view from the Thames by Deon Gouws

A very British perspective

BHP's proposed takeover of Anglo American has been roundly criticised by politicians, including finance minister Enoch Godongwana and mineral resources & energy minister Gwede Mantashe. That the Australians are not keen on Anglo's platinum and iron ore interests may indeed be interpreted as a motion of no confidence in South Africa.

More broadly, this kind of deal can also be seen as a reflection on the country's main stock exchange, where many companies are trading at what appears to be rock bottom valuations following years of underwhelming performance. In a free market such a situation will ultimately be noticed by global players with deep pockets who are happy enough to swoop in and pick up bargains.

It's strange to think that Anglo American might soon disappear as a listed share, potentially being absorbed into BHP (or an alternative competitor who wins an ultimate bidding war). As recently as 20 years ago, Anglo American was comfortably the largest listed entity in South Africa, with a market capitalisation of more than R200bn. In second place at the time was BHP Billiton, about 30% smaller. It should also be borne in mind that AngloGold and Amplats were already separately listed and both in the top 10 largest companies on the JSE by then.

Today BHP dominates the JSE, with a R2.7-trillion market capitalisation (though a piece of that small Chinese internet business with a primary listing in Holland lurks not far behind). Anglo American has slipped to number seven in the rankings, about 30% of the size of BHP at present.

While it's easy to frame Anglo American's relative demise over the past two decades as a story of South African failure, there is also an alternative perspective. It is a very British one: as far back as 1999, the group merged with Minorco and, as a result, its primary listing moved to the London Stock Exchange (LSE).

Enticing businesses to list

Fast forward to where we are today, and BHP's cheeky offer for what is now the 15th-largest company on the LSE is considered by many to be symptomatic of the woes of the UK stock market. Similar to what is happening at the JSE, valuations of companies listed in London have been under pressure for some time.

If you study a long-term graph of the FTSE 100 index (the all-important large capitalisation equity benchmark in the UK), you will see that it trades at a level today that is a touch more than 20% higher than at the turn of the millennium. For perspective, consider that the US equivalent S&P 500 index has gone up nearly 200% over the very same period.

There are many reasons for this. The first is structural: there are simply no UK-listed equivalents of the "magnificent seven" large-capitalisation US technology companies which dominate the globe with capital-light business models and trade at nosebleed valuations. But, even adjusting for that, the typical company listed in London appears to be rather undervalued compared with global peers.

Among other factors, UK pension funds and other professional investors have started giving up their traditional home bias. Just a couple of weeks ago, for example, Coutts, the market-leading private bank and wealth manager in the UK, announced that it was selling as much as £2.7bn of UK equities in a major recalibration of its fund ranges (a reduction of about 90% in its exposure to the LSE).

Perhaps the South African finance minister should follow the example of his UK counterpart to attract listings to the JSE

Against this background, Jeremy Hunt, the chancellor of the exchequer in the UK, has invited a number of entrepreneurs and captains of industry to a summit with the express aim of enticing businesses to list (and remain listed) on the LSE. According to the invitation, attendees will "discuss the UK's capital markets and how they can support innovative, high-growth companies to achieve growth ambitions".

The meeting is being held this week and takes place at Dorneywood, the chancellor's modest weekend retreat — an 18th century manor house set on a 215-acre estate, about a 1½ hour chauffeur drive from 11 Downing Street.

Will Hunt be able to stop the rot and convince market-leading companies not to move their primary listing to the US? Might he yet be able to stop the takeover of Anglo?

If the summit is indeed successful, Godongwana may want to take a leaf out of the chancellor's book and arrange a gathering of business leaders in luxurious countryside surroundings to promote the JSE. Perhaps they could hold the meeting at Nkandla? ✖

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