The Investment Analysts Journal

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Die Beleggings-ontleders Tydskrif

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Inhoud

This issue in brief

The reaction of bank share prices on the Johannesburg Stock Exchange to increased capital requirements
Capital adequacy requirements have been implemented by the authorities in South Africa to regulate the banking industry. This paper examines the market reaction of the announcement which mandated increased capital requirements in terms of the Deposit-taking Institutions Act of 1990. The announcement of the regulatory change was viewed by investors on the JSE as generally unfavourable. Furthermore, those banks with capital levels which are deficient relative to the mandated levels suffered the largest relative losses. Capital regulation is not the best method of regulating the banking industry. It is suggested that increased use of financial disclosure and market data may be more effective.

Equity Instruments
The issues surrounding the choice of a specific instrument in a rights issue are unclear. There are essentially three different classes of equity instruments; ordinary shares, preference shares and convertible debentures. This paper discusses the merits of each of these instruments with regard to taxation effects, pricing, tradeability, timing and underwriting. The paper suggests that there are no significant differences between a rights issue of preference shares over ordinary shares, but that significant advantages are available through the issue of convertible debentures to shareholders who have lower marginal tax rates than the issuing company. Finally, the advantages and disadvantages of a scrip dividend are examined.

Key words: Preference share; convertible debenture; ordinary share; rights issue; equity instruments; scrip dividend

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The efficiency of the South African Capital Market

There is, of course, a huge international literature regarding the Efficiency of asset markets, generally, and on share market efficiency, particularly. This literature is not confined to 'large' markets, but includes a number of examinations of 'small and/or 'thinly capitalized' markets. In addition to this international literature, there are a significant number of studies of the efficiency of the S.A. share market. It is not too much to suggest that this literature, taken as a whole, indicates that a large number of share markets, including those in 'small' markets, are at least weak-form efficient. Or, as Jensen has said, "there is no other proposition in economics which has more empirical evidence supporting it than the efficient markets hypotheses."

The share market reaction to earnings announcements – a test of the efficiency of the Johannesburg Stock Exchange

The results of this investigation provide strong evidence of investor overreaction to earnings announcement on the JSE during the period 1975-1989. A simple strategy of buying the shares of companies reporting negative earnings would have generated, on average, a positive abnormal return of 12,5% during the year following the negative earnings. It was also observed that companies reporting negative earnings experience considerably larger earnings gains (recoveries) in the first and second year following the test year than do companies not announcing negative earnings. The observed negative earnings effect exists independently of any small-firm effect. Investors are provided with arbitrage opportunities by predicting corporate recoveries – companies reporting two or more successive years of negative earnings whose earnings are about to recover.

The Investment Analysts Journal

Forty-second issue – Summer 1995/6

Looking back over the period of the last eighteen months white South Africans have much reason to be thankful. Before the general election of April 1994 there was cause to be concerned about the future. Violence had risen to an unprecedented level, especially in Natal and on the East Rand, a massive capital outflow had occurred on the balance of payments and the real growth of GDP had declined threatening a vicious circle of deterioration. Worse still, there was every reason to fear that the election itself would not go off peacefully. Indeed, many whites sitting in their comfortable homes, still removed from the carnage happening elsewhere, had reason to wonder whether the country they had previously known had not finally come to the end of the road. The prospect of huge social upheaval loomed in a menacing way. While few doubted that the ANC would win the general election, no-one believed it possible that the ANC, on assuming office, would adopt economic policies largely consistent with the policies that had been advocated by business, the IMF and World Bank, or that it would be an ANC-led government that would, before a year was out, abolish exchange controls on non-residents. From being a protectionist party committed to policies that in all instances would defend labour interests against the interests of business, the ANC was to become not only a promoter of the market economy, but an enthusiast of freer trade and reduced tariff barriers, even if this held out the prospect of job losses in uncompetitive industries. In some respects, the ANC has come to out-business business in the boldness of its new commitment to a broadening of entrepreneurship and an open economic system.

