



Business opportunities and risks in the Global, South African and African Markets

16 | 5 | 2012

Agenda

— Europe

— China

— South Africa

— Africa

Introduction

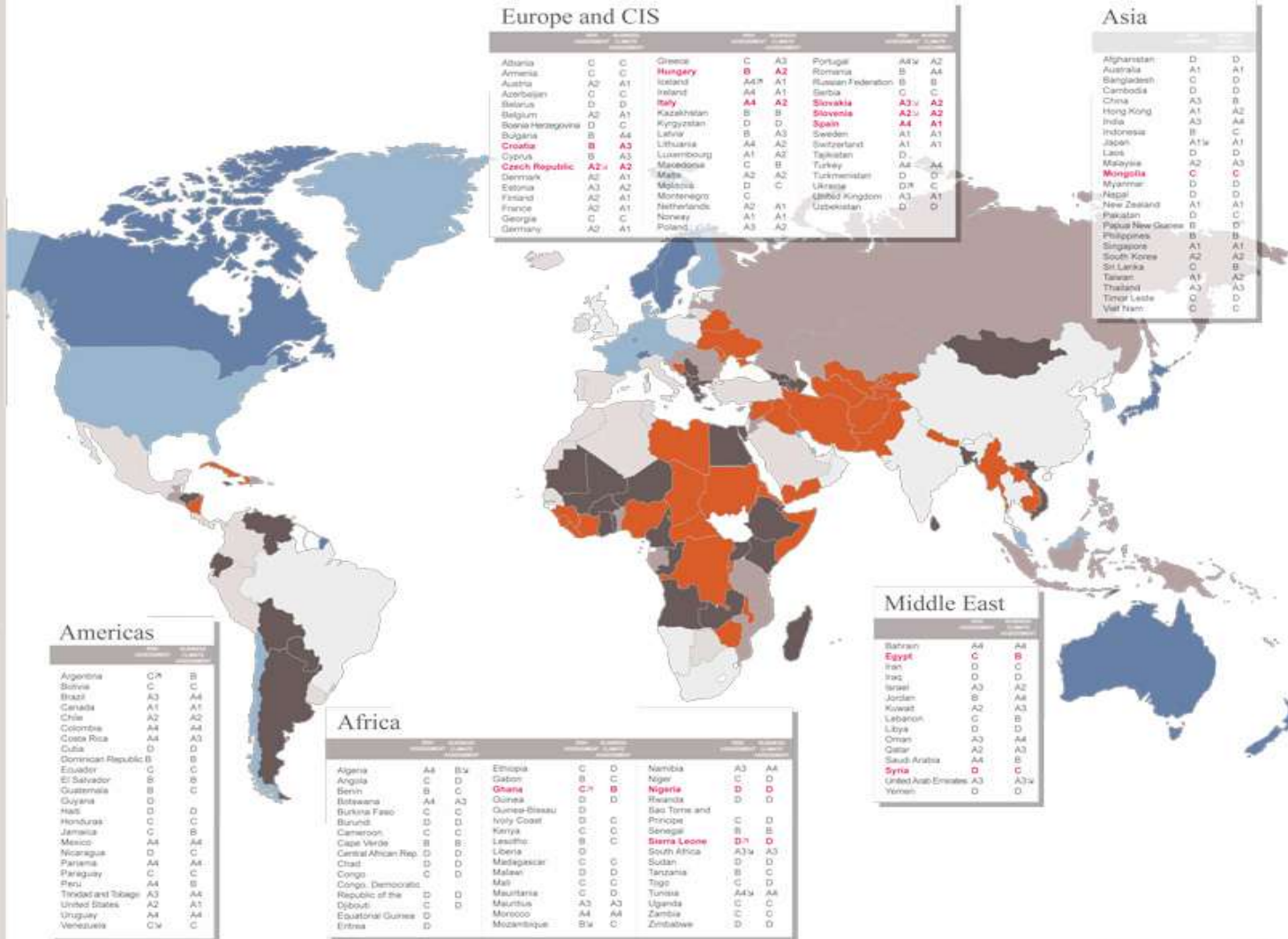
Country Risk Assessment

Coface Country Risk Assessment Map

Published quarterly, the Coface Country Risk Assessment map offers a unique overview across 157 countries around the world.

