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The CFO Report 2016

Resilience in any climate

Foreword

The cactus is an apt choice for the visual theme of the 2016 Deloitte CFO Survey as the hardy plant reflects the resilience required by CFOs to operate successfully in particularly tough economic conditions.

Often CFOs feel as if they are the single voice of reason in their organisations and our ninth survey is once again aimed at providing them with a benchmark to measure how they are interpreting the business environment in relation to their peers.

In this report, 349 CFOs from South Africa, Southern Africa, East Africa and West Africa have given their views on the cost of funding, risk factors, cash flow priorities, expansion plans and strategic intent.

Angola, Botswana, Malawi, Mozambique, Zambia and Zimbabwe make up the Southern Africa response group. Feedback from CFOs in South Africa is accumulated in a separate South Africa response group as they numbered 146 compared to 141 in the rest of Southern Africa and we felt this may skew the results significantly.

Input was gleaned from Kenya, Uganda, Tanzania and Ethiopia for the East Africa response group and feedback from CFOs in Nigeria and Ghana make up the responses in respect of the West Africa response group. The research was conducted over a six-week period in May and June 2016, in the lead up to local elections in South Africa and Britain's decision to exit the European Union. See more about our respondents on page 23.

We hope the survey delivers useful insights and information to our valued clients and readers. As an integrated African firm, we are committed to providing CFOs with information and support that will give them the edge when it comes to making informed decisions and addressing thorny issues in their daily work lives.

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Key responses

What challenges are faced by CFOs in South Africa and the rest of Southern Africa?

- There is decreased optimism amongst South and Southern African CFO's regarding the performance of their companies.
- While South Africans are most worried about the political landscape in their country, currency volatility tops the list of primary risks for Southern African CFOs.
- South African CFOs expect the interest rate to increase over the next six months, while only half of Southern African CFOs expect an increase.
- Capital is viewed as costly by most CFOs and not easy to get.

How are CFOs in South Africa and the rest of Southern Africa responding to these challenges?

- CFOs will adopt defensive strategies with the majority focusing on improving operational efficiency and process optimisation this year.
- CFOs intend to be more circumspect in prioritising cash flow and the focus will be on improving current operations this year.
- The strong possibility of interest rate increases means CFOs will be more circumspect when making decisions around the incurring of debt, interest repayments and placing stress on free cash flow.

Economic outlook

Ingenuity crucial to weathering tough times

Operating in a tough economic environment characterised by low commodity prices, depreciating currencies and diminishing demand from large trading partners, makes the role of CFOs operating in sub-Saharan Africa tougher than ever. Fortitude will be the watchword for companies' financial stewards in 2016 as they strive to find creative ways to deal with their current challenges, boost company performance and increase shareholder value.

Interest rate hikes expected

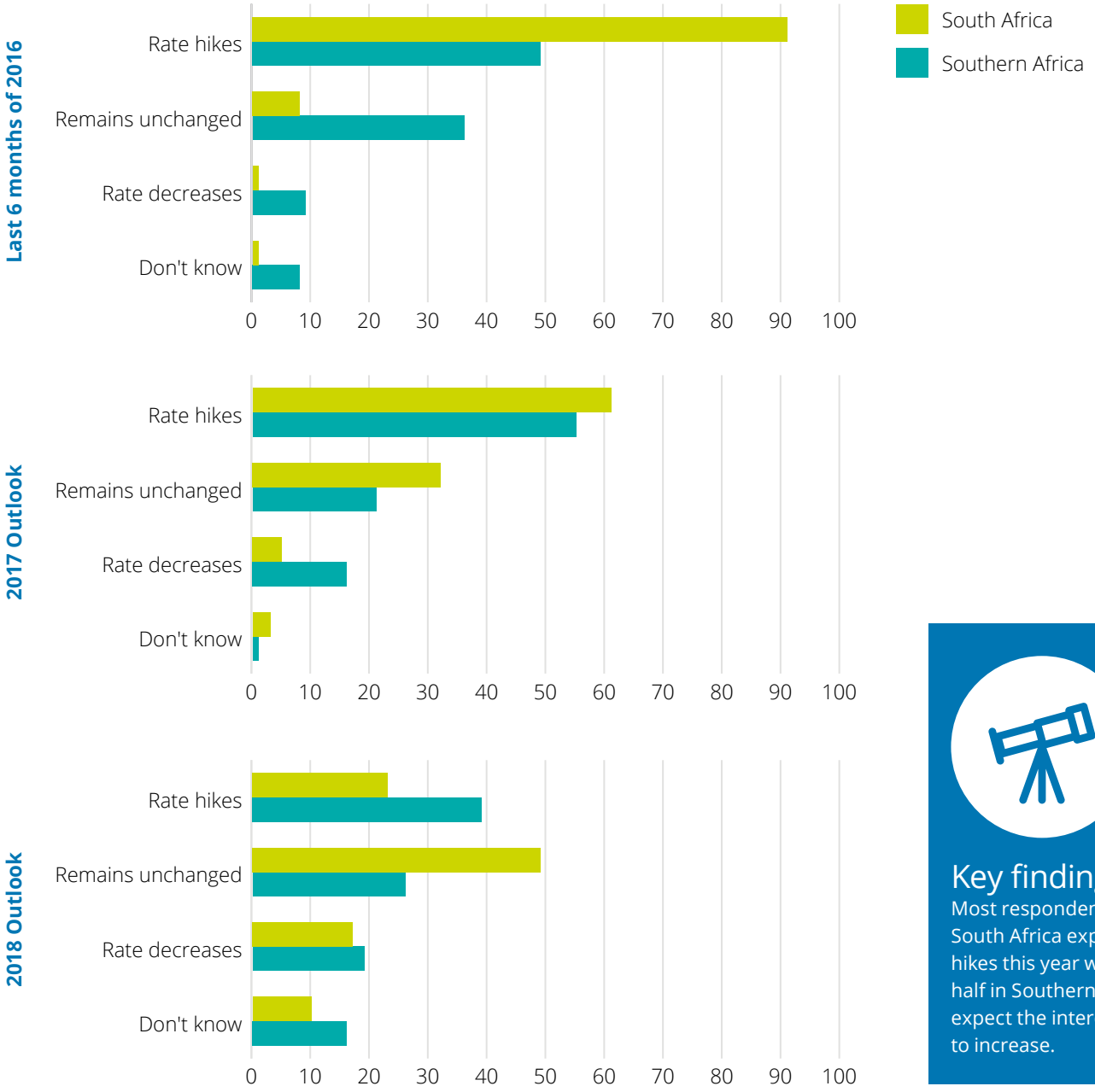
A significant number of CFOs in South Africa (91%) and West Africa (78%) expect short-term interest rate increases of 100 basis points or more in 2016. For Southern and East Africa regions, interest rate increases are expected to be more muted. Only 49% of Southern African CFOs expect an interest rate increase in 2016 and 36% expect it to remain the same. In East Africa, 45% of respondents expect an interest rate increase in 2016 and 36% expect it to remain unchanged.

The inevitability of interest rate increases for CFOs in South Africa and West Africa probably makes for more circumspect decisions around the incurring of debt, interest repayments and stress on free cash flow. CFOs in East Africa and Southern Africa should, however, be able to approach debt financing with more confidence.

Looking ahead, 55% of respondents in Southern Africa expect the interest rate to increase in 2017 and 39% expect it to increase in 2018. In South Africa, 61% of respondents expect the rate to increase in 2017, while they are more optimistic about 2018 when the expectation of an increase drops quite dramatically to 23%, with 49% expecting it to remain the same.

In Ghana and Nigeria, 47% of CFOs expect the interest rate to increase in 2017 and 41% expect it to remain unchanged. In 2018, 41% expect it to increase, 22% expect it to remain unchanged and 25% predict it will decrease. From an East African perspective, 63% of respondents expect the interest rate to increase in 2017 and 48% in 2018.

