South Africa
Stable, diversified, and bouncing back fast

The South African economy was severely impacted by the Covid-19 crisis, with its tourism and service sectors facing considerable external shocks in the wake of rolling lockdowns and extended international travel restrictions. But the country's macroeconomic fundamentals remain solid. It is Africa's most stable, modern, and well-diversified economy, and rising global inflation has seen demand for key exports surge in recent months.

The National Treasury projects GDP growth will rise by more than 10 percentage points y-o-y in 2021 to hit 3.3%. Growth will be supported by an ambitious recovery plan focused on aggressive infrastructure investment, in partnership with the private sector, as well as ambitious new job creation schemes aimed at boosting skilled employment and further modernizing the industrial base.

Recovery fund spending will underpin steady mid- and long-term growth and development, but as President Cyril Ramaphosa explained at the 2020 South African Investment Conference, this spending dovetails a massive development agenda that has been making excellent progress well before the Covid-19 pandemic.

"Since April 2018, when we announced our ambitious target to attract $86 billion of investment over five years, local and international investors have made commitments to invest approximately $48 billion. We want to see this translated into new factories, production lines, mining operations, retail outlets and infrastructure. We want to see it translated into new jobs, new skills, and new opportunities."

As President Ramaphosa highlighted, there are many opportunities on offer because South Africa is home to abundant natural resources. Large reserves of gold and other minerals, a highly diversified cash crop base, and a modern, industrialized manufacturing sector have been driving impressive recent economic growth.

This is reflected in the country's stellar export receipts: according to the United Nations Conference on Trade and Development, South Africa's merchandise exports soared from $51.7 billion in 2005 to hit $81 billion in 2015 and $90 billion in 2019. Manufactured goods dominate the export base, accounting for 43% of the total, followed by ores and metals, at 28%, and food items at 11%. Annual FDI inflows have recorded equally impressive growth, rising from $1.7 billion in 2015 to $4.6 billion in 2019.

Cyril Ramaphosa
President of South Africa

South Africa has been an attractive investment destination in large part due to its stability, including its stable banking sector. As Dr Willem van Aardt, CEO of Finbond Group explained, the sector acts as a critical anchor for the broader economy, even if its role is not well-known outside of the country.

"South Africa is a great country with great people and it has a lot to offer, but there's many things that are not well-known internationally, for example the strength and stability of our financial services sector, and the strength and stability of our regulators. Referring to the 2007 banking crisis, none of the banks in South Africa had those problems because of prudent and strong regulation by the authorities."

He's right; domestic credit provided by the financial sector has grown steadily since the global financial crisis, rising from 168% of GDP in 2008 to peak at 187% in 2010, before moderating to 173% in 2019. The sector has remained resilient and stable despite the Covid-19 pandemic, with McKinsey reporting that South African banks increased loan-loss provisions by more than 200% between 2019 and mid-2021 to cover for potential bad debts. This means the sector is likely to experience one of the strongest and quickest recoveries on the continent.

But TP Nchocho, CEO of the Industrial Development Corporation, said South Africa's stable and secure banking system is just one of many competitive advantages on offer.

"In the early stages of our development, we also attracted a lot of capital into sectors such as telecoms. Investors can be comfortable knowing that if they place capital here, their money is safe. Furthermore, for a country of our size we're very well-developed. Market access into the rest of the continent also offers significant opportunities."

South Africa's economy is ultimately dominated by its services sector, and while banking has remained resilient throughout the crisis, others including tourism have been hit hard. But this presents new opportunities for savvy investors seeking high returns. The government's planned expenditure on new transportation and logistics infrastructure investment will help bolster growth in hospitality, tourism, real estate and telecommunications. South Africa remains well-positioned to dominate Africa's post-pandemic growth story. President Ramaphosa summed it up succinctly:

"In the wake of this pandemic, our foremost task now is to rebuild our economy. This must be akin to how the protea germinates after the fire. Our strategic approach must be to restore it to what it was before, but to make it even more vibrant, more resilient and more inclusive. While this time of rebuilding our economy is fraught with risk, danger, hardship and difficulty, it is also a time of great opportunity."