The Coface country risk assessment aims at evaluating the average credit risk of companies in a given country. The evaluation is based on economic, financial and political data. But it also takes into account Coface experience on the country, under two dimensions: Coface's payment experience on the companies of the country and also its assessment of the business climate.

- CORPORATE DEFAULT PROBABILITY**
- **A1** → VERY LOW
 - **A2** → LOW
 - **A3** → ACCEPTABLE
 - **A4** → QUITE ACCEPTABLE
 - **B** → SIGNIFICANT
 - **C** → HIGH
 - **D** → VERY HIGH
- > Country under positive watch list
 < Country under negative watch list
■ Last changes on country assessments



Europe

- Background
- Important developments
- Scenario's for the future

Background

Pre - 2007

- Globalisation
- Easy access to credit
- Personal debt levels exceeding 120% - 150% of income

2007 - 2009

- US housing bubble burst & Individuals defaulting
- Bank capital levels depleted & Bank failures
- Liquidity crunch because consumers weren't spending and banks not lending
- Business failures & Government Bailouts
- Emergency Economic Stabilisation

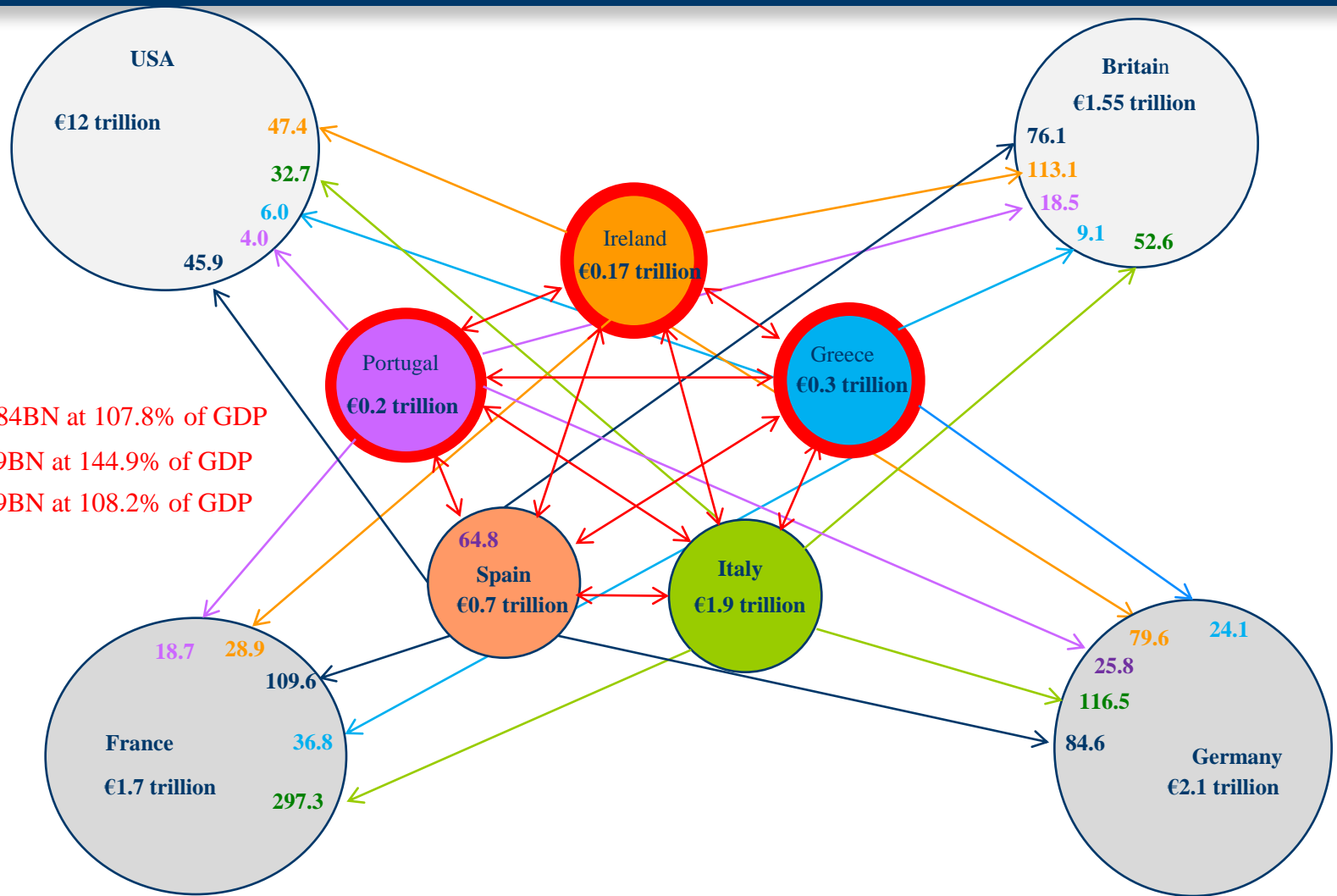
2009 - 2011

- The recession in 2007-2009 resulted in large government intervention to assist ailing banks and business
- Fiscal Inflexibility of countries tied to the Eurozone hampered efforts to address debt
- Poor governance structures and corruption
- Web of debt developing

2012

- Second wave of Austerity measures implemented
- Changes in political powers
- Reassessing Euro power
- Effects of China
- Global uncertainty

Background – Developed Nations Web of Debt



Europe's long road to recovery

