



Ownership, control and investment in South Africa – 23 years on

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Centre for Competition, Regulation and Economic Development
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Industrial Development Research Programme (IDRP)

“Tracking patterns of ownership, investment and firm decision making as they relate to industrial development in South Africa”

- Focus on **L**arge and **L**ead firms
- Funded by the DTI in collaboration with TIPS
- Based on tracking publically available company data
- Studies focus on 2011-2016

Methodology

TOP 50 COMPANIES

Lead companies in SA economy

Impact across economic sectors

REMGRO LIMITED

Lead conglomerate group

High influence across sectors

METALS, MACHINERY & EQUIPMENT

25 companies

Supply inputs to production
Backward & forward linkages

SUPERMARKETS

Critical route-to-market for
suppliers

Supply of key consumer goods

FOOD PRODUCERS

13 companies

Linkages to agro-processing &
consumer goods

How does SA Inc. deal 'radically' with low growth, high economic concentration and low investment?

“Radical economic transformation”

“State Capture”

“Investment Strike”

“White Monopoly Capital”

Five Key Themes

- ① Little change in Top 20 JSE-listed firms
- ② Stagnant investment, accumulation of reserves
- ③ Growth & diversification *mainly* by acquisition
- ④ Anticompetitive behaviour and entry barriers high
- ⑤ Silver lining: pockets of excellence and long-term investment

Has the composition of Big Business changed?

Considerable **change in the Top 50** since 2000

Largely **unchanged Top 20**

High influence of **internationalised firms**

Last 5 years – **drop in mining** companies

Emergence of services firms – private healthcare, property, telecoms

Individual movers – Naspers, Steinhoff

Rank 2017	Top 20 – 2017	Rank 2000
1	SAB Miller	11
2	BAT	-
3	Naspers	49
4	Glencore	-
5	Richemont	2
6	BHP Billiton	6
7	Firststrand	8
8	Anglo American	1
9	Steinhoff	45
10	Standard Bank	9
11	Sasol	13
12	MTN	12
13	Vodacom	-
14	Old Mutual	5
15	Sanlam	15
16	South32	-
17	Barclays Africa	20
18	Nedbank	10
19	Aspen	57
20	Remgro	16

Single firms with BIG influence ... Remgro Case



EXERCISING CONTROL

- Investments in lead firms
- Require >20% shares, influence
- Remgro board member
- High profit retention
- Subsidiaries with influence

STRATEGY

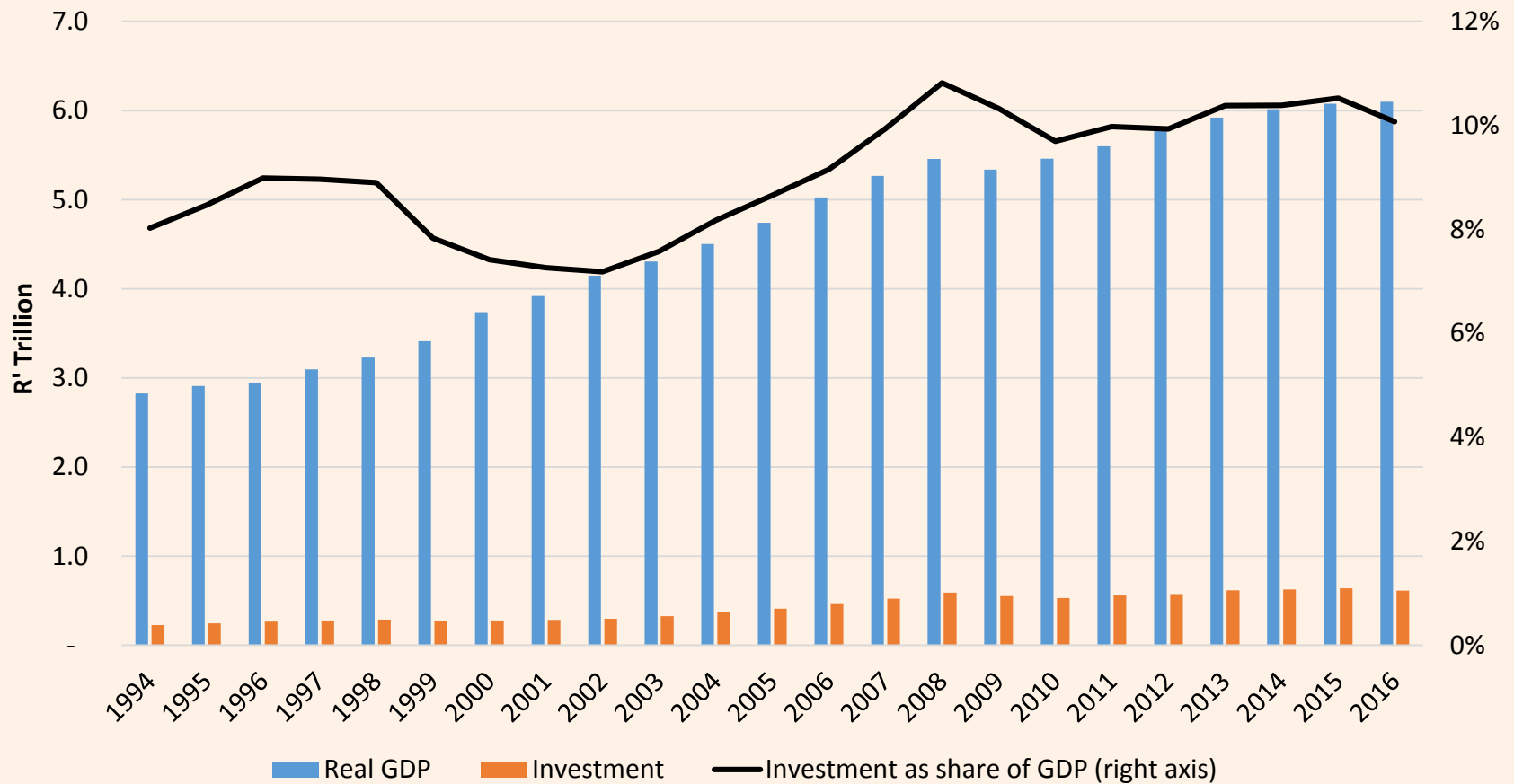
- Focus on unlisted (only 12 out of 31 investees listed)
- Long-term investor
- Strategic BEE partners with low holdings
- Sectors with high barriers?

