



**In the midst of this ugly pandemic which has left everyone, perhaps six billion of us citizens of the world, deeply confused amid predictions from countless sages that the world as we know it is never going to be the same again, I am happy to advise that at least the artificial intelligence based system of share market predictive software within my ShareFinder programme is proving as reliable as ever. And it foretells recovery!**

For those of you who take the trouble to notice the figures which I always print at the end of this column, the predictive accuracy of the system has been improving steadily to the extent that it is seldom these days that we make any errors at all. If you page down to the end today you will see that over the past 12 months our accuracy rate has averaged 96.75 percent; a figure that I can say with confidence has never been equalled in the investment community worldwide.

It is quite a far cry from when we first began measuring our accuracy back in January 2002 on which we were quite modest in our scope, making just four predictions and getting all four correct. By the end of that first year we were making five weekly predictions and getting them right an average of 82.36 percent of the time. By the end of the second year we were making eight weekly predictions about the likely direction of market indices and our accuracy rate had increased to 84.38 percent. A year later our rate had again improved to 86.51 percent.

But then it regressed until it settled just above the 80 percent mark all the way until 2013 when it again began a dramatic improvement, ending that year with an overall average of 90.26 percent. And since the programme really began employing the systems we had built into it to analyse why it was not achieving 100 percent and accordingly modifying its own parameters in order to steadily improve its accuracy: and that number has since steadily improved.

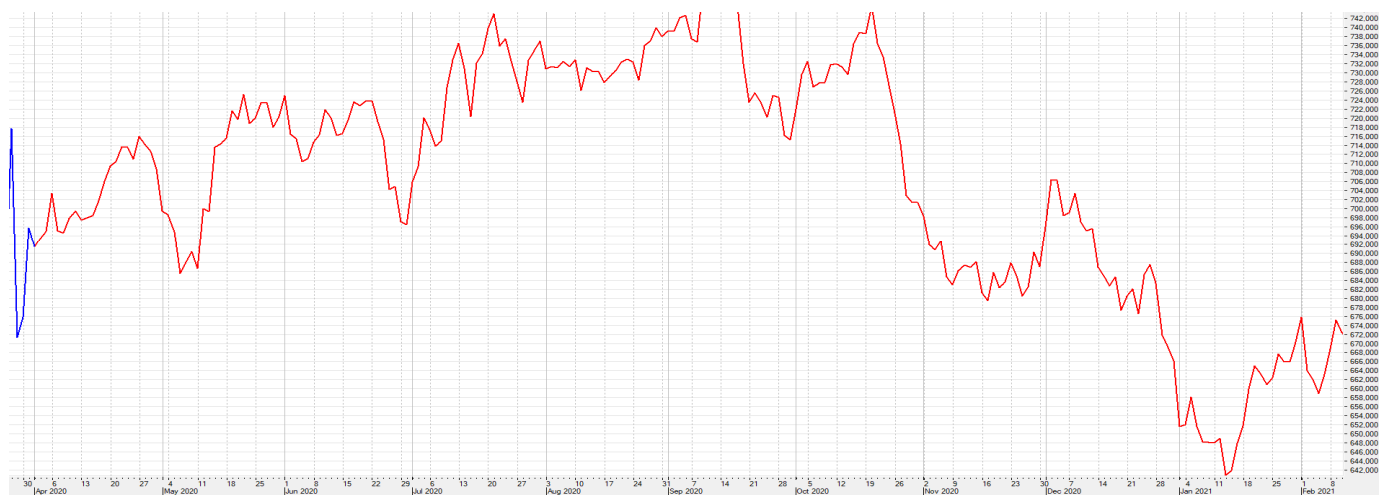
Thus, by the end of 2014 the accuracy rate was 91.03 percent, by the end of 2015 it was 94.32 and there it hovered until just recently it has been creeping up once more to reach 96.75 percent this week.

Such has its reliability become that in recent years I have tended to look at the predictions and then search for the global indicators that justify what ShareFinder expects. All of which is why I was watching with bated breath as exactly as ShareFinder had predicted they would, markets collapsed in February.