Measures	England	Germany	France	Italy	Spain
Savings	€91bn	€80bn	€45bn	€47bn	€122bn
Job cuts	490 000 public sector job cuts	10 000 public sector job cuts	Not replacing retired individuals	None announced /cut to state pension	Pay cut for public sector of 5% and salary freeze for 2011
Retirement age	65 to 66 by 2018	Remain the same	60 to 62	Women to 65	60 to 67
taxes	Increase rate to 28% for high earners.	Ecological tax Air transport tax Nuclear energy tax	1% increase in tax on upper earners as well as a variety of changes in other areas	Tax hike on holders of financial vehicles Road tax for larger cars	Tax increase for the wealthy
Time period of measures	2011-2015	2012-2014	2011-2013	2011-2014	2011-2015
GDP growth 2011	1%	2.3%	1.6%	1%	1.8%
GDP growth actual 2011	0.8%	3%	1.6%	0.4%	1.3%

Scenario's for Europe

1. Partial dissolution of the Eurozone

Germany Vs. Greece

Germany

- Established European trade power
- Possible trade agreements with smaller European nations
- Labour implications

Greece

- Loss of negotiating power
- No access to funds (ECB)
- Devalued currency
- Cannot afford to leave Eurozone

Scenario's for Europe

2. Unison within the Eurozone

Opportunities

Would enable quicker decision making and more effective interventions.

Threats

Massive complexity with regards social tension and widely differing cultures within countries.

Scenario's for Europe

3. Limp along

Benefit

Relative stability and “known” market reactions.

Challenge

The growth required for recovery is unlikely to come from within the developed nations. Emerging markets will likely overtake developed markets in terms of growth and trade importance.

