

AFRICA RISK CONSULTING**South Africa Monthly Briefing May 2018**

South Africa Summary 24 May 2018

North West Province premier Supra Mahumapelo resigns after weeks of violent protests over alleged corruption in the province. Bus company representatives and union officials reach an agreement to end the national bus strike that crippled South Africa's transportation sector from 18 April. South Africa-based construction company Murray & Roberts reaches a potential takeover agreement with South Africa-based construction group Aveng following an attempted hostile takeover in April of Murray & Roberts by its largest shareholder, Germany-based and family-owned investment company Aton GmbH.

North West Province premier Supra Mahumapelo resigns after weeks of protests

North West Province premier **Supra Mahumapelo** resigned on 23 May after weeks of violent protests over alleged corruption in the province.¹ Protests began in early April calling for Mahumapelo to step down as premier due to allegations of corruption since he took office in 2014.² Citing an example of Mahumapelo's alleged corrupt activities, **Young Communist League** chairman **Thapelo Galeboe** noted that Mahumapelo hired **Thabo Lekalakala** as head of department to deliver anti-retroviral drug treatment, despite not having the credentials for this role.³ Mahumapelo later suspended Lekalakala on 19 April over a deal Lekalakala made with **Gupta**-linked company **Mediosa** for mobile clinics that was seen as a corrupt transaction.⁴ Protestors also stated that service delivery and standards had dropped since Mahumapelo replaced **Thandi Modise** as premier.⁵

Mahumapelo initially announced his resignation on 8 May⁶ after pressure from **African National Congress (ANC)** members including President **Cyril Ramaphosa** (2018-present).⁷ However, Mahumapelo later backtracked after receiving support from the ANC North West chapter, which went against the ANC decision for Mahumapelo to step down.⁸ Mahumapelo said that he takes instructions from the provincial chapter of the ANC, and hence would no longer be resigning.⁹ Protests resumed after Mahumapelo's refusal to step down, leading to the unprecedented decision for the national government to take over the administration of the provincial government on 13 May.¹⁰ Ramaphosa has the power to do this under section 100(1) of the constitution, which states

"...when a province cannot or does not fulfil an executive obligation in terms of the Constitution or legislation, the national executive may intervene by taking any appropriate steps to ensure fulfilment of that obligation."¹¹

¹ Business Day, 23 May 2018.

² Sowetan Live, 23 Apr 2018.

³ Sowetan Live, 23 Apr 2018.

⁴ Sowetan Live, 23 Apr 2018.

⁵ Sowetan Live, 23 Apr 2018.

⁶ IOL, 8 May 2018.

⁷ Times Live, 6 May 2018.

⁸ EWN, 9 May 2018.

⁹ EWN, 9 May 2018.

¹⁰ Times Live, 13 May 2018.

¹¹ South African Constitution, 1996.

Ramaphosa also appointed minister in the presidency **Nkosazana Dlamini-Zuma** to investigate graft and corruption in the province.¹² While Dlamini-Zuma did not name Mahumapelo explicitly, she stated on 16 May that the investigation would look at allegations against “*anyone and everyone*”.¹³

Mahumapelo reportedly attempted to increase his support base after the national government assumed all provincial powers – which effectively removed Mahumapelo’s *de jure* power – but made the decision to resign due to the mounting corruption investigations. A source at the directorate for priority crime investigation (**Hawks**) stated that all corruption cases in the North West “*have Supra’s hands in it some way*”.¹⁴

A high-level ANC official said Mahumapelo is not afraid of being put under administration:

*“What he is worried about is what they will find, and then the charges. The Hawks are not far away from him.”*¹⁵

Before Mahumapelo resigned, the **Democratic Alliance** laid a criminal complaint on 16 April against him and **Zwelakhe Ntshepe**, CEO of state-owned arms manufacturer **Denel**, over a R1.1m (\$88,500) bursary to Mahumapelo’s son to become a pilot.¹⁶ Ntshepe resigned over the bursary after just six months as Denel CEO.¹⁷ Mahumapelo will face further corruption charges as the investigation continues. Despite his resignation, Ramaphosa and the ANC are unlikely to drop or reduce any future charges. Ramaphosa plans to head into the 2019 elections as an anti-corruption czar; Mahumapelo, who actively fought back against the national executive and reportedly plundered the North West province’s treasury, will not receive any lenience from Ramaphosa.

