



RichardCluverPredicts
In our 33rd year of service to the investing public



Volume: 33

Issue: 37

18 September 2020

South Africa has never in my memory been at such a low ebb of pessimism. Even in the dark days of World War 2 when Rommel's panzers were ripping through the previously invincible "Springbok" forces in North Africa and 3 000 men were missing in action, our spirit of fortitude and optimism about the future kept us going.

Now, though Covid-19 has limited our social gatherings, such interaction as is still happening is frequently dominated by talk of emigration to join children who long ago saw few opportunities for themselves in the future South Africa. It is, in short, a deeply-depressing time made doubly worse for retired folk whose pensions are under threat from a rapacious Government intent upon requisitioning what is left of their post market crash assets to throw at basket case State-owned enterprises.

Those living on dividend income have, furthermore, seen Blue Chip after Blue Chip company declaring that such payouts have been indefinitely postponed in the face of crippling profit collapses. The business outlook is, moreover, deeply clouded by a growing body of "experts" who tell us that the pandemic lock-down was unnecessarily severe; that we killed the economy in our "misplaced zeal" to curb the virus!

Well it is easy to criticize after the event. As someone recently commented, "You can't change your mind after you are dead." We are still alive, all but 15 705 largely elderly folk who, to be brutally honest, were arguably no longer economically active and so could never have been part of the recovery plan.

Meanwhile, as we drown ourselves in our sorrows and our indecision, tomorrow's multi-millionaires are very active. In my experience as a board member of a charity that had some surplus property for sale, I have been surprised at how many buyers are out there combing the market for perceived bargains. They, at least, have been prepared to follow their belief in the future with hard cash...and lots of it.

Of course, it's easy to criticize the boards of top companies for being opportunistic when they have joined in the throng of those deferring dividend payments in the face of commercial uncertainty. Their first priority is, after all, to preserve the welfare of the companies they run in order that they enter the new era of business fit for purpose. If yesterday the smart thing was to over-gear companies in order to take advantage of even marginal profit possibilities, the new watch-word is financial prudence. It is easy to be clever in a booming economy but quite another thing to be a Covid-isolated CEO working alone in an office depleted by the new era of 'working from home' whose company is hemorrhaging cash in an environment of zero sales. Don't blame him if he thus opts for the new normal of shedding marginal profit subsidiaries with the aim of "concentrating on our core businesses."

Tomorrow's winners will, after all, be those companies which enter the new future lean, mean and efficient; ready for new opportunities of expansion once the new normal is upon us...whatever shape that might present.

However, I can't but help believing that although accelerated change is inevitable and major events like pandemics and wars always out of necessity re-shape the future in an often dramatic fashion, the new future will not be all that much different from the past in the way it affects the profits of current heavyweight companies.

Remember how nervous we were when we first ventured out to do necessary things after the first serious lockdown. I recall furiously changing clothing and sanitizing after a long-postponed but necessary visit to SARS and how, with growing relief, I counted the days thereafter as the feared symptoms failed to materialize. But today I had to take a family car in for a service and quite forgot to put on my mask. The point I am making is that we humans adapt rapidly!

As a species we have thrived over the millennia because of our acutely-developed 'fight or flight' skills which have enabled us to constantly re-adapt. But, to return to the SA economy, one needs to recognize that for every prudent businessman who is "trimming his sails" or "getting rid of excess fat," there is a growing band of carpetbaggers picking up bargains. As shareholders we can only hope that those, we vote into leadership positions are the best there is. That, furthermore, is why the fundamental rationale of the ShareFinder exercise is an artificial intelligence based continual search for excellence; for the winners in the commercial race by whose efforts our future prosperity is assured.

But, turning to the latest news, I can't but help believe that those in charge of the property Reits have been taking, in their public mode anyway, an unnecessarily pessimistic view of the immediate future. In the Moneyweb report that I have attached, property Reit Redefine expects vacancies to rise to as much as 2.544 million square metres across the country, which will see the national vacancy rate rise to 13.5%, from 12.3% in June. However, it expects a trend towards the "co-working environment" as opposed to a structural and permanent shift to remote work as "load shedding and data instability hinder employees' ability to work from home".