The response of the economy to all this has been encouraging. The growth of real GDP has improved, inflation has fallen and while the balance of payments current account has deteriorated it has done so largely because there has been a surge of imports, mainly of capital goods, that has reflected an impressive revival of real gross domestic fixed investment (GDFI). Furthermore, the deterioration on the BOP current account has been more than off-set by large capital inflows with the result that the net reserves of the Reserve Bank have risen significantly. In short, the political miracle of the 1994 general election has been followed by an economic miracle no less impressive and no less important.

However, all this is now under threat by a new surge of violence both political and criminal. In KwaZulu-Natal scores of people are being killed daily, and in the big cities, but particularly in the greater Johannesburg area, armed robbery has become a mundane, even banal, phenomenon. Car hijackings have skyrocketed and the gratuitous murder of the victims of such theft has become an all too frequent occurrence. Those left unharmed after being dispossessed of their vehicles count themselves lucky. The recent shooting of a much respected young doctor outside the Johannesburg General Hospital is but one event which has sent shockwaves through the white community. Yet it is not the white community alone which is being targeted. Such violence is the everyday experience of the residents of Soweto and the other mainly black townships of Gauteng. The only escape from such threats to life is emigration, but this is not an option for the vast majority of the country's people. Even the relatively well-off are trapped because emigration cannot be contemplated without regard to housing requirements and the need for sustainable income at the other end in a world where exchange control continues

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Twee-en-veertigste uitgawe – Somer 1995/6

'n Terugblik op die afgelope agtien maande gee blanke Suid-Afrikaners baie stof tot dankbaarheid. Voor die algemene verkiesing van April 1994 was daar rede tot kommer oor die toekoms. Geweld het tot ongekende vlakke gestyg, veral in Natal en aan die Oos-Rand. Daar was 'n geweldige kapitaaluitvloei en die reële groei in die BBP het gedaal, wat 'n dreigende bose kringloop van agteruitgang voorspel het. Nog erger was die vrees dat die verkiesing nie vreedsaam sou verloop nie. Trouens, menige blanke wat rustig tuis gesit het, verwyderd van die slagting elders, het met rede gewonder of die land van weleer finaal tot 'n einde gekom het. Die vooruitsig van 'n groot sosiale omwenteling was immer dreigend. Terwyl daar min twyfel was dat die ANC die algemene verkiesing sou wen, het niemand geglo dat 'n ANC-bewind 'n ekonomiese beleid ooreenkomstig 'n beleid soos deur die sakewêreld, die IMF en die Wêreldbank voorgestaan, sou volg nie, of dat hulle in minder as 'n jaar valutabeheer op nie-inwoners sou ophef nie. Vanaf 'n proteksionistiese party, verbind tot 'n beleid wat arbeidsbelange deurlopend ten koste van sakebelange sou verdedig, het die ANC nie alleen 'n kampvegter van die markekonomie geword nie, maar ook 'n voorstander van vryer handel en verminderde tariewe, al sou dit verlies aan werksgeleenthede en nie-mededingende nywerhede tot gevolg hê. In sommige opsigte het die ANC sakelui getroef deur die waagmoed van sy nuwe verbintenis tot 'n verbreding van entrepreneurskap en 'n oop ekonomiese stelsel.

Die ekonomie se reaksie was bemoedigend. Die BBP-groei het verbeter, inflasie het afgeneem, en alhoewel die lopende rekening van die betalingsbalans verminder het, was dit hoofsaaklik die groot toename in invoere, veral van kapitaalgoedere, wat 'n indrukwekkende oplewing in reële bruto vaste binnelandse investering gereflekteer het. Verder het die groot kapitaalinvloei meer as kompenseer vir die verswakking van lopende rekening, met die gevolg dat die Reserwebank se netto reserwes betekenisvol gestyg het. Kortom, die politieke wonderwerk van die 1994 algemene verkiesing is gevolg deur 'n ewe indrukwekkende en belangrike ekonomiese wonderwerk.

