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Vunani starting to cast a wider net

Hunt is on for financial services acquisitions in Southern Africa, but focus will be on areas within two hours' flight

09 May 2019 - 10:53 Stephen Cranston



Ethan Dube

Vunani's earnings are still dominated by its investments, as Anglo American's BEE partner, in the coal sector. Its private equity investments, predominantly its mining interests, account for about 80% of Vunani's R90.2m net profit.

But Vunani CEO Ethan Dube does not believe these kinds of passive investment holdings will drive the business indefinitely.

Vunani has made its first acquisition of a life insurance business, Metropolitan Swaziland, as MMI divests from the rest of Africa. Swazi Bank is a co-shareholder. The book is dominated by funeral policies.

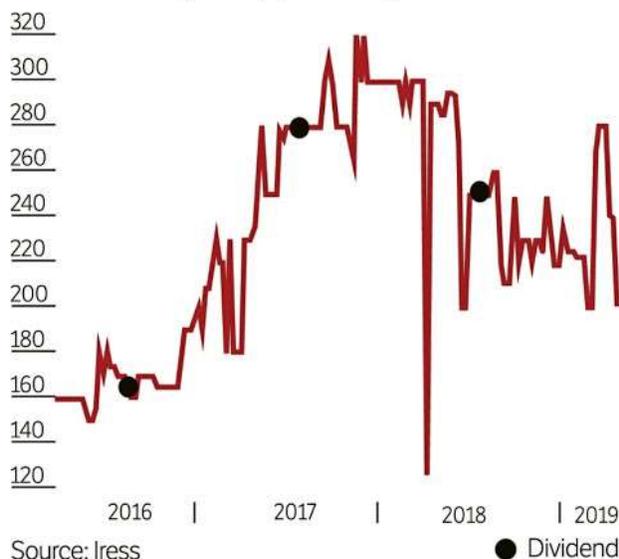
"We would love to get hold of their Lesotho and Botswana businesses, though they aren't for sale yet," says Dube. "MMI Zambia is for sale, but we aren't keen as it is predominantly a health insurer and you need to be a Discovery to make that work."

He says Vunani would not be interested in, say, the Alexander Forbes Uganda business as it would prefer to confine its acquisitions to markets less than two hours' flight away.

He has no doubt that the asset manager will be the main driver of returns over the next three to five years, though for now, at R7.9m, it represents less than 10% of the bottom line. Vunani Fund Managers, originally Peregrine Quant, increased assets under management by almost R7bn to R27.6bn.

ON THE HUNT

Vunani share price (c) – weekly



Dube says the group has been happy to invest in systems and in building a team with experienced chief investment officers (CIOs) such as Tony Bell in equities and Rowan Williams-Short in fixed income. They have trained other team members including Safs Narker (now CIO) and Ntobeko Stampu, the senior fixed-income manager. Vunani's unit trusts are sold through the MiPlan series of funds, which was recently crowned as the top fund house by statistics house Profile Media.

For now the earnings contribution from Fairheads is R13.4m. It has a very high market share of beneficiary trusts run on behalf of orphans. Recently four of the big five pension fund administrators have subcontracted their beneficiary trust administration to Fairheads — Old Mutual, Liberty, MMI and Alexander Forbes.

Sanlam is the only one to remain in-house. But assets directly under administration were almost unchanged at R6.3bn. It does not have the blue sky of the asset manager, which has a market share of less than 1% of the savings market. But Fairheads will provide a steady backbone to Vunani results.

In spite of the collapse of Iqbal Survé's Sagarmatha listing, for which Vunani was the adviser, there was a substantial turnaround in advisory services, in which a loss of R1.5m the previous year was turned to a profit of R4.7m. Dube says this business has been re-energised by a young new team and it has a lot of irons in the fire.

It was a different story in institutional securities, where revenue fell by a third to R42m. Trading volumes were down in the market as a whole, though not everyone has suffered as much as Vunani. A profit of R1.4m was turned into a loss of R7.2m. The business has been restructured and with a lower cost base could return to profit in the 2020 financial year.

Vunani no longer has the spread of small-cap investments it had five years ago, but it has maintained its equity-accounted interest in Workforce, which moves from a R10.1m loss to a R6.1m profit. That won't be a good fit any more as Vunani evolves into a pure financial services operating company.

Dube says the group is eager to have another go at property investments. The previous Vunani Property Investment Fund (now Texton) was sold to repay group debt but the Vunani balance sheet is now much stronger. The group's first attempt, to build bungalows and a boutique hotel at Maiden's Cove in Clifton, Cape Town, was hugely controversial and was stopped by the courts.

"I think we have learnt our lesson.

"The next venture will be a lot more low profile," says Dube.