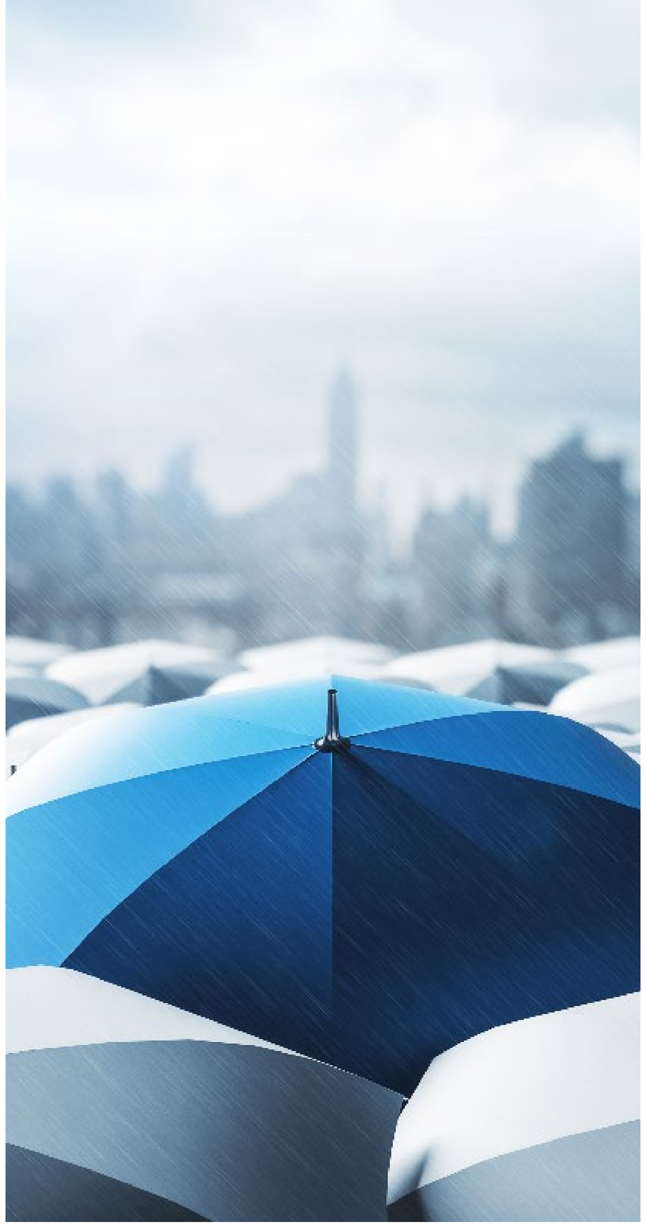
The impact of geopolitical uncertainty on South African industries and corporates

July 2025



Agenda

The Uncertainty Scenario

Geo-economic uncertainty is here to stay

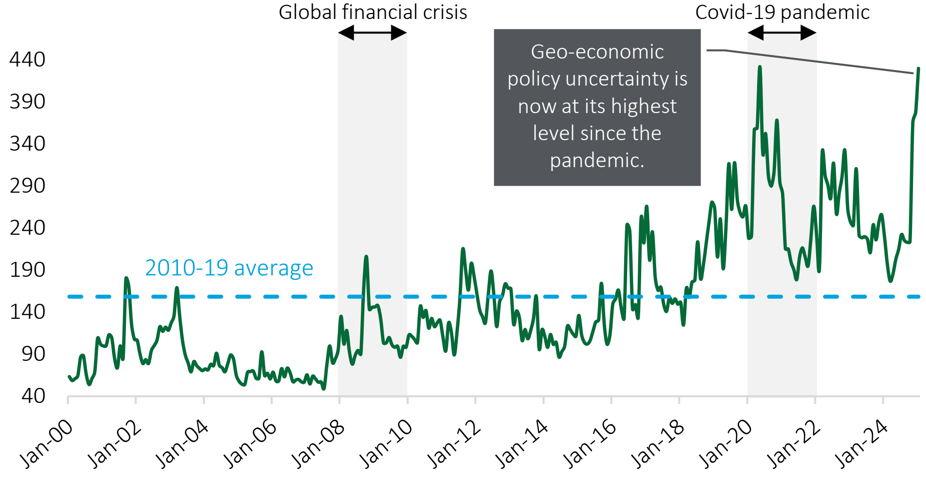
Fractured world

Markets breathed a sigh of relief as the US paused elevated tariff levels for 90 days. For South Africa, 10% tariffs on all goods remain, as well as 25% on automotive, and 50% on steel and aluminium exports. For China, there is less of a reprieve. At the time of writing, US tariffs on Chinese goods stand at 30% for 90 days (down from a staggering 145%). For the global economy, this spells further geo-economic uncertainty in an increasingly fractured world.