Mahumapelo, an ally of former President **Jacob Zuma** (2009-2018) and former backer of Dlamini-Zuma’s ANC presidency campaign, may follow Zuma’s lead with regard to legal issues and delay proceedings for as long as possible (see *ARC Briefing South Africa April 2018*). Mahumapelo remains the ANC provincial chair,¹⁸ which gives him a certain amount of power as long as his allies, who may also be implicated for corruption, do not turn against him. Media reports note that some ANC members, who also supported Dlamini-Zuma’s bid for ANC president, are concerned that Ramaphosa is dealing with them one by one¹⁹ and have been lobbying other ANC members to prevent this suspected purge.²⁰ Mahumapelo’s time appears to be running out, however, as his power base crumbles and former allies such as **Dakota Legoete** speak out against him and corruption.²¹ Other ANC officials, who enjoyed the free reign during the Zuma tenure, are also no doubt concerned about when it will be their turn to face Ramaphosa’s anti-corruption music.

National bus strike ends but ‘strike season’ is just beginning

Bus company representatives and union officials reached an agreement on 14 May that ended the national bus strike, which crippled South Africa’s transportation sector from 18 April.²² The strike, organised by the **National Union of Metalworkers of South Africa (Numsa)**, the **Transport and Omnibus Workers Union (Towu)**, the **Transport and Allied Workers Union of South Africa (Tawusa)** and the **Tirisano Transport and Services Workers Union**, began after wage negotiations deadlocked as unions rejected the initial 7% wage increase offer.²³ The unions had asked for a 12%

¹² Business Day, 16 May 2018.

¹³ Business Day, 16 May 2018.

¹⁴ EWN, 14 May 2018.

¹⁵ EWN, 14 May 2018.

¹⁶ eNCA, 15 May 2018.

¹⁷ eNCA, 15 May 2018.

¹⁸ News24, 23 May 2018.

¹⁹ News24, 6 May 2018.

²⁰ News24, 6 May 2018.

²¹ News24, 6 May 2018.

²² EWN, 19 Apr 2018.

²³ The Citizen, 30 Apr 2018.

increase, and finally agreed to a 9% wage increase from April 2018 followed by an 8% increase in April 2019.²⁴

The national bus strike preceded the start of ‘strike season’ in **South Africa**, so called as strikes increase due to the number of contracts that expire around this time.²⁵ In addition to the wage negotiations for transport employees, the government has also negotiated wage increases with public sector unions (which agreed to a 7% increase)²⁶ and continues to negotiate with health care workers in the North West, which has been under national government administration since 13 May (see above).²⁷ The government is also planning to pass a national minimum wage, which will result in further protest action. The **South African Federation of Trade Unions (Saftu)** held a general strike on 25 April in protest against the national minimum wage, which is proposed at R20 (\$1.60) per hour.²⁸ Saftu is also opposed to proposed changes to labour laws, which puts up more hurdles for unions before they strike.²⁹

South Africa has a strong labour union culture and there are valid arguments that the high number of strikes and protests inhibits business- and employment-creation opportunities.³⁰ However, department of labour data shows that the number of strikes have not increased over the past decade, are resolved within two weeks, and are usually peaceful.³¹ In addition, further research looking at the depth of strike activity (the number of working days lost) and the strikers’ intensity (the number of strikers per 1,000 employed workers) found South Africa’s depth of strike activity to be lower than that of the **United States, Brazil and India**, and that South Africa’s strikers’ intensity was comparable to **European** states and lower than **Spain and Italy**.³² Thus, even if parliament is able to pass the new labour laws, companies should not expect a decrease in the amount of strike action, but possibly an increase, as labour unions attempt to demonstrate to government their influence ahead of the 2019 elections.

M&R plans expansion despite potential takeover from Germany-based shareholder

South Africa-based construction company **Murray & Roberts (M&R)** reached a potential takeover agreement with South Africa-based construction group **Aveng** on 18 May.³³ The takeover comes after **Germany**-based family-owned investment company, **Aton GmbH**, which is Murray & Roberts’ largest shareholder, attempted a hostile takeover of Murray & Roberts in April.³⁴ Aton offered R15 (\$1.20) per share, which values Murray & Roberts at R6.7 billion (\$539m), but the Murray & Roberts board rejected the offer as “*materially undervaluing*” the company.³⁵ The M&R board values the company at about R9.6 billion (\$773.2m), or R20 (\$1.60) per share.³⁶ The state-owned **Public Investment Corporation**, which is Murray & Roberts’ second largest shareholder with a 12.6% share, also rejected the offer and stated it was undervalued.³⁷

Murray & Roberts is publicly traded on the **Johannesburg Stock Exchange**. Some shareholders, including investment company **Allan Gray**, have agreed to sell their stocks for R15 per share, despite

²⁴ Times Live, 14 May 2018.