Cape Town

Senwes
Feeding demand

South African agriculture is fast-emerging as a critical post-pandemic growth driver, underpinned by rising exports of high-value cash crops and increasingly innovative farming practices. Unlike many others on the continent, South Africa's agriculture industry benefits from being modern, highly-diversified, and market-oriented. Agricultural exports are rising as the country exits the pandemic, growing by 3% in 2020 to hit $10.2bn, or 10% of total export receipts. Leading local firms like Senwes are driving this growth.

One of South Africa's biggest and oldest agricultural firms, Senwes' history in the country is rich and deep. Its roots date back 111 years, and today the group serves the agriculture and food sectors from farmgate to mill door, with business units focused on investment, equipment, logistics, finance, market intelligence, and corporate support services.

Francois Strydom, CEO of Senwes, described the extremely favourable market fundamentals that are helping the group thrive despite challenging domestic conditions. For Senwes, South Africa's innovative cash crop production is an indispensable advantage.

"South Africa is the second-largest citrus producer in the world, which doesn't make

Francois Strydom
Group CEO - Senwes

sense until you consider the innovation that goes into it. We export a lot of red meat. We export avocados, grapes, pears, apples, wool, and grain. If you look at the efficiency ratios, South African farms are phenomenal. They're adapted to innovation, and technology is only part of the picture."

Innovative thinking has been a mainstay of the company's business development strategy since it emerged from a battering decade of intense competition and consolidation. The company's competitive advantage stems from a strategy that focuses on identifying leading international firms in certain sectors, and partnering with these businesses to maximise knowledge transfer and technological opportunities as it expands.

Corné Kruger, Senwes' CFO, said the company plans to pursue more of these partnerships in the future, and further welcomes traditional partners interested in investing in the group itself:

"From a corporate transaction point of view, the company is well-positioned, with profit lines being much higher than before. Our banking relations are extremely good. We have capital sorted out. A trade player providing, if it's an advisory company, a new business model - we can consolidate with them. This for us would be a number one priority."

Senwes

Finbond Group

Growing the international footprint

As the continent's undisputed financial hub, South Africa has witnessed more than a decade of stellar banking industry growth following 2007's global financial crisis. Retail banking holds particularly high potential, and McKinsey reports that this segment will soar in the future, with South Africa projected to account for the highest share of retail revenue growth in Africa, at least $4bn between 2017 and 2023. Innovative local players Finbond Group is already capitalising on rising consumer demand, but its business model has proved so successful that it is also being exported to bigger markets.

Established in 2003, Finbond was an instant hit in South Africa. The group made a name for itself with a unique offering: value- and solutions-based financial services products designed with the client, rather than institutional needs, in mind. The group listed on the Johannesburg Stock Exchange in 2007, growing quickly in the preceding years and obtaining its mutual banking license from the South African Reserve Bank in 2012. CEO Dr. Willem van Aardt explained how strong local relationships and successful international partnerships have supported the group's stellar growth trajectory:

"Initially we were funded by the Dutch development bank FMO. We eventually got our banking license in 2012, which was a significant achievement at the time. South Africa has a very good and prudent banking system; at the time of applying for our banking license in 2010 it was ranked third globally by the World Economic Forum in terms of regulation. Because of the small banking crisis in the early 2000's, the Reserve Bank hadn't issued any new banking licenses to smaller local banks for 12 years, and we were the first one, which obviously made a significant positive impact on our business and helped us to grow."

Finbond's client centric model proved so successful that by 2016, it had expanded operations to the US and Canada. Its two brands in South Africa - Finbond Mutual Bank and Supreme Finance - are active in every segment of the financial services value chain, from investment products to consumer lending.

