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Large firms' strategies and investment for economic recovery in South Africa

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1. Introduction

South Africa has experienced devastating economic effects from the Covid-19 pandemic. These have intensified the systemic and ongoing challenges of low growth, unemployment and inequality in the country. As pandemic-related restrictions are phased out, Government's Economic Reconstruction and Recovery Plan (ERRP) seeks to stimulate economic recovery. An important pillar of the ERRP is to revitalize the manufacturing base, and tap into the country's industrial and manufacturing potential in a more concerted way.[1] Industrialization requires investment by firms, and large firms have access to resources to make investments, build research capabilities for industrial development, and invest in key technologies. On the negative side, however, large firms can use their market power in unproductive ways – extracting rents rather than investing, and use their power to influence policies and institutions to shape the operating environment to their benefit. The orientation and strategies of large firms is therefore critical in fostering desired investment and industrialization.[2]

The study on *Large firm strategies and investment for economic recovery in South Africa* [3] considers the emerging patterns of investment, and the strategies of large and lead firms, specifically the Top 100 firms listed on the Johannesburg Stock Exchange between 2011 and 2021. The brief looks at the performance and investment profiles on the Top 100 firms, and at financialization and internationalization of the firms.

This brief is based on the study. These listed companies are large and are able to make significant investments. As they have to publish their financial statements, their data is publicly available.

Table 1: Sectoral composition of JSE Top 100 by proportion of number of firms (2011 vs 2021)[4]

2011	% of firms	2021	% of firms
FIRE	29%	FIRE	32%
Manufacturing	19%	Retail	19%
Mining	16%	Mining	17%
Retail	14%	Manufacturing	14%
Diversified industrials	5%	Diversified industrials	4%
Personal services	5%	Personal services	4%
Construction	4%	Telecommunications	4%
Telecommunications	4%	Logistics	3%
Logistics	3%	Technology	1%
Technology	1%		

Source: Authors' construction based on Thomson Reuters Eikon data

[1] https://www.gov.za/speeches/president-cyril-ramaphosa-2022-state-nation-address-10-feb-2022-0000
[2] Andreoni, A., Mondliwa, P., Roberts, S. and Tregenna, F. 2021. Framing Structural Transformation in South Africa and Beyond. In: A. Andreoni, P. Mondliwa, S. Roberts & F. Tregenna (eds.), Structural Transformation in South Africa: The Challenges of Inclusive Industrial Development in a Middle-Income Country. Oxford: Oxford University Press.
[3] Bosiu, T. Goga, S. and Robb, N. 2022. Large-firm strategies and investment for economic recovery in South Africa. CCRED-IDTT Working Paper 2022/03. Available at www.competition.org.za/publications
[4] See appendix for the classification of all the firms considered.

By sector, firms in the Top 100 are dominated (in terms of number of firms) by those in the FIRE (finance, insurance, retail and real estate) (32%), retail (19%), mining (17%), and manufacturing (14%) sectors in 2021 (Table 1). This is a notable shift from the 1990s when companies in the MEC-linked sectors (mining and manufacturing) led JSE market capitalization. By 2011, the FIRE sector emerged strongly and has strengthened its position in the decade to 2021. The expansion of the financial services sector has however not been accompanied by an expansion of productive investments (Andreoni et al., 2021). In addition, the manufacturing sector has declined in significance from accounting for 19% of the top 100 firms in 2011 to 14% of the top 100 firms in 2021.

2. Performance and investment by the Top 100 Firms

Having compiled rankings by market cap for the years 2011-2021, we established that there were 169 unique firms in the JSE top 100 in this period. Thereafter, we explored available data on each firm and the nature of its business. This informed a further process of exclusion from the dataset. Firms were excluded from the dataset if: their JSE listings were secondary listings, and the firms had a limited presence in SA ; firms had a limited presence in SA despite having primary listings; and key data was unavailable. After the exclusion process, 113 unique firms remained in the database. The firms in the dataset have been organised in terms of 10 sectors: Mining; Manufacturing; Construction; Logistics; Diversified Industrials; Finance, Insurance, and Real Estate (FIRE); Telecommunications; Technology; Retail; and Personal Services. However, to ensure that our charts remain legible, we have limited the sectors presented in the charts to 5. These are Mining, Manufacturing, FIRE, Retail and Telecommunications, with an additional category labelled "Top 100 sample" that presents aggregate data for each year's sample of top 100 firms. In 2011, these five sectors accounted for 79 percent of total revenue in the top 100 sample. By 2021, this had risen to 92%.

