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Namibia Equity Brokers (Pty) Ltd

NEB Telegraph

Investing in knowledge to create a better future.

Signaling As A Key To Successful Deal Closure

By Alfred Kamupingene

When man voluntarily committed himself to forge the pactum unionis, this was borne out of the awareness that, in isolation man is vulnerable society, incomplete and that in society lay his strength. Society is a shelter for man, because what one man lacks other men are possessed therewith and through transaction the interactive man becomes more rounded. The ensuing mutually dependency scenario, simultaneously requires of one man to communicate to the other members of society what he lacks and while the other members are required to communicate their abilities to meet his needs. The act of conveying such information is referred to as signaling in game theory. For instance, a service provider has to send a signal as to what services he provides. Because of information asymmetry, i.e. a person would have a better idea of what he can do and what he is interested in, it is also required that the person sending the signal conveys credible, truthful and comprehensive information about himself.

The comprehensive package which consists of qualification, achievement, quality, or aspect of a person's background, especially when used to indicate their suitability for a given task or responsibility is called the person's credential. For instance, in the job-market, potential employees seek to sell their services to employers for some wage, or price. Generally, employers are willing to pay higher wages to employ better qualified and experienced workers. While the individual may know his or her own level of ability, the hiring firm is, usually, not able to observe such an intangible trait; this is what causes an asymmetry of information between the two parties. Hence, the informational value of the credential comes from the fact that the employer believes the credential is positively correlated with having greater ability. The preparedness of the service recipient to offer higher "reward" on the back of a higher credential is sometimes referred to as the "sheepskin effect".

<u>The dangers of under-selling oneself</u>

The package called a biography, credentials or whatever name one prefers to use, is what serves as the basis for other people's opinion about you. If one under-sells oneself, the recipient of the signal might end up having a low opinion. So, don't be skimpy, be truthful to oneself and the other party. If one is haughty, one tends to overstate one's ability. Haughtiness is off-putting to others. So, don't be haughty, that can shut doors.

You may have heard the phrase "burn your boats". The phrase simply refers to "not being able to turn back once you get started doing something". The origin of the phrase is a story about a certain Hernán Cortes who conquered Mexico with 500 men or so. The Aztecs, the Red Indians who ruled Mexico at that time, had countless feet on the ground and purely based on these numbers Corte's men concluded that in man-to-man encounter they stood no chance. Corte's men were getting faint-hearted and retreating became a credible option. Corte eliminated the latter option by burning the boats on which they came. The result is that Corte's men had no choice but to march on and fight to the last drop. The moral of burn your boats story is that, in signaling one should not do things half-heartedly. Success breeds success and people tend to judge a book by its cover. Signaling plays the role of the cover, be in the frame of mind of burning your boats, so make your cover out of platinum

INSIDE THIS ISSUE:

EXCHANGE RATES	
USD/N$	13.118
GBP/N$	16.867
EUR/N$	14.713
N$/JPY	8.466
EUR/USD	1.124
GBP/USD	1.289
COMMODITIES	
Brent ($/bbl)	50.76
Gold ($/oz)	1268.92
Platinum ($/oz)	950.01

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STOCK PICK - Vukile

Vukile reported a 7.2% increase in the dividend for the six months ended 31 March 2017 to 89.1cps, which was despite a yield drag resulting from the August 2016 sale of the sovereign portfolio at a 12% yield. The proceeds were utilised to repay R678m debt while R503m was invested in the money market at lower yields. Management has been evaluating opportunities to deploy the proceeds internationally. The group's after tax profit eased 5.5% to R1.5bn (March 2016: R1.6bn) in the period under review which reflected a loss of control of Synergy of R277. This did not affect net profit available for distribution which amounted to R1.12bn representing an increase of 12.2% over the comparable period. Dividends for the year increased by 7.1% to 156.75cps of which 57.2% can be attributed to the second half of the financial year.

Group NAV rose 1.4% to 1868cps implying that at the current 1930cps trading level, the counter is trading at a 3.3% premium to NAV. The LTV based on directors' valuations improved by 8.6% to 29.2% and by 16% to 22.6% when adjusted for net cash. The gearing ratio fell to 23% from 29.5%.

The Southern African property portfolio at 31 March 2017 consisted of 67 properties with a total market value of R13.1bn (excluding non-controlling interests) and gross lettable area of 936,459m². On a gross income basis, the geographic profile of the portfolio is concentrated in Gauteng (37%) and KwaZulu-Natal (21%). Based on market value, 91% of the group portfolio is in the retail sector, followed by 4% in the office, 3% in the industrial, 1% in the motor-related sector and 1% in the residential sector.