Fragile unity

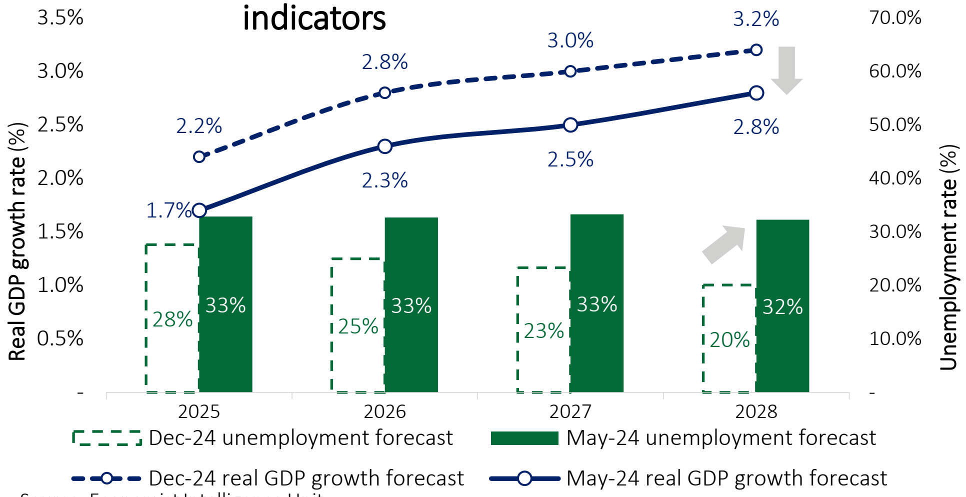
In South Africa, we have doubled down on uncertainty. The ANC's main coalition partner, the DA, did not support this year's budget, triggering a weakening of the rand at exactly the wrong time. While the budget squeaked through and the ANC is looking to bolster the GNU, it does beg the question: can a coalition that cannot unify around a budget be called a coalition?

Global political uncertainty index score



Source: Economist Intelligence Unit

South Africa: impact of uncertainty on key indicators

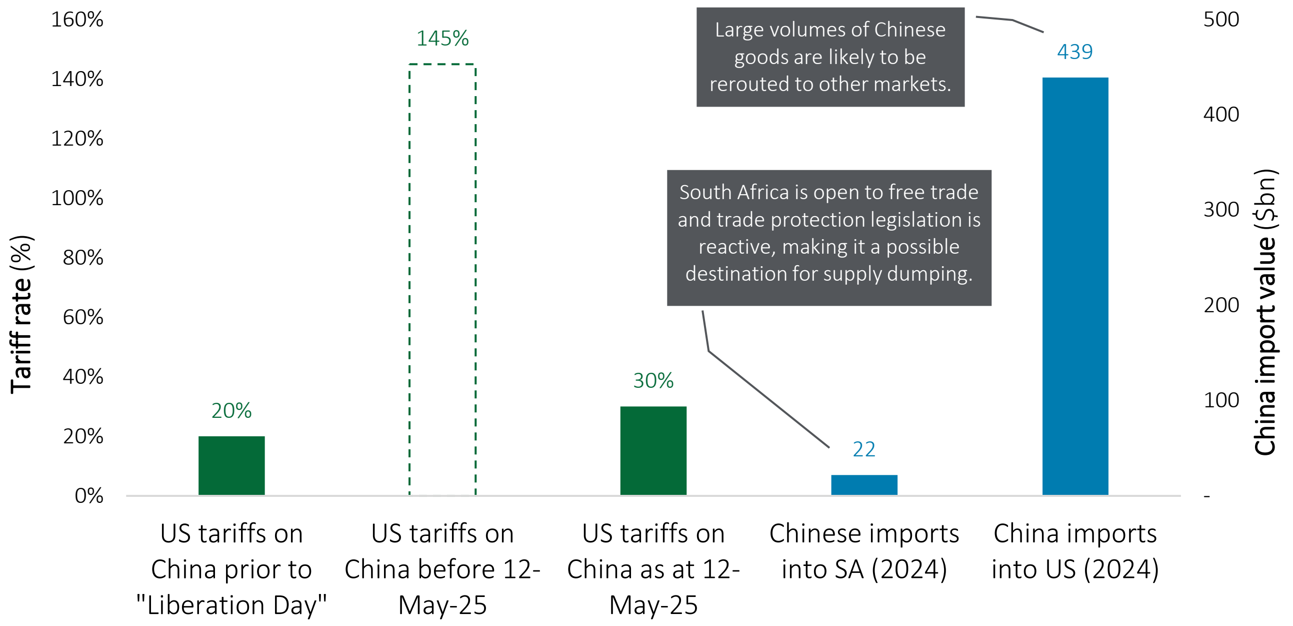


Source: Economist Intelligence Unit

Direct impact of uncertainty: supply dumping

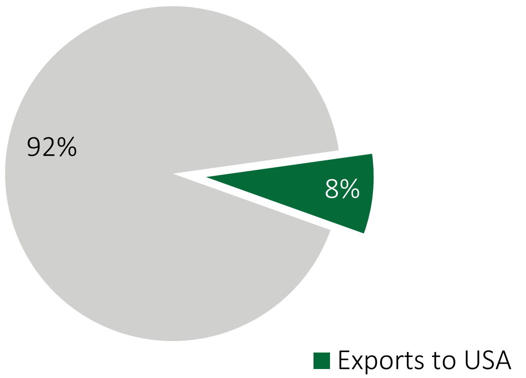
As the US makes up only 8% of SA exports, and most sectors are subject to a 10% rate, the direct impact of tariffs has been somewhat mitigated. The real risk, however, is of foreign producers (most notably China) supply dumping in South Africa, eroding local producers' margins.