Poor levels of investment in the economy despite growth in market value and assets of firms on the JSE

The South African economy has had poor levels of investment as measured by private sector gross fixed capital formation (GFCF) in the last decade (2011-2020) at around 17% of GDP. This is contrast to other developing countries like Malaysia (25%) and Thailand (24%). Despite this, there has been strong growth in the asset base and market value of firms listed on the JSE. The total value of assets of firms listed on the JSE grew from R15 trillion to R23 trillion in the period between 2010 and 2020 (INETBFA data), and the assets of the largest 10 companies increased from 46% of total assets in 2011 to 53% in 2020. Concentration of ownership of assets raises concerns where dynamism and competitive rivalry are stifled. In South Africa key sectors of the economy are highly concentrated and there have been a number of competition cases related to anti-competitive practices. Concentration dampens investment since firms can earn returns without investing in upgrading capabilities as would be necessary in more competitive markets.

Weak revenue growth and declining profitability

The study shows that there has been weak revenue growth and declining profitability (Table 2). The exception is the mining sector, whose relative successes are linked to the commodities boom. In the 2011–2021 period, revenue growth for the firms in the study was

1.8 percent. As a result of the commodity boom's impact on the mining sector, there was slightly better growth in the 2017–2021 subperiod compared to the 2011–2016 subperiod. The manufacturing sector performed very poorly in the 2017–2021 subperiod, contracting by 5 percent, while the FIRE sector saw growth of 3.8 percent and the retail sector growth of 5.6 percent in the 2011–2021 period. Despite revenue growth in some sectors, profitability (measured by both return on assets (ROA) and return on equity (ROE)) fell in 2011–2021 for the top 100 sample and across all sectors – again, except for the mining sector. Using the return-on-equity measure (ROE), profitability in 2021 was highest for mining, followed by retail and telecoms. Of the five sectors, profitability was lowest in the manufacturing sector.

Table 2: Top 100 Firms' revenue growth and profit by sector	Revenue			ROE[5]		
	CAGR (2011-2016)	CAGR (2017-2021)	**CAGR (2011-2021)**	Average (2011-2016)	Average (2017-2021)	**Average (2011-2021)**
FIRE	5,1%	3,4%	**3,8%**	17,9%	14,5%	**16,4%**
Manufacturing	4,9%	-5,0%	**-0,5%**	18,5%	12,4%	**15,7%**
Mining	-5,3%	26,5%	**6,1%**	8,8%	18,9%	**13,4%**
Retail	6,1%	3,9%	**5,6%**	36,3%	18,2%	**28,1%**
Telecommunications	-1,9%	-1,3%	**-1,4%**	25,7%	16,3%	**21,4%**
Top 100 sample	**1,0%**	**3,5%**	**1,8%**	**20,3%**	**15,7%**	**18,2%**

Source: Thomson-Reuters Eikon

Declines in capex for every sector except telecoms, and most severe for manufacturing

As Table 3 shows, for the period 2011–2021, only the telecoms sector experienced an increase in capital expenditure, while the manufacturing sector saw the largest decreases of 6.1 percent in CAGR. In the 2017–2021 subperiod, however, mining sector capex grew strongly because of the commodities boom.

Table 2: Top 100 firms' capital expenditure growth by sector

	CAGR (2011-2016)	CAGR (2017-2021)	CAGR (2011-2021)
FIRE	3,5%	-19,8%	**-5,8%**
Manufacturing	16,7%	-25,8%	**-6,1%**
Mining	-12,9%	15,0%	**-1,3%**
Retail	7,1%	-10,2%	**-0,4%**
Telecommunications	7,9%	-3,7%	**0,7%**
Top 100 sample	**2,8%**	**-7,7%**	**-2,6%**