The group's South African operations comprise 366 branches, including 172 Finbond Mutual branches. Finbond also owns and operates a further 101 coastal and 93 inland branches of Supreme Finance. In the North America , 225 branches are spread across Canada


Dr. Willem van Aardt
CEO - Finbond Group

and 16 US states with a concentrated presence in Illinois, Louisiana, Tennessee, Alabama , Michigan and California, giving the group enviable geographic coverage in the world's largest economy.

Finbond also boasts a management team with a long and successful track record in the financial services, banking, and microfinance sectors, underpinning its reputation for well-developed systems, truly unique product offerings, and widespread adoption of the most advanced information technology. As Dr. van Aardt explained, deep knowledge of the local market through partnerships with owner manager entrepreneurs and a cautious approach to risk management have helped Finbond remain resilient in the face of multiple external shocks over the years:

"If you look at our various liquidity ratios and capital adequacy ratios you will see that we run our business prudently and conservatively. We could be criticized, at certain times, for having too much cash relatively to the size of our business, but that's something we've learned through experience and over the years: the one thing that can kill the business is liquidity. We are conservative through the management of cash, and we keep a lot to protect us during difficult and turbulent times."

Having already forged successful partnerships with leading North American consumer finance company owner managers, the group is now looking to new markets and upscaled operations of its existing business as it seeks to grow its international footprint. In addition to a potential mid-term listing on an American stock exchange, the group plans to expand its horizons to Mexico and Latin America, two particularly high-potential markets.

In seeking and establishing partnerships for uture expansion the group has a patient, rational and pragmatic approach while being opportunistic and Dr. van Aardt argued that the group has much to offer:

"Our key competitive advantage is our access to funding, prudent risk management and ability to manage through challenging times. We've been able to survive in SouthAfrica whilst many were not able to do so. Although real risk's remain as with any growing business we're excited about the strategy of our business going forward. We believe there's a demand for our product because we serve the important purpose of catering to the client, which is often overlooked by traditional banks."

FINBOND
GROUP LIMITED

Content from
The International Investor

Industrial Development Corporation

Inclusive Growth

South Africa has set its sights on a post-Covid recovery driven by new investments: domestic and foreign direct investment (FDI) inflows, in both mainstay and emerging industries. Having set a target of attracting $100bn of new investment between 2018 and 2023, the government is already making steady progress, with the United Nation's Conference on Trade and Development reporting that total FDI stocks in the country rose by 19% y-o-y in 2019 to hit $151 billion. As it now sets its sights on modernizing the existing industrial base and kick-starting growth in future industries, the Industrial Development Corporation (IDC) will play an important role in driving development.

IDC is a national development finance institution tasked with contributing to sustainable, economic growth in South Africa. It was established in 1940 in response to the demands and challenges of World War II, and many of its foundational principles endure to this day. As CEO TP Nchocho explained, IDC's microeconomic interventions are designed to contribute to broader macro-level development:

"Our primary investment focus is to invest in such a way that we grow the economic pie.

More than 70% of our capital would typically be allocated to expansion projects - enterprises that are growing - or new venture creations and start-up companies. When we grow the economic pie, we achieve not only economic growth, but more critically, employment creation and general improvements in the standard of living."

Now 81 years old, IDC's activities have evolved over the decades. Its geographic remit expanded in the 1990s to include investment across the entire continent, and it has moved beyond industry and manufacturing to finance projects in the agriculture, tourism, and telecommunications sectors, among others. A lot has changed since the 1940s, but as Nchocho highlighted, adaptability and dynamism have always been part of IDC's DNA.

"When you look at the early history of IDC, it focused a lot on minerals and diamonds, so we invested a lot in the mining sector and the development of South Africa's natural resources. Then we brought technologies with a lot of innovation; many of the founders and early leaders of IDC were engineers. The IDC was also an early investor and creator of big corporations in the steel industry, chemicals, and from there it started expanding into new areas."