US tariffs on China vs Chinese imports into SA / US



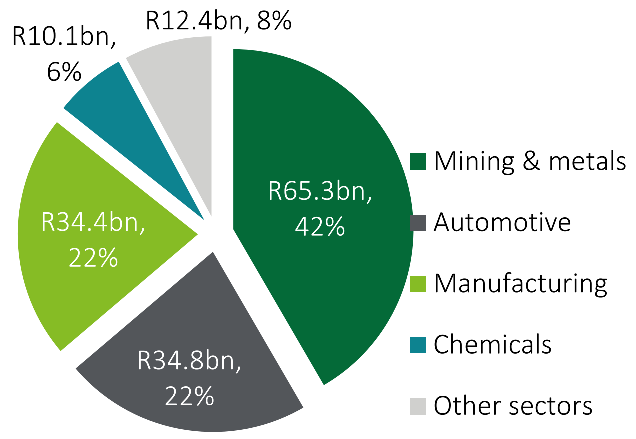
Source: Peterson Institute for International Economics, SARS, US Census Bureu

South African exports to USA as a % of total exports in 2024



Source: SARS

South African exports to USA by sector in 2024



Source: SARS

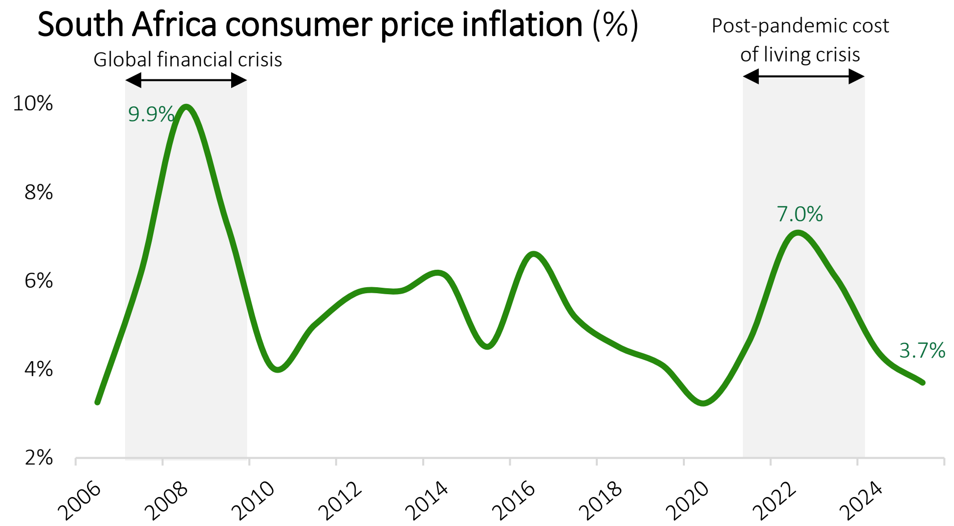
Indirect impact of uncertainty: inflation and caution

Rising input costs

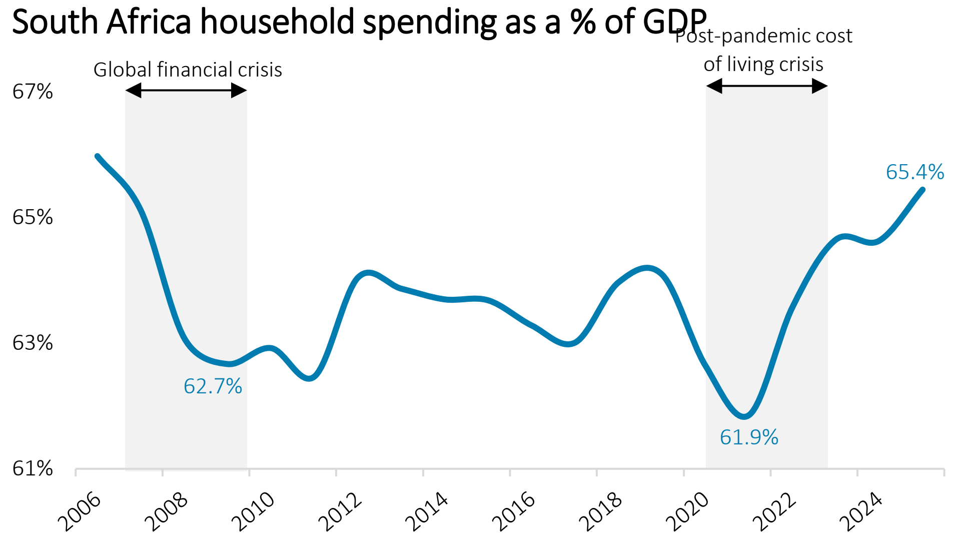
Supply chains today are complex, global, and interconnected. The escalating trade war between the US and China will impact component parts travelling through either country, potentially importing inflation into South Africa. It is therefore imperative for businesses to conduct granular supply chain mapping exercises and respond accordingly.