China

- Background
- Trade web
- SWOT

Background

Pre - 2007

- Reforms to economic policy in 1978 began the Chinese industrial revolution

2007 - 2009

Continued growth despite the recession fuelled by:

- Large local consumer base
- Government stimulus in the form of infrastructure building
- Government stimulus to spend

2009 - 2011

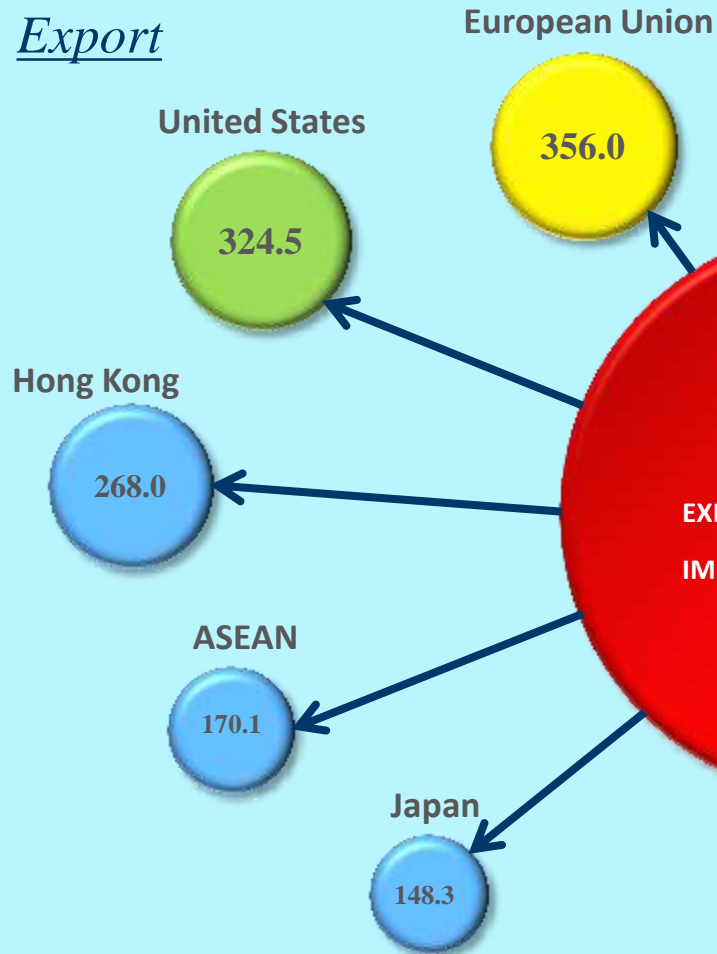
- Slight slowing of growth as the reliance on export markets who are having a difficult time takes it's toll.
- Incomparable to the US & Europe in terms of growth
- Largest manufacturer in the world since 1850

2012

- Lower than expected growth
- Decreased demand from the Eurozone

China's main trading partners

Export



European Union



United States



Taiwan



South Korea



ASEAN



Japan



Import

CHINA

EXPORTS: USD 1.6 Trillion

IMPORTS: USD 1.4 Trillion

* Stated figures in billions of USD

SWOT analysis

Strengths

- Large local consumer base
- Industrialisation
- Large government reserves
- Incomparable cost for goods manufactured
- Labour costs

Weaknesses

- Europe and the US large trading partners
- Not well known for quality
- Lower productivity in manufacturing

Opportunities

- New markets
- Europe and US markets
- Invention
- Rising middle class
- Africa

Threats

- Environment
- Social upheaval
- Protectionism against Chinese products
- Decreased demand

Summary

Europe:

- Road to Recovery
- Changes in Government
- No Quick win for Europe
- South Africa and Africa

China:

- Resurgence Dampened
- However!
- Largest Manufacturer

South Africa

- South African background
- South African Consumer Health
- South African Consumer Behaviour

Background

Pre-2007

- Globalisation
- Easy access to credit
- National Credit Act curbed SA spending to some degree
- SA household debt to income ratio at above 80%

2007-2009

- SA reacted to the global shock 6 months after the international markets
- SA entered into a recession
- High increase in liquidations
- Government counter-cyclical spending on infrastructure cushioned the fall

2009-2011

- South Africa has recovered slowly compared to other emerging markets
- Decrease in liquidations Year on Year
- Has been positioned as the gateway to Africa