²⁵ MoneyWeb, 12 Jul 2011.

²⁶ eNCA, 21 May 2018.

²⁷ IOL, 4 May 2018.

²⁸ Times Live, 24 Apr 2018.

²⁹ Times Live, 24 Apr 2018.

³⁰ Multiple sources: Destiny Connect, 29 Sep 2017; Business Tech, 17 Sep 2015; IOL, 24 Aug 2014.

³¹ Mail & Guardian, 30 Apr 2018.

³² Mail & Guardian, 30 Apr 2018.

³³ eNCA, 18 May 2018.

³⁴ Business Day, 19 May 2018.

³⁵ Business Day, 19 May 2018.

³⁶ Fin24, 5 Apr 2018.

³⁷ EWN, 17 Apr 2018.

the stock trading around R14.27 on news of the potential takeover.³⁸ Aton was able to purchase an additional 6,600 shares on 22 May, increasing its stake from 33% to 39.8%.³⁹

Aton has said it will not support Murray & Roberts' proposed takeover of Aveng:

*"[It] reflects an underdeveloped and rushed outline of a potential transaction with a speculative rationale [and would] ... impose significant and unpredictable risk to [Murray & Roberts]."*⁴⁰

Murray & Roberts board has said it plans to engage with Aton "regarding the merits of the potential transaction in order to procure its support".⁴¹

Murray & Roberts has negotiated with Aveng since November 2017 and were reportedly interrupted by Aton's "surprise" takeover offer.⁴² Aton sees the Aveng takeover as a way to "frustrate" its own proposition to shareholders and claim it may infringe upon section 126(e) of the **Companies Act**, which states that:

*"If a board of a regulated company believes that a bona fide offer might be imminent, or has received such as offer, the board must not... sell, dispose of or acquire, or agree to sell, dispose of or acquire, assets of a material amount except in the ordinary course of business."*⁴³

Aton will continue its purchase of shares from Murray & Roberts, but will struggle to take control of the company due to the objections of the PIC, which also sees the offer as undervalued.

Planner

May 2019: Next presidential election

12 Nov 2018: Proposed date for the start of Zuma's trial

30 Aug 2018: Committee to present report on amending constitution for expropriation of land without compensation

25 May 2018: S&P ratings announcement scheduled

Chronology

23 May 2018 **(South Africa)** *Reuters*. President **Cyril Ramaphosa** establishes an inquiry into tax administration and governance at the **South African Revenue Service**;

23 May 2018 **(South Africa)** *Reuters*. South Africa-based gold miner, **AngloGold Ashanti**, plans to cut 2,000 jobs;

23 May 2018 **(South Africa)** *FT*. **North West** province premier, **Supra Mahumapelo**, an ally of former President **Jacob Zuma**, resigns after on-going violent protests in the province;

21 May 2018 **(South Africa)** *702.co.za*. The Presidency files a notice to the **Pretoria High Court** stating it will not oppose the **Democratic Alliance's** bid to have former President **Jacob Zuma** pay back his R15.3m (\$1.2m) in legal fees;

21 May 2018 **(South Africa)** *Reuters*. Government agrees to increase public sector salaries by 7%, though the treasury flags the increase as a large risk to limit government spending;

18 May 2018 **(South Africa)** *Reuters*. **South Africa**-based construction company, **Murray & Roberts**, agrees to buy construction company, **Aveng Ltd**, but **Germany**-based **ATON**, the

³⁸ Fin24, 5 Apr 2018.

³⁹ Engineering News, 22 May 2018.

⁴⁰ Reuters, 18 May 2018.

⁴¹ Business Day, 18 May 2018.

⁴² Business Day, 21 May 2018.

⁴³ South African Companies Act, 9 Apr 2009.

largest shareholder of Murray & Roberts, says it will not support the takeover;

18 May 2018 **(South Africa)** *Reuters*. **Eskom** evacuates all contractors from **Kusile** power station after violent protests over pay;

16 May 2018 **(South Africa)** *The South African*. The department of justice works with the **United Arab Emirates** to finalise an extradition treaty, which may result in the **Gupta's** being extradited to South Africa to face trial for corruption;

15 May 2018 **(South Africa)** *IOL*. **Statistics South Africa** announces that youth unemployment rose to 52.4% in the first quarter of 2018, up from 51.1% in the fourth quarter of 2017;

15 May 2018 **(South Africa)** *Business Day*. **South African Airways'** CEO, **Vuyani Jarana**, states that the state-owned airline will need R21.7 billion (\$1.7 billion) over the next three years to turn the company around and become profitable;