Consumer caution

The impact of economic uncertainty is rarely felt by consumers overnight. However, as previous economic slowdowns have shown, consumers make individual decisions to delay discretionary expenditure, whether it is buying a new car, revamping the kitchen, or taking an expensive holiday.



Source: Economist Intelligence Unit



Source: Economist Intelligence Unit

Deloitte Stability Index (DSI) overview

The Deloitte Stability Index (DSI) measures the extent to which a company is financially stable based on a granular model that converts leading indicators into a composite score. The DSI covers ten jurisdictions across Africa.

Financial ratios used in the DSI:

Trading performance
Change in revenue over time

Debt management
Ability to manage down net debt over time

Return on assets
Balance sheet efficiency and productivity

Financial leverage
Ability to repay debt from profits

Interest cover
Ability to service debt

Altman z-score
Risk of short-term bankruptcy

Converted into a DSI score via a four-step process:

01
Ratio analysis
The six ratios above are calculated for each listed company in the dataset for the defined time periods.

02
Scoring
Each ratio is assigned a score based on boundaries that have been set.

03
Aggregation
The six ratios are aggregated to form an overall score out of 100, where 100 is the highest level of stability.

04
Categorisation
We assign each company a sector classification based on Deloitte's industry taxonomy, and banking relationships are derived from AFS.

Modelling the Uncertainty Scenario

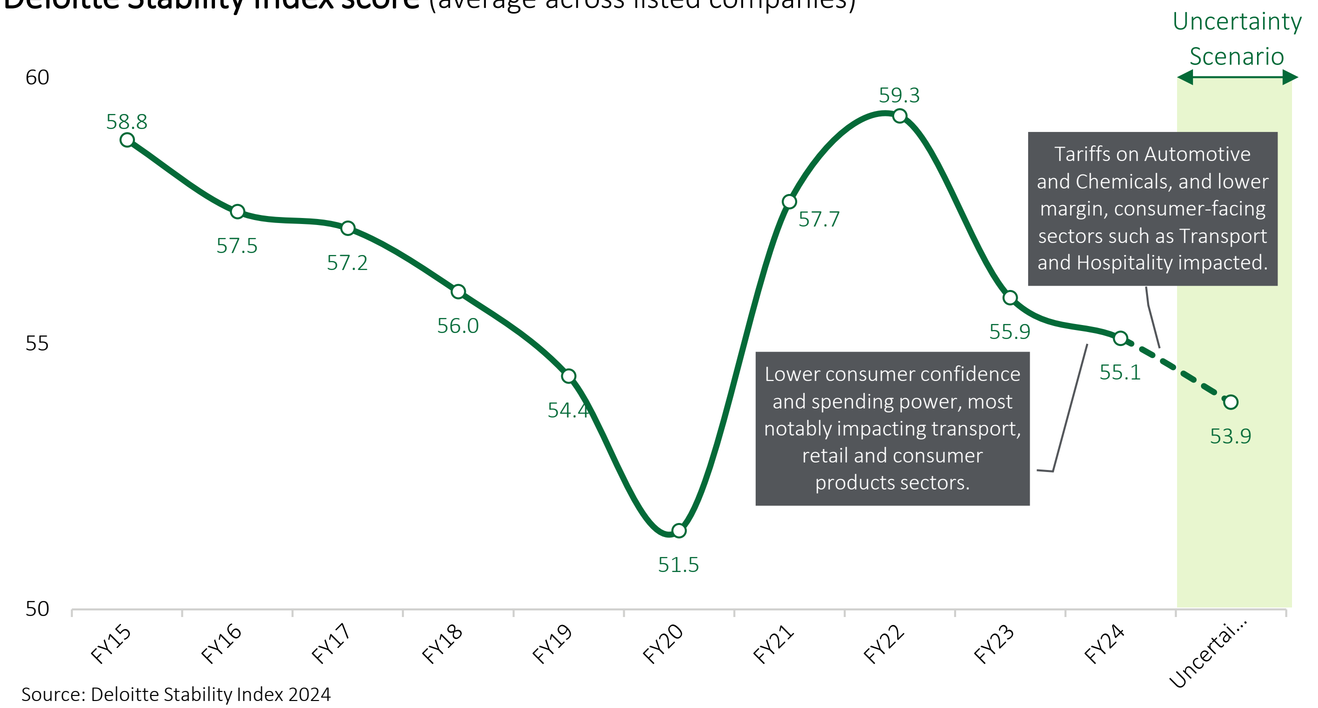
Against the backdrop of growing geo-economic uncertainty, contingency planning becomes critical for businesses and lenders alike. We have modelled the highly illustrative Uncertainty Scenario in the Deloitte Stability Index to identify sectors that may be at risk over the next three to four years.

