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A Proxy for Intra-Alliance Economic Confidence: Private Sector BRIC Shareholding in Johannesburg Stock Exchange-Listed Companies, 2010-2018

Bhaso Ndzendze

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By Bhaso Ndzendze

Primary Researcher, FAPISA

Research Coordinator, UJ Confucius Institute

bndzendze@fapisa,org

Abstract

This brief article assessed the inbound equity investments in South African Johannesburg Stock Exchange (JSE) listed companies by Brazilian, Russian, Indian and Chinese (BRIC) domiciled companies in the period of South African membership in the association of emerging economies. The article found, however, that although there was considerable inbound investment from these countries' private sectors, they were mainly, though not entirely, (1) from Chinese companies (a traditional economic partner for Africa in general and SA in particular), (2) predated SA's BRIC membership and (3) were in secondarily listed companies. Rather counterintuitively, there was a near disproportionate investment by South African firms in BRIC country listed and non-listed companies. Within these outbound South African investments, the vast majority stemmed from a handful of South African companies, with Naspers (JSE: NPN) being the most active.

Introduction

South Africa's links with its fellow BRICS members – Brazil, Russia, India and China – have grown in leaps and bounds ever since the country ascended to membership status in the association of emerging economies in 2010. At least that would appear to be the view from government officials; in other words from policymakers. That may well be the case, but that is a political assessment. And with South Africa (SA) joining China and Russia in the United Nations Security Council for 2019/2020, and Johannesburg playing host in this year's BRICS summit, there may yet be more room for further political integration among these states.

Methodology

The study makes use of quantitative methods by tracing growth or decline in the ownership of shares in publicly listed JSE-listed companies by BRIC country investors in the period between 2010 and 2018.

The forgotten metric: Why the stock market matters in the BRICS

But there is one area of conspicuous silence in the BRICS agenda – the stock market. If the rationale for the formation and continued existence of the BRICS, as it was and is still being argued, is primarily economic

Coalition, what concrete evidence is there for growing economic ties, especially for South Africa which was a relative late comer and is the smallest of the economies? In other words, has BRICS membership inspired a measurable influx of investment from the other members in the association? And in relation to this, has this confidence filtered through to the private sectors of Brazil, Russia, India, and China (BRIC) since Pretoria's entry into the club?

Tied into this is also the question of the difference made for South Africa by membership in the BRICS outside of hosting the two summits(2013 and 2018) and a regional division of the New Development Bank. Paying attention to the role of the private sector is an important metric not only for the purposes of measuring the BRICS in economic terms (as was originally envisioned by Goldman Sachs economist Jim O'Neill as well as South African, Brazilian and Indian officials in the now-defunct IBSA formation), but also a measurement of the extent to which the relationship has taken (is or still taking) on a life of its own, and outgrowing the relatively top-down political nudging,which can sometimes feel like an arranged marriage. In other words, in assessing the stock market dimension we are able to gauge how much the fellow BRICS multinational companies are optimistic about the economic future of South Africa– in line with, or in contradiction, to the rhetoric expressed by the various governments, whose political task it is to exclusively express optimism. Underlying the stock market is a transparent spontaneity and self-interest that acts only in line with the dictates of rationality (utility maximisation) and outside the (particularly Chinese) risk-friendly government revenue derived state to concessional lending and foreign investment. The stock market can therefore be taken to be a proxy for mutual confidence, or in the very least confidence in South Africa, among the other BRICs, and particularly their private enterprises. In fact, the spontaneous and de-centralised nature of stock market investment can be taken as a surer reflection of the actual confidence levels placed by the BRIC countries in SA than the proposed BRICS rating agency which might not be completely free from government prodding and might also (as is the nature of ratings agencies in general) miss the mark completely due to their sometimes arbitrary nature; this has consistently been the case with Moody's and Fitch, most catastrophically in the pre-2008 period, when they both failed to predict the size and magnitude of the housing bubble which eventuated into the Great Recession.

To be sure, Indian and Chinese MNCs are cloaked with immense capital and are in positions to make investments and entire acquisitions provided the prospective market is bullish enough. To that end, they have been "on the offensive", to borrow from Dr. Philani Mthembu's new book on India and China, subtitled The Rise of Southern Powers. Tata Motors acquired Jaguar Cars, along with Land Rover Ltd., for US$2.3-billion, and Suzlon Energy Ltd., for US$546-million, bought a 30% stake in German wind turbine manufacturing company, REpower Systems, in 2008 and increased it to 92% by 2009 while GMR Infrastructure bought half of Dutch power producer N.V. InterGen for US$1.107-billion (which in 2010 it sold to a Chinese firm).

