulu-Natal and Gauteng this week. At least 136 of Pick n Pay's stores, including about 76 liquor stores, were looted during the recent civil unrest.

Boone told a news website the alcohol sales ban needed to be lifted urgently in order for the industry to recover, as it endangered the future of many independent retailers. "I'd like to call on the president to really review the alcohol restrictions imposed. We all know that over 300 liquor stores have been impacted across KwaZulu-Natal, with over R500mn of illegal stock currently on the market," said Boone.

SAB applied on an urgent basis to have the ban declared unlawful and invalid, and wanted it to be reviewed and set aside. It argued, among others, that the fourth ban on alcohol sales in 18 months was unsubstantiated by robust scientific evidence.

But Judge Robert Henney dismissed SAB's application with costs. He ruled that the regulations are not inconsistent with existing legislation. The judge also accepted the minister's contentions that the rapid spread of the Delta variant "justified the lack of full and proper consultation with all the stakeholders, including the SAB".

The main court application in the Vinpro matter, which represents about 2 600 South African wine producers, cellars and industry stakeholders, is set down for hearing in the Western Cape High Court before a full bench from August 23 to 26.

If alcohol bans are to reduce demand on hospitals and save lives, then the decision of when to implement them should not be left to the national government, Vinpro argued in court. If successful, Vinpro intends to seek similar interim relief for other provinces too.

Vinpro managing director Rico Basson said because of the continued lack of consultation and assistance from the government, the organisation had to pursue legal action as a last resort to reopen trade urgently and prevent further business closures and job losses. "We also remain committed to seeing through our main court application that is set down for hearing in the Western Cape High Court before a full bench from August 23 to 26, 2021," said Basson.

Basson said while the wine industry stood in solidarity with all businesses and individuals affected by the events of last week, the wine industry itself was at the edge of a cliff after its revenue stream had been cut off intermittently over the past 16 months.

"Many legal, tax-paying wine and tourism businesses, especially smaller companies who do their part to keep the economy afloat, are facing potential closures, leaving thousands of employees struggling to feed their families," said Basson. "This while illicit trade continues to flourish, including the looting of various liquor traders and distributors last week."

Earlier this month, the National Liquor Traders, representing 39 000 township-based taverns, shebeens and bottle stores, wrote to President Cyril Ramaphosa pleading for the lifting of the booze ban.

Comment

We have about R8,9bn in Distell, about R3,5bn in PicknPay and about R5,7bn in Spar [Tops], probably invested in more companies selling liquor than listed here. The alcohol ban has been detrimental to thousands of small businesses with no discernible effect on Covid. Far be it for me to criticise the learned judge's finding, but there is no scientific basis for the ban as SAB argued, and the 'government' has had 18 months to substantiate its blind ban on alcohol sales, making the Minister's contention of lack of consultation quite specious. Illegal sales don't help our ROI at all.

THE GEPF WATCHDOG/WAGHOND FACEBOOK PAGE

The GEPF Watchdog/Waghond Facebook page is the social media platform of the non-profit organisation "The Association for the Monitoring and Advocacy of Government Pensions" (AMAGP). The AMAGP has only one agenda point – safeguarding the GEPF against looting and mismanagement.

Most of our GEPF members are content with the fact that pensioners still get their monthly pension (and some increases annually), and they are convinced by GEPF newsletters and ambitious briefings by the GEPF Board of Trustees that our Pension Fund is in a superb condition. There is, however, another side to the coin! The AMAGP newsletters tell a different story.

Our Facebook and AMAGP are together more than 57 000 members and continually growing, but this isn't enough. However, this continued growth confirms the ever increasing concern pension fund members and pensioners have about the future of their pensions.

As a member of the GEPF (working or retired), this Facebook page will keep you updated about any developments affecting the health of YOUR Pension Fund. It also provides you with the opportunity to participate in the debate and raise issues of concern. Although it is not part of the core business of this page, you may also raise matters regarding the day to day management of your pension administration, which we will gladly refer to the Government Pensions Administration Agency (GPAA). Please read the articles that are posted on the wall, BUT also re" and "Files". You can get further information on our website – there is no reason to be in the dark regarding our/your Pension Fund, and what you must do as a member.

This page will only have any value for you if you join the AMAGP. Note there are no membership fees. You don't have to do any work for the AMAGP if you do not wish to do so – BUT your membership will add one more voice to AMAGP convince the government our pensions remain ours, not theirs to misuse. You can complete the online registration form under "Announcements" (English and Afrikaans) at the top of the Facebook page, or you can visit our website at www.AMAGP.co.za, and complete the online application form that you will find under "Membership". There are also registration forms in English and Afrikaans that you can print, complete and return to us under "Files" on the Facebook page.

The AMAGP does not want any GEPF member to leave the Fund, because it still is the best pension fund in the RSA – BUT, we as members and owners of the Fund have to protect it against abuse.

Welcome to our page – please help us to get thousands more GEPF members to join this page and the AMAGP, so that we will have the required bargaining power. **We are the owners of the GEPF**, and we have the right and the power to force the GEPF Board of Trustees, and the PIC, to manage and invest OUR money in a responsible and profitable way. To the advantages of members and pensioners, not looters and mismanagers!

VRYWARING

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