Possible impact of geo-economic uncertainty	Relevant data point(s)	Commentary	Illustrative adjustment in the Deloitte Stability Index
Direct cost of sales increase due to imposition of tariffs	• Prevailing tariff rate • SA exports to US as a % of total industry production	• Until companies implement tariff avoidance strategies (e.g. remapping supply chains), tariffs increase the cost of sales of relevant goods. • Due to likely heightened price sensitivity by US companies and consumers, we have assumed no sales price uplift.	Increase cost of sales on a sector-by-sector basis by: *Exports to US % of total * Tariff rate*
Input price inflation due to US / China retaliatory tariffs	• Post-pandemic inflation	• The complex and interconnected nature of supply chains means the ongoing escalation in US / China tariffs is likely to be inflationary. • We have used the post-pandemic supply chain disruption as a proxy for the inflationary effect of this.	Increase cost of sales by half the post-pandemic inflation rate
Weaker rand could further increase input costs of imported goods	• Rand depreciation • Imports as a % of GDP (proxy for import penetration)	• Continued policy uncertainty may weigh on the rand in the medium-term, pushing up the cost of imports.	Increase cost of sales by: *Rand depreciation rate * Imports as a % of GDP*
Consumers may curb discretionary spending in response to uncertainty	• Household spending as a % of GDP	• Historically, South African household spending as a % of GDP contracted by c.3% in both the global financial crisis and the Covid-19 pandemic. The response to geo-economic uncertainty is likely to be more muted.	Reduce revenue by half the global financial crisis / pandemic household spending impact.

Uncertainty Scenario results (1/2)

The existing downward trajectory of the Deloitte Stability Index (DSI) score, primarily driven by lower consumer confidence, continues under the Uncertainty Scenario as margins are eroded further, particularly for the already-vulnerable Automotive, Transport and Chemicals sectors.

Deloitte Stability Index score (average across listed companies)