Indian MNCs' appetite has also been targeted at well-performing African companies; with Bharti Airtel Ltd. acquiring Nigerian mobile operator Zain Africa B.V. for a staggering US$10.3-billion in 2010. Likewise, Chinese companies have bought stakes in everything from aircraft to coal companies, including a 49% stake in South Korean automobile manufacturer, Ssang Yong Motors, for US$500-million by Shanghai Automative Industrial Corporation (SAIC). TCL also acquired all of Thomson Electronics for US$560-million and Yanzhou Coal all of Felix Resources. Russian firms have also not missed out of the action, such as when in 2010 the Russian telecommunications giant Vimpelcom acquired 51% of Egypt's Orascom Telecom

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Ripe for BRIC investment: The JSE's comparative advantage

How have South African firms been faring? And particularly regarding the stock market, what have been the general trends in recent years? Fortunately, the South African stock market is not only consistently ranked among the best in the world (having been ranked among the top twenty stock markets within the World Federation of Exchanges in recent years), but also the South African market has been open to listing and investing by foreign entities since 2004, and dual listing since the 1990s. As a result, this means that we can measure both outward and inbound investment and listing, and mutual listing by BRIC-country domiciled companies, however imprecisely

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This should be all the more so since in 2011, the seven BRICS country stock exchanges agreed on a cross-listing benchmark equity index for derivatives – indicating a mechanism for their investors to keep abreast on the general trends in one another's top performers (those listed on the Top40 Index in the case of the JSE) and purchase these, as a further incentive, in their own home countries. A historic first, it would also allow them portfolio diversification, and would also give the rest of us an indicator of how well they estimated each other's economic futures. Tantalisingly, these exchanges at the time reached a combined market cap of US$9.02-trillion, and an equity market trading volume of US$422-billion per month – along with 9, 481 companies.

BRIC investment in the JSE, 2010-2018

As South Africa has an average savings-to-GDP ratio of 19.5%, foreign investment is needed to compensate for this domestic shortfall in capital. In the economy in general, the total stock of foreign capital invested in South Africa relative to the GDP is presently 49%. This is nearly replicated in the stock market, and exceeded in some of the top performing stocks. As a result, by October of 2017, foreign investment composed some 38% of JSE-listed company ownership. And within individual companies, the share of foreign ownership has risen from 30% in 2008 to around 37% in 2016. Within the top twenty-five largest companies by market cap, foreign ownership is at 11%. In the JSE Top 40, only 8 companies, mainly the smaller ones, are more than 75% owned by South Africans.

Among these rising foreign investors, the BRIC countries have made a presence, but an underwhelming one in light of their size. Although it is generally the case that the five largest JSE-listed companies are essentially global in their operations, with considerable exposure to BRIC-country corporations, the inward investment has been comparatively negligible. There are three major deals which have been noticeable in the period of South African membership within BRICS.

In August 2015, Gold One acquired some 19.96% of JSE-listed Sibanye Gold (JSE: SGL), becoming the single-largest shareholder in the company. The composition of Sibanye's Chinese shareholder is interesting; being a consortium, the partners include both private and government-linked financiers such as Long March Capital and China Development Bank, respectively.

An early example of India-derived investment within the JSE after SA entry into the BRICs was the listing of Oakbay Resources and Energy Ltd. (JSE: ORL), which was listed in 2014. Soon, however, the firm became embattled due to a wave of disclosures and allegations of the owning Gupta family's dealings with the South African political elite, up to and including the president, Jacob Zuma. In June of 2017, the firm suspended its listing in the stock market as a result of mounting pressure from its bankers and auditors abandoning them. But within the same year, for £1.2-billion, Indian billionaire Amil Agarwal bought an 11% stake in Anglo-American (JSE: AGL), rendering him the second single-largest shareholder in the mining group. He followed this up with a US$1.5-billion investment, which resulted in a 20% ownership share.

