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Watch your investment grow

Euné Engelbrecht - CEO

In recent years, Ecsponent has established a reputation for its forward-thinking approach to organic and acquisitive growth strategy in South Africa and Africa.

It is the group's future-based investment philosophy that allows it to identify opportunities before others, giving Ecsponent a head start in the highly competitive financial services industry.

One of Ecsponent's strategies is to acquire interests in high technology companies with strong intellectual content which cannot be easily duplicated by others.

Salveo Swiss Biotechnology and Cryo-Save are typical examples of this approach where they specialise in umbilical cord blood and stem cell banking. This involves regenerative medicine where stem cells, among others, are used to regenerate cells, tissues or to repair organs. The treatment can even recover body functions after an accident or illness.

Euné Engelbrecht, CEO of Ecsponent Limited, believes savvy investors are attracted to companies that identify investment opportunities others tend to ignore or overlook.

"The benefit of investing in health-related ventures is that they can withstand the impact of an economic crisis. We see this especially in biotechnology which will play a critical role in human progress in the next hundred years," he said.

The great demand for the services of biotechnology and health companies makes them attractive to investors who buy shares to hold them over the long term.

Just look at a recent Money Tree Report by PricewaterhouseCoopers. According to this report, biotechnology companies attracted investments worth $2.3 billion in the second quarter of 2015. This is 32% more than the first quarter and, in fact, the largest quarterly investment in biotechnology in the United States since the first Money Tree Report's release in 1995.

Stem cell therapy progressed rapidly worldwide and today Africa is the only continent that does not have a government-controlled stem cell bank.

There is a grave shortage internationally of genetically compatible samples representative of South African demographics. This indicates that investments in biotechnology in Africa could be very successful and profitable.

Ecsponent maintains continuous growth to reflect its underlying investments. This can be seen in the Group's latest notice to shareholders which compares the 2014 financial figures with the expectations for the year to 31 December 2015:

- Earnings per share (indication of the company's profitability) is expected to increase in the new financial year with a minimum of 100%.
- Headline earnings per share (fixed assets are deducted from the profits reflecting earnings better) is expected to rise by at least 40%.

Read more about Ecsponent's growth strategy on www.ecsponent.com

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Weak growth dampens budget

With the South African economy at its lowest point in decades, this year's budget speech was critical and probably the most difficult and important since the ANC came into power 22 years ago.

The question is whether Pravin Gordhan, our Minister of Finance, won the confidence of the financial markets? Can there be a return to the previous view that our country has rock-solid fiscal and monetary control?

The growth rate forecast was revised down from 1.7% to 0.9%. However, it is simply not enough to increase the tax base when insufficient growth is our biggest problem.

Government cut spending

Government spending over the next three years was cut by R25 billion, sending a strong positive message. State-run institutions, such as SAA and Eskom, will no longer be saved financially, with good management and efficiency now being the primary requisite.

No more wastage

Close to R26 billion was wasted by state institutions in 2014/2015. Gordhan will not tolerate this. Within the next month or two, he plans to create structures to reduce wastage in collaboration with the Auditor General. This will, however, only inspire confidence if action is taken against misappropriation and people are held accountable.

VAT rate not increased

The VAT rate was not increased, likely owing to the upcoming political elections and poor economic prospects. An increase of 1% in the VAT rate, however, would have provided R15 billion to the treasury. A move that potentially would have stabilised the rand and satisfied the credit rating agencies to put off their downgrade of South Africa.

Have we averted junk status?

Measures to promote economic growth and job creation have possibly been insufficient. Credit rating agencies are primarily interested in measures based on financial discipline and proven growth. Growth of only 0.9% in the new fiscal year (it may even be as low as 0.5% with negative growth in certain quarters) is insufficient and the government could already be held accountable for junk status this year.

What is junk status?

Junk status has considerable negative implications for a country and a downgrade to this level increases a country's risk of default. This means lenders charge higher interest rates, making international borrowing more expensive. A credit downgrade could cost billions of extra interest on government debt – precious funds which could have been appropriated far more usefully. It also has the potential to disrupt the stock market considerably.

Are we paying less tax?

At first glance, the answer is "yes", because personal income taxes were not increased. But salaries which are adjusted for inflation move people into higher tax rate categories, meaning many will be paying more tax because of "bracket creep."

Impact of budget on our investors

- Class A and C: Securities transfer tax (0.25%) and dividend withholding tax (15%) remained the same and the budget will not affect Ecsponent's monthly income investors.
- Class B: The capital gains tax for individuals was increased from 33.3% to 40%, meaning that investors in unit trusts and Ecsponent's Class B preference shares will be taxed at a higher rate when their investments are redeemed. An investment in Class B will grow from R100 000 to R170 000 in five years. The exclusion rate of R30 000 for individuals must first be deducted.

In the 2015/2016 financial year this leaves R40 000, which is then multiplied by the inclusion rate of 33.3% and the investor's tax rate. If a tax rate of 41% is assumed, an investor who would be liable for R5 461 in capital gains tax in the 2015/2016 financial year.From 1 March 2016, the exclusion amount is R40 000 and even though the inclusion rate was increased to 40%, the taxpayer will pay R4 920 from 1 March 2016. Therefore saving R541.

The big question is whether Government will implement the reforms? Unfortunately, a pattern has developed over the years where the finance minister has been contradicted repeatedly by government policy. This time round, we hope fiscal discipline will triumph to save us from disaster.

- Read Ecsponent's Tax Guide and Guide to Tax Reform on Retirement Funds on our website www.ecsponentlimited.com