Source: Deloitte Stability Index 2024

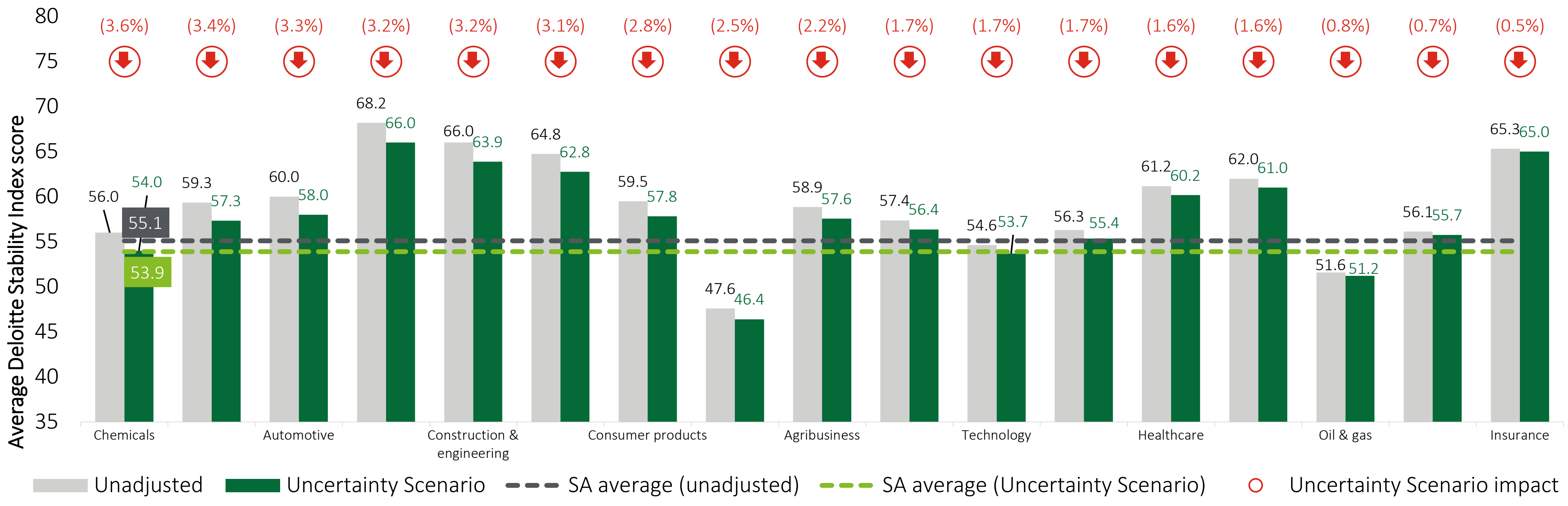
Key assumptions and limitations

- DSI data is based on publicly available information for listed companies as reported on Capital IQ for the following jurisdictions: (i) Botswana; (ii) Ghana; (iii) Kenya; (iv) Malawi; (v) Namibia; (vi) Nigeria; (vii) South Africa; (viii) Tanzania; (ix) Uganda and (x) Zambia. We have not sought to audit, verify or reconcile this data to original annual financial statements.
- The DSI methodology has been refined to reflect actual trends in distress, resulting in a reduction in the overall score across all periods compared to previous reporting.
- We have refreshed the underlying information from FY19 to FY24, which results in a change in the DSI score for companies that have either reported late or restated past results compared to previous DSI editions.
- Detailed DSI information is available on request.

Uncertainty Scenario results (2/2)

Automotive and Chemicals are particularly vulnerable to US tariffs due to the broader industry headwinds in these sectors. Lower margin, consumer-facing sectors such as Transport, Hospitality, and Professional Services may also be vulnerable.

Sector by sector impact of Uncertainty Scenario for South Africa



Source: Deloitte Stability Index 2024

Countering the Uncertainty Scenario

Building resilience

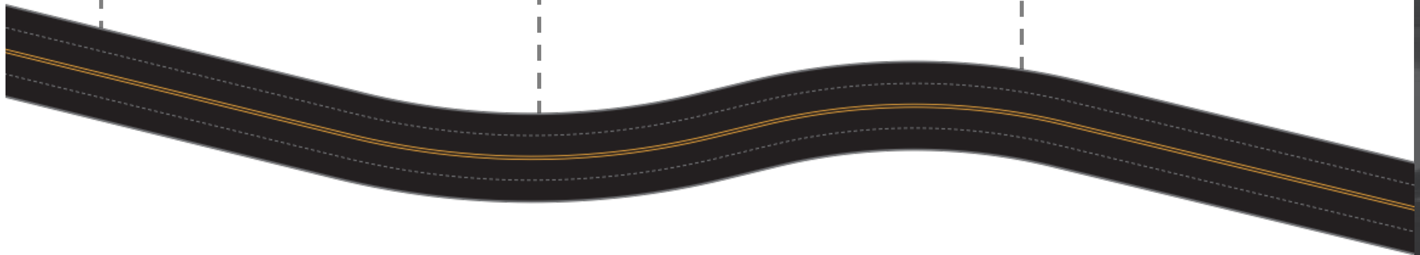
Uncertainty is here to stay – 'wait and see' is no longer viable. We encourage leaders to conduct bottom-up assessments of business models and take decisive action based on where you find yourself.

We will discuss uncertainty countermoves that will be relevant whether you need to:

Adapt
Adjust operating model and spend profile.

Stabilise
Engage with stakeholders to raise new funding.

Protect
Consider whether a restructuring is needed.



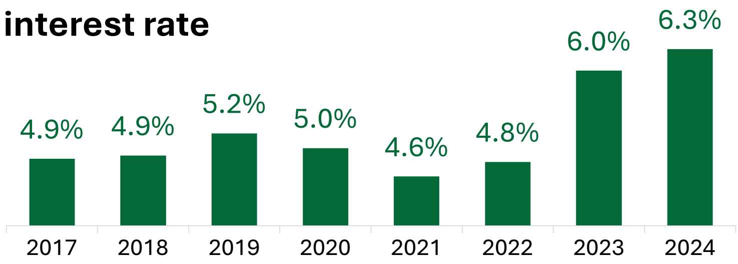

ADAPT
STABILISE
PROTECT

Unlock working capital to fund other initiatives

Local and global macroeconomic challenges including supply chain disruption, weaker customer demand, and customer liquidity issues have pushed working capital management high up the C-Suite agenda. Executives can take advantage of a once-off 'free' cash unlock, which can fund other value accretive activities.