That expansion continues to this day. A rising focus on future industries will guide the corporation's next phase of development, with Nchocho highlighting clean or green energy and technology as a preferred avenue for future investment. South Africa and the continent at large are facing a growing energy deficit, but the country holds enormous potential for renewable energy development, particularly in the wind and solar sectors. As the government moves to transition from a carbon-intensive economy to one dominated by renewables, the IDC has been working with many international

TP Nchocho
CEO - Industrial Development Corporation

companies holding sizeable renewable energy portfolios to encourage private sector participation in growing the industry.

The IDC is also actively investing in the domestic renewable industry. Previous investment rounds saw IDC allocate $900 million to South Africa's renewable energy sector, and it is looking to new projects in self-generation, energy storage and energy efficiency segments for the next step.

Private sector participation will be critical for other priority areas, including infrastructure, where public-private partnerships will be the model of choice for future projects. An aggressive infrastructure investment drive is central to the government's Economic Reconstruction and Recovery Plan. Existing infrastructure is in urgent need of upgrades, and $35bn of stimulus funds have been allocated to efforts that will include infrastructure projects. The short- to medium-term efforts will focus on those providing new employment opportunities and economic multiplier effects, including transport, water, energy, and ICT.

Agro-processing is another priority area, with IDC focusing much of its efforts on the production of globally competitive fresh produce, processed food, beverages, and other derived food industries aimed at high-value export markets. Most recently, it launched the Agri-Industrial Fund seeded with government funding aimed at supporting black farmers looking to break into the commercial farming of high-value export-oriented crops .

Finally, the corporation remains focused on its original priorities, including a mandate to build up South Africa's mining and manufacturing capacities. The labour-intensive mining industry continues to offer significant job creation and industrialization benefits. Now that the African Continental Free Trade Area has come into force, Nchocho sees enormous potential for new manufacturing projects located in South Africa, which benefits from a developed industrial base that is set for a major modernization in the coming years.

For outside investors, the time is right: IDC is seeking partners with the technical and technological capabilities that will help a modernized industrial base boost exports and attract new investment. Capital is important, but know-how is equally critical, Nchocho argued:

"The African logistics sector is expected to grow significantly on the back of new intra-African trade, but it needs the capabilities to do so, so we are focused on that. Many countries, for example, in the area of managing ports, have run much more sophisticated logistic systems than we have. Look at Rotterdam, for example. It is these operational capabilities that they can bring, and we're open to partnerships like those."

Reatile Group
The future is green

After a bruising year of pandemic-induced economic shocks, the South African economy is poised for a strong rebound, with GDP set to rise by more than 10 percentage points this year. Its renewable energy sector will play a huge role in shaping the country's post-Covid economy, and a global shift towards green energy and climate spending puts South Africa in a good position to benefit from rising American and European investment in renewables. Leading domestic energy investor Reatile Group is bracing for the boom.


Simphiwe Mehlomakulu
Chairman - Reatile Group

Established in 2003 as an investment holding company, Reatile Group is a major player in the South African energy sector. Its board and executive management have more than 200 years of combined experience in the energy and allied sectors, and the group boasts a proven track record of successful operations, maintenance, and management of projects, as well as a robust and growing portfolio of energy investments.

As Simphiwe Mehlomakulu, chairman of Reatile Group explained, the company's competitive advantage lies in a strong combination of experience, history, and innovative strategizing:

"We are a proven company interested in long-term investments. Since we started 18 years ago, we have re-invested most of our capital. We keep in mind a very long-term view, due to the long term nature of our investments. We have sound values; we believe in hard work, excellence and integrity, and we operate successfully in an often-challenging environment."

Reatile has collaborated with dozens of South African and international firms over the years. Since incorporating, the group has concluded 17 acquisitions, disposals and merger transactions, including associated fundraising.

Most recently, it led a consortium of companies in acquiring a 30% stake in the Republic of Mozambique Pipeline Company (Rompco), a joint venture that owns an 865-km gas transmission pipeline running between Mozambique and South Africa. The landmark $360 million deal will help grow participation in the South African energy sector, allowing Reatile to capitalize on the enormous potential of increased gas supply to regional markets, helping South African's ongoing phase-out of coal, and underpinning Rompco's long-term expansion potential. With the Industrial Gas Users Association of Southern Africa projecting a 50% industrial supply deficit in South Africa, it looks like another solid deal for Reatile and its partners.