15 May 2018 **(South Africa)** *Reuters*. **South Africa** sells \$2 billion of bonds due to mature in 2030 and 2048 on the international capital market to finance foreign currency commitments;

14 May 2018 **Johannesburg (South Africa)** *IOL*. **United States**-based investment banking group **Goldman Sachs** says it may raise its forecast for South Africa's economic growth;

13 May 2018 **Mahikeng (South Africa)** *BBC*. South Africa's national government takes over direct administration of the **North West Province** after corruption allegations led to violent protests;

13 May 2018 **Durban (South Africa)** *Reuters*. The **South African Police Service** discovers a suspected explosive device at a mosque in Durban, one week after a fatal knife attack;

9 May 2018 **North West Province (South Africa)** *Business Day*. North West premier **Supra Mahumapelo** withdraws his resignation after learning that his chosen successor would not succeed him, despite agreeing to resign days earlier in a meeting with President **Cyril Ramaphosa** ;

9 May 2018 **(South Africa)** *Mining Weekly*. The **National Union of Mineworkers (NUM)** submits wage hike demands of 37% over a two-year period to the **Chamber of Mines**;

8 May 2018 **Cape Town (South Africa)** *Business Day*. The **Democratic Alliance (DA)** party announces that Cape Town's mayor, **Patricia de Lille**, is no longer a party member;

8 May 2018 **Durban (South Africa)** *Business Day*. **United Kingdom**-based airline **British Airways** announces a direct flight from **London** to Durban three times a week from 29 October 2018;

8 May 2018 **(South Africa)** *Bloomberg*. South Africa-based **Aspen Pharmacare Holdings Ltd** announces plan to relocate the production of some of its drugs from **Europe** to South Africa;

4 May 2018 **(South Africa)** *Bloomberg*. **Danie van der Merwe**, acting CEO of **Steinhoff International Holdings NV**, repays a R26.4m (\$2.1m) loan backed by company shares he took out a week before their stock collapsed due to an accounting scandal;

3 May 2018 **(South Africa)** *Business Day*. **Barclays Africa** fires **KPMG SA** as its auditor;

3 May 2018 **(South Africa)** *News 24*. Top officials of the ruling **African National Congress (ANC)** will meet with North West Premier **Supra Mahumapelo** after the majority of the ANC's national working committee vote to recall him from office;

2 May 2018 **Cape Town (South Africa)** *Mail and Guardian*. Cape Town mayor **Patricia de Lille** will make her case to the **Democratic Alliance (DA)** federal executive to keep her role after an internal vote of no confidence against her is passed;

2 May 2018 **(South Africa)** *Business Day*. The **United States (US)** rejects South Africa's request

for an exemption from US President **Donald Trump**'s aluminium and steel tariffs;

26 Apr 2018 **North West Province (South Africa)** *Mail and Guardian*. Three of four planned meetings fail to go ahead between **African National Congress (ANC)** members and **ANC National Executive Committee (NEC)** and **National Working Committee (NWC)** regarding the fate of the North West premier **Supra Mahumapelo**;

26 Apr 2018 **Johannesburg (South Africa)** *Business Day*. Transport minister **Blaze Nzimande** and labour minister **Mildred Oliphant** meet with bus companies and labour unions in a bid to end a national bus strike;

26 Apr 2018 **(South Africa)** *Business Day*. The **National Prosecuting Authority (NPA)** withdraws its attempt to freeze the **Gupta-owned Optimum** and **Koornfontein** mines rehabilitation trusts;

26 Apr 2018 **(South Africa)** *Reuters*. Businessman **Christo Wiese** launches \$5 billion lawsuit against **Steinhoff**, a retail company of which he was a board member, after Steinhoff uncovered accounting irregularities that caused its share price to crash;

25 Apr 2018 **(South Africa)** *Associated Press*. Thousands of members of the **South African Federation of Trade Unions** protest the proposed R20 (\$1.60) minimum hourly wage;

25 Apr 2018 **Klerksdorp, North West Province (South Africa)** *Business Day*. Protests and looting spread to Klerksdorp Township following protests in **Mahikeng** regarding the corruption of North West premier **Supra Mahumapelo**;

25 Apr 2018 **(South Africa)** *Reuters*. South African unions prepare to march against the proposed R20 (\$1.6) minimum hourly wage;

25 Apr 2018 **Cape Town (South Africa)** *Business Day*. Parliament agrees that their inquiry into former mineral resources minister **Mosebenzi Zwane** will focus on his maladministration, in particular his role in facilitating the sale of **Glencore** assets to **Tegeta**;