Food, liquor, media, health care, insurance, industrial, technology/infrastructure

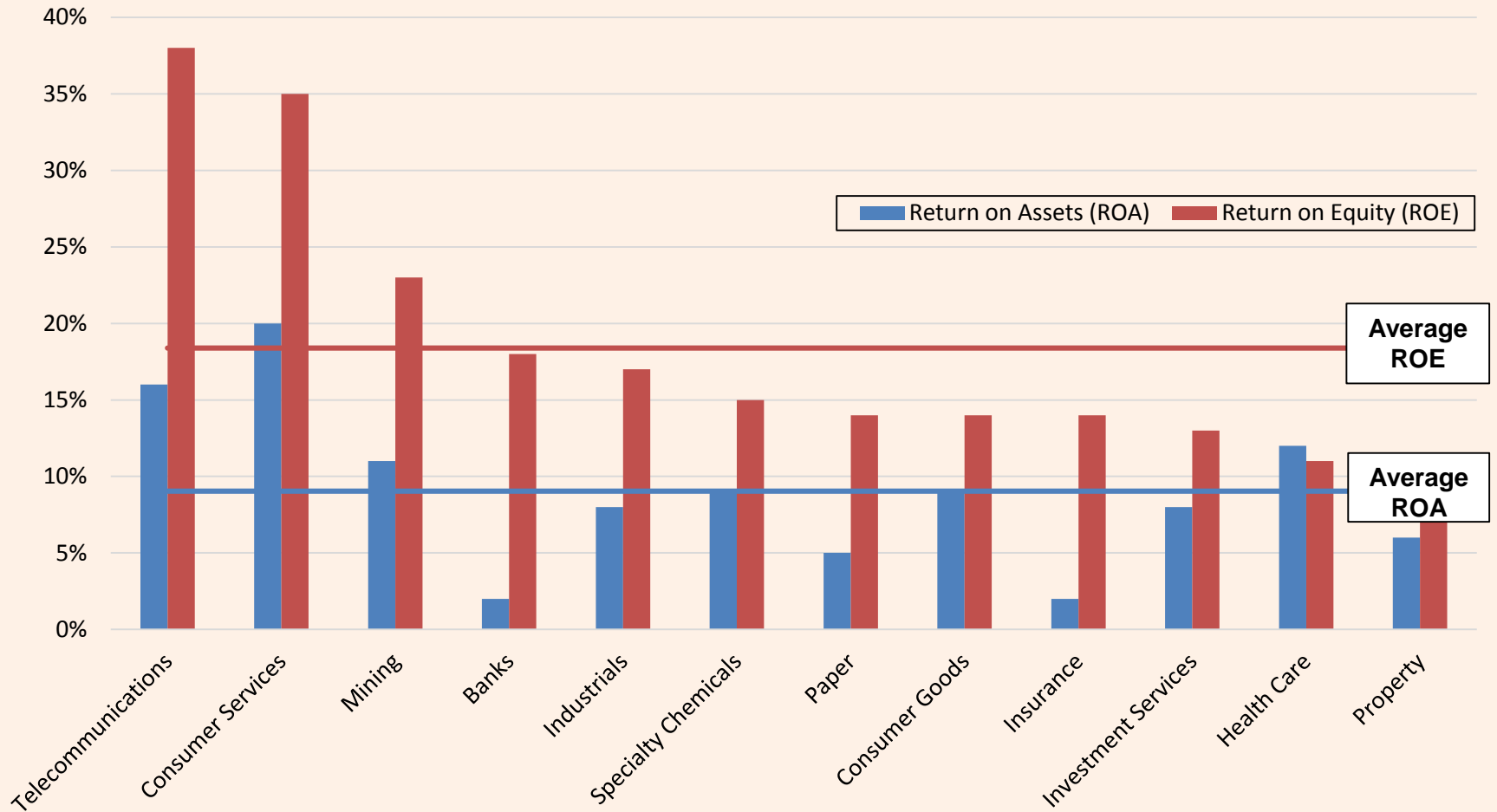
Drivers of net profit –
Mediclinic, Firstrand, RMB, RMI

