

For more information please contact:

Kira Harrison, Merchantec Capital
Tel: 011 325 6363
kira@merchantec.co.za

CEO Confidence at Lowest Point Ever With Rating Downgrade Looming

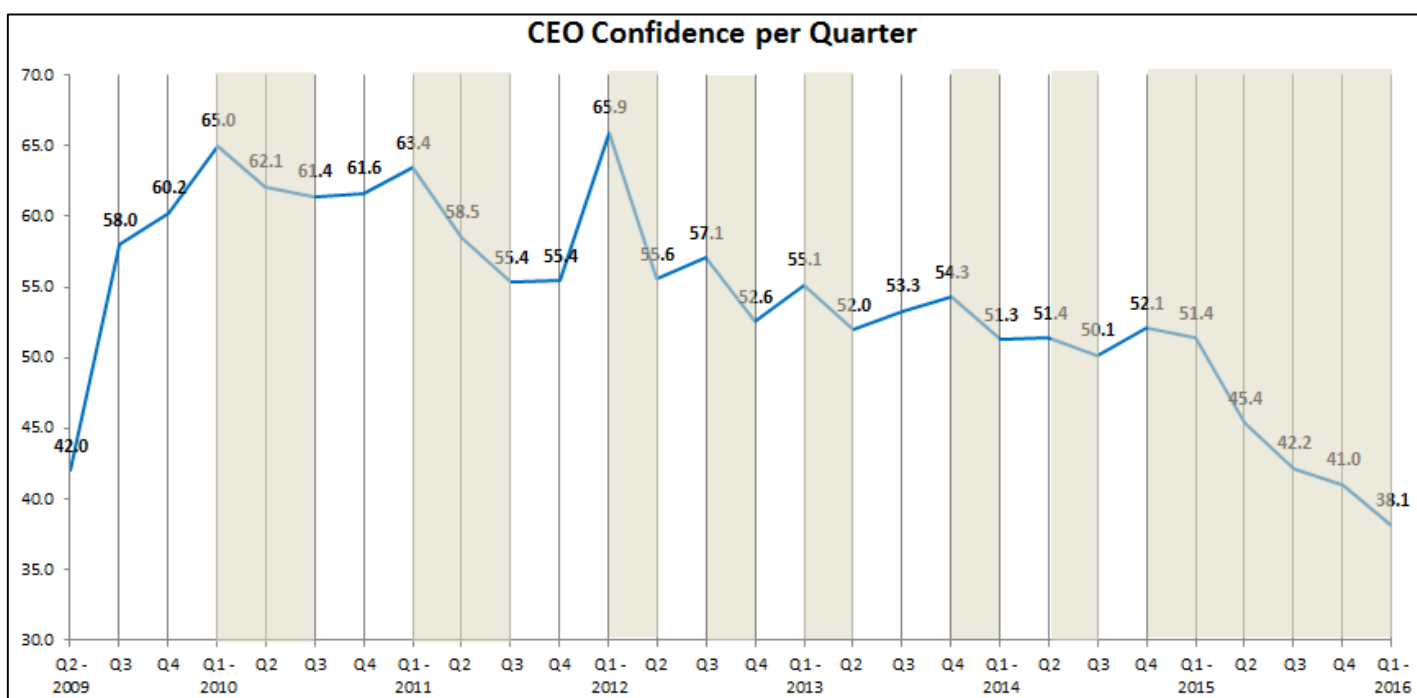
The [Merchantec CEO Confidence Index](#) recorded a decrease of CEO confidence to 38.1 points in Q1 2016. This is the lowest score recorded in the Merchantec CEO Confidence Index since its inception in Q2 2009 and the fifth consecutive quarter in which confidence of CEOs has dropped. Most notably, the Financials sector suffered a 50% erosion from being the most confident in Q1 2015 to the least confident in Q1 2016, pointing toward a potential financial services crisis.

Simultaneously, the [Merchantec CEO Confidence Index](#) reported that 64% of CEOs believe South Africa is heading for a rating downgrade in 2016 while 36% of CEOs are optimistic that the economy will persist through its challenges and become stable.