Hierdie omstandighede word egter tans bedreig deur 'n nuwe vlaag van geweld, polities sowel as krimineel. Talle mense word daagliks in KwaZulu-Natal vermoor, en in die groot stede, veral die Johannesburg omgewing, het gewapende roof 'n alledaagse, selfs banale verskynsel geword. Motorkapings het die hoogte ingeskiet, en die sinlose moord van die slagoffers van sulke diefstalle kom te dikwels voor. Diegene wat ongedeerd afkom nadat hulle van hul voertuie beroof is, ag hulself gelukkig. Die onlangse skietvoorval voor Johannesburg se Algemene Hospitaal waartydens 'n gerespekteerde jong dokter gesterf het, is maar een van vele insidente wat skokgolwe deur die wit gemeenskap gestuur het. Dit is egter nie net die wit gemeenskap wat die teiken is nie. Hierdie soort geweld is alledaags vir die inwoners van Soweto en die ander oorwegend swart dorpsgebiede van Gauteng. Emigrasie is die enigste manier om sulke lewensbedreidings te ontsnap, maar ongelukkig is hierdie opsie vir min van Suid-Afrika se mense beskore. Selfs die relatief welvarendes is vasgevang, want emigrasie sonder die nodige behuising en 'n lewensvatbare inkomste aan die ander kant in 'n wêreld waar valutabeheer toegepas word, waar na-belasting inkomste uit spaargeld laag is, tesame met die eroderende effek van inflasie differensiale, veroorsaak dat slegs die super-rykes en jong professioneelgekwalifiseerdes dit regtig kan bekostig om die land te ver-

to be applied to emigrants, where after tax returns on savings repositories are low and/or where such returns face the eroding effects of inflation differentials on exchange rates. Only the super rich and the young professionally qualified can really afford to go. Not surprisingly, the braindrain, which has characterised South Africa since Sharpeville, but expecially since the Soweto riots of 1976, has worsened with all its obvious implications for the economy in the long run.

But the current surge of violence does not only have long run effects on the economy. It has short run effects also and these are beginning to become troublingly visible. Most important is the impact on consumer and investor confidence. The September Quarterly Bulletin of the Reserve Bank reveals that the first half of 1995 was a good period for growth in South Africa. Private consumption expenditure (PCE) in real terms increased by 3,8 per cent per annum compared with the first six months of 1994 while the growth of real GDFI on a similar basis was 11,7 per cent (both rates of increase reflecting a substantial improvement on the year-on-year growth rates of 1994 and 1993). However, this picture is beginning to change. Although the momentum of real GDFI growth can be expected to continue during the remaining months of 1995, the position with real PCE is more problematic. Since April, with the exception of September, the volume of retail sales (which exclude motor vehicle sales) has actually declined in seasonally-adjusted terms and since September appears to be reflecting a new mood of consumer caution. A quietness has descended on the shopping centres of the land which is reminiscent of the quietness that in the past has settled like a cloud of gloom after periodic surges of socio-political turbulence. Following the Soweto riots, for example, the economy but PCE in particular (by far the largest component of total domestic spending) became so subdued that it took nearly four years to engineer a recovery, and even then monetary and fiscal policy remained ineffective until an extra boost was provided by a huge rise in the gold price in January 1980. If the consumer is to go back into his/her shell like he/she did between 1976 and 1980, much of the increase in manufacturing capacity now being put in place will come to be seen as having been misjudged. That will not be good for employment growth, still the central policy issue in South Africa. Crime may have its roots in poverty and unemployment, but it is also clear that poverty and unemployment can be perpetuated by crime if something drastic is not done to stamp it out before it spreads to engulf too large a proportion of the poor and jobless. That something drastic must include a greater quantum of law enforcement, to be sure, but it is clear as well that what is needed in addition is a more effective anti-crime strategy, and greater technical proficiency and burcaucratic competence at an operating level. Breaking the back of organised, syndicated crime (the real problem behind the car hijacking phenomenon) has become an urgent priority, almost whatever the cost. If such crime is not dealt with effectively now, its cost later, in lives lost and in the loss of property, in lost real GDP growth, lost employment growth and capital flight, will be far greater.