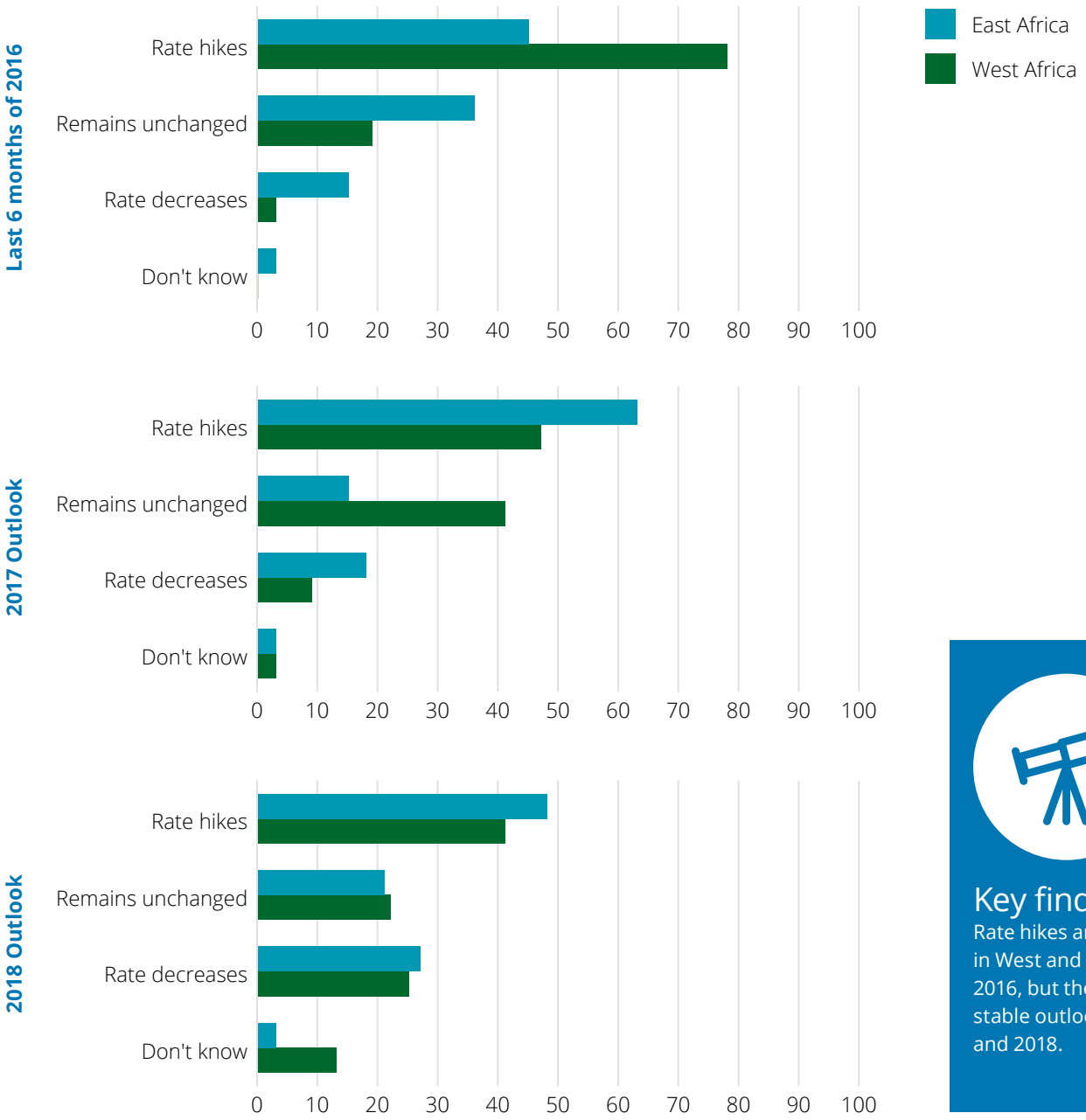
Figure 1
Short-term interest rate prospects – South Africa vs Southern Africa



Key finding:

Most respondents in South Africa expect rate hikes this year while only half in Southern Africa expect the interest rate to increase.

Figure 2
Short-term interest rate prospects – East Africa vs West Africa



Key finding:

Rate hikes are expected in West and East Africa in 2016, but there is a more stable outlook for 2017 and 2018.

Business outlook

Divergent views on companies' future performance

This year's survey reveals a drop in optimism amongst CFOs surveyed in Southern Africa while CFOs in West Africa and East Africa have a somewhat more positive outlook for their companies in 2016.

South African CFOs are somewhat less optimistic about the performance of their companies in 2016, with 57% expecting a slight or significant improvement in performance compared to 61% in 2015. These results reflect the country's current economic issues, from the depreciation of the rand, to uncertainty around the municipal elections and financial insecurity spurred by a possible sovereign rating downgrade at the end of the year.

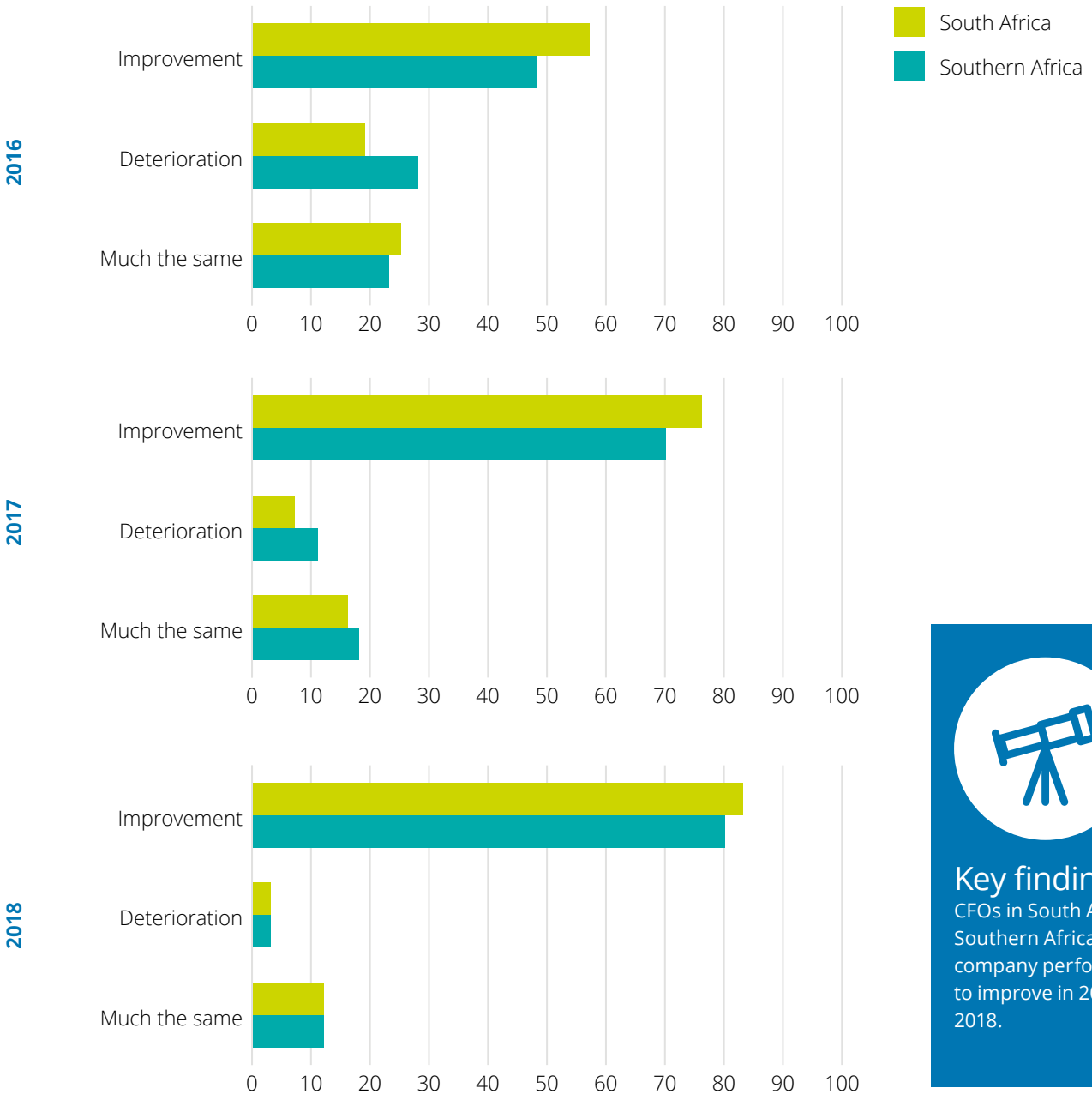
Looking to 2017 and 2018, CFOs in South Africa are more optimistic about performance with 76% expecting a slight or significant improvement in 2017 and 83% anticipating a rosier outlook in 2018.

In Southern Africa, 48% of CFOs expect an improvement in company performance in 2016. Only 23% expect it to remain the same and 28% expect a deterioration in performance. The outlook is considerably more positive over the next two years, with 70% expecting a slight or significant improvement in 2017 and 81% expecting the same in 2018.

In West Africa, 63% of CFOs expect a slight or significant improvement in company performance in 2016. Looking ahead, their optimism levels increase significantly with 91% predicting performance improvements in 2017 and 88% in 2018. This may be overly optimistic, given the general uncertainty around the oil price.

Overall, CFOs in East Africa are far more optimistic, with 69% expecting their companies' performance to improve in 2016. The longer-term view is also positive with 81% and 82% of respondents expecting an improvement in 2017 and 2018 respectively.