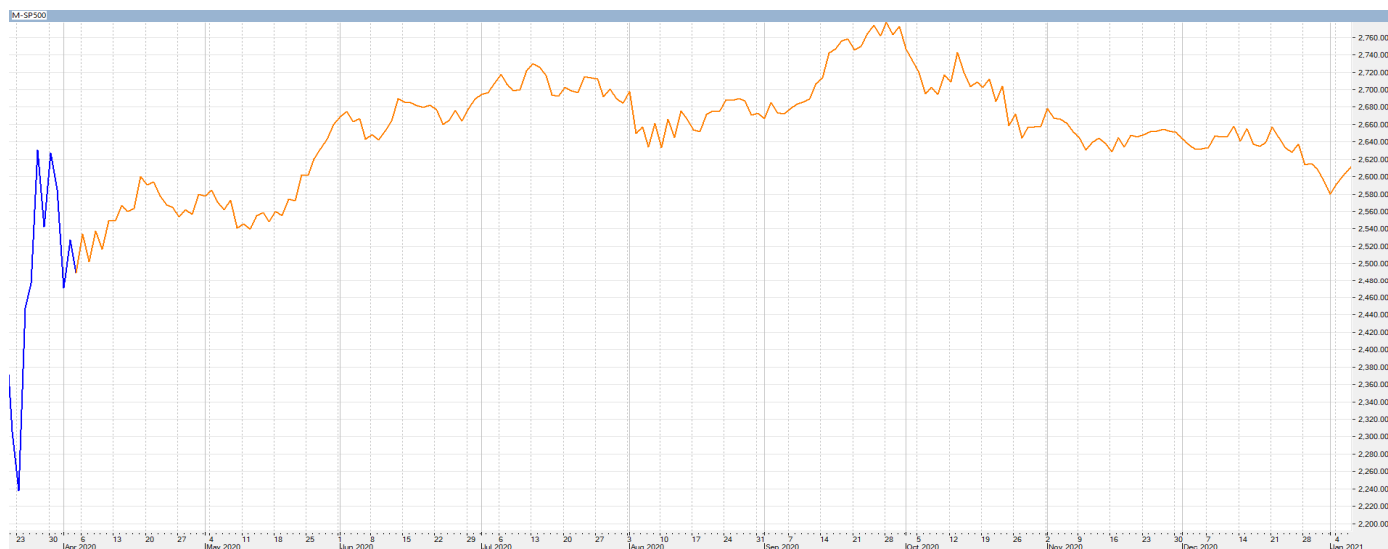
With even greater bated breath, I wondered, when ShareFinder next predicted that they would bottom in March and my poll of the world's most respected financial commentators suggested that markets still had a long way to go further down.

However, I have long learned to trust ShareFinder and so I started buying heavily. I bought Sasol, Hyprop, Zeder, Aspen and Famous Brands and, I am delighted to say that all have so far rewarded me magnificently with the result that since my portfolio bottomed on March 23, it has gained 19.22 percent in value.

I accordingly feel confident when I offer you the following graph of what ShareFinder predicts will happen to our own Blue Chip Index over the next ten months: a volatile recovery until September 9 and then another frightful plunge to the bottom ending on January 13 at a much lower level than March gave us:



My next graph shows that ShareFinder expects the same of Wall Street where it senses a recovery from now until September 28, before it also turns south though perhaps not as severely as the JSE:



As I said, in a world seeming more uncertain than at any time in living memory, I am pretty confident that those graphs will be accurate though the actual dates might be modified by a few days either way as we approach them and new data causes ShareFinder to finer tune its views:

## The month ahead:

**New York's SP500:** I correctly predicted the recovery which I now see lasting until late September.

**London's Footsie:** I correctly predicted the recovery lasting until the end of May, downhill from then until early July and then another recovery until early October ahead of the next big down-turn.

**Hong Kong's Hangsen:** I correctly predicted the bottom at the end of March ahead of a long recovery until January when the next down-turn is likely.

**Japan's Nikkei:** I correctly predicted a short-lived recovery which should be over by the 15<sup>th</sup> and see another one beginning in the second week of May but expect that to be over by mid-June with a down leg until early August before a recovery until late September.