SAPOA's Retail Trends report reflects that trading density (annualised sales per m^2) increased by 5.5% y/y in Q4 2016, up from a revised 5.4% in Q3 2016 which was a function of a 4.9% increase in sales and a 0.7% reduction in trading area. This implies an underperformance of mall based retail sales which are more exposed to a diverse merchandise range when compared to StatsSA's retail sales growth of 8.4% which are heavily weighted towards general dealers, and retailers of textiles, clothing, leather and footwear.

It is interesting to note that at a segmental level trading density performance remains divergent with super-regional mall density contracting 1.2% y/y while community centre growth continues (supported by higher vacancies) to outperform all other segments followed by neighbourhood centres. The super-regional vacancy rate is now at its highest level since the beginning of SAPOA's time series in 2003 and more than double its long-term average at 1.6%. Department stores are losing market share across all segments while apparel health and beauty gained market share across all retail formats.

According to SAPOA's operating cost report, "all property" costs for the year ended December 2016 have been generally well contained contracting by 60bp to 34.4% compared to the year ended December 2015. Of the three major sectors, industrial property was the only one to record an increase of 230bp to 32% over 2016. Utilities, rates and taxes remain the principal drivers of costs.

Vukile's results to end March 2017 reflected a 7.4% increase in revenue to R1.4bn and a 3.7% increase in net recurring property expenses to R181.5m which resulted in the property net expense ratio improving to 16.7% from 18.6%. Management reports that new leases and renewals in respect of more than 180,000m² with a contract value of R1.27bn were concluded during the year to date and some 80% of leases to be renewed during the year under review have already been renewed or are in the process there of. At 31 March 2017, the portfolio's vacancy (measured as a percentage of gross lettable area) was 4.3% compared to 3.9% at 31 March 2016. The retail portfolio vacancies based on GLA increased from 3.5% to 3.8%.

The South African economy remains under pressure experiencing its first recession since the global financial crisis with the consumer being particularly vulnerable as unemployment increased to a 14-year high at 27.7%.

According to Econometrix, the biggest driver of reduced economic growth emanates from the steep slowdown in household consumption expenditure, which accounts for more than 60% of GDP, whose growth fell steeply from an annualised 2.2% in Q4 2016, to a 2.3% contraction in Q1 2017. This is most likely indicative of a loss of consumer confidence in the face of political uncertainty and the fear of retrenchment.

Given this observation it is our opinion that retail sales and vacancies in the super-regional mall segment can be expected to remain under pressure in the absence of a meaningful economic turnaround and subsequent resuscitation of consumer confidence. The outlook therefore hinges on tenant retention and cost containment.

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Macro Economics

By Ngoni Bopoto and Alfred Kamupingene

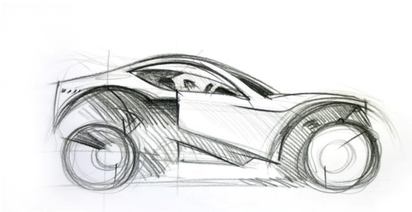
NCPI

- The NCPI indicates that April 2017 annual inflation eased further to 6.7% from 7% as monthly inflation hastened to 0.3% from 0.1% owing to the decline in food and housing & utilities inflation. Goods (+5.6% y/y & +0.3% m/m) led the downside in annual inflation while services (+8.2% y/y & +0.3 m/m) edged higher.
- The combination of a resilient exchange rate, contained international oil prices, lower food prices and improved crop production estimates all lend themselves to a subdued inflation outlook. However, exchange rate developments remain a key risk to the inflation outlook over the medium to long-term.
- The trend indicative 3-month moving average fell to 7.2% from 7.7% as January's annual inflation fell out of the calculation.
- The heavy weight housing & utilities category was unchanged on both a monthly and annual basis, grounded by payments for dwelling. Electricity, gas and other fuels (-0.1% m/m and +8% y/y) remained steady ahead of the Electricity Control Board's approval of an 8% increase (2016: +16.71%) in the tariff of bulk electricity. The increase comes into effect on July 1.
- Food and non-alcoholic beverages edged 0.1% higher m/m (after declining -0.6% in March) and slowed to 5.8% y/y from +7.3% y/y. The production estimate for South Africa's summer crops over the 2016/17 season has risen 72,47%, due to improved rainfall which coupled with a resilient currency has subdued prices. We are likely to experience this relief for the remainder of the year.
- The transport category slowed to 0.2% m/m and edged up to 6.6% y/y on lower monthly operation of personal transport equipment (+0.1% m/m from +2%) and higher purchase of vehicles +8.2% y/y from +6.9%. Fuel prices remained unchanged in April as the exchange rate remained relatively firm and international oil prices were contained below USD50 per barrel.
- Alcoholic beverages & tobacco monthly prices eased to 0.4% m/m after increasing 0.5% in March, and annual inflation for the category decelerated to 3.9% from 4.4%.
- April 2017 monthly inflation for goods rebounded to 0.3% m/m from 0.2%, while services inflation printed 0.3% m/m after remaining unchanged the previous month. On an annual basis, goods inflation fell to 5.6% from 6.3% while services inflation edged higher to 8.2% from