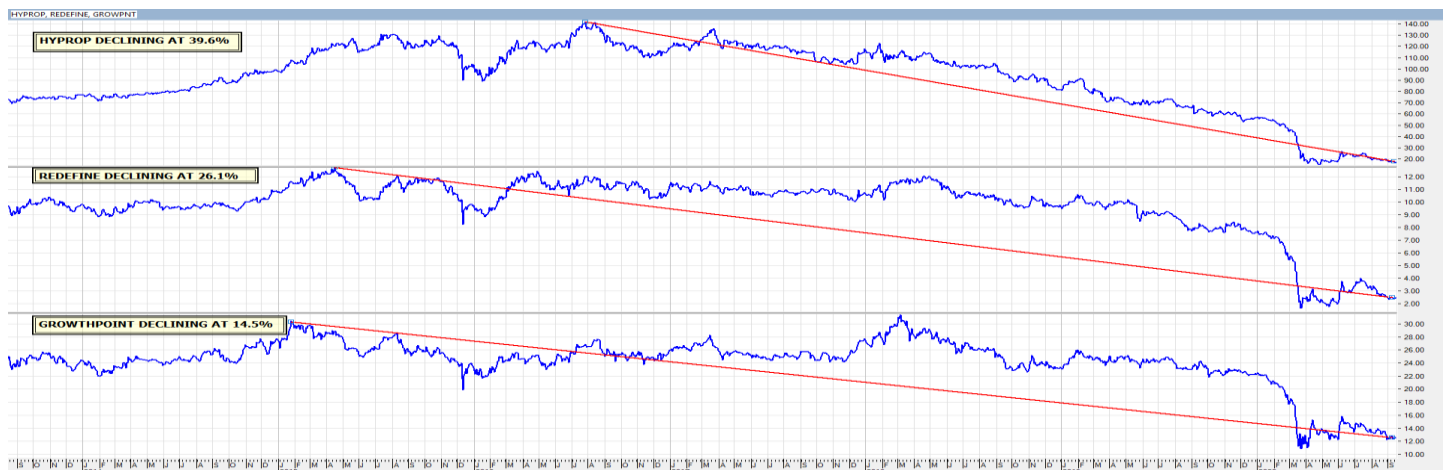
The report also quotes Growthpoint which says that tenants remain "in a state of limbo with a nervousness to commit to new deals." And it is seeing an "increase in liquidations/business rescues with many tenants who were struggling prior to the lockdown unable to turn their businesses around".

Critically, the two companies which between them own nearly 12-million square metres of lettable space, forecast a dramatic rise in vacancies in the future. Redefine predicts that vacancies will "... rise to as much as 2.544 million square metres across the country

Then, yesterday, the third of the big Reits, Hyprop, entered the field with an optimistic update to shareholders which suggested that the company might be shortly announcing some better than expected news with the result that in the first 90 minutes of trading the JSE price leaped 11.18 percent taking its overall increase to R19.18: up 32.16 percent from its April low of R14.47. That is, however, a far cry from its post-April peak of R27.55 reached on June 9 and still dramatically below its July 2016 peak of R141.85 when it was arguably the darling of the property industry. Since then it has declined at a compound annual rate of 39.6 percent.

But are we really to seriously believe that one of the darlings of the property industry is today worth only a tenth of its value of just a few years ago? Surely things cannot be as bad as all that?

Hyprop has not been alone. Redefine has declined at compound annual average rate of 26.1 percent and Growthpoint at 14.5 percent since their respective peaks. Now my question this week is whether Hyprop has broken ranks on a conspiracy of pessimism for, as I recently noted in this column, though these property aristocrats have been standing at mouth-wateringly high historic dividend yields and there has been consistent buying going on, buyers have apparently been careful not to buy in sufficient quantity to disturb the rate of price decline?



Depending on how you view it, buyers have either been taking advantage of one of the greatest bargains of modern times, buying at bargain basement prices in one of the most price-devastated world share markets or they have been blindly stupid!

They have been either the shrewdest or the most foolish investors around!

But yesterday's price leap of Hyprop shares seems to confirm the former view. Only time will tell. But what I have observed is that the shopping crowds seem to be returning to the malls once more, perhaps with less money than before because of the Covid collapse, but I get it that people have been starved of human interaction and the fact that I have had to book early to get a table at some of our best restaurants lately tells me that venues that are public favourites are beginning to boom once again. As one restaurateur commented to me, "We are doing far better business than we were before the lock-down. People seem desperate to get out and about once more."