The foresight of a potential rating downgrade draws mainly from the lack of trust in leadership, current fiscal policies, overregulation, and low growth prospects. CEOs indicate a common sentiment that South Africa’s political landscape is out of touch with business challenges and that the budget is too reliant on government cutting costs. The possibility of more rate hikes also seems likely.

Overall, confidence is averaged by CEO responses from the following sectors: Basic Resources, Industrials, Financials, Information and Communication Technology, Consumer Goods, and Consumer Services. Results indicated a 12.2% decrease in confidence in current economic conditions compared to 6 months ago, followed by a 10.4% confidence decrease in the ability to raise capital or debt. Particularly, the decrease of the latter was significantly led by a 43.6% confidence drop from the Financials sector. On the contrary, the Basic Materials sector reported the largest increase in confidence in both planned level of Investment in their companies (87.5%) and current economic conditions compared to 6 months ago (59.4%).

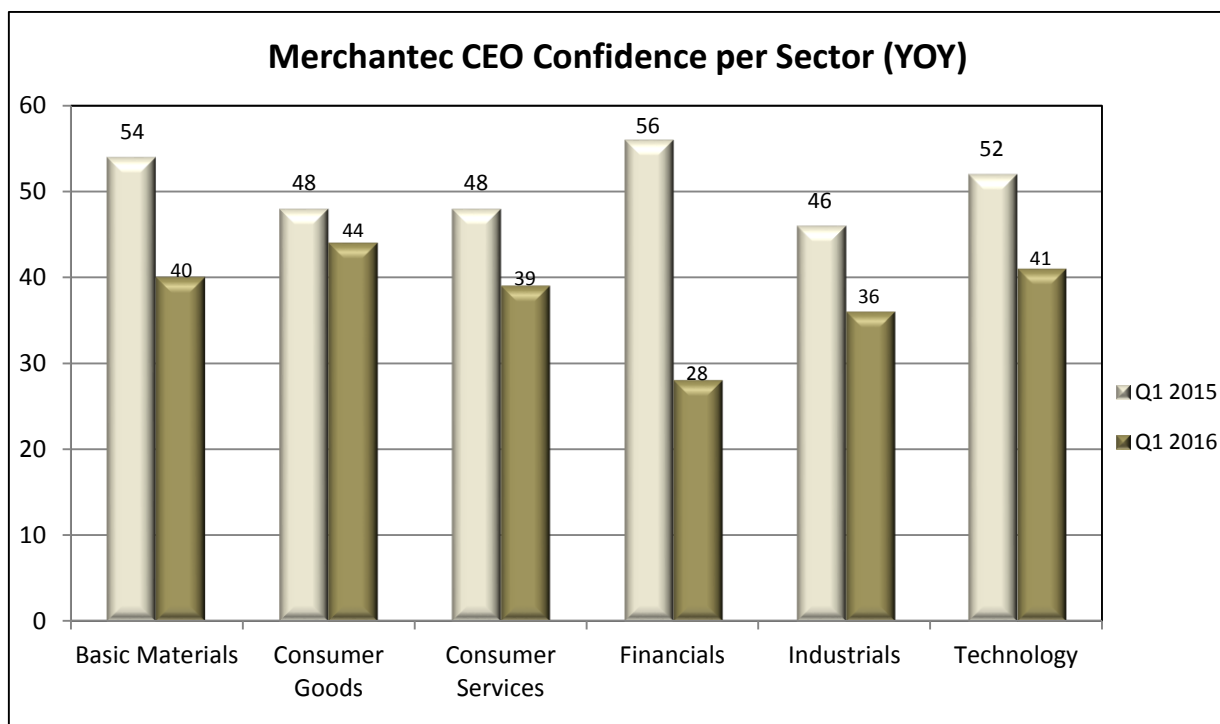
In sum, South African CEOs see the current economic conditions in the country and their ability to secure debt or equity capital as moderately worse compared to six months ago. On average, CEOs are expecting growth in their industry and company, and planned levels of investment to decrease slightly.