FUEL PRICE DECISION

- The MME keeps the fuel prices unchanged despite an 8c/l increase in the Road User Charge.
- The factors which the MME took into account were:
- Decrease in the FOB by US$4 for ULP Octane 95 and US$3 for Diesel grades.
- Decrease in the pump prices of all fuel products by 8c/l.
- Over-recoveries on all fuel products in the local market
- The BPF import parity situation reflected under-recoveries on all products:
- Octane ULP95 an over-recovery of 22.309 c/l.
- Diesel 0.05%S an over-recovery of 25.266 c/l.
- Diesel 0.005%S an over-recovery of 20.661 c/l.
- Last month we alluded to the fact that OPEC and 11 non-OPEC members were already working on extending the production cut deal beyond June '17. Indeed, on 25 May 2017, OPEC members together with 11 non-OPEC members agreed to extend the current production cut of 1.8mb/d (OPEC cuts by 1.2mb/d and non-OPEC by 0.6mb/d) for a further 9 months. We have also repeatedly stated that such a production cut will not have a material bearing on the price for the following reasons:
- Some OPEC members need to up production to balance their books.
- OPEC is a cartel and cartels, normally, have problems enforcing compliance.
- US shale production is on the rise and is forecast to continue increasing. Based on production, US is now in the same league with Saudi Arabia and Russia. Shale production requires a higher price to be profitable, therefore when prices are low the producer makes up for that through higher production volumes.
- The production cut cannot be extended over a prolonged period because that will prompt a defection out of fears of losing market shares.
- OPEC crude production rose by 65 kb/d in April to 31.78mb/d as higher output from Nigeria and Saudi Arabia more than offset lower flows from Libya and Iran. 8.1%.

VEHICLE SALES



- The new vehicle unit sales upward trend which started in February '17 was short-lived as April '17 recorded a decline. In April '17, a total of 964 new vehicles were purchased compared to 1,403 in March '17. The unit sales were above the long-term average of 832 units and represented a percentage change of -36.0% y/y and -32.6% m/m.

- **Category Growth Rates**
- The XHV seems to be the diamond in the rough.
- PASS: -40.6% m/m and -39.9% y/y to 409 units
- LCV: -23.8% m/m and -33.9% y/y to 489 units

- MCV: -47.8% m/m and -45.5% y/y to 12 units
- HCV: -16.7% m/m and -37.5% y/y at 5 units
- XHV: -27.9% m/m and 10.7% y/y to 31 units
- BUS: No purchases in this category

- **Year-to-Date Situation**
  In descending order, the YTD changes were: XHV at 42%; HCV at 31%; LCV at 29.1%; PASS at 25.0%; MCV at 21.4%. This is a second month in which the XHV records the highest YTD change. The aggregate vehicle sales registered a 27.3% YTD increase to 4410 units.

- **Vehicle Types with the highest sales in February**
  Toyota Hilux: 215 units from 230 units in Mar'17
  Isuzu KB: 52 units from 56 units in Mar'17
  Nissan NP30: 46 units from 55 units in Mar'17
  Ford Ranger: 37 units from 84 units in Mar'17
  Nissan NP 200: 35 units from 47 units in Mar'17

- The new vehicle sales numbers have recorded negative growth in line with the instalment credit extension m/m decline. We believe, the slowdown in vehicle sales numbers is closer to sense than the counterintuitive growth which we saw last month. With government reigning in expenditure, one would expect a let up in the vehicle sales numbers. It is once again heartening to see the XHV maintaining the momentum as that suggests a resilience in economic activities. With expectations of the ZAR to weaken as from June '17*, one would expect the price factor to dampen the sales.
- Econometrix expects the ZAR to weaken from June '17 onwards and projects the exchange rate to be at around R14 to the US$ by the end of the year.

