



Have we become too pessimistic?

Nothing symbolises the American Dream more than the listing of SpaceX earlier this year. The largest IPO in history, SpaceX's valuation is over \$2 trillion, yet it is barely profitable. Let me put that into context. The size of South Africa's economy is just shy of R8 trillion. SpaceX has a valuation of R33 trillion. Can one company really be worth more than what South Africa produces in a year? In my opinion, this Grand Canyon-sized gap is attributable to a fundamentally different attitude to risk. American investors are prepared to back their entrepreneurs. We don't have the same propensity for risk, and it is manifesting in a shrinking JSE.



**Michael
Porter**

Last week in the Money Morsel, Jana questioned Willie about the news story of the day. On a day when markets were firmly in the red, one company, Santam, stood out. The share rallied 19% on Monday 5th October – not because the outlook for short term insurance had suddenly improved, but because Sanlam, its parent company, made an offer to acquire all the shares it didn't already own at a substantial

premium to the prevailing share price. That is a very nice payday for existing shareholders. But it raises a key issue: if Sanlam can see value in the company at R505 per share, then why doesn't the market ascribe a similar valuation?

The trend of companies delisting from an exchange is not unique to SA, yet this topic receives much attention locally. Since 1990, almost 600 companies have delisted from the JSE. Seasoned clients might remember the conglomerates of old – Anglo American Industrial Corp (AMIC), CG Smith, Anglovaal – the list goes on. Some of the delistings were due to unwinding and streamlining operations as the economy opened post 1994. But delisting continues to this day – over the past few years we have lost Pioneer Foods to Pepsico, Distell to Heineken, Adcock Ingram to Natco (and Bidvest), Curro (private) – and transactions are underway for Omnia and Santam. Foreign investors have no problem seeing the value in our local companies. Why do local investors struggle to see and appreciate that value?

It is not hard to rattle off a list of factors that might justify low valuations on the JSE relative to other exchanges – weak economic growth, high levels of government debt, corruption and inaction that slow decision-making, poor electricity and logistics infrastructure that raises the cost of

SPEED READ

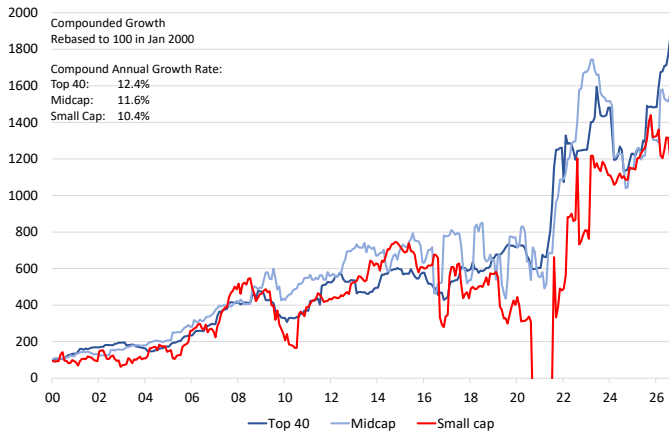
- Companies continue to be delisted from the JSE. In the last month both Omnia and Santam have been subject to buyout offers.
- The low valuations at which SA companies trade cannot be ascribed to weak earnings growth. Rather it appears that SA investors are fundamentally more conservative, far less risk tolerant, and overly pessimistic after ten years of weak growth.
- SpaceX listed in the US with a valuation close to \$2 trillion, despite them barely making a profit this year. American investors are prepared to back their entrepreneurs. In that way, they spur innovation and nurture the corporate giants of tomorrow.
- If we don't change our approach to risk, our prize companies will continue to be snapped up by global predators. If we want the JSE to remain a vibrant exchange, we need to loosen the shackles, back our entrepreneurs and take more risk. That is the only way to spur local innovation and nurture tomorrow's corporate success stories.

doing business, and high levels of regulation and red tape. The list goes on. Increasingly, these factors are not unique to SA, but we have suffered ten years of stagnation, which has undoubtedly taken its toll. Nonetheless, if this were the case, you would expect the combination of these factors to have weighed heavily on earnings and dividend growth. Logic dictates that weak growth implies low valuations. But the data doesn't bear this out.

The chart below shows the trend of earnings growth for the JSE, broken down by size. The Top 40 Index comprises the 40-largest companies on the exchange, followed by the Midcap Index which comprises the next 60 largest. The Small Cap Index is largely everything that remains,

although there is a Fledgling Index as well. Given the combination of our struggling economy and higher global commodity prices, it is not surprising that earnings for our largest companies have outstripped growth for smaller companies. Yet every sector has recorded inflation-beating earnings growth, and earnings are higher across the board since Covid.

