EQUITY STRATEGY

investors say

By David Whitehouse
Posted on Thursday, 16 March 2023 06:00


The Johannesburg Stock Exchange in Sandton, South Africa. Reuters/Siphiwe Sibeko.

The eclipse of Russia as an emerging market narrows the field for fund managers. Suspicions that China may be supplying Russia with military equipment for the war in Ukraine underscore the need for investable alternatives.

If South Africa can't attract foreign equity investors in this geopolitical environment, then it's hard to imagine a scenario where it can.

So far, there are little signs that investors see South Africa as an attractive alternative. According to the country's central bank, non-residents' net sales of equities increased to R22.4bn ($1.2bn) in the third quarter of 2022, after net sales of R12.9bn ($701.4m) in the second quarter. Net sales of debt securities also slid to R9.6bn ($521.8m), versus net purchases of R52.6bn ($2.8bn).

That could change as **fund managers seek to position for an economic recovery in emerging markets**. An indirect effect of the Russian war in Ukraine is that it has made some global investors, in particular in the US, warier of China, says Bradley Preston, chief investment officer at Mergence Investment Managers in Cape Town.

An investor who wants to increase emerging-market and commodity-related exposure amid a Chinese economic recovery, but is wary of having too much direct exposure to Chinese and Taiwanese equities, needs alternative avenues, he argues.

READ MORE South Africa: RMB banks on US interest in Africa

"South Africa exposure is one way to play this," Preston says. "South Africa-listed miners would obviously benefit from a strong recovery in the Chinese economy. Less directly, a strong commodity rebound should support South Africa's fiscus and terms of trade, strengthen the rand and South African bonds, which will benefit our banks."

The largest stocks in the MSCI South Africa index are **Naspers**, **FirstRand**, **MTN**, **Standard Bank** and **Absa**, which together account for about 40%. "Index-level flows looking to take macro exposure to South Africa would be concentrated in these names," Preston says.

Fix Eskom

The absence of Russia still leaves other emerging-market options besides South Africa. Investors may also consider **Latin America** exposure as well as **Asia ex-China**, Preston says.

There is, he notes, also a bear case on the thesis of emerging-market recovery. "Sticky US inflation could keep the Fed hiking for longer and the Chinese reopening may not be as commodity-supportive as hoped, given their weak property market."

READ MORE Mauritius has FATF 'grey list' lessons for South Africa

South Africa offers exposure to a commodity basket that was available in Russia and could be a recipient of some investment inflows, says Mark Ansley, portfolio manager at Argon Asset Management in Cape Town. He cites platinum-related stocks, adding that **Sasol** could pick up interest from previous investors in Russian oil stocks.

Exxaro and **Kumba Iron Ore** are options for those seeking coal exposure, Ansley says. "South Africa's well-run retailers could also find favour as their ratings and dividend yields are attractive."

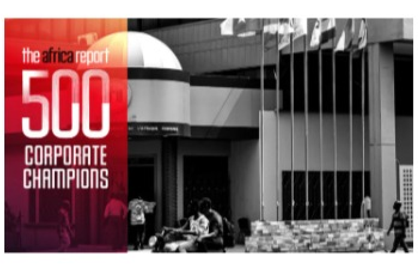
Other candidates in the emerging market universe, such as **Brazil** and **Turkey**, have their own problems, notes Ansley. But the decision in February by the Financial Action Task Force (FATF) to **grey-list South Africa** detracts from the case for the country as a substitute for Russia, he says.

Meanwhile, Ansley says, the impact of load shedding by state-owned utility **Eskom** is "devastating." The cost of alternative energy sources such as diesel, solar, wind and battery backup is very high and will be "margin detracting for South Africa Inc."

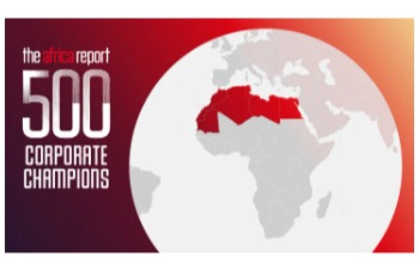
Stabilising load-shedding is the key to increasing South Africa's attractiveness, Preston says. The energy crisis has superseded the previous concerns of international investors for structural reforms, he says.

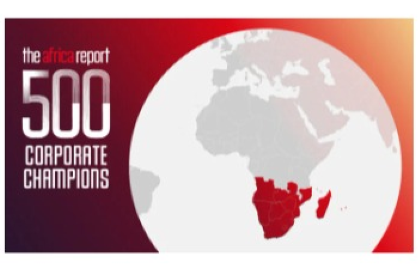
Investors have now lowered their sights and might settle for a reliable energy supply. "We need the severity of load shedding to stop and to see a credible plan to reducing it," Preston says.

MORE BUSINESS


INFO DEFICIT
Open up the books! To attract capital, Africa's corporate titans must be legible
Ranking the 500 largest groups operating in Africa is a collective exercise like no other. As tedious and methodical as it is, it requires time, ...


CONGO UNDERGROUND
Kibali Gold, Gécamines, Kamoa… DRC miners make their mark among Central Africa's champions
The mining companies of the Democratic Republic of Congo (DRC) are steadily moving up in our regional ranking of Central Africa's corporate champions. ...


STEEL & MINING
Morocco, Egypt companies drive North African champions ranking
Steel, mining and even outsourcing have enabled North African groups to record good performances in 2021-2022. ...


MINERS CLIMB
Sonangol and Sasol show how Southern Africa was lifted by commodity bounce
Of the top 100 hundred Southern African companies, 88 are from South Africa; an indication of the domination that Rainbow nation blue chips firms ...