2012

- South Africa as the gateway into Africa being questioned
- Undefined position in word market
- BRIC?
- Emerging market **or** Developed nation

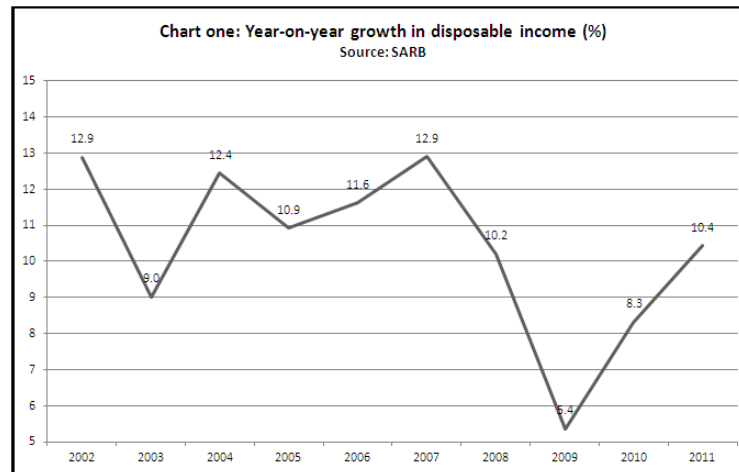
SA Consumer Health

- South African consumers still form a large portion of RSA GDP and is an important factor for local economic recovery.
- This health of the consumer impacts all industries and a gauge of the market recover, specifically three years after the recession.
- Based on a interesting article
- Areas that were examined:
 - Household income growth
 - Household income to debt ratio
 - Disposable income & credit extended to households
 - Unemployment impact
 - Vehicle Sales
 - Summons and judgments

SA Consumer Health

- Household Income Growth:

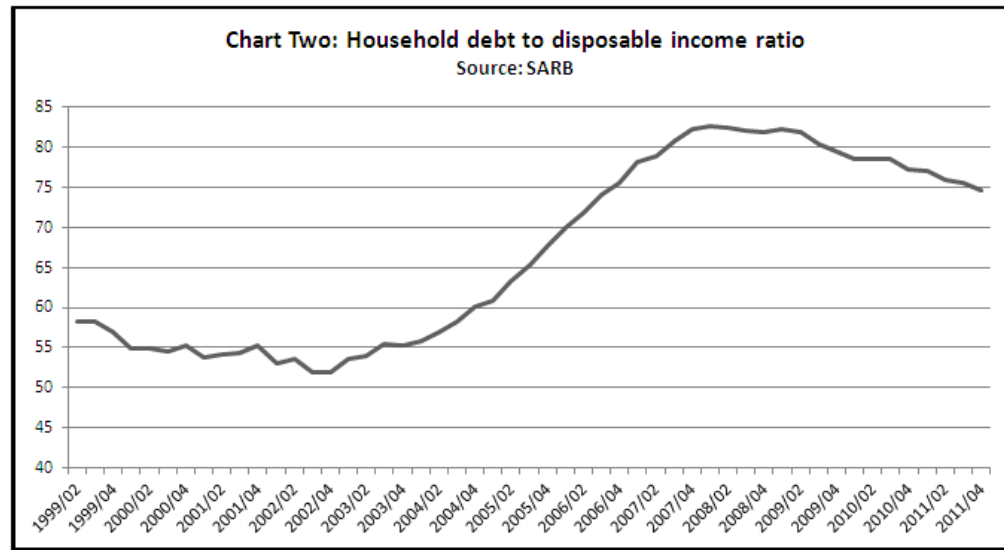
- According to data released by the Reserve bank, household income has grown since the onset of the recession.
- However not to the same levels at before recession, 2007 : 12.9%.
- The recent growth as indicated at 10.4% is still a nice rebound and still higher than inflation of around 6%.