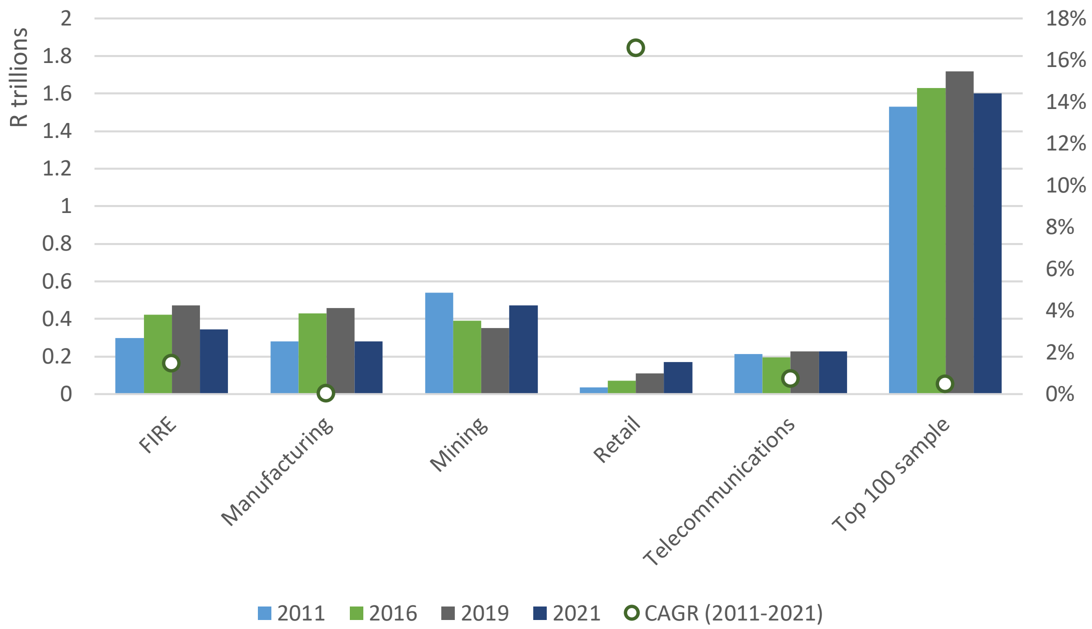
Source: Thomson-Reuters Eikon

In addition, property, plant and equipment (PPE) stock contracted for both manufacturing and mining. Growth in retail PPE appears to be driven by acquisition activity in the sector. Despite a decline in capex in the period between 2011 and 2021, there was growth in assets and PPE in the retail sector. This is partly due to new retail firms entering in the period between 2011 and 2016, but is mostly accounted for by acquisition activity by firms in the sector in the latter period between 2017 and 2021. Both mining and manufacturing PPE

[5] ROE is given by net income/shareholder equity, where shareholder equity = assets – liabilities

contracted between 2011 and 2021, with the 2017-2021 period accounting for the contraction in the manufacturing sector (-9.8% CAGR).

Figure 1: PPE and PPE growth by sector, 2011–2021 (2020 constant prices)



Source: Thomson-Reuters Eikon

3. Financialization of Top 100 Firms

It is important to note that while capital expenditure as a proportion of revenue stagnated in the 2011–2021 period, dividends as a proportion of revenue rose. As of 2021, a higher proportion of revenue from the Top 100 firms was paid out as dividends than the amount that was reinvested.

Payouts of dividends from profit to shareholders increased from 41% in 2011 to 75% in 2019

The payout ratio to shareholders of dividends from profit increased from 41 percent in 2011 to 75 percent in 2019 – with the ratio increasing in all sectors. [6] There was a decline in 2020 due to the Covid-19 pandemic. Shareholders have thus substantially increased their claims on profits generated by South African firms.

[6] The payout ratio is calculated by dividing dividends by net income – i.e., the payout ratio represents the share of net income that is paid out to shareholders in the form of dividends.

