Investors Should Look Beyond South Africa's Unfolding Political Drama Now
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President Zuma's sacking of his market-friendly finance minister amid a broader cabinet reshuffle has spooked markets, creating attractive entry points for longer-term, valuation sensitive investors.

South Africa’s political tensions intensified on March 30 following President Jacob Zuma’s sweeping cabinet reshuffle, which included replacements of respected finance minister Pravin Gordhan and his deputy, with Malusi Gigaba, a former home affairs minister, and a relatively unknown African National Congress (ANC) lawmaker, respectively. Both are seen as bringing more political loyalty than economic expertise to Zuma’s revamped team.

South Africa’s markets had already been under pressure as splits in the ruling ANC have deepened, increasing the political uncertainty that has done nothing to help an economy averaging an anemic
1.6% growth since Zuma took office in 2009. The rand currency tanked on news of the reshuffle, undercuts nearly all its gains over the first quarter of the year, while the yield on the country’s 10-year sovereign bond spiked, and its benchmark stock index, which has badly lagged the broader rally in emerging market equities over the last year, drifted lower. Longer-term, bottom-up investors who like buying quality companies with bright earnings prospects at reduced prices may want to give South African stocks a closer look, particularly those with international exposure.

After all, it wasn’t long ago that Brazil’s political travails, along with slumping commodities prices, dragged its market down, too. Now the Ibovespa is among the world’s top performing stock indices, with a 31% gain over the last year, doubling that of the MSCI Emerging Markets Index and towering over the FTSE/JSE Africa All Share Index’s 0.4% decline in the period.

South Africa should also benefit from the rebound in commodities prices, particularly in precious metals. And like Brazil, where the impeachment of Dilma Rousseff boosted market sentiment, a resolution to the political disorder swirling around Zuma, who has been continually plagued by accusations of corruption during his time in Pretoria, would likely be welcomed by the market. Zuma denies any wrong-doing while in office, but an end to the political turbulence may not be far off. In December, the ANC, which has been in power since the 1994 end of Apartheid, will vote on a new leader ahead of the 2019 election. Change may even come sooner if the ANC concludes that Zuma risks undermining their chances of retaining power ahead of the vote.

Zuma would like to be succeeded by his ex-wife, Nkosazana Dlamini-Zuma, who recently served as chairwoman of the African Union Commission for more than four years and is well respected in the ANC. But Deputy President Cyril Ramaphosa, who slammed Gordhan’s sacking as “totally, totally unacceptable,” is also a strong candidate. ANC Secretary General Gwede Mantashe also publicly condemned Zuma’s cabinet reshuffle, leading to speculation that he will back Ramaphosa.

However the political drama plays out, some of South Africa’s finest companies are looking increasingly attractive for valuation-sensitive investors interested in emerging market stocks that still have plenty of upside potential.

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