**Australia's All Ordinaries:** I correctly predicted a worsening situation with the down-trend continuing until mid-August before the first hint of recovery.

**JSE Industrial Index:** I correctly predicted that a modest recovery had begun but did not see it lasting much longer than early April. Now I see a sideways decline until late June when a brief recovery will prepare us for further declines until January next.

**Top 40 Index:** I correctly predicted a recovery which I saw lasting until now followed by a decline until late June and then a brief recovery ahead of further declines until next January.

**ShareFinder Blue Chip Index:** I correctly predicted the beginning of a volatile recovery which I still see lasting until early September ahead of the next decline.

**Gold shares:** I correctly predicted further declines which I see lasting until next February.

**Gold Bullion:** I correctly predicted declines which I now see lasting until early June before a long recovery begins.

**The Rand/US Dollar:** I correctly predicted a volatile recovery would get under way. It is likely to be modest, however establishing a semi-permanent new level at around R18 to the dollar.

**The Rand/Euro:** I correctly predicted a volatile recovery until early May followed by weakness mid-July followed by gains until late October.

***The Predicts accuracy rate on a running average basis over the past 742 weeks has been 85.64%. For the past 12 months it has been 96.75%.***

## Richard Cluver

### Meanwhile you might be interested in this, reprinted from the Daily Maverick:

Shopping mall landlords are battling on many fronts, with some tenants struggling to pay rent now that stores are shut and others testing the strength of leases by not wanting to pay rent. Dis-Chem has joined the fray.

When SA's already frail economy reboots after Covid-19 infection numbers stabilise and the lockdown is lifted by the government, shopping mall landlords will probably be in trouble.

Before Covid-19 struck SA, the revenue streams of landlords had been drying up as shopping malls battled with waning foot traffic, growing vacancies and rental areas amid the so-called retail apocalypse.

The three-week closure of non-essential businesses such as restaurants and clothing retailers is bad news for landlords.

The trading ban of businesses means they cannot generate any revenue, which will make it difficult for them to pay rent, the main source of income for landlords.

“Covid-19 was not a perfect storm but a perfect hurricane. It is much worse than a storm,” said Estienne de Klerk, the SA CEO of Growthpoint Properties, which owns Brooklyn Mall in Gauteng, N1 City Mall in the Western Cape and La Lucia Mall in KwaZulu-Natal. De Klerk is also the chair of the SA Reit Association, an organisation representing the interest of real estate companies.

He said the lockdown will hit shopping mall landlords hard because many tenants have been forced to shut their stores, whereas tenants occupying offices and warehouses are still operating (albeit remotely) and generating revenues – thus not affecting their ability to pay rent.

Shopping mall landlords are facing another threat to their income: tenants want rental payment concessions such as not paying rent during the lockdown – even those with deep pockets such as Pepkor (operator of Pep and Ackermans stores) and TFG (operator of Foschini, Totalsports, and Markham).

Dis-Chem has joined the fray, with its founder, Ivan Saltzman, saying the pharmacy group has asked shopping mall landlords to reduce rent for some stores during the lockdown.

“We are still negotiating with landlords,” Saltzman told *Business Maverick*.

Dis-Chem, which usually pays its full rent in advance, wants to pay about 50% of its base rental and a possible top-up payment at the end of April, depending on its turnover.

Unlike Pepkor and TFG, Dis-Chem’s operations have not been disrupted by the lockdown because it has been rendered an essential service provider by the government. Despite this, Dis-Chem said it continues to trade under “very different and difficult circumstances” as it can only sell items that are considered essential, such as medication, which “yield much lower profit margins”.

De Klerk, who in recent weeks has been in emergency meetings with the broader real estate industry in his capacity as chair of the SA Reit Association, said big retailers have to be reasonable.

“We are all facing an unprecedented crisis. But for big retailers that are trading better than normal to say they are not paying rent is not right.

“The challenge is that we, as the real estate industry, have been trying to help small businesses and landlords survive. We have not seen that constructive help from big retailers. If anything, they have been taking cheap shots,” said De Klerk.

## **Relief measures**

The broader real estate industry has offered wide-ranging relief measures to small businesses/tenants in financial distress due to the lockdown.