SA Consumer Health

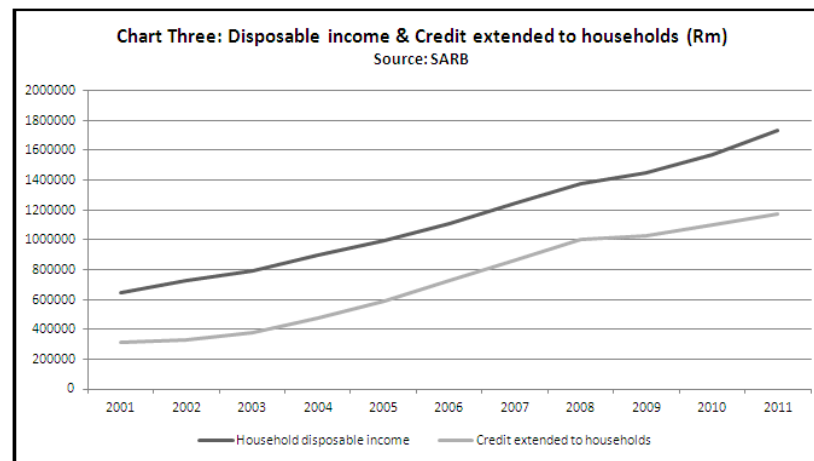
- Household Income to Debt Ratio:

- The recent Reserve Bank quarterly bulletin shows the ratio is at 74.6%.
- Compared to the figure of 82% in 2008



SA Consumer Health

- Debt Ratio & Credit Extended to households:
 - The debt ratio has decreased because the income level has increased rather than the debt level decreasing.
 - The income level has increased faster than the debt level.
 - It is therefore clear that consumers are not reducing debt levels, but merely using higher income levels to pay for more debt.



SA Consumer Health

● Unemployment:

- A study done by BNP Paribas show during a 4 year analysis, 2.5million new credit active consumers registered, with the economy experienced a net decrease of 130 000 jobs.
- 5.8million more credit active consumers than people employed, while consumer in good standing decreased by 140 000
- Average number of accounts from 3.8 accounts per person to 4.9.
- The effect of a default will be felt over a large base and more so at an unsecured level.
- Employment figures in Q4 of 2008: 14.22 million and declined to 13.77 million in Q3 of 2010 and in Q4 of 2011 registered at 13.688 million.
- We are still 500 000 jobs down from the 2008 levels as at Q4 2011.
- In 2012 we have 4.1million unemployed, a further increase in the Q4 figures of 2011.
- Of these 3.1million (67.8%) has been looking for employment for at least a year.
- 59.6% did not have matric and 44% had not worked before.

SA Consumer Health

- Vehicle Sales Figures:

- Total vehicle sales increased by 10.5% y/y to 42617 units as at April 2012.
- Exports fell by 11%, particularly impacted by exports to Europe.
- Domestic sales continued to grow and showed an increase of between 8% to 10%.
- The main reasons accountable for this according to Naamsa:
 - The better financial position of the consumer
 - Low interest rates
 - Continued affordability in real terms

SA Consumer Health

- Civil Judgements and summonses:

- Figures released by Stats SA for Feb 2012 show a y/y reduction of 8.7% relating to civil summonses and 4.4% reduction for civil judgements recorded for debts.
- For the three months ended Feb 2012 the number of summonses reduced by 12.2% and judgements for the same period reduced by 14.2%
- In terms of Rand value the amount of the judgement recorded reduced by 18.2%.
- The main areas responsible for the judgements are:
 - Money Lent 31.3%
 - Other Debts 19.3%
 - Services 17.1%
 - Goods sold 14.3%

South African Consumer Behaviour

Resistant to change

- Loyal
- Maintain lifestyle
- Budget switching

Regressive

- Restraint
- Cost sensitive
- Want a similar shopping experience to the high end brands but at a “good” price