Table 3: Payout ratios by sector

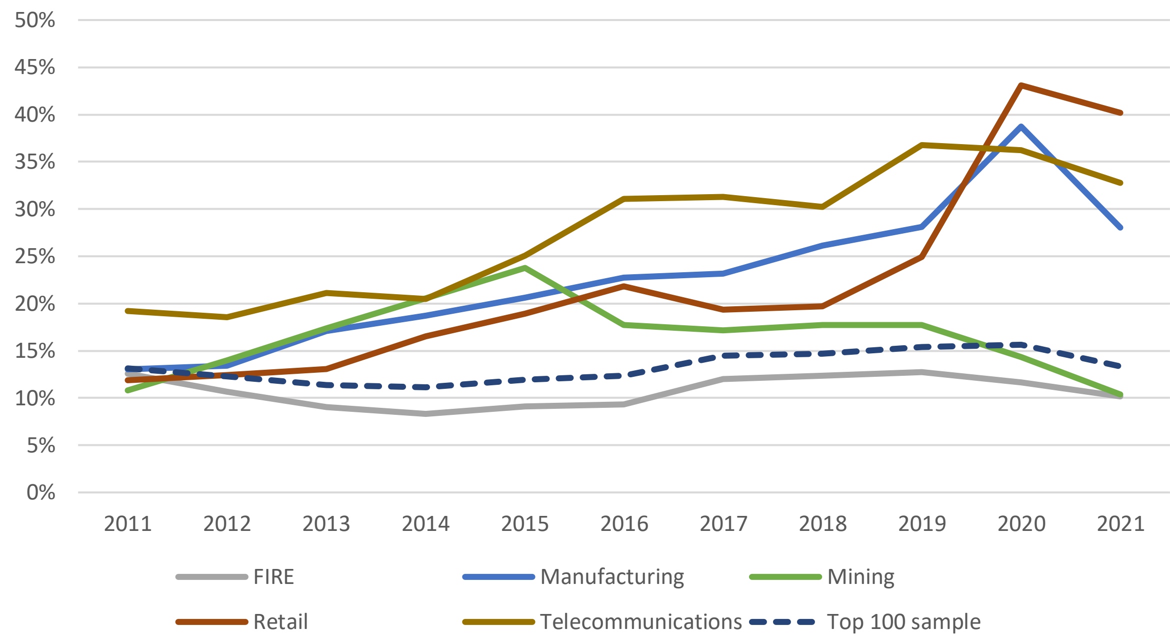
	2011	2019	2021	Max
FIRE	38,1%	68,7%	30,2%	247,8% (2020)
Manufacturing	36,3%	86,7%	20,6%	86,7% (2019)
Mining	41,9%	62,1%	56,5%	154,9% (2018)
Retail	57,0%	124,1%	45,0%	128,1% (2020)
Telecommunications	61,1%	94,7%	43,4%	261,8% (2016)
Top 100 sample	41,0%	75,1%	44,2%	126,4% (2020)

Source: Thomson-Reuters Eikon.

Rising debt-to-asset ratios, particularly for manufacturing, retail and telecoms

Debt-to-asset ratios increased in the 2011–2021 period from 13 percent to 18 percent, with manufacturing, retail and telecoms increasing their leverage substantially. Moreover, data from the South African Reserve Bank shows rising foreign-denominated debt by non-financial corporates in South Africa.

Figure 2: Debt-to-assets ratio by sector, 2011–2021



Source: Thomson-Reuters Eikon.

4. Internationalization

The JSE top 100 capex has consistently been more than 100 percent of local private sector gross fixed capital formation. This means that a significant proportion of the JSE top 100 firms' investments have been made outside of South Africa. There have been outward greenfield investments and the expansion of South Africa's major banks, telecom companies and supermarkets into the rest of Africa. Since 2010, there have been a large number of transactions involving JSE Top 100 firms acquiring foreign companies – to an approximate value of R280 billion in real terms.[7] Thus, while capital markets have performed poorly in attracting cheap foreign capital for productive investment in the economy and investment levels in the economy have been low, there have been massive capital outflows.

5. Conclusion

Overall, the analysis in this policy brief shows that weak revenue growth and a decline in profitability has translated into falling levels of capital expenditure and a decrease in PPE stock – particularly for the mining and manufacturing sectors. This has nevertheless occurred alongside increasing and high payout ratios across all sectors, as well as rising debt-to-asset ratios. When taken together with significant internationalization in the form of investment outside of South Africa, the implication is that value created by South African firms is increasingly captured by shareholders and foreign investments.

[7] Who Owns Whom data.