Anglo-American had also done its bit for BRICS commercial integration when in 2014 it made its first shipment of iron ore from Brazil from the Minas-Rio project in Minas Geris and Rio de Janeiro in the southeast of the country which it completely owns through its Iron Ore Brazil subsidiary. Further heightening the BRICS commercial web, the operation's number-one consumer is the PRC. But crucially, although Anglo-American was founded in South Africa, in 1999 it shifted its primary listing to the London Stock Exchange and maintains only a secondary listing in the JSE, and the Minas-Rio was not so much the result of BRICS alignment as it had begun exploration in 2009 prior to SA becoming a member.

Caveats

Naspers [JSE: NPN] has been a leader in exposure among BRICS markets. Its stake in Chinese internet company, Tencent (the fourth largest internet company in the world), remains the poster child for cross-BRICS investment due to its lucrativeness. In March, Naspers managed to sell its 2% stake (reducing its total ownership to 32%) for US$10.6-billion; in 2001, when Tencent was still a start-up in a country that had relatively few internet users unlike today, it had paid only US$32-million for its stake. Another acquisition which delivered on its promise was Naspers' *holding on an Indian firm. Naspers'* investment in Indian e-commerce giant Flipkart has, following Walmart's purchase of its stake, paid off by about 300%. Naspers had originally invested just over US$600-million in Flipkart in 2012, for a total stake of 16.5%.

Evidently, for Naspers this has been but the latest return in a slew of lucrative investments in global, including BRIC-domiciled, companies. Apart from India and China, two major acquisitions have also been made in Russia. In January of 2015, Naspers had announced a US$1.2-billion (ZAR16-billion) deal to become the largest shareholder in Avito, which, enjoying 35 million unique visitors per month, is Russia's number-one online classifieds platform. Naspers had begun buying shares from existing shareholders, thereby increasing its holding from a mere 17.4% to 67.9% by 2015. In the same country, Naspers has a stake of about 29% in the Mail.Ru Group which is based in Moscow.

From ICBC's (2007-acquired) stake in Standard Bank to Gold One's own stake in Sibanye, the majority of the investments have also been characteristic of SA-PRC overexposure. This is indicative of a traditional alignment between the two countries, with China being South Africa's principal export and import partner.

Indicators of South Africa's market overexposure to the Chinese economy are seen in the fact that the South African rand is affected by sentiment towards the Chinese economy, with slowdowns (or even anticipation of slowdown) leading to declines in the value of the currency. The exposure's impact on the market is also to be observed in 2017 in the Committee on Foreign Investment in the US's reported suspicious posture towards Sibanye Gold's then pending acquisition of Stillwater Mining Company, the leading platinum and palladium producer in the US. The alleged disinclination apparently stemmed from the group's considerable Chinese shareholding, along with the fact that palladium and platinum are key primary materials linked to arms manufacturing.

This is linked to another issue which might be symptomatic of BRICS' non-effectiveness for South Africa as some of the deals, including the largest ones (such as the ICBC-Standard Bank acquisition), pre-dated its entry into the association.

Chris Logan, a consultant at Opportune Investments, has a clear assessment on the matter: "SA, despite being a Brics member, had lost out on big opportunities in the…market." Additionally, and maintaining the traditional financial trajectory, in addition to China, for South Africa the main influx of investment on JSE-listed companies has either come from, or has been retained by, western financiers, and particularly those from the UK. This is also the case with the other BRIC countries, who in the past decade, have seen hundreds of their companies list their shares on American and European (especially UK and Luxembourgish) stock markets.

Partially to blame for the lacklustre influx of BRIC-country investment in the stock market is SA's lack of tech companies and technological start-ups, which have been drawing international investment in other countries, including traditionally innovative countries such as the US and Israel, as well as new entrants such as Poland and Ireland, and which tend to be rapid growers. in other countries, including traditionally innovative countries such as the US and Israel, as well as new entrants such as Poland and Ireland, and which tend to be rapid growers. Another important factor, and core to this article's thesis, has been a reported lack of investor confidence in the country in its years under the Zuma-led government, which further disinclined foreign investment in the JSE (which, as seen, grew only by 7% in the entire period). Crucially, SA's BRICS membership has spanned the entirety of the Zuma presidency.