Companies with large influence can shape outcomes across economic sectors

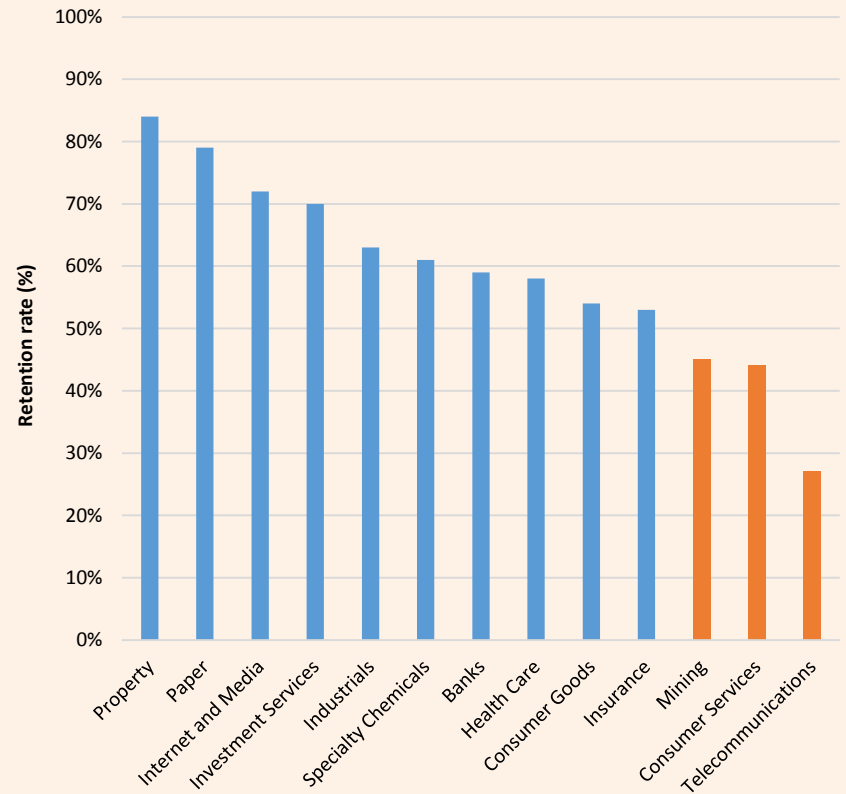
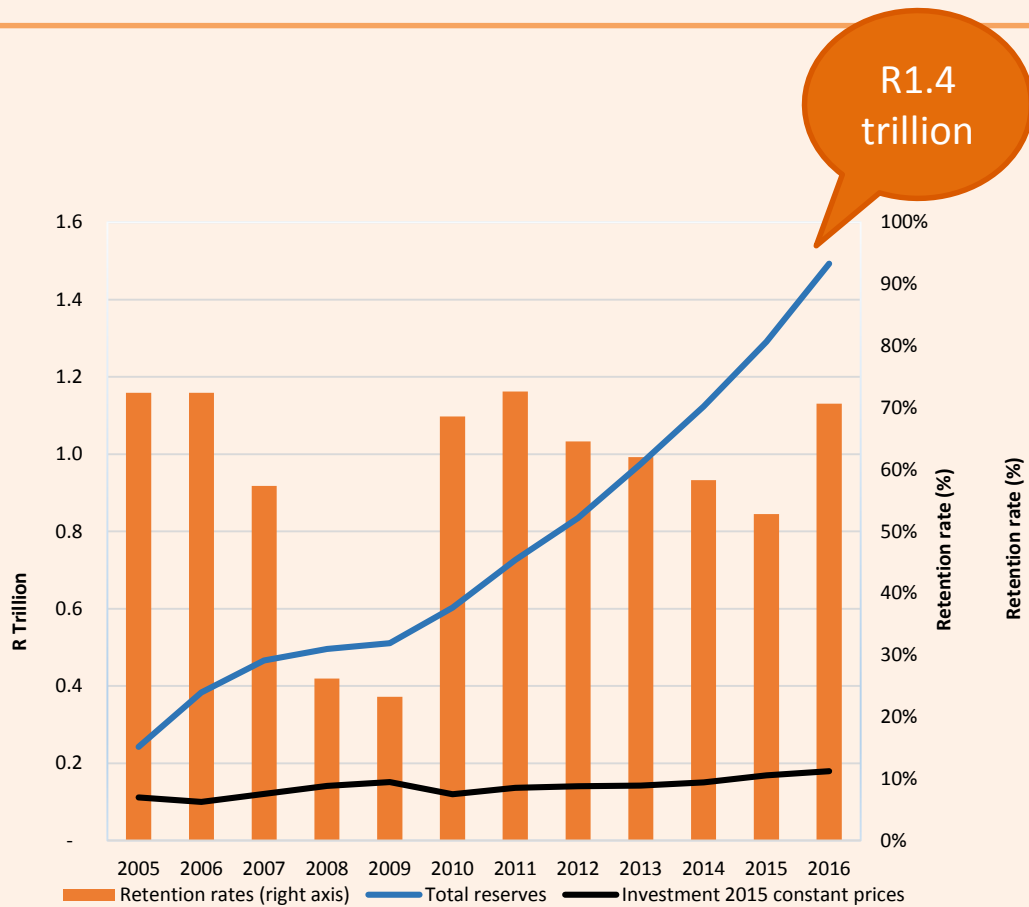
Investment has stagnated



