9 February 2011

dailyview

Today's highlights

- ArcelorMittal (ACL): The juggler
- Anglo Platinum (AMS): Resuming the dividend
- Rand and the economy: Why a strong rand is good for SA business
- Upcoming dividend dates and corporate actions
- Company calendar – 9 February to 16 February
- Economic calendar – 9 February to 16 February

Talking point: Happy New Year, here's a rate hike

Chinese businesses and consumers had scarcely got back to work after New Year celebrations than they were met with the "shock" of a rate hike. We use the word in inverted commas since the rate hike was largely telegraphed to markets, and the extent of the hike is arguably still too low to have a marked effect on spending: one year lending rates were hiked by 25bps to 6.06% and deposit rates to 3%, but the latter is still below the official inflation rate of 5%, and with inflation expected to tick up in the coming months, even the lending rate does not appear too punitive.

It would appear then that China remains concerned about the risks of acting too aggressively on rates, and may be prepared to live with a little more inflation to keep its growth juggernaut going. This would explain why markets did not react more negatively to the rate hikes, but also points to some tricky interest rate decisions down the line.

Market highlights

US equities continued to power ahead overnight, taking Chinese monetary policy tightening in their stride to record a gain for the seventh day in a row.

The JSE ended slightly lower yesterday, giving up earlier gains as markets worried about the impact of Chinese monetary tightening.

Both bonds and the rand were a little firmer yesterday, the latter feeding off the euro, which made headway against the US dollar.

Chinese rate hikes yesterday knocked copper prices off their record highs of recent days, but oil and gold were higher largely thanks to a weaker US dollar.

Key indicators in a nutshell – Tuesday 8 February 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32788.86**	-0.03%	2.69%	4.03%	2.09%	27.12%
S&P 500	**1324.57**	0.42%	4.17%	8.69%	5.32%	24.24%
Nikkei	**10635.98**	0.41%	0.90%	8.19%	3.98%	5.76%
Rand/US $	**7.17**	0.83%	-5.21%	-3.96%	-7.69%	8.20%
Rand/GB Pound	**11.53**	1.02%	-8.41%	-3.61%	-10.61%	5.20%
US$/Euro	**1.36**	-0.22%	-5.27%	1.11%	-1.75%	0.38%
Gold $/oz.	**1363.81**	1.07%	-0.43%	-2.82%	-4.05%	27.90%

Company results and updates

Sappi reported diluted HEPS for the December quarter of 7 US cents, from a diluted headline loss per share for the similar period in 2009 of 11 US cents.

Litha Healthcare expects its HEPS for the year to December to be at least 20% higher than the 8.1c reported for the 7 months to December 2009 (the company changed its year end to 31 December from 31 May). More specific information is expected in due course.

ARB Holdings reported a slight fall in diluted HEPS for the six months to December, to 15.04c from 15.15c previously.

Capitec expects to report an increase in HEPS for the year to February of between 30% and 50%. Results are due out around 30 March.

Daily ideas

ArcelorMittal (ACL): The juggler

Arcelor Mittal (R85; market cap: R37.3bn; forward PE: 14x): The group announced disappointing results for F2010, with HEPS of R3.43 (6% ROE) placing the share on an historic PE multiple of 24x. I-Net consensus was R4.47, with the major disappointment coming from a fourth quarter loss of R1.17 per share, after making R4.60 per share in the first three quarters of F2010. In F2009 the headline loss was R440m or R1.04 per share.

While the share can deliver outstanding returns over very short time periods, it is a dismal business longer term and fraught with risks (governmental, cost input volatility, currency, environmental, legal, production, Competition Commission, etc). Peak earnings were over R20 per share in 2008, when everything was in its favour, but a fair "through the cycle" earnings number is around R4bn (R9 per share), which places the company on a "normalised" PE of 9x. The key drivers for the share are likely to be 1) Currency, 2) Resolution of SIOC issues and 3) Construction demand – we are not particularly bullish on any of these, although a soft outcome of the SIOC issue is likely.

The CEO Nonkululeko Nyembezi-Heita is an impressive individual, but she has to be a juggler in her current position. Consider the following: the Kumba/ICT issues will take months to resolve; the BEE transaction has been aggressively opposed by institutional shareholders; the new Air Quality Act will mean the company has to spend R600m per year on environmental capex; the new Carbon Tax, if introduced in its current form (which we do not think is likely), would in her words "have a devastating impact and make it impossible to compete internationally"; there is a new interministerial task team which is demanding lower local steel prices; and last, but not least, the Competition Commission is investigating the company.

Steel is not a great industry globally, with long term above-average returns always constrained by the ability of a competitor to build a new plant. In addition, steel tends to be the price-taker and currently higher international steel prices have not compensated for rocketing input prices (eg. coking coal, electricity, iron ore and oil). Fourth quarter global capacity utilisation is currently around 74%, leaving plenty of headroom for competitors to price aggressively. Interestingly, China accounts for 44% of global steel output.

ArcelorMittal SA gave a rosier short term prognosis: there are some signs of steel demand picking up, but this is probably driven largely by re-stocking. The building and construction industry has been reporting a poor outlook and this is the main driver of demand. Selling prices will be higher (with high sensitivity to the rand-US dollar exchange rate), but this will be somewhat offset by higher raw material prices (especially scrap and partially coking coal). ***Peter Armitage***

Source: I-Net Bridge

Anglo Platinum (AMS): Resuming the dividend

Anglo Platinum (R728.94; market cap: R190bn; forward PE [F2011, I-Net]: 20.3x; forward DY: 4.9%) reported basic EPS of R39.09 for the FY2010 to December, up 217% on 2009, with earnings favourably impacted by an after tax profit of R771m realised on the disposal of its 37% interest in the Western Bushveld JV and the after tax gain of R4.4bn realised on the listing of RBPlat (which resulted in the group reporting an effective tax rate of 17.8%).