Appendix 1: Classification of the JSE Top 100 by major economic activity

2011				
FIRE	**MANUFACTURING**	**MINING**	**RETAIL**	**DIVERSIFIED INDUSTRIALS**
Standard Bank Group	Sasol	Kumba Iron Ore	Shoprite	Remgro
Firstrand	Tiger Brands	Anglogold Ashanti	Massmart	Bidvest Group
Absa Group	Aspen Phmcr.Hdg.	Anglo American Platinum	Truworths Intl.	Barloworld
Nedbank Group	Arcelormittal Sa.	Impala Platinum	Woolworths Hdg.	Hosken Cons.Invs.
Sanlam	PPC	Gold Fields	The Foschini Group	
RMB	Nampak	Exxaro Resources	Pick N Pay Stores	
Growthpoint Prop	Distell Group Hldgs	Harmony Gold Mng.	Mr Price Group	
Discovery	AVI	African Rainbow Minerals	Spar Group	
Mommet	Reunert	Assore	Clicks Group	
Liberty Holdings	Pioneer Food Group	Lonmin Plc	JD Group Dead	
Rand Merchant In.Hdg.	Illovo Sugar Dead	Northam Platinum Hldgs	Lewis Group	
Redefine Properties	Adcock Ingram Holdings	Aquarius Platinum	**LOGISTICS**	
Capitec Bank	Tongaat-Hulett	Royal Bafokeng Platinum	Imperial Logistics	
Santam	AECI	**CONSTRUCTION**	Grindrod	
Capital Property Fd.	Caxton & Ctp Pb&Prt.	Aveng		
Hyprop Investments		Murray & Roberts		
Investec	**PERSONAL SERVICES**	Wlsn.Bayly Holmes-Ovcon		
Brait	Life Healthcare Gp.Hdg.	**TELECOMMUNICATIONS**		
Psg Group	Tsogo Sun Gaming	Mtn Group		
Resilient Pr.Inc.Fd.	Netcare	Vodacom Group		
Fountainhead Pr.Tst.	Sun International	Telkom Sa Soc		
Coronation Fd.Mgrs.	**TECHNOLOGY**			
Sa Corporate Rl.Est.Fund	Datatec			

2021				
FIRE	**RETAIL**	**MINING**	**MANUFACTURING**	**DIVERSIFIED INDUSTRIALS**
Firstrand	Shoprite	Anglo American Platinum	Anglo American Platinum	Remgro
Standard Bank Group	Pepkor Holdings	Impala Platinum	Impala Platinum	Bidvest Group
Capitec Bank	Clicks Group	Gold Fields	Gold Fields	Barloworld
Sanlam	Multichoice Group	Kumba Iron Ore	Kumba Iron Ore	
Absa Group	Woolworths Hdg.	Anglogold Ashanti	Anglogold Ashanti	
Discovery	Mr Price Group	Sibanye Stillwater	Sibanye Stillwater	
Nedbank Group	Spar Group	Northam Platinum Hldgs	Northam Platinum Hldgs	
Rand Merchant In.Hdg.	Dis-Chem Pharmacies Ord Shs	Exxaro Resources	Exxaro Resources	
Old Mutual Limited	The Foschini Group	African Rainbow Minerals	African Rainbow Minerals	
Growthpoint Prop	Pick N Pay Stores	Royal Bafokeng Platinum	Royal Bafokeng Platinum	

Transaction Capital	Truworths Intl.	Harmony Gold Mng.	Harmony Gold Mng.	
Santam	Motus Holdings Ltd Npv	DRD Gold	DRD Gold	
Mommet	Massmart	LOGISTICS		
Redefine Properties	PERSONAL SERVICES	Imperial Logistics		
Investec	Life Healthcare Gp.Hdg.	SUPER GROUP		
Liberty Holdings	Netcare	TECHNOLOGY		
Resilient Pr.Inc.Fd.	Tsogo Sun Gaming	Karooooo (Jse)		
PSG Group	TELECOMMUNICATIONS			
Coronation Fd.Mgrs.	Mtn Group			
PSG KST	Vodacom Group			
Equites	Telkom SA SOC			
Fortress Reit A				

Source: Authors' construction based on Thomson Reuters Eikon data.