24 Apr 2018 **(South Africa)** *Business Day*. The disciplinary process against **South African Revenue Service** commissioner **Tom Moyane** is set to begin after settlement talks failed following Moyane's suspension from the post;

24 Apr 2018 **(South Africa)** *IOL*. Parliament plans to question cabinet ministers over the naturalisation of the controversial **Gupta** family;

23 Apr 2018 **Durban (South Africa)** *News 24*. Protests on **Umgeni Road**, Durban, allegedly over the destruction of homes, leave one person seriously injured;

23 Apr 2018 **Johannesburg (South Africa)** *Business Day*. Audit firm **Nkonki**'s largest office applies for voluntary liquidation after the auditor general terminates their contracts and executives fail to buy out their disgraced majority shareholder, **Mitesh Patel**;

23 Apr 2018 **(South Africa)** *Business Day*. **Airports Company SA (Acsa)** board, and risk and audit committee, members **Siyakhula Simelane** and **Steven Mabela** resign citing political overreach;

23 Apr 2018 **(South Africa)** *Bloomberg*. **Eskom Holdings SOC Ltd**'s bond issuance is up on last year's figures, showing increased investor confidence in Eskom;

20 Apr 2018 **(South Africa)** *Business Day*. President **Cyril Ramaphosa** suggests the **African National Congress (ANC)**'s national working committee will discuss the fate of **North West** premier **Supra Mahumapelo** on 23 April after violent protests in **Mahikeng**;

20 Apr 2018 **London (United Kingdom)** *BBC*. **South Africa**'s president **Cyril Ramaphosa** cuts short his visit to the **Commonwealth Summit** in London to deal with protests in **Mahikeng**, **North West Province**, against premier **Supra Mahumapelo**;

19 Apr 2018 **Mahikeng (South Africa)** *ENCA*. Protests over **North West Province** premier **Supra Mahumapelo's** alleged "*rampant corruption*" bring Mahikeng to a standstill;

19 Apr 2018 **Mahikeng (South Africa)** *Bloomberg*. Police arrest 23 for looting and violence during protests;

19 Apr 2018 **Johannesburg (South Africa)** *Reuters*. **UK-based mining company De Beers' Anglo American** unit unveil a software application to help artisanal diamond miners in **Sierra Leone** certify that the gems they find are legal;

19 Apr 2018 **Johannesburg (South Africa)** *Business Live*. **Transnet** chief financial officer **Garry Pita**, alleged to have been involved in state capture by the **Gupta** family, resigns citing "deteriorating health";

19 Apr 2018 **(South Africa)** *BBC*. **Afriforum**, a lobby group formed to protect the rights of white **Afrikaners**, announces its plan to prosecute opposition **Economic Freedom Fighter (EFF)** party leader **Julius Malema** on allegations of corruption and fraud;

18 Apr 2018 **Cape Town (South Africa)** *Business Live*. **Imperial Holdings** CEO **Mark Lamberti** resigns after a court rules against him in a case of race and gender discrimination brought by a former employee;

18 Apr 2018 **(South Africa)** *Financial Times*. The South African government bans auditor **KPMG** from auditing public bodies due to its ties to the **Gupta** family;

15 Apr 2018 **(South Africa)** *Reuters*. **KPMG South Africa** announces it is reviewing work done by its partners after two partners resign following disciplinary charges over failure to disclose financial interests in insolvent **VBS Mutual Bank**;

14 Apr 2018 **(South Africa)** *eNCA*. President **Cyril Ramaphosa** vows to visit **Marikana** with **Economic Freedom Fighters** leader **Julius Malema** as per the request of the late **Winnie Madikizela-Mandela**;

12 Apr 2018 **(South Africa)** *Moneyweb*. Mining production grew 3.1% year-on-year in February, though gold and platinum production fell 7.1% and 8.8% y-o-y, respectively;

10 Apr 2018 **(South Africa)** *IOL*. **Italy-based airline Alitalia** resumes flights to **Johannesburg** after 17 years of absence;

10 Apr 2018 **(South Africa)** *MoneyWeb*. Public enterprises minister **Pravin Gordhan** announces that **Monhla Hlahla**, former CEO of **Airports Company South Africa**, will head state-owned defence company, **Denel**;

10 Apr 2018 **(South Africa)** *MoneyWeb*. Mining minister **Gwede Mantashe** states he is confident a new, revised mining charter will be finalised by May;

10 Apr 2018 **(South Africa)** *Reuters*. The **World Bank** revises 2018 growth forecast from 1.1% to 1.4%, supported by improved business and consumer confidence;