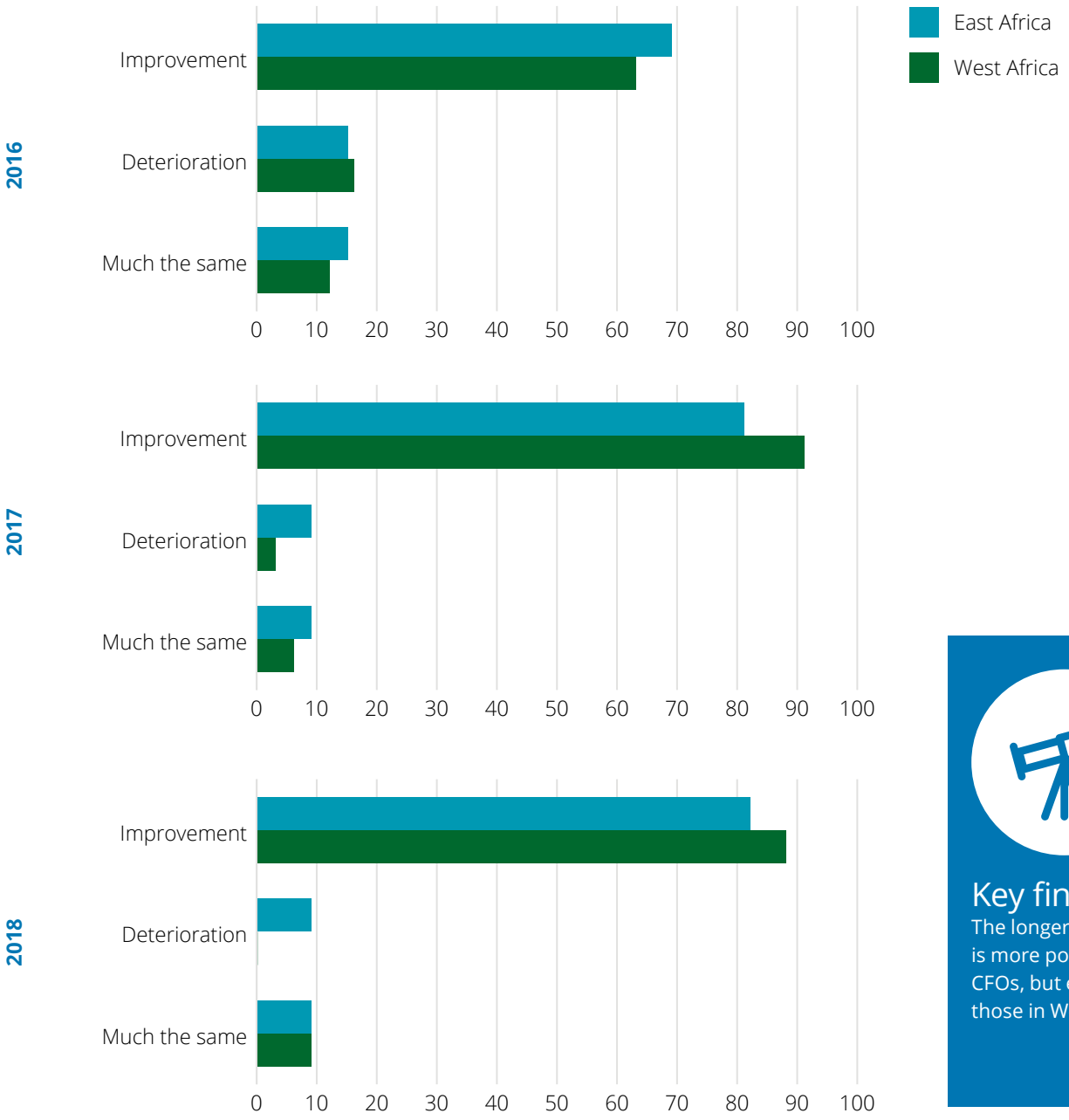
Figure 3
Expected performance 2016 – South Africa vs Southern Africa



Key finding:

CFOs in South Africa and Southern Africa expect company performance to improve in 2017 and 2018.

Figure 4
Expected performance 2016 – West Africa vs East Africa



Key finding:

The longer term outlook is more positive for all CFOs, but especially for those in West Africa.

Political landscape and currency volatility are top risk factors

In South Africa the political landscape continues to top the list of risk factors with 75% viewing it as a significant risk. This is up from 61% in 2015 and not surprising, given CFOs are probably concerned about policy consistency in the wake of local elections.

Interestingly, the impact of electricity price increases, which was amongst the top four concerns for South African CFOs in 2015, has now dropped down the list and currency volatility (75%), country credit ratings (63%) and margin deterioration due to input cost pressures and lack of pricing flexibility (54%) are cited as the most significant risks.

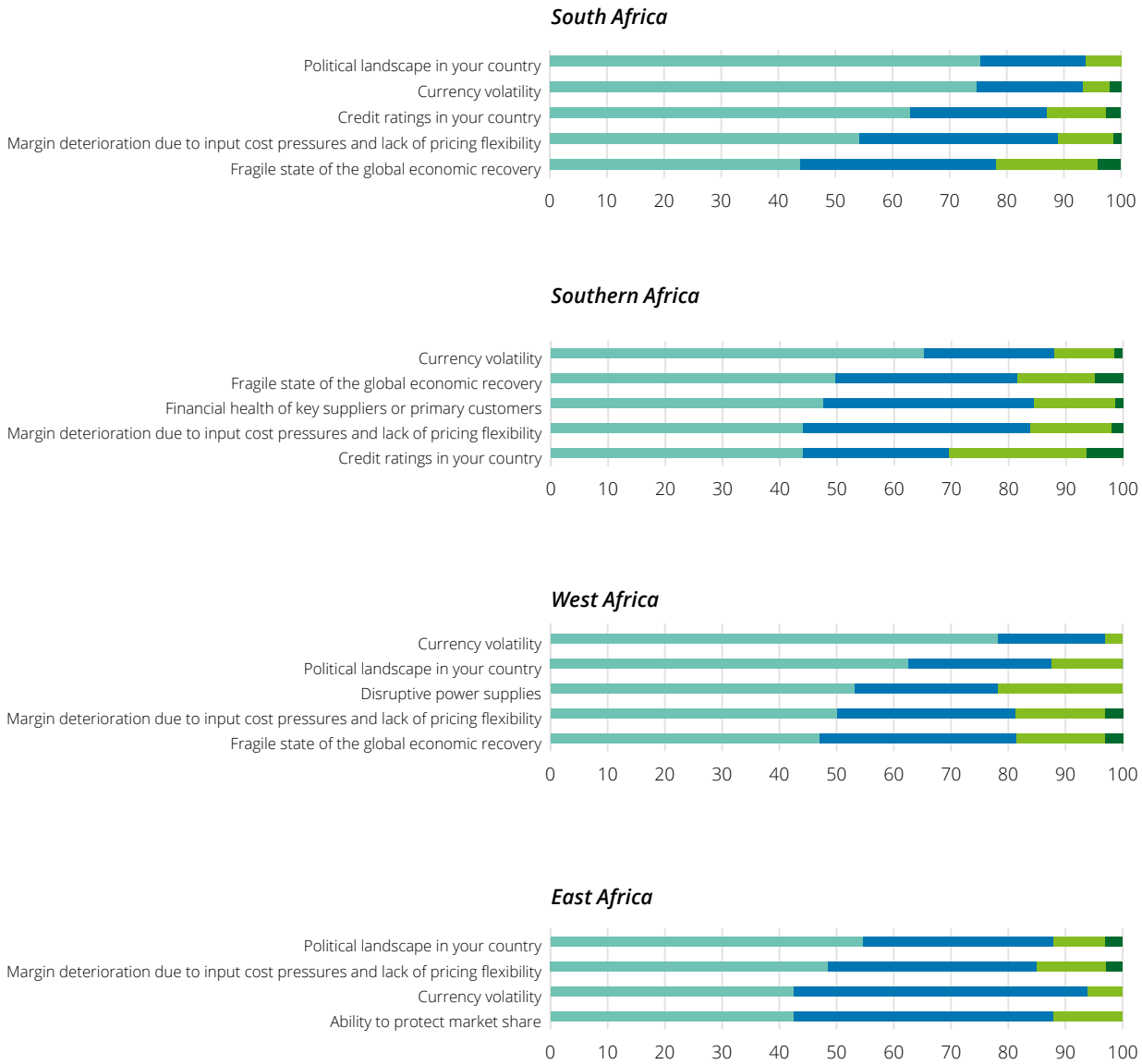
The picture is different for respondents in the rest of Southern Africa where 65% of CFOs view currency volatility as the primary risk factor followed by the fragile state of the global economy (49%); the financial health of key suppliers or primary customers (47%); and margin deterioration due to input cost pressures and lack of pricing flexibility (44%).

In West Africa, 78% of Nigerian and Ghanaian CFOs identified currency volatility as the most significant risk. Despite the slowdown of its economy and increased inflation risk, Nigeria's response has been to maintain a 12% interest rate, whereas Ghana has tried to balance the risk of inflation and currency volatility by maintaining a high interest rate of 26% for the past four quarters.

In addition to currency volatility, West African respondents have singled out the political landscape (62%), disruptive power supplies (53%), margin deterioration due to input cost pressures (50%) and the fragile state of the global economy (47%) as the most significant risk factors.

For 54% of East African CFOs, the political landscape is the greatest risk, followed by margin deterioration due to input cost pressures and lack of pricing flexibility (48%); currency volatility (42%) and ability to protect market share (42%).

Figure 5
Risk factors



Key finding:
Currency volatility is regarded as a key risk for CFOs across the continent.

Cash for improving operations

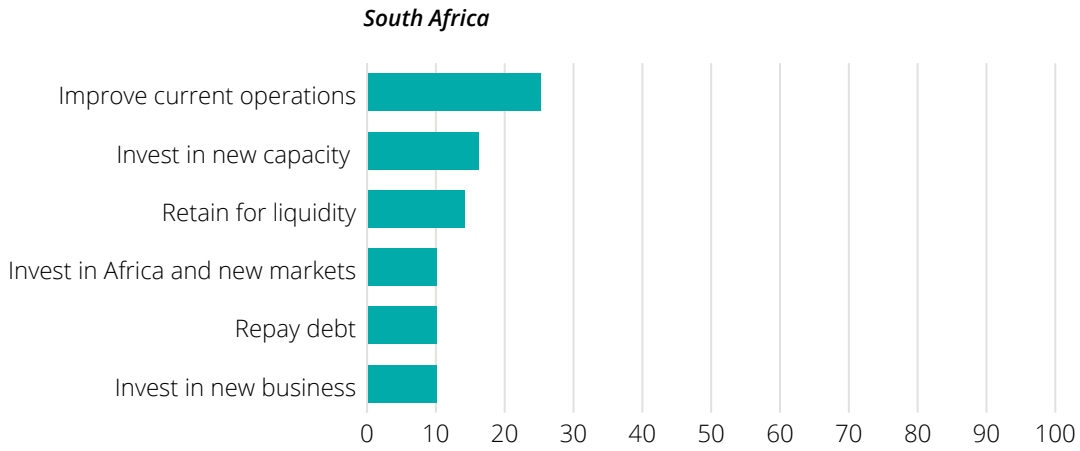
The tough economic landscape is compelling CFOs to be more circumspect in prioritising cash flow. This year's survey results show the focus for the majority of CFOs is once again on improving operations, a recurrence of their top priority for 2015.