THE EDITOR

laat. Die breinerosie wat kenmerkend is van Suid-Afrika sedert Sharpeville, maar veral sedert die Soweto-opstande van 1976, het, nie onverwags nie, toegeneem met al die ooglopende implikasies vir die langtermyn ekonomiese ontwikkeling.

Die huidige golf van geweld hou egter nie slegs langtermyn gevolge vir die ekonomie in nie. Dit het ook korttermyn gevolge, wat algaande ontstellend duidelik word, veral die impak wat dit op verbruikers- en beleggingsvertroue het. Volgens die September-uitgawe van die Reserwebank se Kwartaallikse Bulletin, was die eerste helfte van 1995 'n periode van groei in Suid-Afrika. Privaat verbruikersbesteding het in reële terme met 3,8 persent per jaar toegeneem vergeleke met die eerste ses maande van 1994, terwyl die groei in reële bruto binnelandse vaste investering op 'n soortgelyke basis 11,7 persent was (beide koerse se toename reflekteer 'n substansiële verbetering op die jaar-op-jaar groeikoerse van 1994 en 1993). Hierdie scenario is egter besig om te verander. Alhoewel verwag kan word dat die momentum van reële investering-groei sal voortduur gedurende die res van 1995, is die reële privaat verbruiksbesteding-situasie meer problematies. Die volume van kleinhandelverkope (uitsluitende motorverkope) het sedert April in seisoensaangepaste terme in werklikheid afgeneem, met die uitsondering van September, en weerspieël 'n nuwe gees van verbruikersomsigtigheid. 'n Stilte het op die land se winkelsentrums gedaal wat herinner het aan die stilte wat in die verlede soos 'n donker wolk kom lê het na periodieke golwe van sosio-politieke turbulensie. Na die Soweto-onluste, byvoorbeeld, het die ekonomie, veral privaat verbruiksbesteding, by verre die grootste komponent van die totale binnelandse besteding, só gedemp geraak dat dit bykans vier jaar geneem het om te herstel. Selfs tóé het monetêre en fiskale beleid oneffektief gebly tot die inspuiting van die groot goudprysstyging in Januarie 1980. Sou die verbruiker weer in sy/haar dop kruip soos tussen 1976 en 1980 die geval was, sal die toename in vervaardigingskapasiteit, wat tans besig is om te vestig, gesien word as 'n verkeerde berekening. Dit voorspel niks goeds vir groei in werksgeleenthede nie, iets wat steeds 'n sentrale beleidskwessie in Suid-Afrika bly. Misdaad mag wel sy wortels in armoede en werkloosheid hê, maar dit is ook duidelik dat armoede en werkloosheid deur misdaad perpetueer kan word indien iets drasties nie gedoen word om dit uit te wis voordat dit versprei en 'n te groot verhouding van die armes en werkloses verswelg nie. Dat iets drasties 'n groter kwantum wetstoepassing moet insluit, is seker, maar dit is ook duidelik dat 'n meer effektiewe anti-misdaad strategie nodig is, asook groter tegniese bedrewenheid op operasionele vlak. Die neutralisering van georganiseerde sindikaatmisdade (die werklike probleem onderliggend aan die groot aantal motorkapings) het 'n dringende prioriteit geword, ongeag die koste daaraan verbonde. Indien sulke misdade nie nou vasgevat word nie, sal die koste later, in terme van lewensverlies, verlies aan eiendom, verlore reële BBP-groei, verlore werksgeleenthede en kapitaaluitvloei, veel groter wees.

DIE REDAKTEUR