PSCE

- BoN's Money and Banking Report reflects that at N$87.4bn, April 2017 total PSCE annual growth slowed to 8% from 8.5% in March 2017. The 3-month moving average continued its downward trajectory falling to 8.7% from 8.8% (establishing fresh lows since the beginning of our time series in 2012). Monthly growth in PSCE edged 0.1% higher following a 1.1% contraction in March. The pace of growth in individual credit (+8.7% y/y to N$50.86bn) eased marginally, but ticked 0.5% m/m higher after two consecutive monthly contractions (-0.2% in March from -0.8% in February). The N$36.1bn credit extended to businesses recovered to 0.4% m/m while slowing to 7.2% y/y. In absolute terms, total credit extended to the private sector in the year to April 2017 slowed to N$6.76bn from N$6.93bn in March 2017 and N$8.44bn in the corresponding 2016 period.
- The 3-month moving average growth in credit extended to individuals eased to 8.9% from 9.1% in February 2017.
- Over the year to March 2017, individuals accessed N$305.5m in overdrafts and N$281m in instalment credit (compared to N$406.5m and N$370.4m respectively in the year to February 2017), the consecutive monthly declines reflect changes in instalment credit regulations and individuals under pressure.
- Growth in business mortgages increased 0.9% on a monthly basis (+6.8% y/y) to N$10.7bn as overdrafts fell -0.99% m/m to N$8.6bn while other loans and instalment credit contracted (-0.67% m/m and -0.57% m/m respectively).
- The 3-month moving average growth in credit extended to businesses was unchanged at 8.6%.

Money Matters

Naïke Burger

DATE	LOWEST YIELD	AVERAGE YIELD	HIGHEST YIELD	AMOUNT ISSUED
91 DAY TREASURY BILL				
07/04/2017	8.60000%	8.86713%	8.93425%	400 000 000
28/04/2017	8.52752%	8.66833%	8.78843%	350 000 000
Next Tender:	**08/06/2017**			
182 DAY TREASURY BILL				
28/04/2017	9.10133%	9.14352%	9.16000%	350 000 000
26/05/2017	8.29000%	8.59220%	8.64865%	350 000 000
Next Tender:	**15/06/2017**			
273 DAY TREASURY BILL				
05/05/2017	9.19000%	9.38000%	9.45500%	350 000 000
19/05/2017	8.84000%	8.89000%	8.90000%	400 000 000
Next Tender:	**15/06/2017**			
364 DAY TREASURY BILL				
12/05/2015	9.15000%	9.21272%	9.24000%	400 000 000
26/05/2015	8.81000%	8.96652%	8.99433%	400,000,000
Next Tender:	**22/06/2017**			

STOCK	MATURUTY DATE	COUPON RATE	COUPON PAYMENT
GC17	15-Oct-17	8.00%	15 Apr & 15 Oct
GC18	15-Jul-18	9.50%	15 Jan & 15 Jul
GC20	15-Apr-20	8.25%	15 Apr & 15 Oct
GC21	15-Oct-21	7.75%	15 Apr & 15 Oct
GC22	15-Jan-22	8.75%	15 Jan & 15 Jul
GC24	15-Oct-24	10.50%	15 Apr & 15 Oct
GC25	15-Apr-25	8.50%	15 Apr & 15 Oct
GC27	15-Jan-27	8.00%	15 Jan & 15 Jul
GC30	15-Jan-30	8.00%	15 Jan & 15 Jul
GC32	15-Apr-32	9.00%	15 Apr & 15 Oct
GC35	15-Jul-35	9.50%	15 Jan & 15 Jul
GC37	15-Jul-37	9.50%	15 Jan & 15 Jul
GC40	15-Oct-40	9.80%	15 Apr & 15 Oct
GC45	15-Jul-45	9.85%	15 Jan & 15 Jul

Daily Call Interest Rates:
Private Clients <N$1m @ 7.66%
Private Clients >N$1m @ 7.72%
Companies @ 7.72%
Non-Taxable Institutions @ 8.21%

Inflation and Interest rates:

	NAMIBIA	SOUTH AFRICA
CPI	6.70%	5.30%
Repo Rate	7.00%	7.00%
Prime Rate	10.75%	10.50%

The TB tenders were oversubscribed in May 2017:
91 TB's – No 91day TB tender in May
182 TB's - with N$945,800,000
273 TB's - with N$2,003,680,000
364 TB's - with N$2,474,080,000

Fixed Dep Rates	Pvt Clients	Companies
3 months	8.05%	8.10%
6 months	8.40 %	8.45%
9 months	8.45%	8.50%
12 months	8.65%	8.70%

Bank of Namibia's next monetary policy meeting will be held on 14 June 2017.

"An investment in knowledge pays the best interest."
Benjamin Franklin

GOVERNMENT STOCK NEWS FLASH
The next **GC tenders** will be held on Wednesday, 21 June 2017.
Book Closure for the GC18, GC22, GI25, GC27, GC30, GC35, GC37 & GC45 will be on Wednesday, 14 June 2017.
All bonds are currently selling at a discount.
GC20, GC25 and GC30 tenders were **undersubscribed**.
GC18, GC22, GC27, GC35, GC37 & GC45 bonds were **oversubscribed**.
The next **GI's tender** will be held on Wednesday, 28 June 2017.
The newly introduced 12-year bond, GI29 with a coupon of 4.5%, was for the first time issued on 1 June 2017.

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