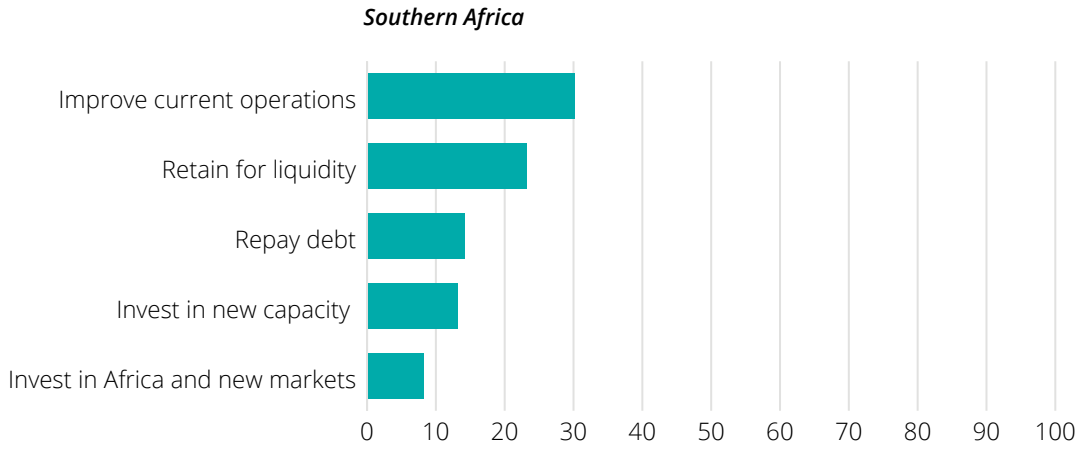
Higher risk endeavours such as investing in new markets, new innovations or new products are somewhat lower on the list of priorities with more cash being retained for liquidity, used to invest in new capacity or channeled into repaying debt.

While CFOs in South Africa, Southern Africa and West Africa have identified improving current operations as a top priority, this trend differs slightly in East Africa where the primary focus is on investing in new capacity as well as improving current operations, followed by retaining cash for liquidity and repaying debt.

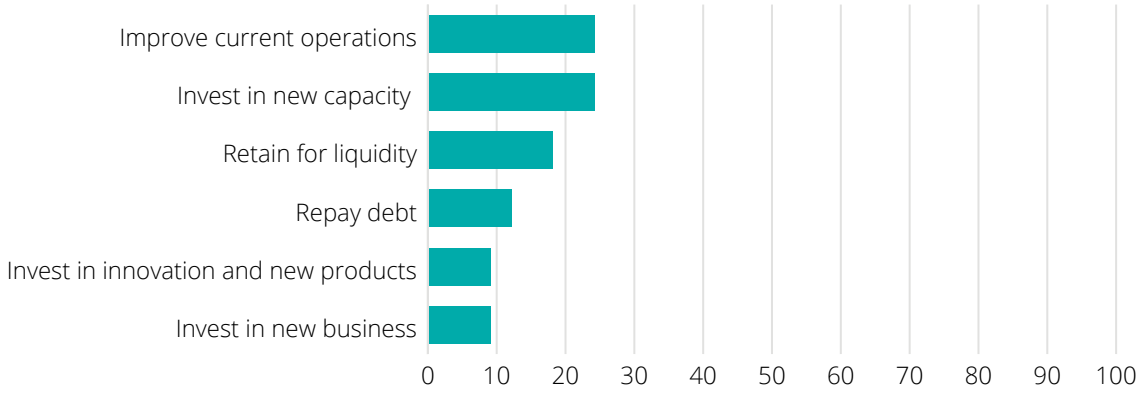
Investing in Africa and other new markets is fourth on the list of priorities for South African CFOs, along with repaying debt and investing in new businesses. It is not a major priority for respondents surveyed in East and West Africa where they seem to be more focused on growth in their domestic markets.

Figure 6
Cash flow priorities

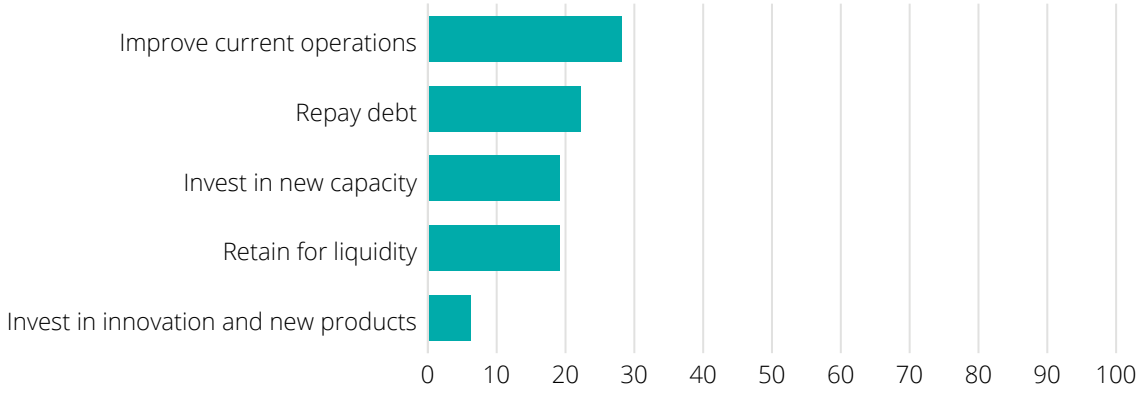




East Africa



West Africa



Key finding:

Most CFOs will be channelling their cash into improving current operations.

The high cost of capital

A large percentage of survey respondents say the cost of new funding is expensive. Uncertainty around future growth prospects and long-term profits means CFOs are probably cautious about obtaining expensive funding.

For 63% of South African CFOs, capital is viewed as either fairly or very expensive, down from 71% in 2015. The picture is somewhat different for Southern Africa where 80% of respondents view the cost of new funding as expensive, significantly up from 60% in 2015.

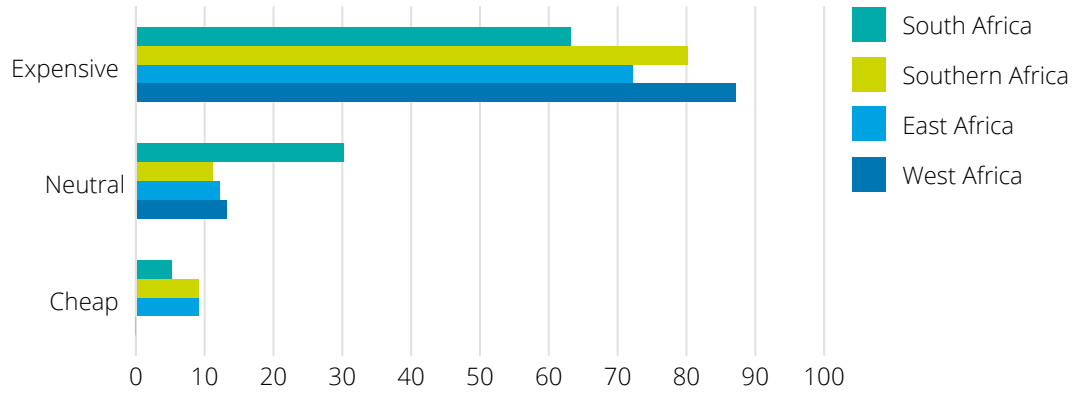
In Nigeria and Ghana, a hefty 87% of CFOs see capital as costly, up from 83% in 2015. In East Africa 72% of CFOs view the cost of capital as expensive. This is similar to 2015 when 71% thought capital was costly.

While capital is costly, 57% of South African CFOs say it is either somewhat or easily available, while 30% say it is hard to get. This has changed since 2015 when 74% of CFOs viewed capital as readily available. This may be attributed to fears around a possible ratings downgrade.

In Southern Africa, 50% of CFOs view capital as somewhat or easily available, which is down from 53% in 2015, and 37% say it is hard to get.

Some 69% of East African CFOs believe funding is readily available, but the picture is quite different for West Africa where only 37% of respondents say it is available and 56% say it is hard to get. This more challenging scenario in West Africa is probably exacerbated by fluctuating oil prices.

Figure 7
Cost of new funding



Key finding:

The cost of new funding is regarded as expensive by the majority of respondents, which has implications for funding growth and working capital.

CFOs adopt defensive strategies

A significant 84% of South African CFOs say they will focus on improving operational efficiency and process optimisation this year. Also on their radar is customer acquisition and retention and the reduction of operating costs. This is a shift from last year's primary focus, which was on improving investor confidence and not surprising given the current challenging economic environment they are operating in.