Basic Materials significantly increased in confidence by 42.7% to 40.4 points, compared to a score from six months ago in Q4 2015 at 28.33 points. The increase in overall confidence was driven by increases in contributing individual components, such as an 87.5% confidence increase in planned level of investment, a 59.4% confidence increase in economic conditions, a 57.5% confidence increase in company growth expectations, and a 20% confidence increase in their ability to secure debt or equity capital.

Consumer Services recorded a decrease in overall confidence, dropping 9.8% from a score of 43.4 points in Q4 2015 to 39.1 points in Q1 2016. The decrease in sentiment was primarily driven by a 21.9% decrease in confidence relating to economic conditions, a 17.6% decrease relating to their ability to secure debt or equity capital, a 7.5% decrease in confidence relating to planned level of investment, a 4.7% decrease in confidence relating company growth expectations, and a 1.5% decrease in industry growth expectations.

Financials recorded the largest overall decrease (30.1%) in confidence with a score of 27.6 points in Q1 2016, down from the 39.5 points recorded in Q4 2015. The drop in confidence is attributed to a 43.6% decrease in confidence relating to their ability to secure debt or equity capital, a 38.2% decrease relating to the planned level of investment, a 32.3% decrease in confidence relating to economic conditions, and a 31.5% decrease in confidence relating to company growth expectations. However, there was a notable confidence increase of 11.9% relating to industry growth expectations.



In the year period from Q1 2015 to Q1 2016 in which confidence decreased, Financials had the most significant drop of 28 points, while Consumer Goods only slightly decreased by 4 points. Confidence in the Consumer Services and Technology sectors also remained high despite decreases.

ENDS

For a copy of the first quarter 2016 Merchantec CEO Confidence Index Report or for previous quarterly reports, please email Kira Harrison at kira@merchantec.co.za or visit [Merchantec CEO Confidence Index](#) for past results.

More about the Merchantec CEO Confidence Index

The Merchantec CEO Confidence Index, which consists of five components, collates views from CEOs of top South African companies and therefore provides a leading indicator into how business leaders perceive local market conditions and the economy going forward. The Merchantec CEO Confidence Index is a copyright report prepared quarterly by Merchantec Capital. The survey collates responses from over 1 000 top CEOs, primarily from the listed environment.

About Merchantec Capital

Merchantec Capital is one of the largest independent Equity & Debt Sponsor, Research and Corporate Finance Advisory companies in South Africa, with offices in Johannesburg, Cape Town and Windhoek, Namibia.

Disclaimers: The data provided in this report is for information purposes only and for no other purpose. Whilst every effort has been made to ensure that the information contained in this report is accurate, Merchantec (Proprietary) Limited ("Merchantec") does not guarantee the sequence, accuracy, or completeness or any other aspect of the data nor shall Merchantec or any of its directors, officers, employees or agents be liable in any way to the reader or to any other person (natural or juristic) whatsoever for any delays, inaccuracies, errors in, or omissions in respect of such data or the transmission thereof. Merchantec takes no responsibility for any loss or damage suffered by any person as a result of reliance upon the information contained herein. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors are expected to make their own investment decisions without relying on this publication. Only investors with sufficient knowledge and experience in financial and business matters to evaluate the relevant merits and risks should consider an investment in any issuer or market discussed herein. Disclosures: The inventories of Merchantec may from time to time include securities mentioned herein. Given that traditional brokerage payment alone would not cover the costs of producing this research; a subscription-based model has been employed where subscribers (including some companies being researched) are contributing a nominal amount per month for access to the on-going research. Merchantec and/or its affiliates and any of its or their officers may have an interest in transactions and/or securities referred to herein. Merchantec and/or its affiliates may perform services, for, or solicit business from, any company referred to herein. Copyright: In terms of the Copyright Act 98 of 1978, as amended, no part of this report may be reproduced in any form or by any means, including photocopying, without the prior written consent of Merchantec.