So, what inspired the Hyprop move? In its note to shareholders yesterday, the company stated, " *In terms of paragraph 13.47 of the JSE Listings Requirements, a REIT must distribute at least 75% of its distributable profits to its shareholders within four months of its financial year end, subject to meeting the solvency and liquidity tests in terms of the Companies Act (the "minimum distribution requirements"). On 26 June 2020 the Financial Services Conduct Authority issued a market notice increasing the period within which REITs, with financial years ending from 29 February 2020 to 30 September 2020, must meet the minimum distribution requirements from four to six months after their financial year end. Accordingly, in order to retain its REIT status, Hyprop is, inter alia, required to make a distribution in compliance with the minimum distribution requirements by no later than 31 December 2020.*

Hyprop's board of directors (the "Board") is considering different options in regard to settlement of the FY2020 interim distribution and declaration of the FY2020 final distribution, having regard to the minimum distribution requirements. Shareholders will be informed of the Board's decisions once the process is completed, but by no later than December 2020.

Does this cryptic notice suggest that the board is considering exceeding the "minimum distribution requirements" or is it looking for a way to pay out less? Market reaction seems to suggest that investors believe the former action but the public will have to wait until next Monday September 21 to know!

Do enjoy your weekend!

The months ahead:

New York's SP500: I correctly predicted that last week's shock decline was likely to be reversed in the short-term until around the 16th after which it would likely be down once more until mid-November. The decline should resume today!

London's Footsie: I correctly predicted a brief recovery which I thought should last until mid-October ahead of a run-down until late January. Now I expect the decline to begin immediately.

Germany's Dax: My prediction that the Dax would continue recovering until the second week of October ahead of a slide down to December has proved true so far and it remains on track for an October 12 peak.

France's Cac 40: I correctly predicted a brief two to three-week recovery which I still see ending around the 23rd. Thereafter it is down-hill to the end of November when a brief upward spike is likely before the down-trend continues to the end of November.

Hong Kong's Hangsen: I correctly predicted a continuation of the overall declining trend that began on August 25. Thereafter I saw a recovery until the end of December ahead of a volatile weakening first half of the New Year.

Japan's Nikkei: I correctly anticipated a recovery which I still see lasting until the 22nd ahead of a volatile declining trend until mid-December and then gains until mid-March.

Australia's All Ordinaries: I correctly predicted a recovery which I expected to end today ahead of a decline until mid-October before a volatile recovery trend begins peaking in mid-February.

JSE Industrial Index: I correctly predicted a fortnight of gains. Now I look to the establishment of a double-top formation with the second peak around September 30 ahead of an extremely volatile declining phase until mid-January.

JSE Top 40 Index: I correctly predicted a decline until early September followed by a recovery for most of the month ending around September 28 followed by volatile declines until mid-November when another upsurge is likely until mid-December ahead of the next down-trend until early-January and another recovery to mid-February when a very volatile sideways trend is likely until the end of May when a sharp decline appears likely.

ShareFinder JSE Blue Chip Index: I wrongly predicted a continuation of the volatile decline which began in early June. But the recovery is likely to be brief and it could be downhill from today to mid-January.

JSE Gold shares: I correctly predicted a recovery which is likely to last until late October before a long decline well into the new year.

Gold Bullion: I correctly predicted a recovery which is likely to continue well into 2021.

The Rand/US Dollar: I correctly predicted gains until the end of this month followed by a down-hill phase until mid-February when another short gain is likely until the end of June.

The Rand/Euro: I correctly predicted brief gains which I expect to be over by the 24th when weakness is likely to resume until late October when, after briefly recovering, fresh weakness is likely from the end of October to the end of December before protracted gains set in.

The Predicts accuracy rate on a running average basis since January 2002 has been 85.93%. For the past 12 months it has been 94.92%.

Reprinted from Moneyweb

What's bothering SA's biggest landlords?

By Hilton Tarrant

Office vacancies in the Sandton market are "likely to rise above 20%" from the 17% level in July, according to one of the largest property groups in the country, Redefine. It and Growthpoint say there are clear behavioural trends reshaping the market post-Covid-19.