There are profits

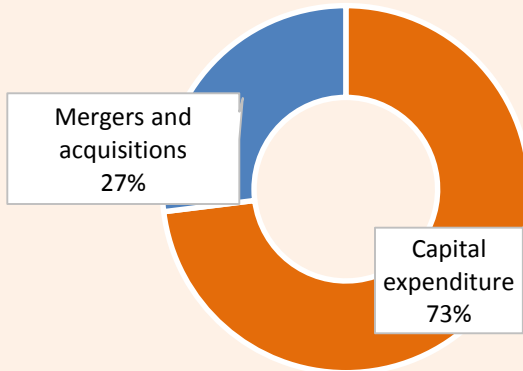


What has happened to profits?

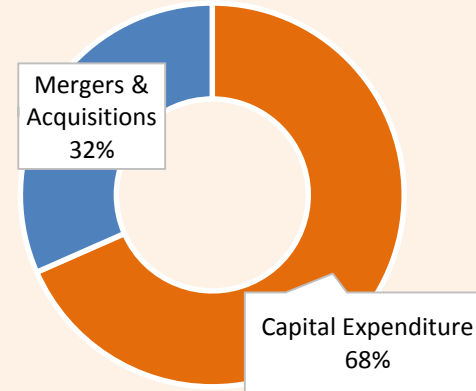


Composition of investment (by value)