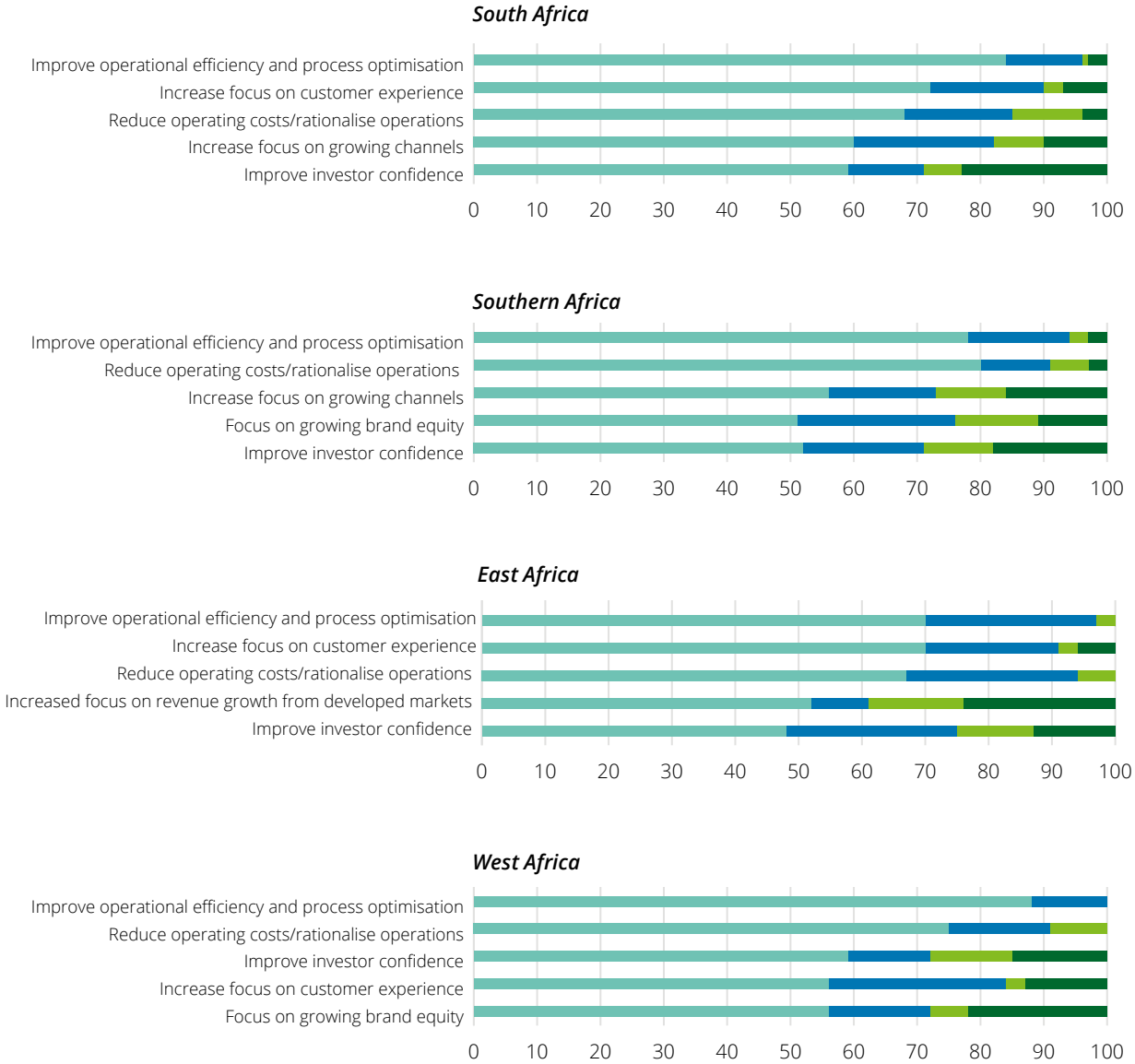
In Southern Africa, CFOs are most concerned about improving operational efficiency and process optimisation as well as reducing operational costs. They are also focusing on growing brand equity and growing channels. This differs from 2015 when the primary focus was on improving investor confidence, a result that was probably swayed by South Africa's inclusion in the Southern African sample in that year.

West African CFOs are also tightening their belts and have shifted focus from customer acquisition and retention in 2015 to improving operational efficiency and optimising processes as their primary strategic thrust for 2016.

Other crucial areas on the radar for West Africa's financial stewards include reducing operating costs and improving investor confidence. Nigeria, in particular, experienced a decline in investor confidence following the depreciation of its currency and drop in global oil prices in 2015 and recorded a 53% drop in capital importation. The government has, however, stated its intention to "provide clarity on policy direction, increase monetary policy credibility, raise the tax-to-GDP ratio and improve security" to attract investors back to Nigeria.

In East Africa, the focus is on improving operational efficiency and process optimisation as well as enhancing the customer experience. CFOs will also focus on reducing operational costs and pursuing revenue growth from developed markets.

Figure 8
Strategic approach



- Currently following
- Still likely to adopt in 2016
- Potential future focus
- Not a focus at all

Key finding:

This year, CFOs throughout Africa will be focusing on improving operational efficiency and process optimisation

Africa remains a growth prospect despite setbacks

Africa continues to be a growth prospect despite its devaluing currencies and other economic woes. While the continent saw foreign direct investment (FDI) inflows decrease by 7% in 2015, there are growth opportunities for investors who are prepared to adopt a long-term view.

Some of these opportunities emanate from an increased demand for residential and commercial real estate, infrastructure development projects and consumer goods and services.

Many companies already invested in Africa are taking a long-term view of the continent's future, consolidating their operations and putting major growth projects on the backburner until they can be revisited in more robust times.

As in previous years, South African respondents continue to see other African economies as attractive opportunities for growth, notwithstanding the prevailing unfavourable sentiment. Notably, 68% of respondents say they already have operations in Southern Africa, 21% in East Africa and 10% in West Africa.

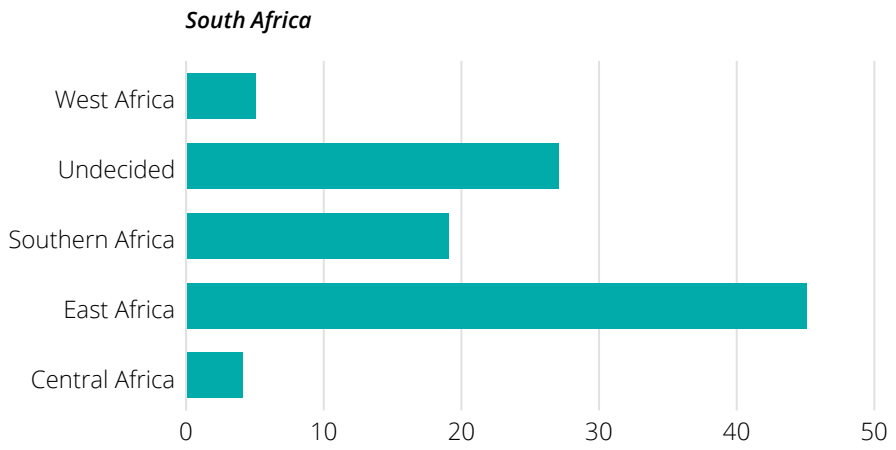
Looking ahead, 45% of South African CFOs say they plan to expand to East Africa and 19% into Southern Africa. The number of CFOs looking to expand to West Africa has decreased since last year and they are probably biding their time to see what happens in the region.

In East Africa, 71% of CFOs say they are looking to expand in their own region, with minimal interest in other regions. Southern African respondents are either looking to expand in their own region (31%) or are undecided about what to do (34%), while 16% are planning to invest in East Africa and 10% in West Africa.

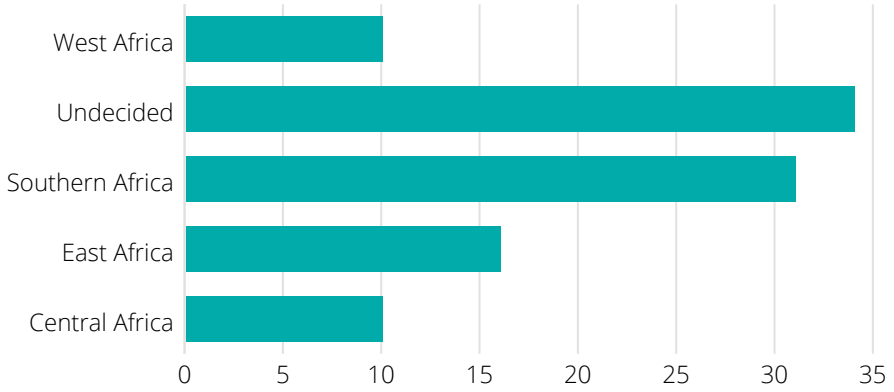
West African respondents are also mostly looking to expand in their own region (38%) or are undecided about what to do (29%) while 24% plan to expand to East Africa, something that was not on their radars in 2015.

Notably, 90% of South African, 90% of East African and 79% of West African CFOs cite growth as their main reason for investing in sub-Saharan Africa. In Southern Africa, 68% respondents cite growth as their reason for investing on the continent while 15% say it is a directive from their parent companies and 9% say they are following instructions from headquarters.