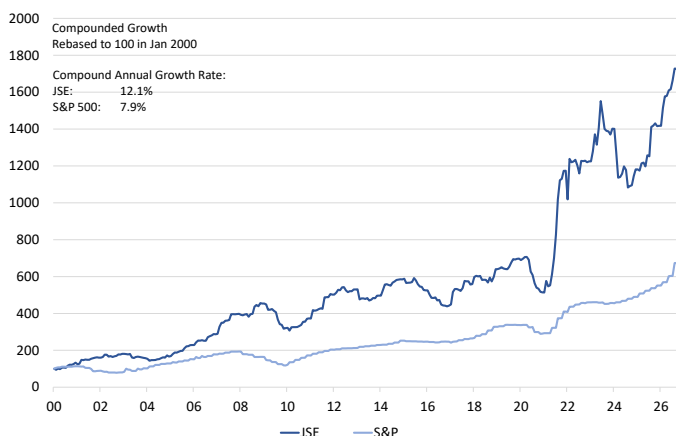
EARNINGS GROWTH BY SECTOR



Regardless of size, JSE-listed companies have delivered consistent earnings growth over the past 25 years, and earnings have grown over the past ten years, despite the challenging economic conditions.

Having compared the market by size, let us now zoom out and compare earnings growth for the JSE as a whole relative to that for the US market. Intuitively, one would think that given their stronger economy, US profit growth would have handsomely outperformed local growth. Surprisingly, that is not the case. When measured in local currency for each country, SA companies have grown at almost twice the rate of US companies over the past twenty-five years. Recently, that has been fuelled by soaring commodity prices that have

EARNINGS GROWTH: SA VS US



Compounded over twenty-five years, SA companies have delivered superior earnings growth to US companies, despite our struggling economy.

underpinned our mining sector, but the US has equally been underpinned by tech and AI. The point I want to make is that earnings growth cannot be the reason for the wide disparity in valuations. Why does the JSE trade at an average PE ratio of 11x, relative to 26x for the US? To take this a step further, one might argue that US earnings are underpinned by stronger cash flows, hence the valuation premium. This doesn't stack up either. JSE-listed companies offer exceptional dividend yields that have grown consistently. Local profits are more than adequately underpinned by cash flows and dividends.

I would argue that there are three reasons for a company to list on an exchange. Firstly, to provide the original founders with an exit mechanism. Secondly, to access capital markets to raise capital for expansion, and thirdly, to compensate staff with share options that retain and reward talent. When valuations remain depressed for extended periods, all these reasons are undermined. It is not attractive to sell your company, as the valuation you might receive is unappealing. It becomes expensive to raise new capital with a weak share price, and staff get disillusioned rather than rewarded, because their share options can expire worthless. When coupled with the increased regulatory costs of being listed in the first place, if your valuation doesn't allow you to raise capital or reward staff, it is not surprising that management teams opt to go private, or don't consider listing in the first place. That then becomes a vicious cycle.

Let me come back to the SpaceX listing. Elon Musk sold 4.2% of his company at a price of \$135 per share, raising \$75 billion. SpaceX is not all about dreams of colonies on Mars. The core is Starlink – the global satellite and broadband provider (which we so desperately long for here), datacentres and AI (including Grok), and thereafter, their space ambitions. Revenues are expected to reach \$45 billion this year and \$107 billion by the end of 2027, so there is a real growth story, which will underpin profitability. Yet, this year, earnings per share are expected to be just 1 cent – that almost makes the valuation meaningless.

Despite these metrics, the IPO was four times oversubscribed. Investors couldn't get enough of it. The share price opened at \$135 and touched \$202 within 3 days. Over the next month it fell to a low of \$108. It is now \$148, 10% higher than the listing price. It is still very early days, but that is a solid return by any measure.

Now let's ask ourselves this question: if SpaceX had decided to list on the JSE, would it have been a successful listing? In my opinion, the answer would be an unequivocal "no". Why? South African investors and asset managers have a fundamentally different attitude to risk. Despite what you might think of Americans, they are prepared to seize an opportunity by the horns and back it. The expression "go big or go home" springs to mind. That doesn't mean that

Americans are reckless, but they are prepared to back new ideas and start-up companies. Some come off, others don't. But that propensity to back unprofitable or new ventures is what drives US innovation and what creates the corporate giants of tomorrow.

Returning to SA, I can list a dozen companies off the top of my head that have delivered consistent growth for years despite the weak economy and yet trade on PE ratios of less than 11x and dividend yields of more than 5%. Some might be mid cap shares, where size and liquidity can account for some of the valuation differential – but that doesn't apply to the banks, insurers, and selected industrials (Bidvest, AVI and Naspers, to name a few).

In my opinion, South African investors are more conservative by nature. Maybe we could argue that we are too conservative, to the detriment of innovation and long-term value creation. I think most SA asset managers would define their philosophies as value-orientated or “growth at a reasonable price”. This implies that we struggle to price in blue sky potential without a tangible asset base or record of profitability. It is why we have a very small junior mining board relative to Australia or Canada, despite being so richly endowed with commodities. We don't back new projects. We want to see a track record first. This has been compounded by years of weak growth and a pervasive mood of pessimism over the prospects for local companies – despite those same companies delivering consistently solid growth under difficult circumstances.