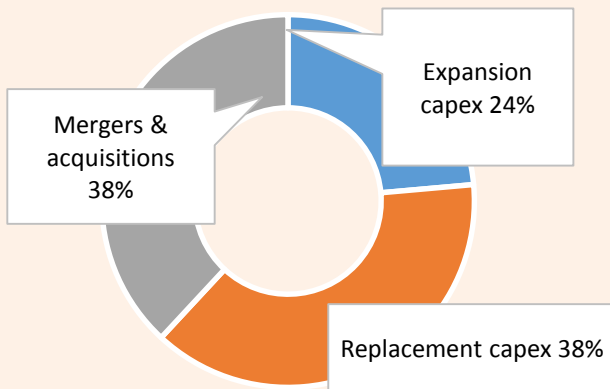
Top 50 JSE



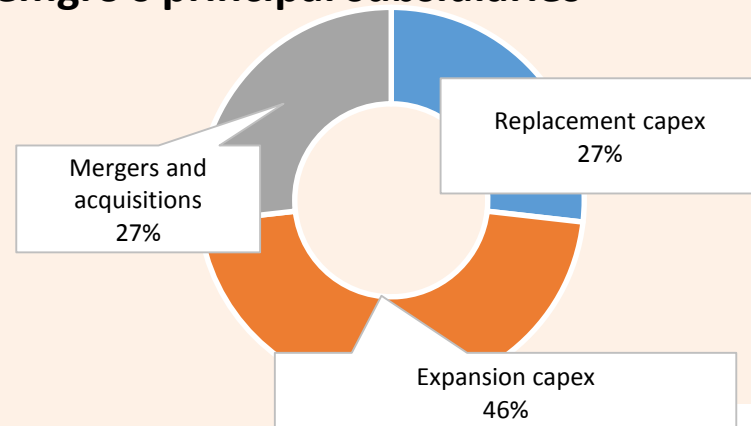
MME



Food Sector

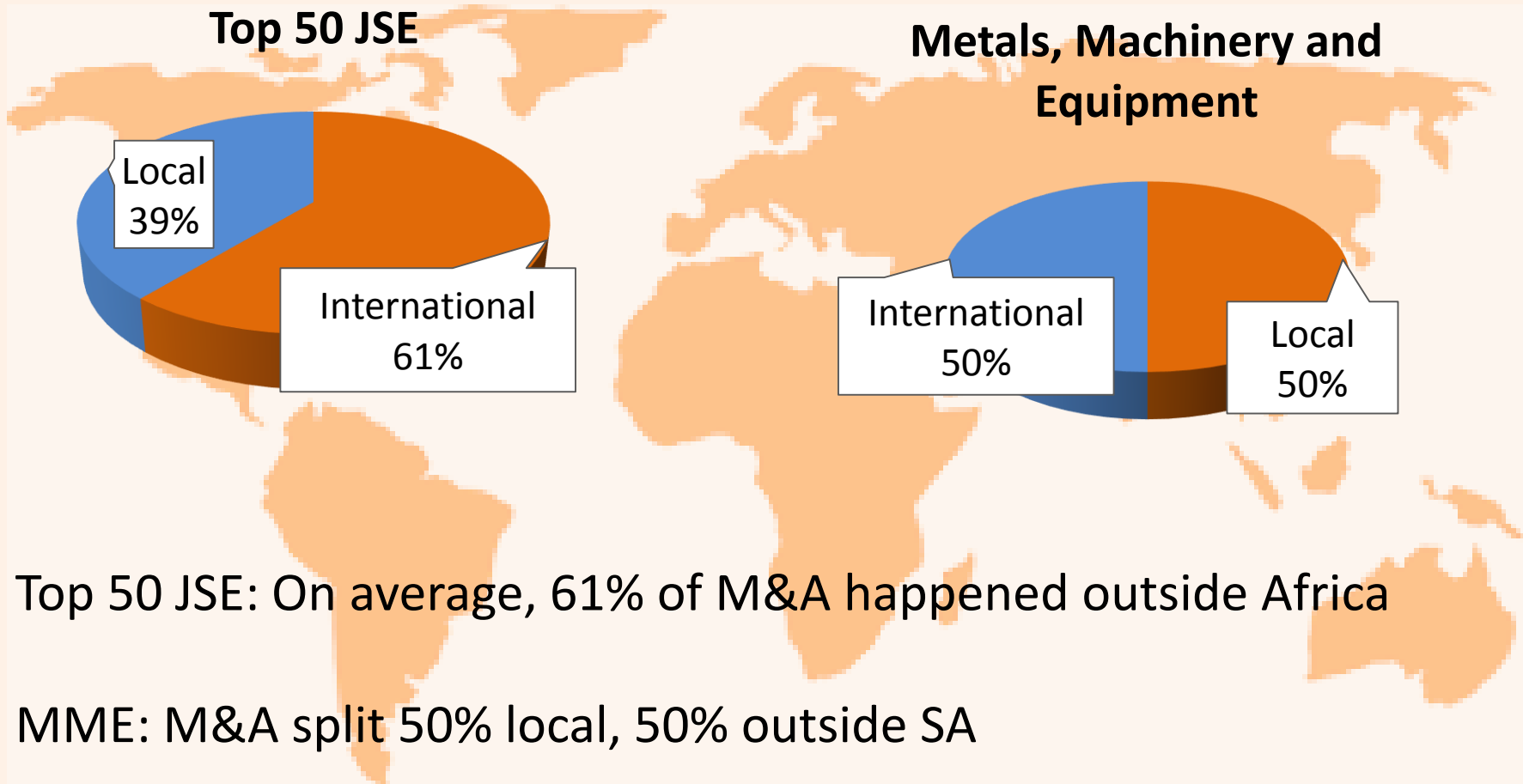


Remgro's principal subsidiaries



- Remgro – nature of business different – 95% local investments

M&A by location



- Top 50 JSE: On average, 61% of M&A happened outside Africa
- MME: M&A split 50% local, 50% outside SA

Diversification and Consolidation

FOOD SECTOR

- **Product Diversification**
 - Joint ventures to enter new markets
 - Clover/Future Life
 - Clover/Nestle
 - RCL Foods/TSB Sugar/Foodcorp
 - Quantum Foods/Safe Eggs
 - Clover/Nkunzi MilkyWay
- **Geographical diversification**
 - Tiger Brands/Davita (Africa & Middle East)
 - Tiger / East Africa Tiger (Ethiopia)
 - RCL/ Hudani (Uganda)

MME

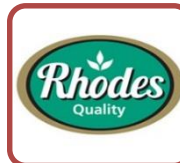
- **Product diversification**
 - Invicta : Engineering Solutions, Capital Equipment, Building Supplies
 - enX: Petrochemicals, Woodworking equipment, Generator manufacture
 - CIG: electricity transmitter installation, building supplies, waste management
- **Geographical diversification**
 - Into SADC and outside Africa
- **Use of exclusive supplier agreements**

High entry barriers, concentration and anti-competitive behaviour



Clover

- **79.3%** market share in the dairy fruit mix market
- **42.9%** in the pure fruit juice market



Rhodes

- **66.3%** market share in canned meats
- **40.5%** in canned fruits



Pioneer Foods

- **25.3%** share in the super maize meal
- **54.9%** in the baked goods market with Tiger Brands



Oceana

- **73.1%** of the canned pilchards market



Tiger Brands

- **48.6%** share in the sugar confectionery market
- **22.5%** share in the super maize meal



Tongaat Hulett

- **31.7%** market share in the sugar industry



RCL Foods

- With Astral, combined **46%** market share in the broiler meat production



Crookes Brothers

- **40%** market share in the bananas market in the Western Cape

- MME: >9 Invicta subsidiaries with sole distributorship in southern Africa
