



Ownership, control and investment in South Africa – 24 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 focused on 2011-2016
- Leading into Industrial Development Think Tank project

Sector approach

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

Key Themes

- ① Little change in JSE Top 20, with BEE protecting rents?
- ② Stagnant investment, accumulation of reserves
- ③ Internationalisation, without higher investment or upgrading
- ④ Growth & diversification *mainly* by acquisition
- ⑤ Anticompetitive behaviour & high entry barriers
- ⑥ 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

Has the composition of Big Business ownership changed?

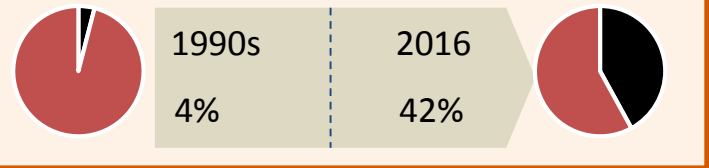
	1995-2000	2001-2005	2006-2011	2012	2013	2014	2015	2016
ANGLO AMERICAN CORP	25.1	21.2	15.4	8.9	6.8	5.5	1.6	3.3
BIDVEST GROUP	1.0	1.0	0.9	0.9	0.9	0.9	1	1.1
BLACK GROUPS	7.1	5.1	5.5	3.9	1.5	1.3	0.6	0.5
DIRECTORS	11.1	7.3	8.2	9.2	7	7.1	11.3	12.4
FOREIGN	4.0	12.9	26.5	30	33.2	30.9	26.8	42
INSTITUTIONS	3.9	10.1	14.1	19.4	22.1	23.7	17.6	18.1
INVESTEC	2.0	1.4	0.9	0.7	0.7	0.9	1	0.8
LIBERTY LIFE/ STANDARD BANK	8.3	4.9	3.5	1.1	2.5	2.5	2.1	
NASPERS							7.7	6.9
REMGRO (REMBRANDT)	9.8	8.7	5.7	7.2	9.1	9.3	9.2	7.2
RMB/FIRSTRAND	2.6	4.6	3.1	3.9	2.3	3	2.6	2.4
OLD MUTUAL (SA MUTUAL)	10.6	7.7	3.6	3.3	2.8	2.7	2.8	2.1
SABMILLER	2.8	4.1	6.2	9.2	9.1	9.4	12.5	0
SANLAM	11.9	4.9	1.4	1.4	1.4	1.7	1.3	1.2

SA has seen huge growth in financial flows and changes in ownership without higher investment rates...

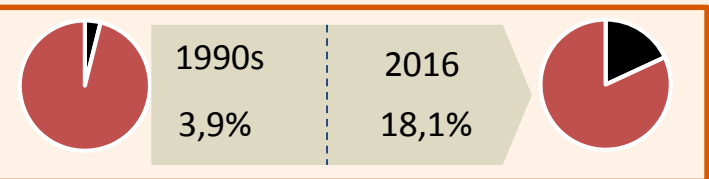
1 Huge growth in foreign direct & portfolio inflows and outflows