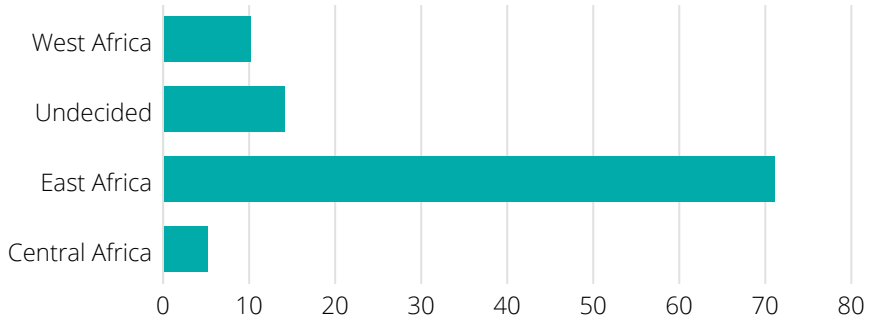
Figure 9
Future investment markets



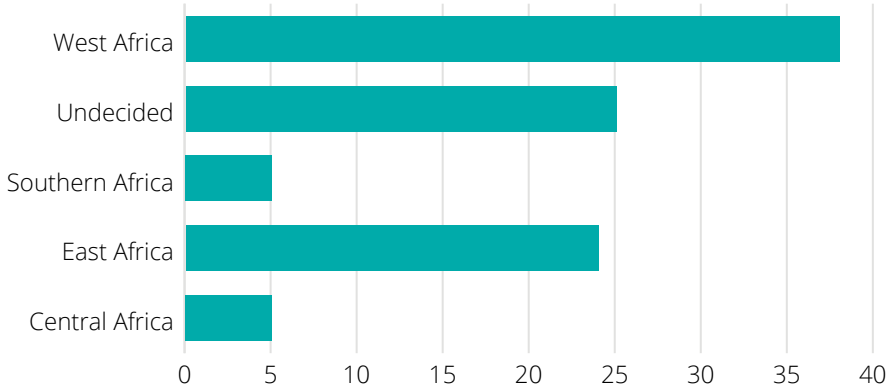
Southern Africa



East Africa



West Africa



Key finding:

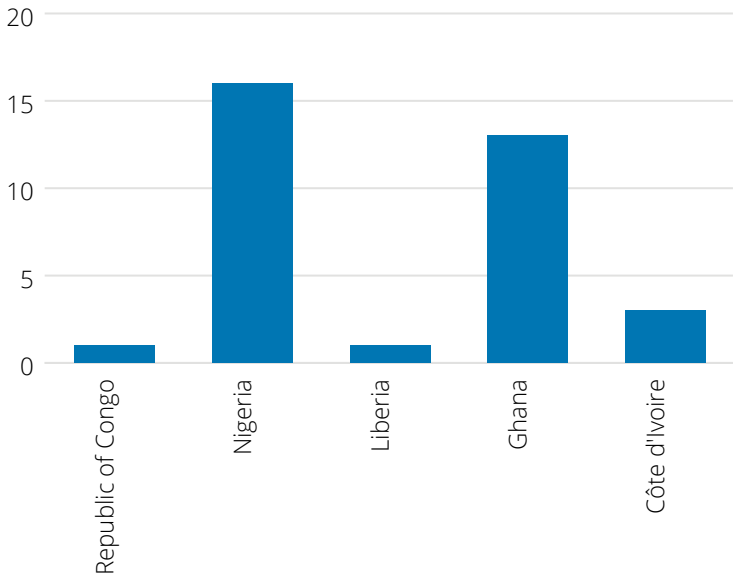
While East African, West African and Southern African CFOs look largely to their own regions for future expansion, South African CFOs continue to look north of their country's borders for growth opportunities.

South African companies look north for expansion

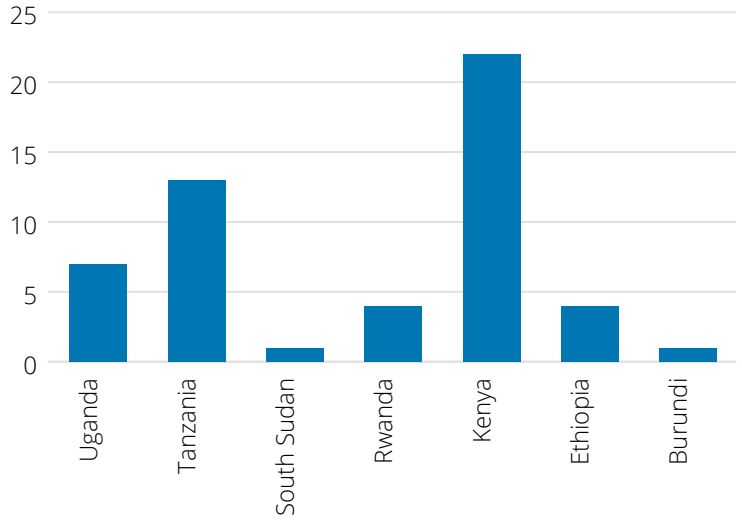
According to South African CFO's, their companies have expanded to Mozambique, Zambia and Botswana in Southern Africa over the past three years. In East Africa, South African companies have mostly expanded into Kenya and Tanzania and in West Africa, into Nigeria and Ghana.

Figure 10
South Africa's expansion over past three years

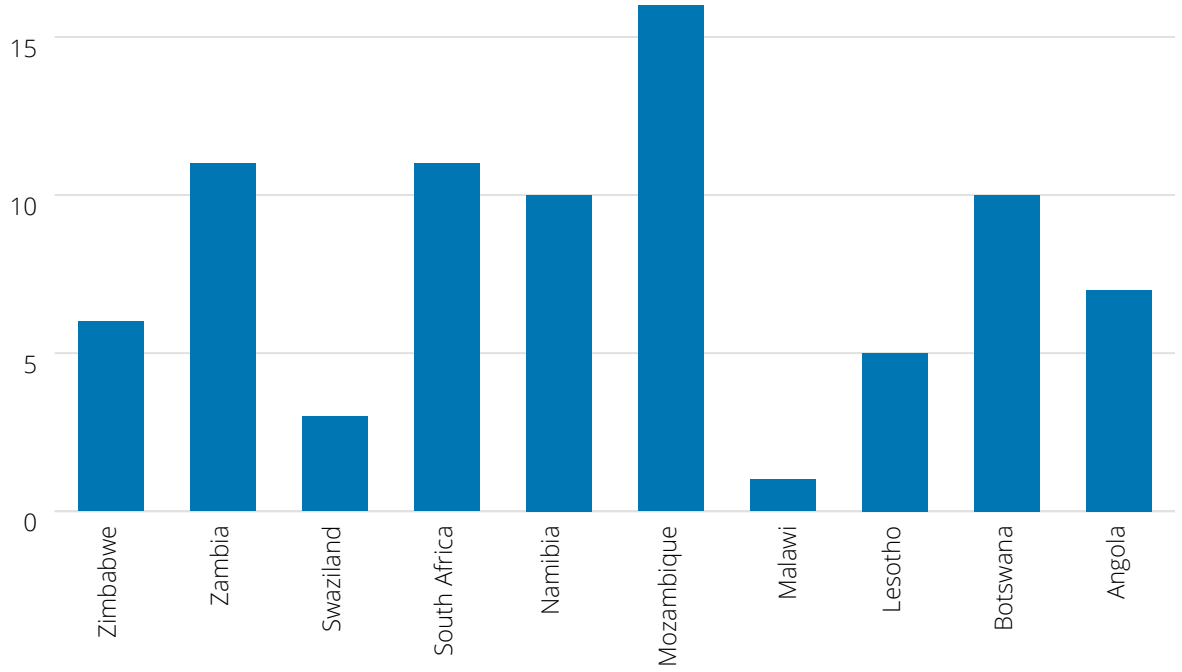
South Africa's expansion into West Africa over past three years



South Africa's expansion into East Africa over past three years



South Africa's expansion into Southern Africa over the past three years



Overloaded CFOs seek balance and support

The past two years of market vacillation have seen African CFOs having to deal with a 'new normal' where growth on the continent has been revised downwards and investors are twitchy.

Concerns for CFOs in Africa cut across regions and top job stresses include pressure from poor company performance, excessive workloads, too much administrative work, changing regulatory requirements, strategic ambiguity, demands of the board and CEO, and insufficiently skilled support staff. These challenges are fast becoming the African CFO's mantra and finding solutions to them seems to be an ongoing challenge.

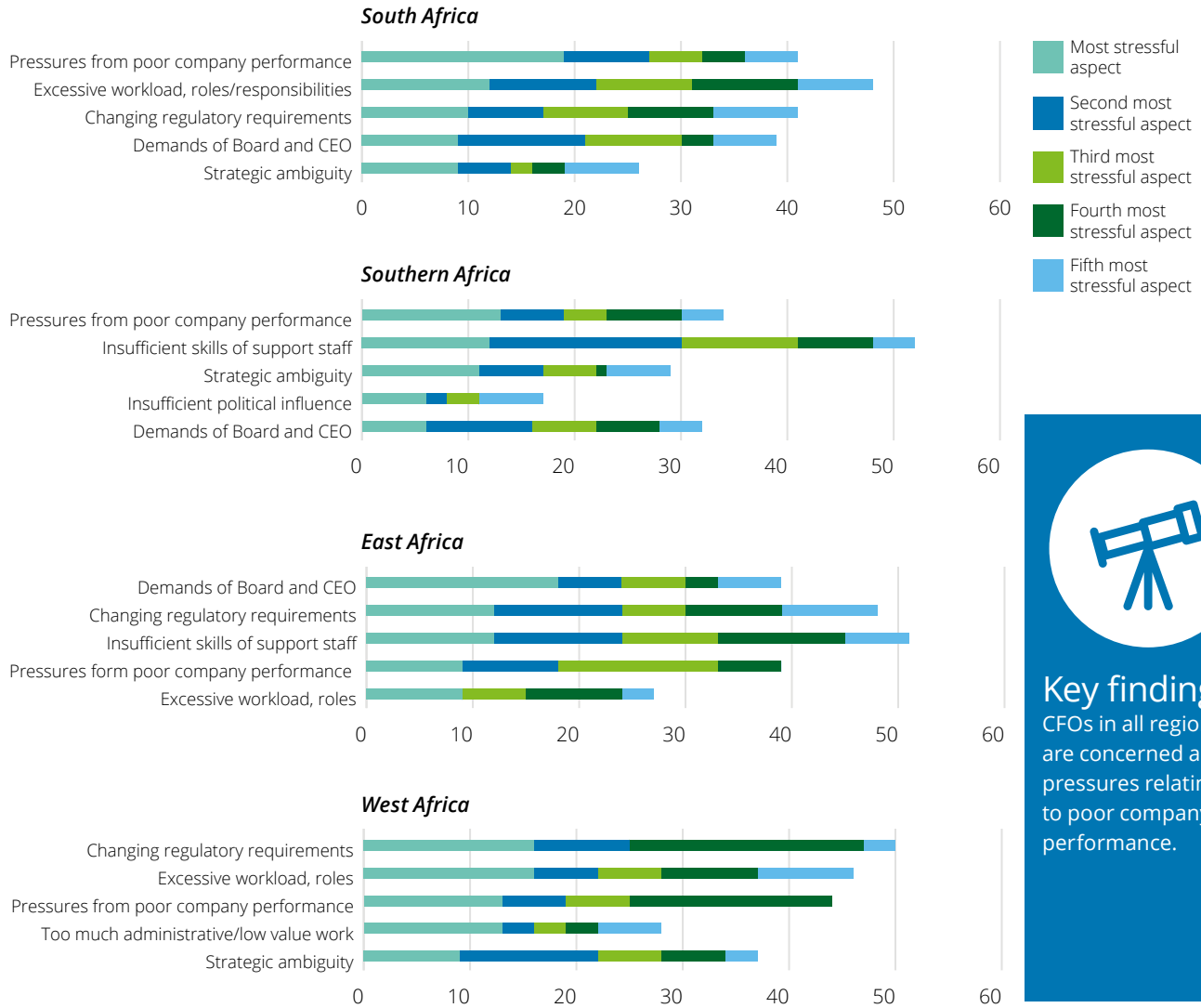
Trying to balance their roles as team leaders, providers of strategic insight and meeting the various regulatory, risk management and compliance expectations of the board means CFOs need the support of strong team members to back them up.