2 … WHILE THE COST OF FUNDING WC IS AT ITS MOST EXPENSIVE

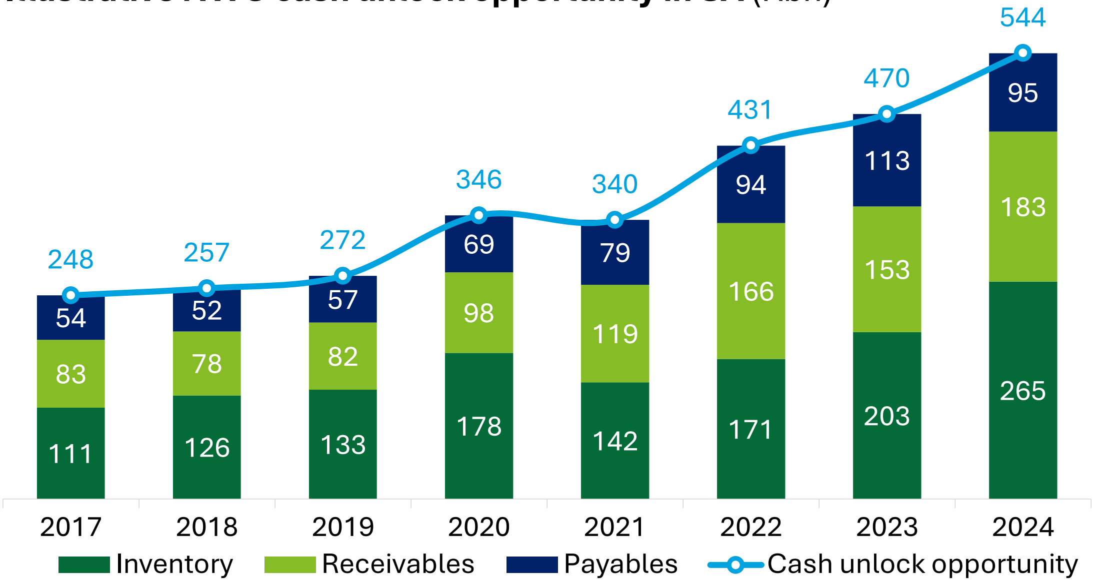
SA listed companies' effective interest rate



Source: Capital IQ, Deloitte analysis

1 THE OPPORTUNITY TO UNLOCK CASH FROM WORKING CAPITAL HAS NEVER BEEN HIGHER…

Illustrative NWC cash unlock opportunity in SA (Rbn)



Source: Capital IQ

3 CEO/CFOS BELIEVE THIS MAXIMISES SHAREHOLDER VALUE

Ranking by CEO/CFOs of the most effective levers to maximise shareholder value

1	Working capital optimisation
2	Cost reduction
3	Investment in technology
4	Sell non-core assets
5	Geographic expansion
6	Pursue strategic acquisitions
7	Sustainability and ESG

Key: = defensive levers = expansionary levers

Practical steps to unlocking working capital

Sustainable working capital improvements begin with executive sponsorship, the development of an action plan based on data driven insights, and advancement of processes. By generating momentum through "quick wins", a company can build capabilities and implement structural changes that maximize long term value capture.

1 Order-to-Cash cycle

- Standardise payment terms
- Assess causes of billing delay
- Align terms to credit risk
- Enforce late payment penalties
- Consider early payment discounts

2 Forecast-to-Fulfil cycle

- Challenge safety stock levels
- Consider smaller orders, higher frequency
- Challenge the accuracy of demand forecasts
- Dispose of obsolete stock at a discount
- Ensure inventory records are accurate

3 Procure-to-Pay cycle

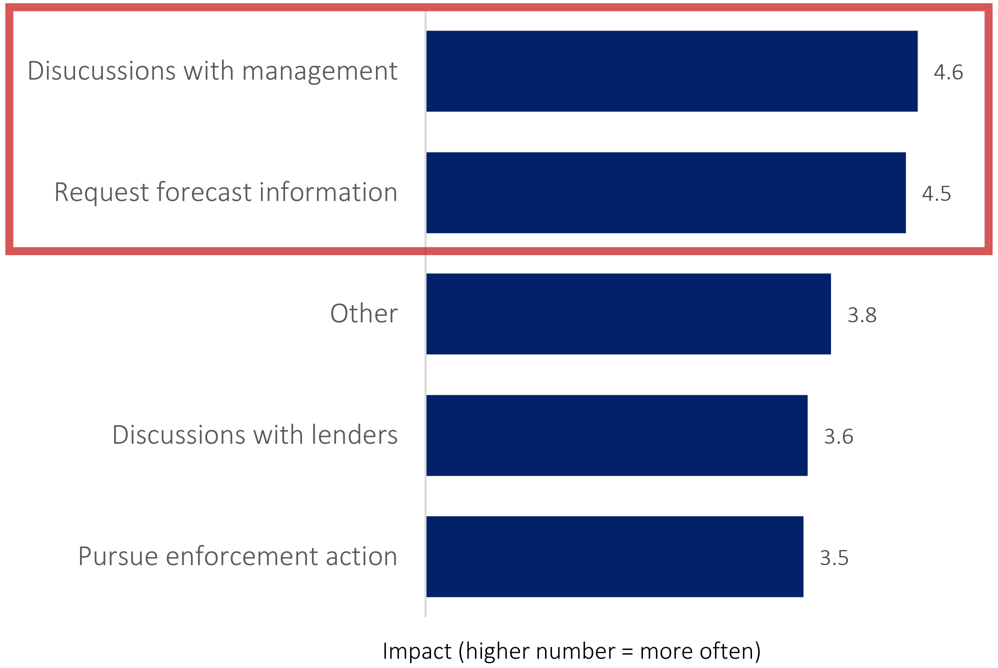
- Consolidate non-core suppliers
- Incentivise the negotiation of better payment terms
- Standardise payment terms
- Streamline payment runs
- Implement a payment clock system