2 Value of JSE grew over 2000s to be 2.5 times GDP

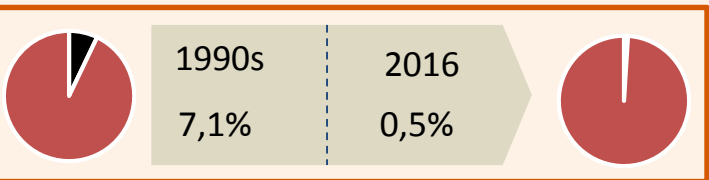
3 Increasing foreign ownership



4 And ownership by local institutional investors

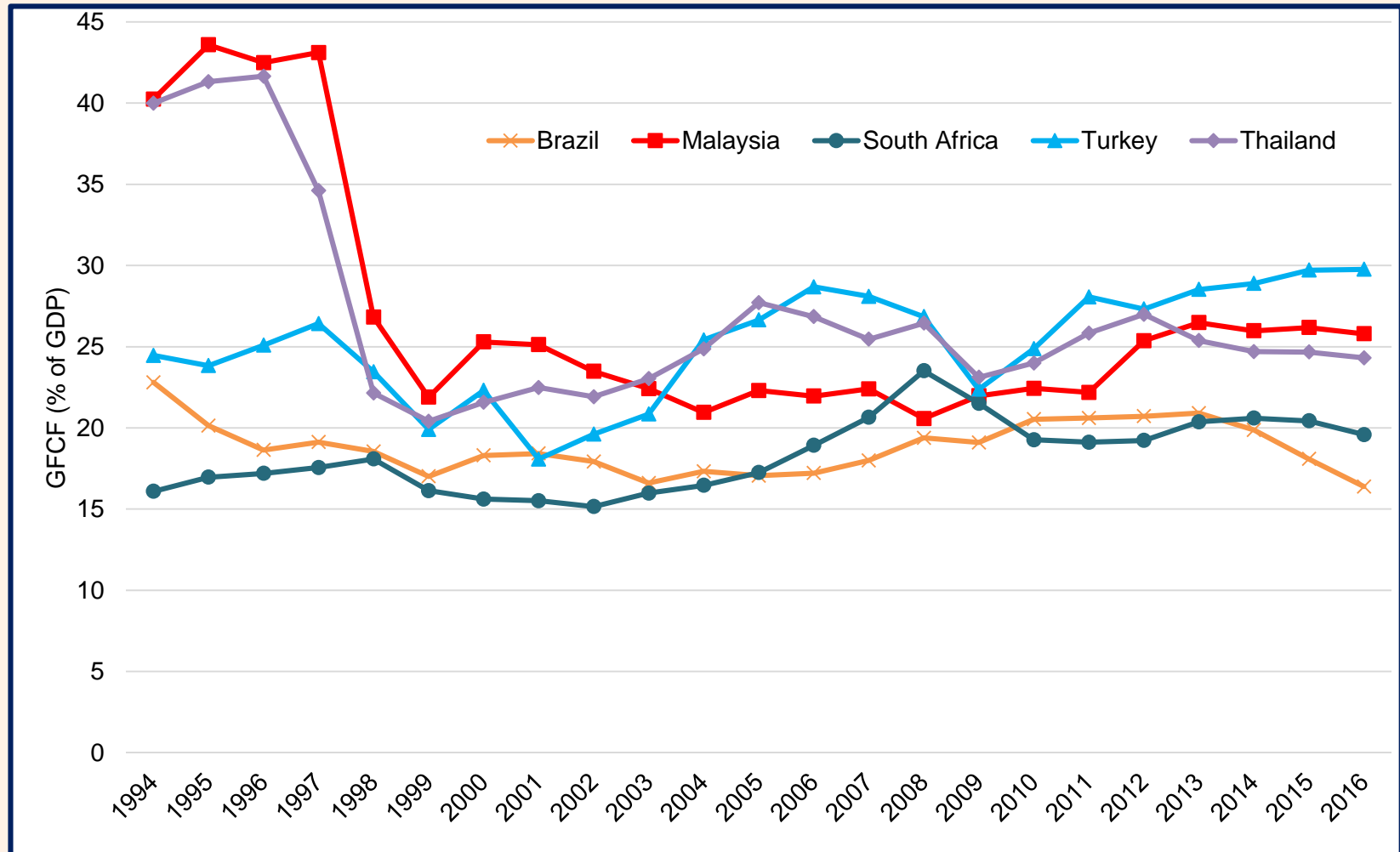


5 Ownership by black groups declined

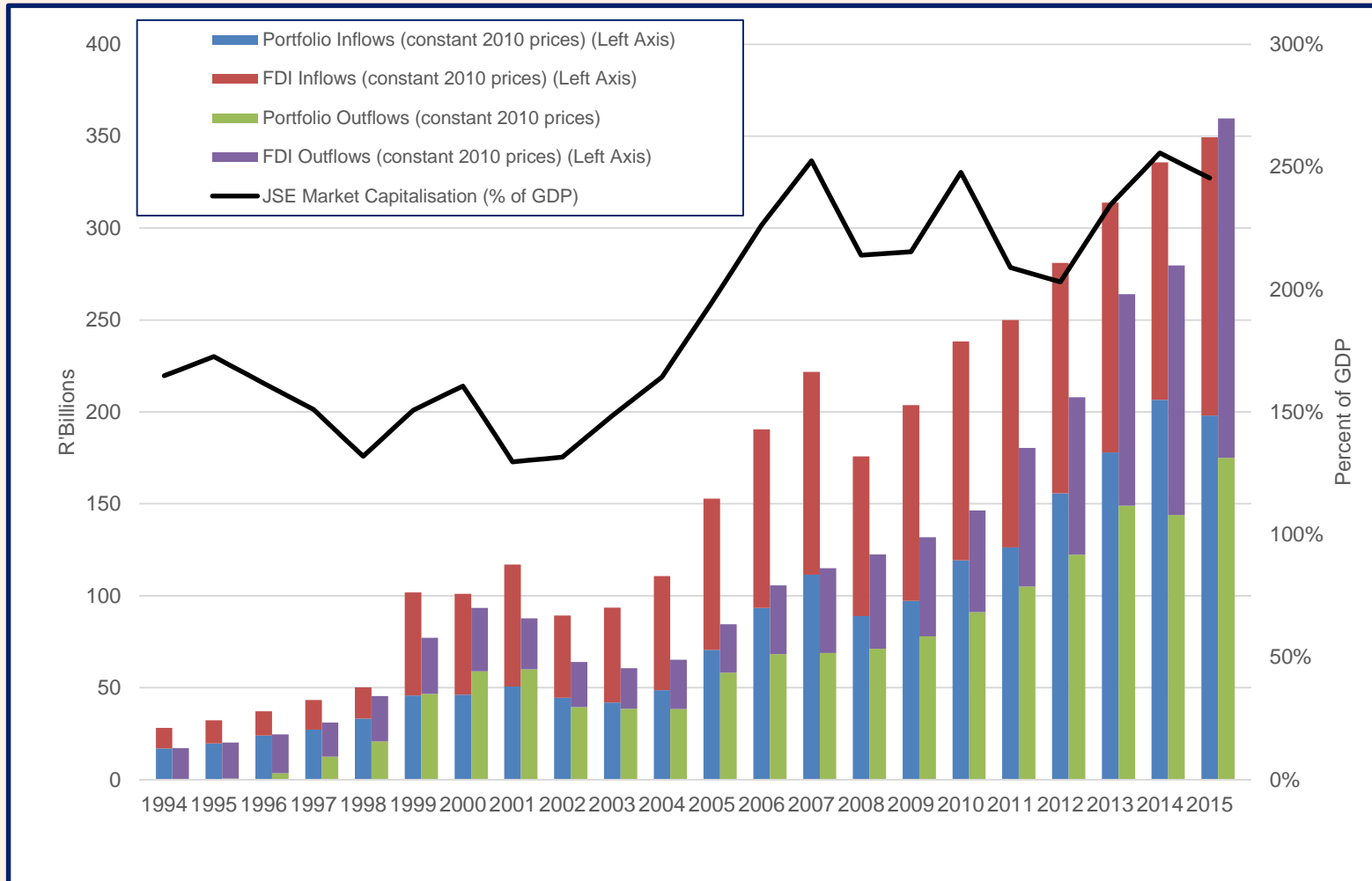


6 Internationalisation not linking