Not surprisingly, when questioned about what they would like to ask other CFOs, many were interested in finding out how their counterparts retain talent and motivate staff. In addition, many also wanted to know how they deal with pressure and creating a work-life balance.

Looking ahead, most CFOs on the continent will be engaged in improving operational efficiency and process optimisation and reducing operating cost. These defensive strategies have spilled over from 2015 and will probably continue into 2017.

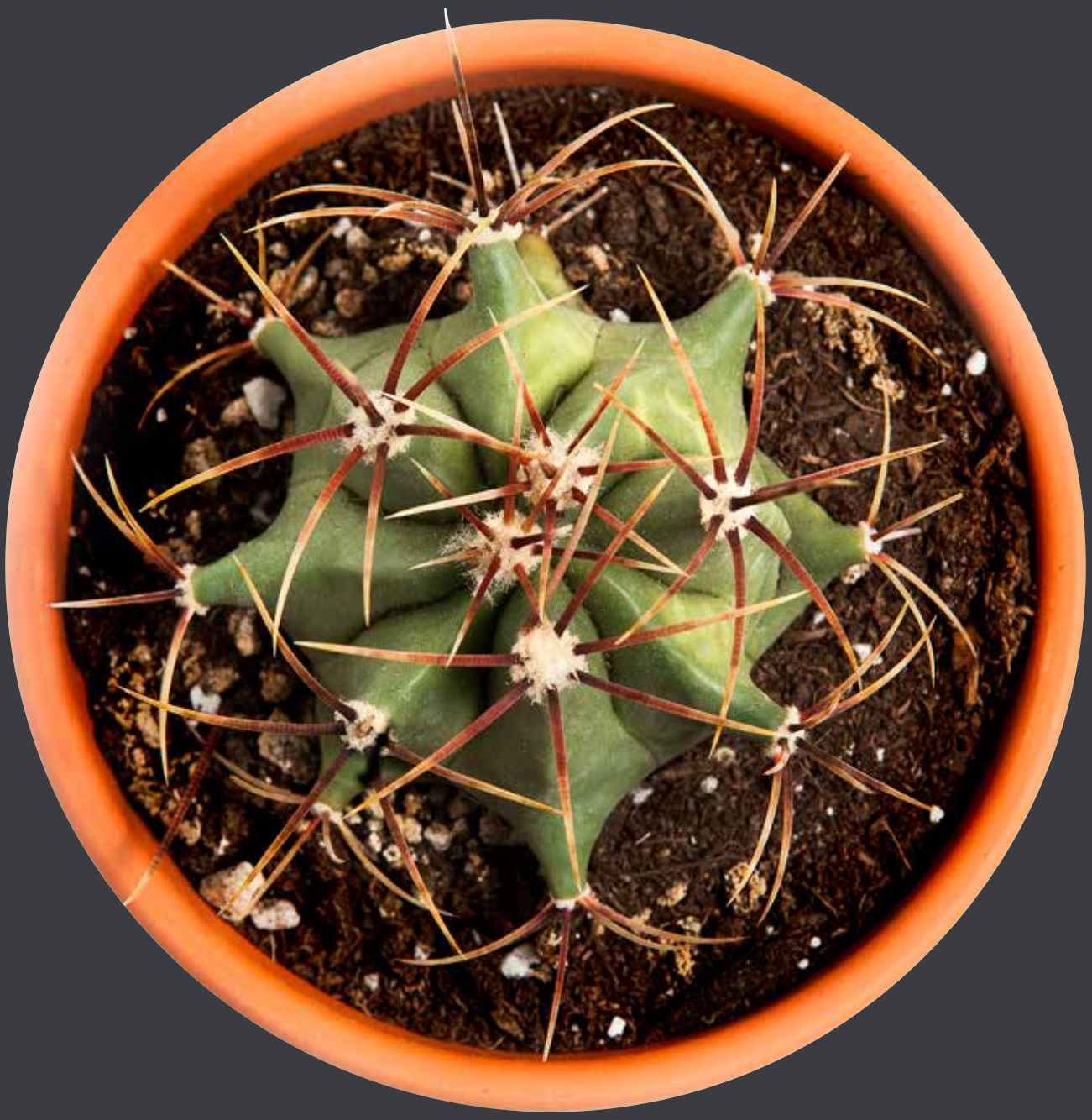
So, like the robust cactus, CFOs will need fortitude. Fortitude to get through the tough economic times. Fortitude to deal with workplace demands. They will need ingenuity to negotiate the 'new normal' and find novel ways of growing their businesses and enhancing their attractiveness to investors.

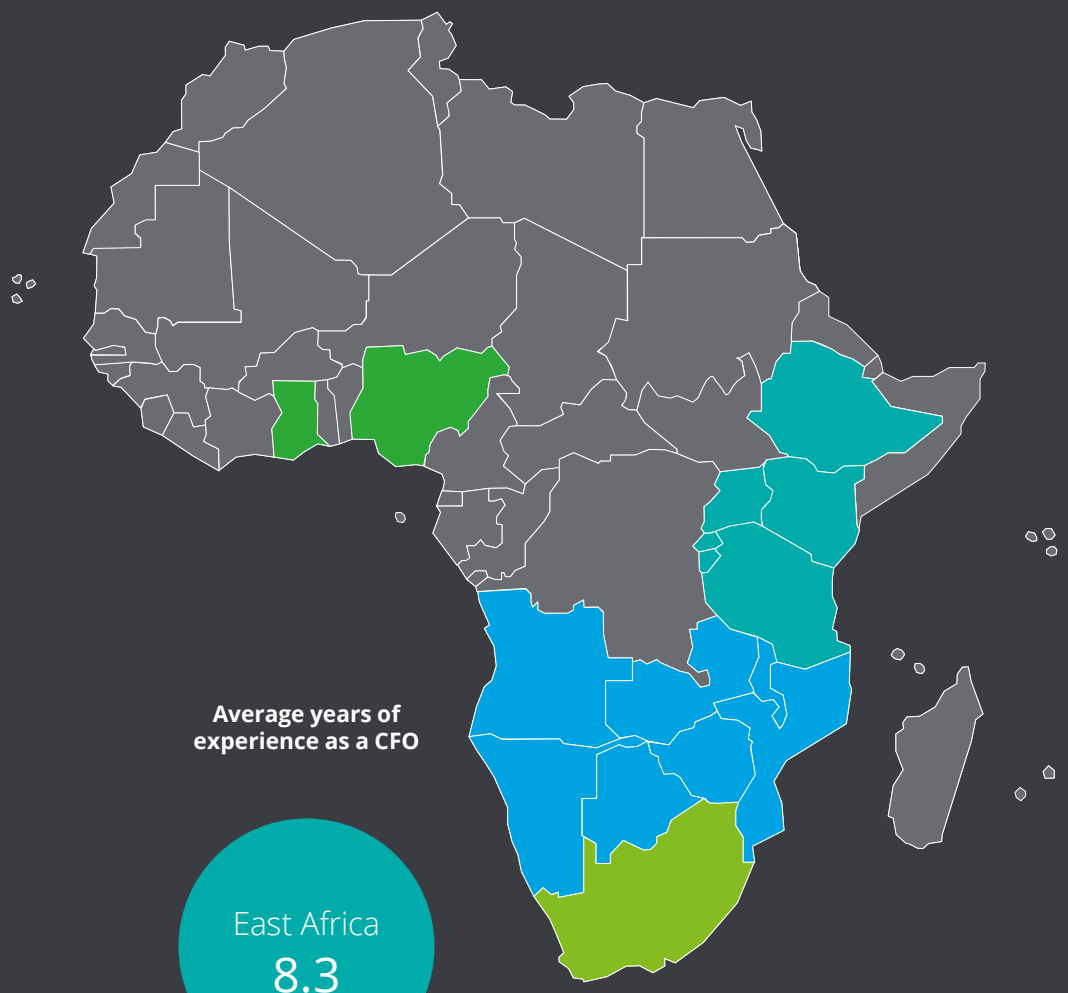
Figure 11
Top job stresses



Key finding:
CFOs in all regions are concerned about pressures relating to poor company performance.