For April and May 2020, shopping mall landlords will offer small businesses – including restaurants, hairdressers, and travel agents – relief measures such as rental discounts of between 35% to 100%.

Landlords have offered small businesses interest-free rental deferments, whereby the deferred rental will be recovered from 1 July 2020 onwards. In offering these relief measures, shopping malls and other property landlords are expected to sacrifice rental income of between R2-billion to R3-billion, according to De Klerk’s rough calculations.

Shopping malls are a big component of the JSE’s real estate industry, accounting for about 56% of the value of assets that are collectively owned by the more than 25 real estate companies listed on the local bourse. Other assets owned by real estate companies are offices, warehouses, hotels, and residential properties.

Companies that have a big exposure to shopping malls include Hyprop Investments (owner of Rosebank Mall in Gauteng and Canal Walk in the Western Cape), Liberty Two Degrees (Sandton City in Gauteng and Liberty Midlands Mall in KwaZulu-Natal), Vukile Property Fund (East Rand Mall in Gauteng and Pine Crest Centre in KwaZulu-Natal), Redefine Properties (Centurion Mall in Gauteng and Matlosana Mall in the North West), Growthpoint Properties and Reboasis Properties (Baywest Mall in Port Elizabeth and Hemingways Mall in East London).

Although big retailers have vowed to not pay rent, Marc Wainer, a real estate veteran and founder of Redefine Properties, said many landlords have already collected 55% to 65% of their April rent, which “seems normal”.

Beyond the lockdown, Wainer said two possible scenarios will affect the fortunes of shopping mall landlords.

“It’s either people, who are employed and have been working from home, will want to spend their money at malls because they have been held up at home. This will be a good thing for sales and footfall. On the other hand, we will have a big increase in unemployment and people who will not be able to spend at malls”.

Craig Smith, head of research at Anchor Stockbrokers, also believes that shopping mall landlords will come under pressure after the lockdown due to the impact of rent concessions, a possible rise in vacancies and continuation of social distancing in the short-to-medium term unless a Covid-19 vaccine is found or authorities have a good handle on the health issue.

“But bear in mind property is a durable asset and therefore a long-term investment. And humans are by nature social beings. Once this is all behind us, I have every reason to believe that people will want to be entertained and to socialise – it may, however, result in structural changes where certain segments of consumption are ‘migrated’ online based on the adoption of e-commerce during this crisis,” said Smith.

### Retail casualties

There might be some retail casualties post-lockdown such as Edcon, the owner of Edgars and Jet stores that only has enough cash on hand to pay salaries. Edcon isn’t sure if its stores will be able to reopen.

But the exposure of Edcon in shopping malls has been reducing over the past two years as the retailer has closed underperforming stores. Keillen Ndlovu, head of listed property funds at Stanlib, said Edcon now makes up 1% of the combined rental income of JSE-listed real estate companies, which is down from about 2% before the store closures.

*(See below, exposure of real estate companies to Edcon in terms of their rental income)*

REIT	Overall Edcon Exposure
Liberty Two Degrees	4%
Hyprop	3%
Resilient	2%
Redefine	1%
Attacq	1%
Vukile	1%
Growthpoint	1%
Emira	1%
Fortress	1%
Octodec	1%

Source: ASB March 2020

A big question is whether shopping mall landlords themselves are flush with cash, because if tenants default, landlords might, in turn, default on debt payments to banks.

“We believe that banks will support property companies provided they demonstrate appropriate action – defer dividends [payments], reduce [dividend] pay-out ratios, sell assets or cut costs where appropriate,” said Ndlovu.

The loan-to-value (LTV) ratio of many real estate companies isn’t more than 40%. An LTV is a key metric used in the real estate sector to measure a company’s debt against the value of its

assets. A company with an LTV of more than 45% faces the risk of missing debt payments if lenders were to immediately call loan repayments.

Wainer believes LTV ratios in the real estate sector will go up in the next few months.

“This is because we will see property values falling in the next round of valuations. On that basis, if property values fall and the debt remains consistent, then the LTV goes up. But banks, from my discussions with them, are not worried about a breach of debt covenants.” **DM/BM**