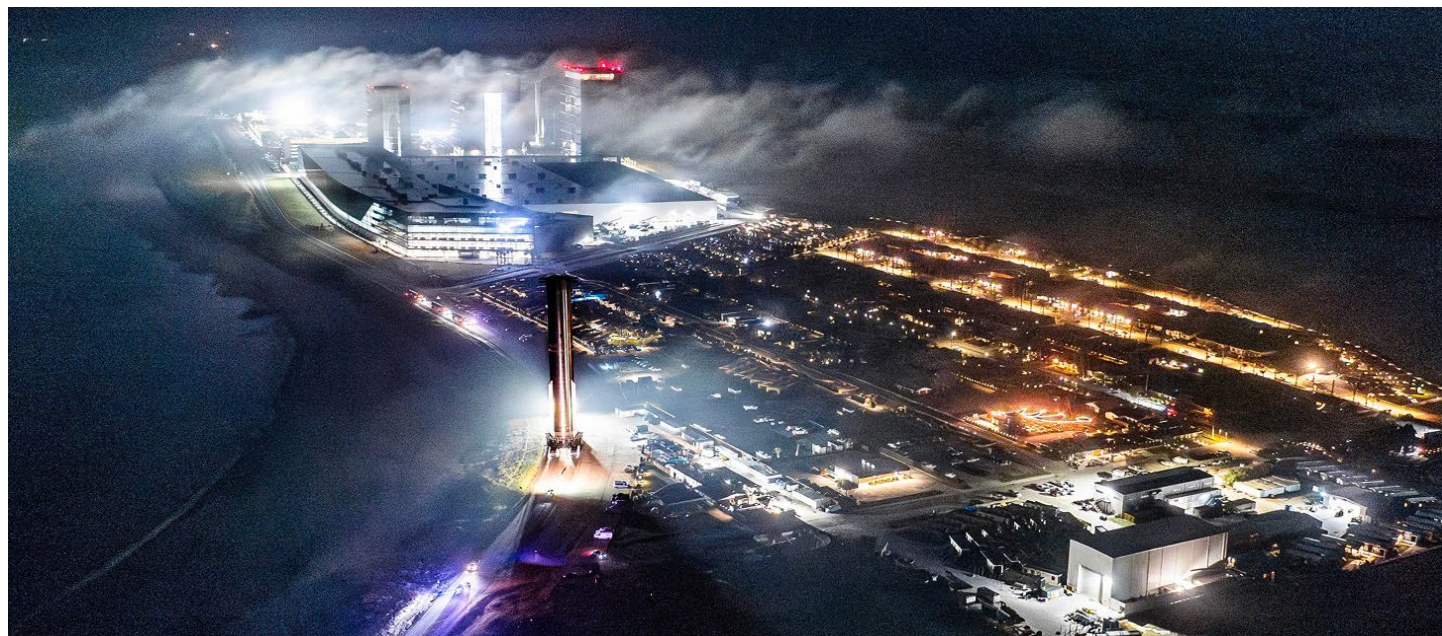
Our conservatism, coupled with the pessimism that has been born from ten years of weak growth, has created a fertile hunting ground for global corporates looking for well-managed businesses with strong operating models and cheap valuations. Our companies are being picked off one by one because corporates are prepared to recognise the value that investors refuse to acknowledge. In part, this is because investing has become a quarterly game – asset managers are measured and

judged quarterly, so no one is prepared to take a longer-term view.

As frustrating as this situation is, it also provides an opportunity. For those investors who are patient, and who focus on cash flows and dividends rather than share prices, there are potentially rich rewards. Any acceleration in economic growth will reflect in significant profit and dividend growth, driving valuations higher. That would be first prize. However, a continuation of weak growth will see more companies being consumed by global predators. Shareholders will reap the short-term benefit even if the long-term optionality on the JSE is eroded.

Despite the news headlines, SA corporates have delivered consistent returns. Local investors need to re-examine their continual pessimism otherwise we will continue to lose our companies to global corporates who have no trouble seeing the value and opportunity. Furthermore, if we want the JSE to remain a vibrant exchange, we need to loosen the shackles, back our entrepreneurs and take more risk. That is the only way to nurture the corporate giants of tomorrow.

“For those investors who are patient, and who focus on cash flows and dividends rather than share prices, there are potentially rich rewards.”



Starbase is the SpaceX's purpose built “city” to develop, manufacture and test space rockets. It is hard to see this scale of innovation ever being backed in South Africa's cautious investment landscape.



Our next seminar series will be held in November, when we traditionally review the past year and cast our eyes forward to the new year. We will do some with some trepidation, as we try to unpack whether 2027 will bring clam or chaos.



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Topic:

Outlook for 2027 – a more normal year?

Natal Midlands

Date:	3rd of December, 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	24th of November, 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	26th of November, 2026
Venue:	J&J Belmont Square, Belmont Road, Rondebosch
Time:	7.30am
Venue:	Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town
Time:	5.30pm for 6pm



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