Respondent profile





Number of respondents in each region

East Africa
33

West Africa
32

Southern Africa
141

South Africa
146

Average years of experience as a CFO

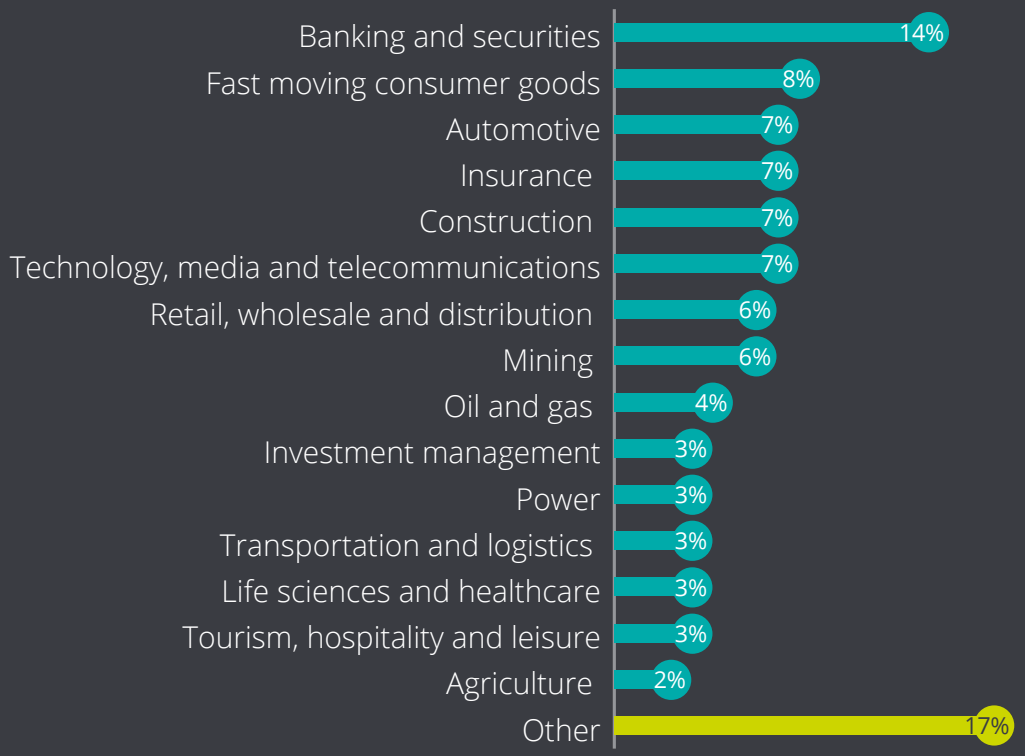
East Africa
8.3

West Africa
7.2

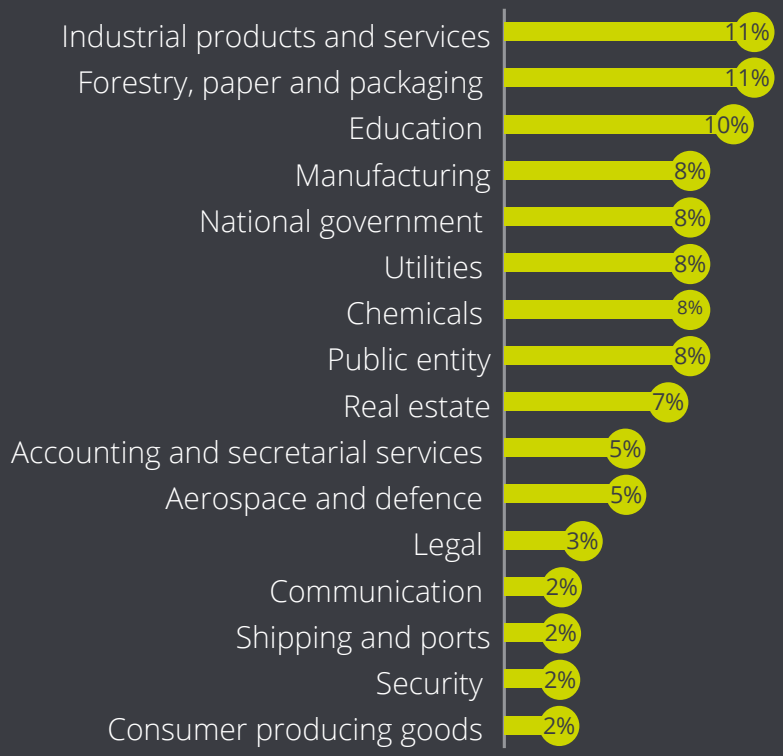
Southern Africa
8.3

South Africa
9.1

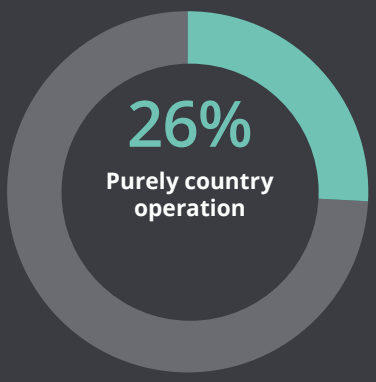
Industries

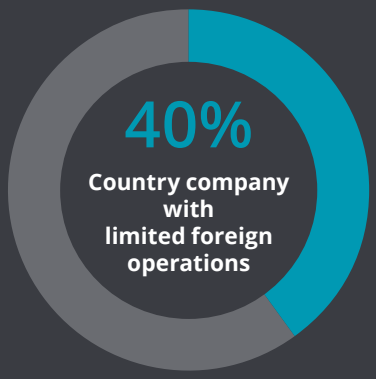


"Other" comprises:

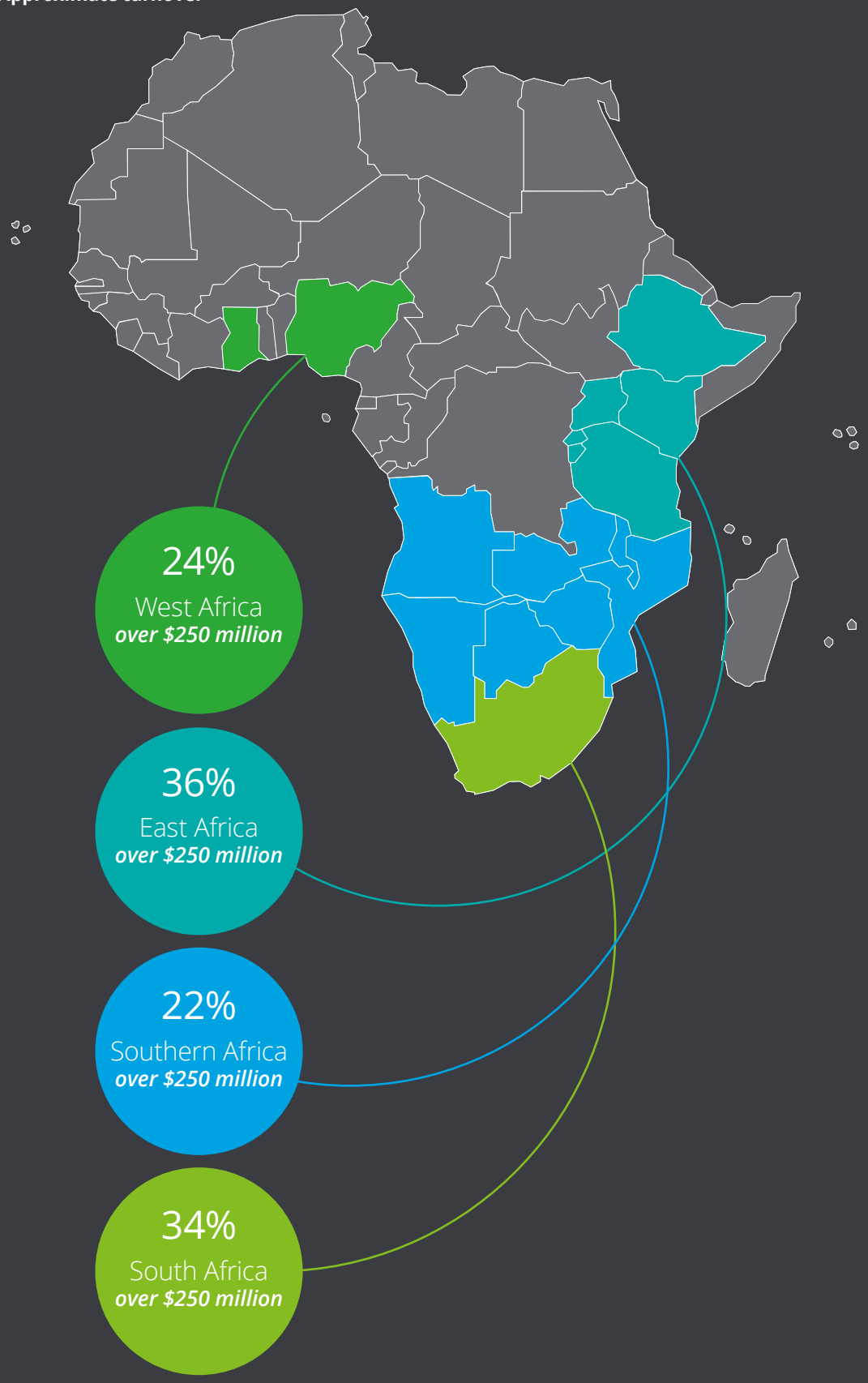


Business category





Approximate turnover



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