The group has further supported 14 major projects with funding and technical assistance for implementation. The group's long experience and history in the country have also allowed it to develop strong relationships with funders including the Industrial Development Corporation, Nedbank Limited, and the Standard Bank of South Africa Limited. Its network of corporate, project finance and legal professionals is vast and deep.

The company also benefits from the government's broad-based black economic empowerment policy - it is 100% black-owned and 30% black woman owned, meaning it is able to leverage funding from the Black Industrialists Program.

Many of Reatile's projects are in natural gas, including LNG, LPG and CNG. It is also active in delivering new electricity and power projects, as well as shale gas, fuel, coal bed and methane projects. In petrochemicals, Reatile is involved in specialty, commodity, processing and storage projects. It has also worked on manufacturing and processing projects in the industrial sector.

But Mehlomakulu knows times are changing, and as the world looks to a post-Covid future, green energy investment and development is high on the agenda. This is good news for Reatile, and more broadly for South Africa, where the government has established a wide-ranging array of support mechanisms for nascent renewable industries.

"South Africa has abundant solar and wind potential; we are one of the world's top three countries in terms of renewable energy potential. Companies from developed countries can raise capital very cheap in South Africa, and the government provides a lot of support in the renewable sector, which makes projects affordable and sustainable. Our R&D capabilities are still lacking, but we can execute green projects easily, and even export the energy produced from these projects. Now is a good time to invest," Mehlomakulu explained.

Western countries certainly agree. US President Joe Biden recently announced plans to double American spending on international green energy projects. More than $200bn of funding will be channeled abroad through the US-led International Climate Fund. In the European Union, meanwhile, €250bn of climate spending is forecast for the next seven years. The EU has set world-leading green investment targets in areas such as electric vehicle batteries and hydrogen power, which will also require significant spending abroad. Reatile intends to capitalize on the opportunities this presents by forging new partnerships with international firms.

"Renewable energy provides a lot of opportunities; there is now a big push for hydrogen and electrolytes, which has created opportunities that will require new technologies. European companies may be advanced in this area, and we would love to partner with them to develop hydrogen production technologies. We are also looking at batteries to augment the power demand of the country, and international partnerships in this area would also be welcome," he concluded.

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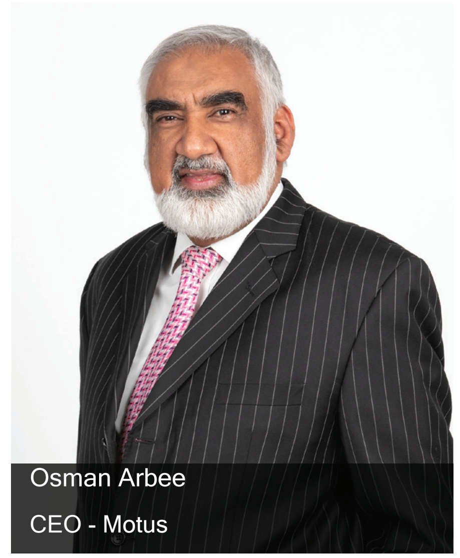
Motus
A Preferred Partner

South Africa is expecting a GDP growth of 3.3% in 2021, according to a recent report by Deloitte. After a volatile period for one of Africa's biggest economies, the country is set to reassert itself as one of the world's most promising emerging markets. With a strong growth outlook, among the highest income levels in Africa, and a population nearing 60 million, South Africa is one of the biggest automotive markets on the continent. Vehicle sales rose 32% in March 2021 when compared to March 2020 as demand rebounded, with 44 217 units sold.