to upgrading & technology 7

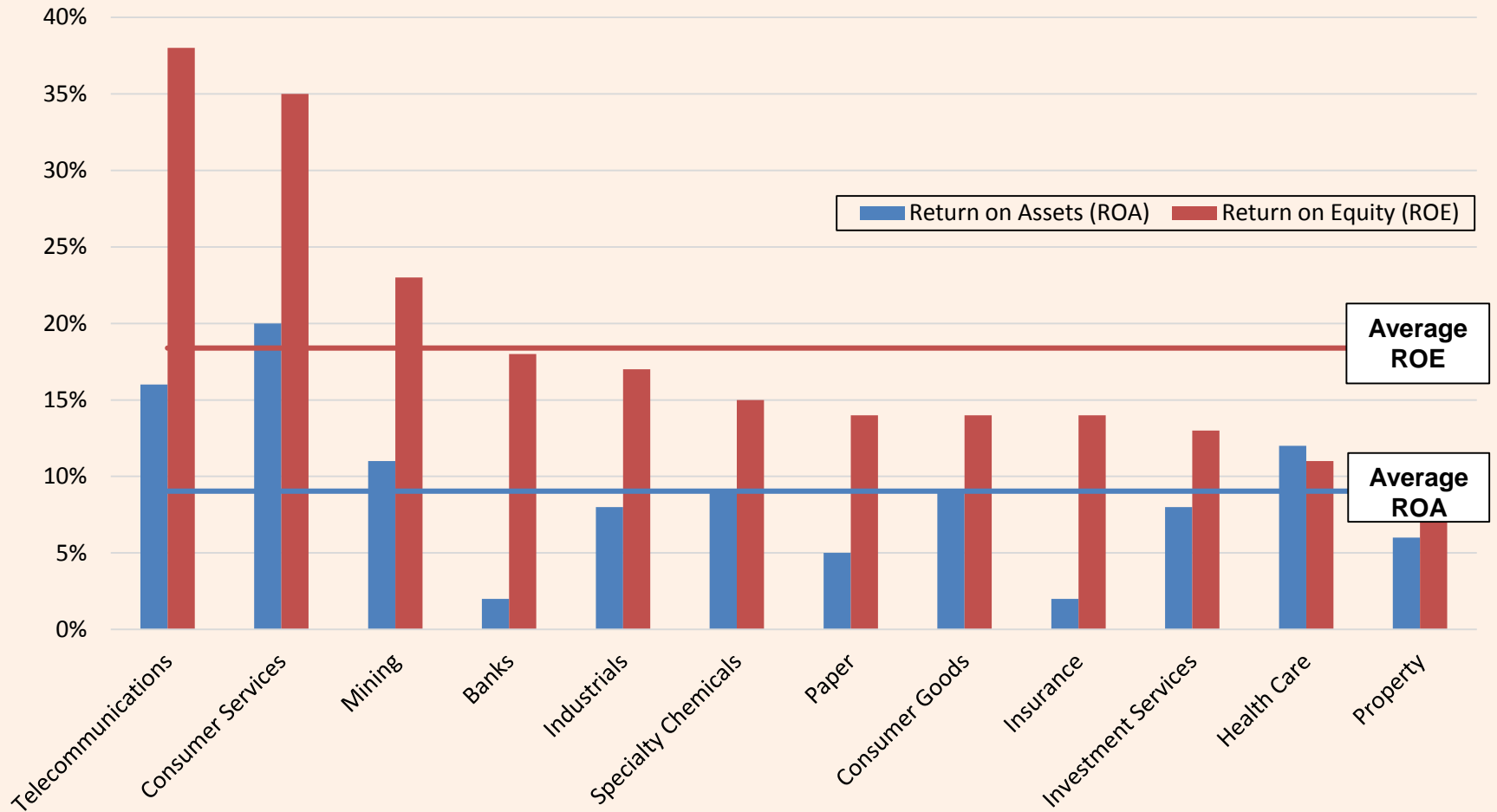
South Africa's investment rates have been poor relative to most other middle income countries