Future focused

- Try new products
- Incorporate new values
- Optimistic/forward looking

Dispersion

- Not acknowledging the crisis
- Impulse purchasing

Africa

Africa is the second fastest growing region in the world

Background

- Political revolutions
- Improving business environments
- African countries are rapidly moving through the phases of development. As they move new opportunities present themselves.
 - Phase 1: **Import Substitution Industrialisation**
 - Phase 2: **Structural Adjustment Programme**
 - Phase 3: **Poverty Reduction Strategy Papers Phase**

Phase 1: Import Substitution Industrialisation

- Development of the economy
- The domestic market for goods exists
- Production of consumer goods focus
- Production of intermediate and capital goods
- Requires substantial government support
- Very regulated and protectionist
- Business opportunities are predominantly agricultural

Phase 1: Import Substitution Industrialisation

	RSA	BOTSWANA	ANGOLA	KENYA	MOZAM	MAURITIUS	ZAMBIA	NAMIBIA
Restriction of imports to intermediate inputs and capital goods required by domestic industries								
Extensive use of tariff and non-tariff barriers to trade								
Currency overvaluation to facilitate the import of goods needed by domestic industries		√					√	
Subsidized interest rates to make domestic investment attractive	√		√	√		√	√	
Direct government ownership or participation in industry	√	√	√	√	√		√	
Provision of direct loans to firms as well as access to foreign exchange for imported inputs			√	√	√		√	

Phase 2: Structural Adjustment Programme

- Liberalisation of the economy
- More natural market conditions prevailing
- Reduce the states involvement in the economy
- Foreign Direct Investment
- Pressure on local firms as competition increases
- Business opportunities for mining and infrastructure development

Phase 2: Structural Adjustment Programme

	RSA	BOTSWANA	ANGOLA	KENYA	MOZAMBIQUE	MAURITIUS	ZAMBIA	NAMIBIA
Deregulation of interest rates		✓			✓	✓		✓
Trade liberalisation	✓	✓	✓	✓	✓	✓	✓	✓
Privatisation of State-owned enterprises	✓	✓			✓	✓	✓	✓
Withdrawal of government subsidies		✓	✓			✓		✓
Currency devaluation	✓							

Phase 3 – Poverty Reduction Strategy Papers Phase

- Shifting resources from production orientation to social orientation
- Reduction of the debt burden
- Business opportunity services and corporate trade
- Pivotal phase in terms of general trade is when a country is moving from phase 2 to phase 3