Motus Holdings, the country's leading automotive group, is well-placed to benefit from the market's resurgence. Selling one in five vehicles in South Africa each year. The South African vehicle market is projected to stabilise at 450 000 vehicles for the 2021 calendar year. "If you want to be in the motor industry in South Africa, you need to speak to the Motus Group." says Osman Arbee, Motus' CEO. "We have an integrated business model where we import, distribute and retail new and pre-owned passenger and light commercial vehicles and parts, rent vehicles, and provide motor-related financial services and after-market parts sales".


Osman Arbee
CEO - Motus

Founded in 1948 and listed on the Johannesburg Stock Exchange in 1987 as part of the Imperial Group, Motus then unbundled and listed separately on the Johannesburg Stock Exchange in 2018. Motus is the local exclusive importer and distributor in South Africa for brands including Hyundai, Kia, Renault and Mitsubishi. Motus has an unrivalled dealership footprint in South Africa with 320 dealerships representing 24 Original Equipment Manufacturers (OEM's), with operations across Southern Africa and as far afield as the United Kingdom (110 dealerships) and Australia (36 dealerships).

Despite the Covid crisis, the Motus Group sold 105 821 vehicles in the second half of 2020 - 57 503 new and 48 318 pre-owned vehicles. Motus' investment in IT has borne fruit during the period of lockdown and its aftermath. "Digitalization is a big part of our business so we have to invest in technology to ensure we talking to customers all the time," says Arbee. "Technology is a differentiating factor, and helps improve efficiencies."

As the company expands, it is looking for potential acquisitions, including importers and dealerships, but also technology companies which can act as partners for the company's growing range of digital services.

Motus is a gateway for foreign investors in the Southern African market, and Arbee is keen to emphasise the company's role as an ambassador for the country. While businesses in the sector must contend with over-regulation and high taxation, ongoing reforms are improving the investment environment. "To grow the economy, we need foreign investment and foreign tourists in our country," he says. "We want to grow our business and create more employment opportunities."

Raubex
Building South Africa's Future

In a January 2021 review of the South African economy, the International Monetary Fund highlighted the country's strong monetary policy, which has helped support the economy during the covid-19 pandemic. The Fund expects the economy - the second-biggest in Africa - to rebound to 3.1% growth in 2021.

Recovering growth is bolstering the construction industry, which is expected to expand by a remarkable 13.2% a year to 2024, according to ConsTrack360, a sector-focused research and consultancy firm.

The resurgence has already doubled the order book of Raubex, one of South Africa's biggest construction companies. Its current order book is worth around $1.2bn, and it has prospects of a further $1.4bn in the pipeline. The booming business has proved a boon for the company's investors following its IPO on the Johannesburg Stock Exchange in 2007. "We have paid our investors dividends every year; we are one of the few construction companies to do that," says Rudolf Fourie, Raubex's CEO. "We paused payments for six months due to covid, but then started paying them again. We have a strong balance sheet at the moment, and give investors strong returns."


Rudolf Fourie
CEO - Raubex

The company has benefitted from its diversification - it has 23 separate businesses ranging from bitumen manufacturing to material handling for the mining sector. The latter has proved particularly profitable in recent years. The broad range of operations creates opportunities for a diverse set of international and domestic partners.

The South African government's $133bn infrastructure investment programme for the coming decade is set to boost Raubex's business further. Fourie sees particular potential in PPPs and the solar industry, with projects in the latter worth at least $1.7bn.

Raubex is also looking to expand further on the Australian market. "Australia is a well-regulated economy, and we see big opportunities for organic growth," says Fourie. "There is a massive shortage of engineers in Australia, and we have a lot of highly-skilled engineers in South Africa. Raubex has the best people in the business."

Fourie is also confident of the outlook in Raubex's home market, thanks to the government's pro-business reform programme as well as its investment programme. "President Ramaphosa has brought the country back on track," he says. "I think construction will see a boom over the next ten years. South Africa will provide a stable investment platform for the rest of the world, and we will see opportunities to increase our revenue and profits, generating returns for our investors."