Portfolio inflows and FDI outflows

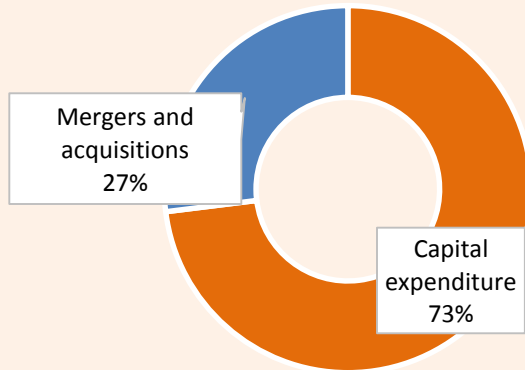


There are profits

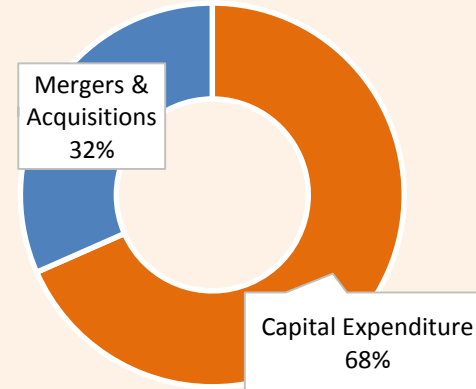


Composition of investment (by value)