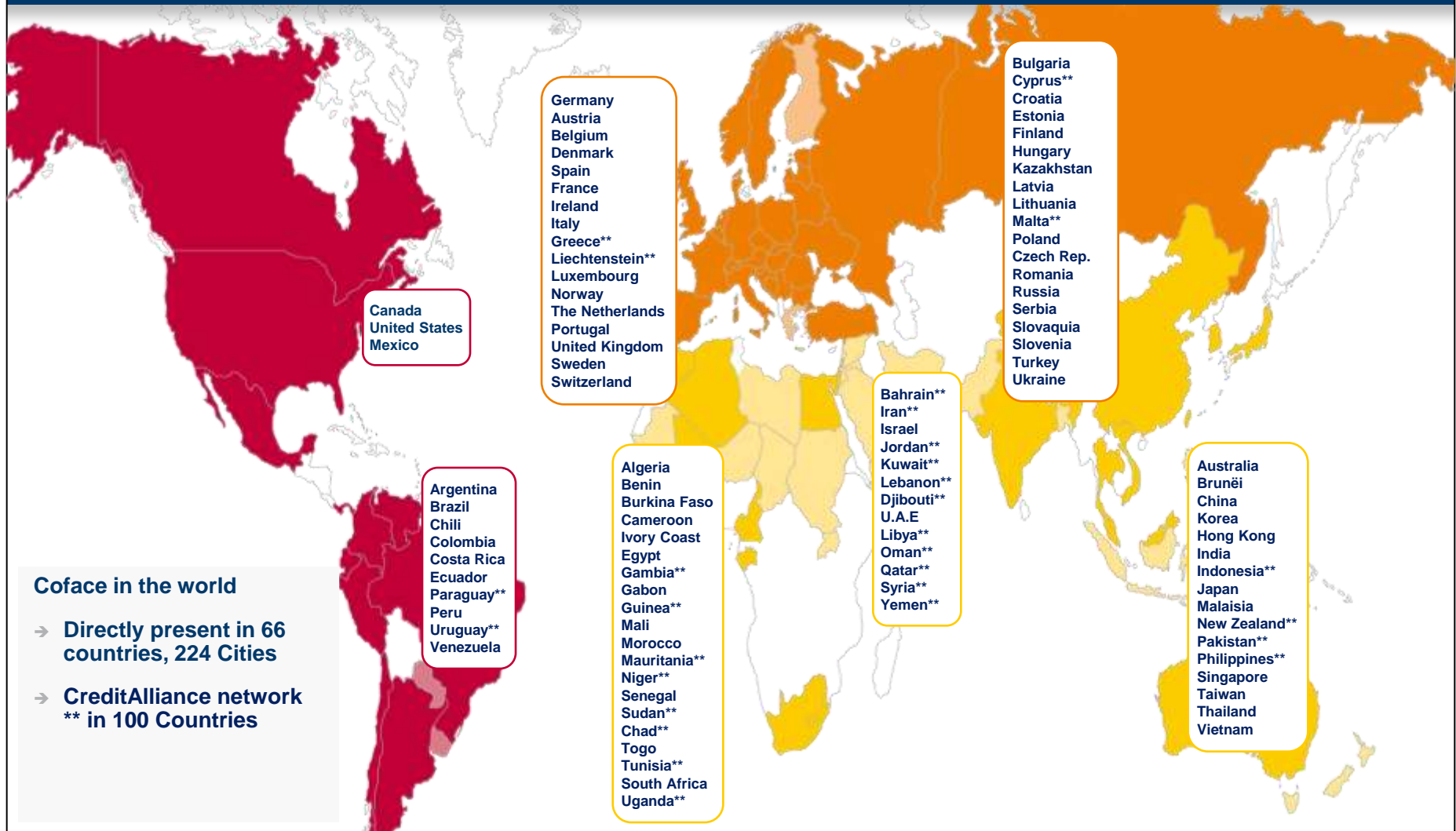
Phase 3 – Poverty Reduction Strategy Papers Phase

	RSA	BOTSWANA	ANGOLA	KENYA	MOZAMBIQUE	MAURITIUS	ZAMBIA	NAMIBIA
Debt management focused	√		√					
Policy shift from fiscal to monetary	√	√				√		
Redistribution of wealth	√							
Stabilised GDP growth	√	√				√		√
Shift of resources from production to social	√					√		√
Medium HDI	√	√				√		√

African trade tips

- Understand the trade legislature
- Understand the business culture
- African country trade has become a melting pot of trade partners. Understand who the players are, their legislature and culture
- Partner with a risk mitigation company

Coface Worldwide Network



Credit Insurance

- Credit insurance provides protection against the non-payment of credit customers
- Vehicle to Risk mitigation
- Underpinning balance sheet financial strengths
- “Peace of mind” enabling a company to focus on it’s core business
- Secures a company’s working capital and cash flow
- Improves the possibility of securing better financing

Why Coface South Africa?

- The Coface Global presence gives credibility to the Coface quality offering as they are based on experience with over 55 million rated buyers in 156 countries worldwide
- Coface South Africa rated 'AA+' by Global Credit Rating
- Coface Group rated 'AA- with a stable outlook' by Fitch, 'A2 with a stable outlook' by Moody's
- 45% of world's 500 largest companies are Coface clients
- Pre-assessment credit facilities of buyers
- A culture where relationships with all stakeholders are always honest and transparent

We live in an extraordinary time in human history – a time of immense transition, profound risk and great opportunities.

Pravin Gordhan

Q&A