- Remgro: Subsidiaries with substantial market power e.g. Unilever and Distell.

Silver Lining: 'Pockets of Excellence' and Long Term Investment

- **Two characteristics of successful firms in MME**
 - Firms with deep pockets, often highly diversified e.g. Allied, Invicta
 - Smaller firms involved in design and manufacture of products e.g. Ansys, Labat, Alaris, Master Drilling have exhibited high level of growth
- **But restrained by operational challenges**
 - High energy costs, volatile exchange rate, strikes, droughts, low commodity prices, skills gap
- **Remgro as a long-term investor?**
 - Remgro has held investments in at least 9 firms for more than 10 years and in 7 firms for more than 5 years
 - 95% of investments local
 - Supports challenger firms? DFA, etv

Next steps...

How to unlock R1.4 trillion worth of investment?

How to design practical industrial policy?

How to enable new entrants to grow?

How to engage big firms?

How to drive inclusive growth?

Research Conclusions

1. Firms are **accumulating reserves** and not investing in SA
2. **Growth led by acquisitions** increases concentration
3. There is extensive **anticompetitive behaviour**
4. **Top 20 unchanged**, no black-owned lead firms
5. There are **pockets of excellence** & long-term investment

“Radical’ means going beyond the rhetoric, engaging with the details of sectors and companies, shaping strategy accordingly, & implementation”

A way forward for the SA economy

- ‘Social partners’ for reinvestment in SA
 - Business needs to acknowledge its role and responsibility
 - Are the business coalition funding pools enough?
- Address anticompetitive behaviour, and amend the Act
- Reduce barriers to entry, support emerging rivals, #OpenTheEconomy
 - Strategic interventions and partnerships in growth potential sectors
 - Align broad policies and regulation to industrial development goals
- Nurture pockets of excellence
 - What skills and costs support is required?
- Must align ALL policy tools to objective of industrial development

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