Together, these two listed property Reits (real estate investment trusts) own nearly 10 million square meters of gross lettable space. This – and the fact that both have diverse assets spanning the retail, office and industrial segments (and across regions) – means they are good bellwethers for the broader sector.

Last week, Growthpoint reported financial results for the year to June 30, while Redefine held its pre-close investor roadshow at the end of August.

Read:

Resilient delivers dividends, but SA properties devalued by R813m

Growthpoint's debt surges to almost R70bn

Gross lettable area	Growthpoint*	Redefine
Retail	1.4 million m ²	1.4 million m ²
Office	1.7 million m ²	1.2 million m ²
Industrial	2.3 million m ²	1.8 million m ²

* Excluding 50% of V&A Waterfront

Redefine says that in the office segment “consolidation, down-sizing, business failures and remote working” continues to adversely impact demand.

“In addition, corporate restructuring is resulting in large amounts of sub-lettable space coming to market.”

Redefine expects vacancies to rise to as much as 2.544 million square metres across the country, which will see the national vacancy rate rise to 13.5%, from 12.3% in June.

However, it expects a trend towards the “co-working environment” as opposed to a structural and permanent shift to remote work as “load shedding and data instability hinder employees’ ability to work from home”.

Growthpoint says tenants remain “in a state of limbo with a nervousness to commit to new deals” but points out that this has the benefit of tenants wanting to stay in their current premises rather than move in this “uncertain environment.”

It says it is seeing an “increase in liquidations/business rescues with many tenants who were struggling prior to the lockdown unable to turn their businesses around”.

It adds that the full extent of the impact of Covid-19 and structural changes to the office and retail segments is unknown.

Retail

Both groups expect the trend of more business rescues, liquidations and tenant failures to occur in the retail sector as well, “which will increase vacancies”.

Read: [Redefine reports ‘dramatic’ R400m increase in rental arrears](#)

Redefine says because of Covid-19 and the “depressed economy, consumer behaviour is shifting at an accelerated pace to convenience”.

It believes “this is a structural change to consumer behaviour and spending patterns”. As far back as May (when it reported its interim results), Redefine made it clear that the “current preference of neighbourhood/convenience centres [was] becoming the norm”.

It also cautions that “consumers may permanently change their preferred buying channel for certain categories toward e-commerce”.

These factors will force changes in tenant mix at malls across the board.

It does say, however, that there was a “better than expected recovery in retail turnover, in particular apparel and fast food” post the hard lockdown.

Redefine says leasing activity is being driven by tenant retention initiatives and right-sizing retailers' premises, resulting in negative rental reversions – in other words, lower rentals achieved for the same space.

Growthpoint says there is a trend towards short-term renewals at present, “with independents reluctant to commit and nationals taking advantage of the current environment”. It highlights the “value” category as best-performing, and has seen demand from value retailers at two of its malls in upper income areas.

Two further factors placing pressure on vacancies and rentals are “very little demand” for additional space from existing tenants, and “no new entrants”, says Growthpoint (The V&A Waterfront, which it reports on separately, remains resilient, with “an encouraging pipeline of interested prospective new tenants”).

The days of Cotton On or H&M mopping up massive amounts of space are over, while unprofitable vacated Edgars and Jet stores that are not part of the business rescue transaction will weigh on many landlords.

Earlier this year, Redefine was blunt in its assessment of the market: “Struggling malls will no longer be relevant and possibly shut down.”

Industrial

Growthpoint says its industrial “tenants are under pressure, particularly those that manufacture, tenants involved in the supply chain, and those dependant on the hospitality and construction industries”.

It says it has “seen many business failures” and expects many more tenants to “not make it.”

Redefine says Covid-19-induced “operational restrictions are driving warehouse reconfiguration and automation, including sectionalising merchandise, one-way traffic flow, and zoned shift-times for workspace and pause areas”. This could potentially see tenants look to reduce excess space over time.

It says there is pressure from tenants to sign shorter leases, and “market rentals remain flat while municipal tariffs continue to rise”.

It cautions that vacancies are expected to rise – “particularly in secondary nodes impacted by failing municipal infrastructures”.

Interestingly, it highlights that third-party logistics operators are moving from “industrial big box formats” to “establish last mile infrastructure for e-commerce order fulfilment”. This has seen these operators take up space in “other asset classes such as CBD office buildings and converted retail space”. One high-profile example of this is Takealot's pickup points.