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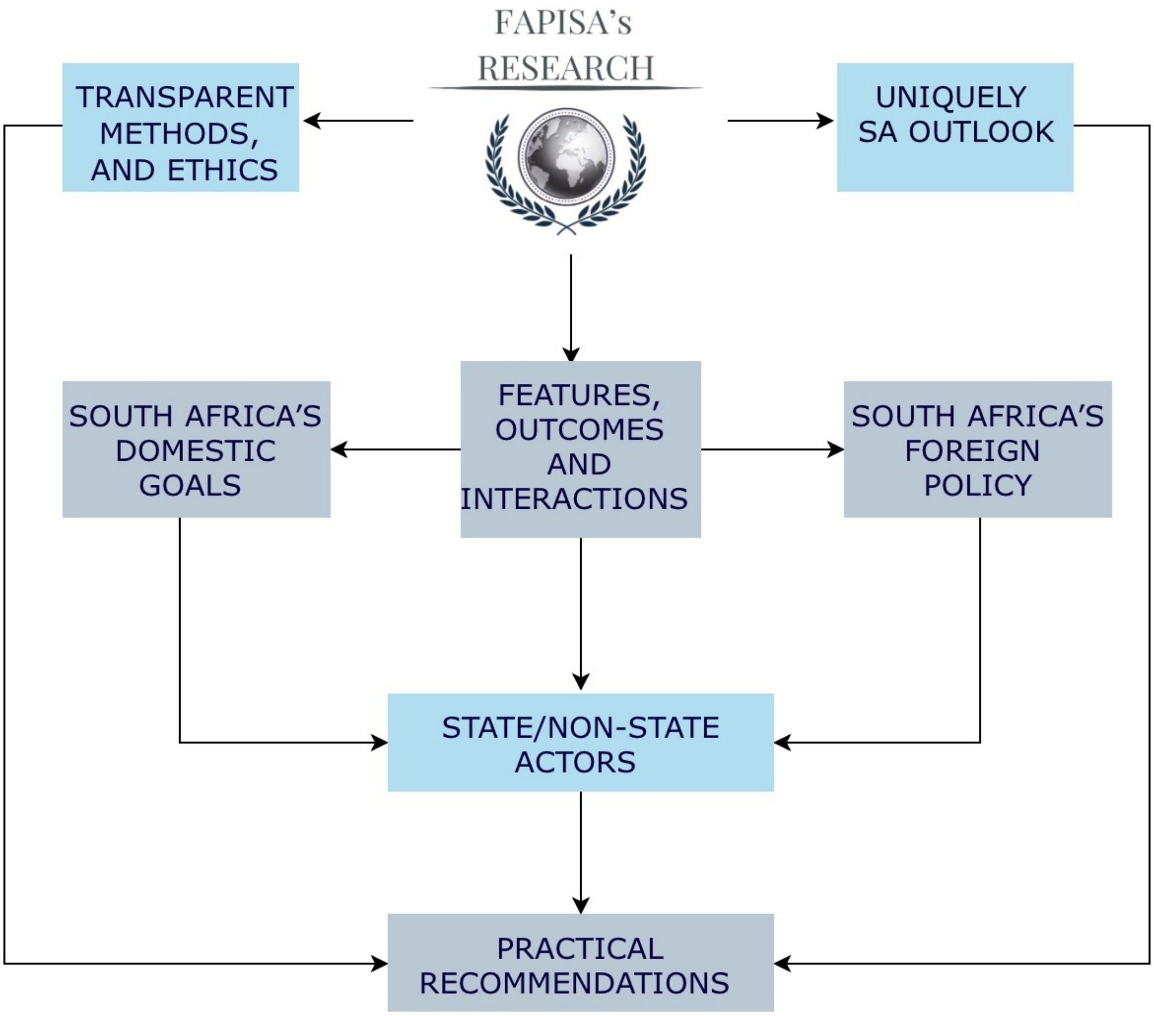
This is after close to a decade of membership. If theirs is an aim only for political association and cooperation, then they are closer to their goal than when they first set about it. But if one of the markers of BRICS' success is a self-propelled level of cooperation outside of official prodding and political encouragement, then they have many miles to go.

The private sectors of the BRIC countries have made investments of their own in JSE-listed companies, but not to the level perhaps expected. They are much larger economies – with China famously producing equivalents to South African GDP every six months, and the Shanghai Stock Exchange being, at around US$4-trillion, the world's fourth largest stock market by market cap and as such SA's relative leadership in private sector investments in listed companies in the BRIC countries is indicative of a massive disproportionality.



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