ADAPT
STABILISE
PROTECT

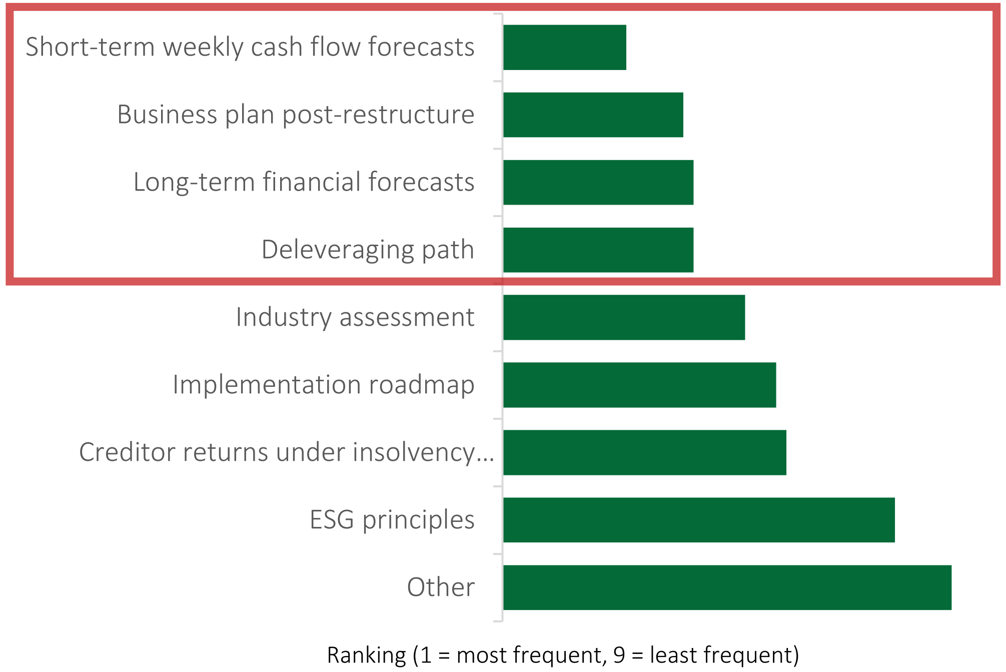
Successful stabilisation requires early buy-in from stakeholders

When lenders are first alerted to signs of uncertainty, the last thing on their minds is the pursuit of enforcement action. Instead, they want to engage in dialogue with management and better understand the business and its outlook. In other words, lenders' instinct is for collaboration. However, to achieve stakeholder buy-in, it is crucial that management first 'gets its ducks in a row'.

WHAT ARE THE INSTINCTIVE ACTIONS BY LENDERS WHEN THEY FIRST BECOME AWARE OF UNCERTAINTY?



WHAT STAKEHOLDERS, ESPECIALLY LENDERS, REQUIRE TO MAKE INFORMED DECISIONS




ADAPT
STABILISE
PROTECT

Restructuring options in early and later phases of distress

Restructuring options when there are signs of distress

Early identification of stress is required to enable management and boards to act decisively and intervene with a tailor-made solution in an informal restructuring, which creates optionality before circumstances deteriorate and spiral into a formal restructuring process.

1 Operational restructuring and performance improvement

- Management-led with board oversight
- Supported by advisors to enable management to focus on BAU
- Executed outside the public domain
- Focus on working capital / liquidity, costs and margin
- Enables strategic optionality, i.e., M&A, capital raise, etc.

2 Informal management or advisor-led restructuring

- Typically initiated by lenders
- Advisor-led together with management with board and lender oversight
- Risk of process being in the public space
- Income statement pressure spilled over into balance sheet and liquidity
- Strategic options limited in the absence of lender or shareholder support

3 Business rescue

- Financial distress and board obligations
- Can be initiated by affected persons
- Control vests in Business Rescue Practitioner – public process
- Focus on better outcome than liquidation
- Best option to execute strategic transaction, use of moratorium

Options analysis

We have a tried-and-tested approach to performance of an options analysis, which to date, we apply in support of management, boards and lenders, where concerns surface around distress.

Our key steps include:

1 - 2 - 3 - 4 - 5 - 6 - 7 - 8

Executive summary:

A one-page overview highlighting the key risks, recommendations, and options for the flagged entity.

Client overview:

Understand the business overall, market positioning, and group structure overlayed with key creditors. We call out entities driving value.

Debt overview:

Understand lender landscape by identifying debt held by the flagged entity, key terms and security provided[1].

Trading challenges:

Flag root causes of distress, impact on performance, and risk to lenders (covenants, repayment risk and potential new money).

Management's plan:

Assess management's plan and supporting information, testing feasibility and impact on stakeholders.

Key risks:

Flag key risks such as liquidity, risks in the plan, your coverage (security), control / process issues and risks to key stakeholders (e.g. supplier risk).

Initial options:

Outline options available, considering the pros, cons and financial impact of each option.

Next steps:

Conclude on the any urgent actions required, further areas to explore, and the timelines for our proposed options.

Important notice