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## The replacing of finance minister Nene is a tragedy.

A few days ago former SA Reserve Bank governor Mr Mboweni warned (at a WITS University graduation ceremony) that it is of utmost importance for South Africa to avoid a downgrade to junk status. Many international pension and bonds funds become forced sellers when a country is downgraded as their mandates precludes them from investing in junk bonds (33% of South African government debt is held by foreign investors).

President Zuma's move is 180 degrees against the advice Tito and any other sane advisor would have given him. The message he gives with the replacement of his minister of finance with an untested candidate is that financing state owned enterprises without restrictions is of paramount importance to him and his cabinet (if they didn't agree with his decision why have they not resigned today?).

I'm struggling to think of other leaders who have decimated their country's prospects as much as Zuma has potentially done with this move. **The worst is that it is the poor that will suffer the most:**

- Higher living costs (food, transport, clothing, electricity, etc.),
- Higher inflation and hence higher interest rates
  - Zuma could replace the governor of the central bank to prevent higher interest rates, but then the rand will fall further.
- Increased unemployment
  - Neither local businessmen nor foreign investors are going to commit new capital to South Africa until they've seen the end game.
  - Every CEO worth his salt in SA is talking to his CFO and arranging meetings for the weekend/ next week to change 2016 budgets, and the emphasis will be "*which capital expenditure projects can we still cancel, and where can we cut costs*".
  - Increased bad debts especially smaller and medium sized firms (fortunately corporate South Africa is not excessively leveraged).

So the poor will suffer increased cost of living and unemployment. This is a recipe for social unrest. To keep its electorate content the government will increasingly have to resort to measures like higher taxes on wealth, price controls, etc.

Maybe the ANC's discussions with the Chinese (vehicle assembly plants in the Eastern Cape) and Russians (interest free loans for power plants) have seduced them into thinking they don't need Western capital – in itself this shows the ideological shift the ANC has made and is very worrying.

But the signal that replacing minister Nene sends to Western investors is terrible.

Don't underestimate the long-term effects of this move.

## Bank stocks down 10%+; Buy?

Compared to the past 15 years, many JSE shares look cheap after today's price falls. But replacing Nene is a game changer. Comparing SA banks to Turkish banks is illustrative (Turkish banks were on higher price to earnings ratios than SA's a few years ago).

Company	Country	Local Price	Avg ROE past 10 yrs	Forecast ROE 2016*	2016 Forecast P/NAV	Tax Adjusted Div Yield 2016
<b>Nedcor</b>	South	179.47	17%	16%	1.30	5.4%
<b>Barclays Africa (Absa)</b>	Africa	137.00	20%	15%	1.27	5.3%
<b>Halkbank</b>	Turkey	10.72	25%	17%	0.68	1.9%
<b>Garanti Bank</b>		7.35	22%	14%	0.90	2.0%

*\* forecasts have not been updated to reflect today's events*

Today is the beginning of a new era. One is tempted to buy into this sell-off. SA banks have an excellent track record, but we don't know where it will end. Be careful of making assumptions based on the past.

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