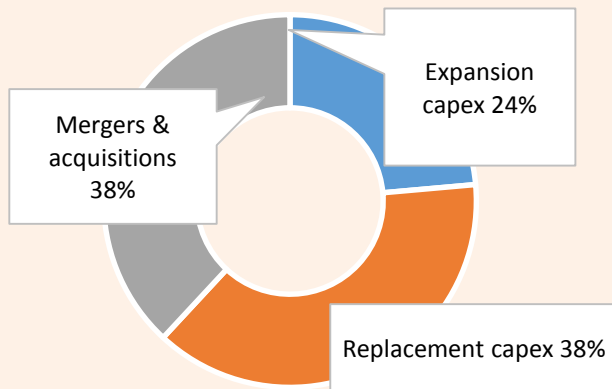
Top 50 JSE



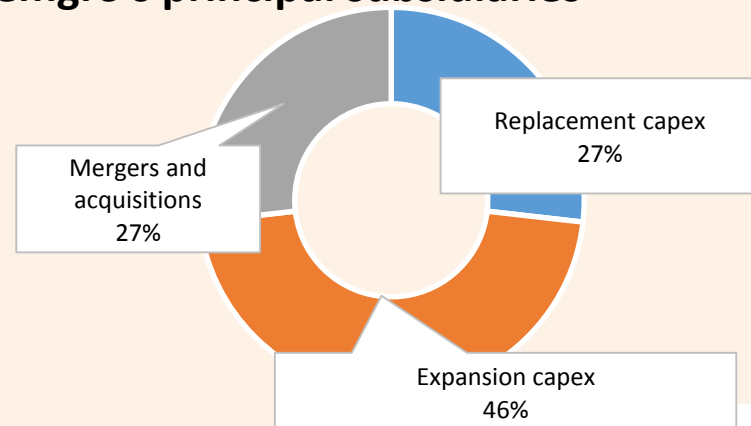
MME



Food Sector

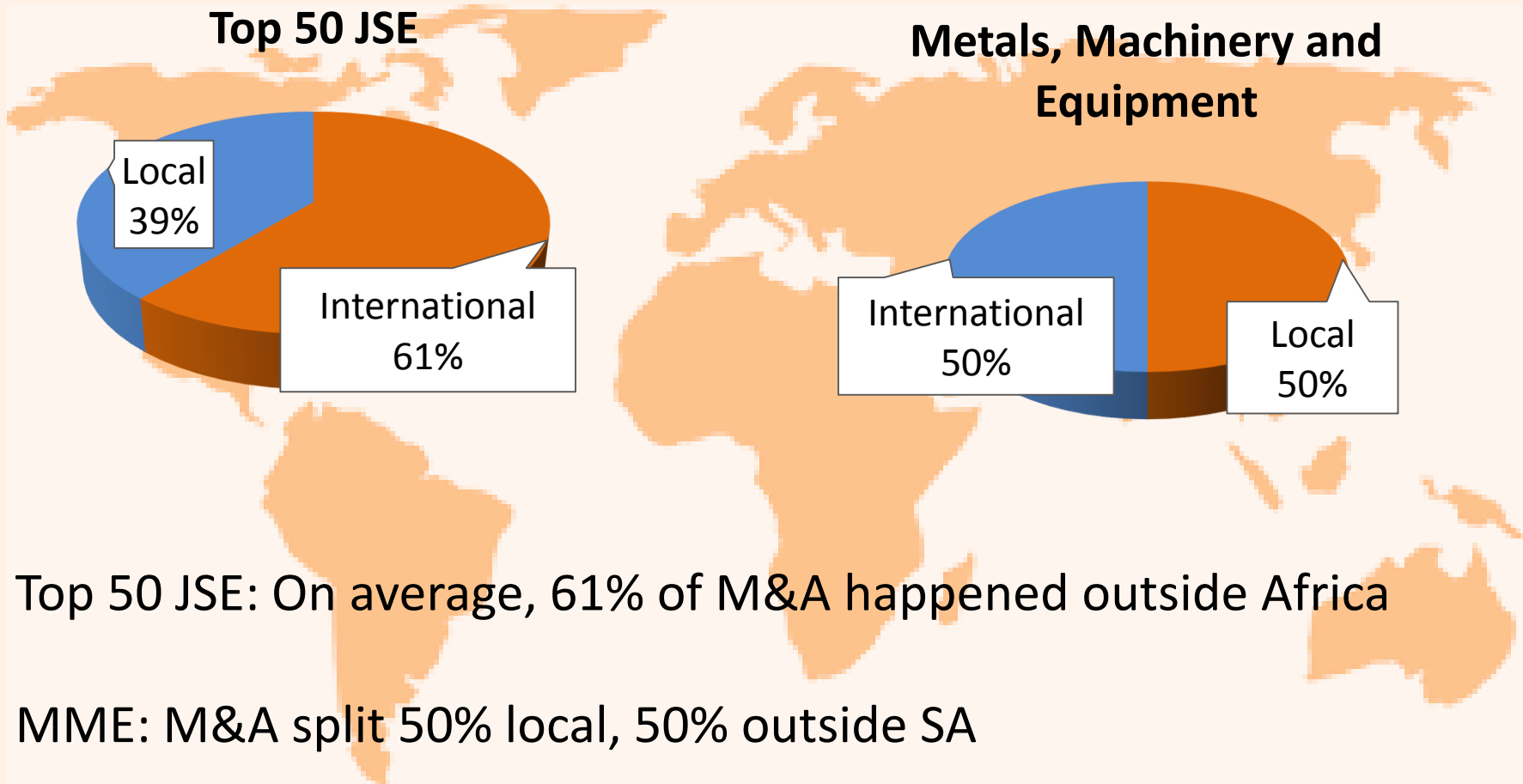


Remgro's principal subsidiaries



- 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

Competition Commission – single firm dominance and sector concentration has increased in communication technologies, energy, financial services, food, agro etc



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

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?**
 - 95% of investments local, most investments for more than 5 years
 - But, entrenched market power of investee firms problematic

Research Conclusions

1. Firms are **accumulating reserves** and not investing in SA, vicious cycle
2. **Growth led by acquisitions** increases concentration
3. Little change in the structure, and top firms – noting property, telecoms, healthcare
4. High degree of internationalisation (ownership & location), institutional investors, but little upgrading and investment
5. There is extensive **anticompetitive behaviour**
6. 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?
 - BEE entrenching status quo
- Address anticompetitive behaviour, and amend the Act
- Reduce barriers to entry, support emerging rivals
 - 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?

A way forward for the SA economy

- Emphasis needs to be on structural transformation & diversification
- Must align ALL policy tools to objective of industrial development & structural transformation
- Industrial Development Think Tank proposals:
- Requires a broad coalition for reindustrialization and inclusivity
 - Setting out expectations of large firms for local investment, innovation and rivalry – e.g. supermarkets code to support local suppliers
 - With government committing to effective policies for infrastructure, procurement, skills development, technology
 - Coordination of policy for industrial development – e.g. 4IR will need cheaper data costs
 - Incentivising & investing in capabilities development
 - Focus on support for black industrialists & challenger firms

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