HEPS came in at R19.35 (+570%), in the middle of the guidance range provided in the recent trading statement.

A final dividend of R6.83 was declared, amounting to a cash distribution of R1.8bn, or dividend cover of 2.8x. The group has guided for a sustainable dividend cover of 2 to 3 times in future.

The net debt position after the completion of the R12.5bn rights offer in 2010 decreased to R4.1bn from R19.2bn previously.

Anglo Platinum reported production of refined platinum of 2.57m oz, ahead of the forecast of 2.5m oz, while refined platinum sales came in at 2.52m oz. Unit cash costs were at R11 730 per platinum ounce, in line with guidance.

Anglo Plat has reopened the Khuseleka mine's 2 Shaft and is guiding towards production and sales of 2.6m oz in FY2011. Capex of R8bn is planned for the year, just up from the R7.9bn last year.

AMS remains highly geared to the platinum price with the company expecting a price of US$1800/oz for 2011.

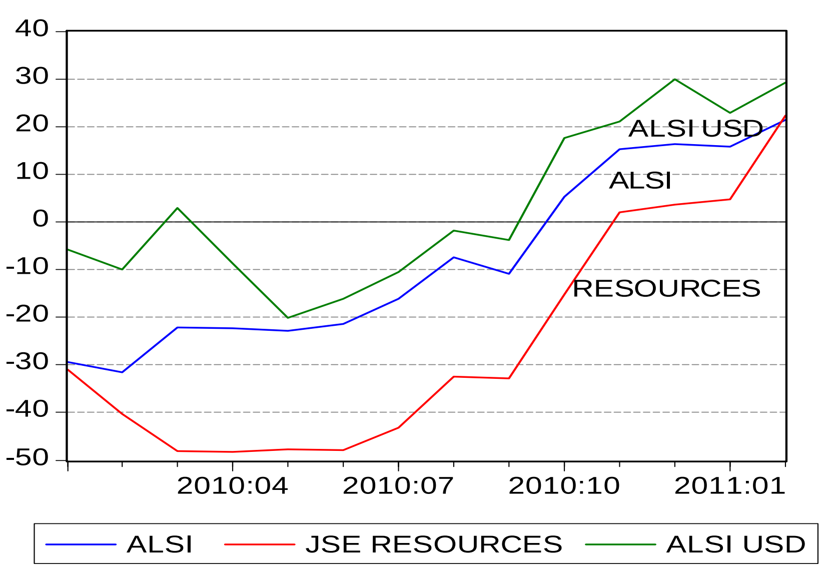
The standout features of the results are resumption of dividends and re-opening of the 2 Shaft ay Khuseleka, which both point towards favourable conditions ahead. ***Bernhard Grobler***

Rand and the economy: Why a strong rand is good for SA business

The notion that the strong rand makes life tough for SA mining enterprises is belied by the earnings now being reported by the mining companies. Anglo Plats just reported headline earnings per share of 1 935c in 2010, up from 289c in 2009, an increase of 570%. The higher US dollar price of platinum metals clearly more than made up for what a stronger rand took away.

We show the JSE earnings cycle updated to 8 February below. Reported JSE earnings per share are now growing very strongly. JSE Resources earnings and JSE Alsi earnings are up by 23% on a year before. JSE earnings per share in US dollars have grown by nearly 30%, something that will be well appreciated by foreign shareholders. Earnings seems set fair to increase significantly further in the months to come.

The JSE earnings cycle to 7 February 2011



Source: I-Net Bridge and Investec Wealth and Investment

Clearly something other than the strong rand has been at work here. The rand averaged R7.28 in 2010 compared to R8.42 in 2009, an increase of nearly 15%. What is at work on JSE earnings is higher US dollar metal, mineral and commodity prices. These prices have responded strongly with the global economic recovery and have strengthened the rand accordingly.

Had the global economy not recovered, commodity prices would have been lower and the rand weaker. The combination of a weaker rand and lower commodity prices would not have helped SA exporters very much. The weaker rand would not have compensated their top and bottom lines for the weakness in underlying demand for resources and prices.

And the weaker rand would have harmed the domestic spender. It would have meant more inflation and higher interest rates and thus much more subdued domestic spending. The motor manufacturers and their component suppliers, who account for the largest share of the domestic manufacturing sector, would not (without the assistance of a stronger rand) have benefitted from the strong recovery in the SA demand for new vehicles. Nor, in the absence of the global economic recovery (the source of rand strength) would they have been able to export as much as they are now doing.

The strong rand has been very good news for the motor manufacturing sector as well as for motor dealers. Could not the same be said of manufacturers who depend on their domestic customers and especially those shielded by distance and the costs of transporting goods from their offshore competition? One thinks of the bakers and the brewers and the meat packers in this regard.

Clearly with a strong rand imported goods of all kinds do become more price competitive on the domestic market. But the greater size of the domestic market, stimulated by lower prices and interest rates, surely can help make up for keener prices.

The reality is that local producers should not expect to benefit from a strong global economy and a weaker rand. They cannot easily have it both ways unless SA shoots itself in the foot and adopts economic policies or intentions for economic policy that frighten away foreign investors and lead to a run on the rand.

SA specific risks can weaken the rand and provide a temporary profit margin windfall for exporters. The windfall is temporary because more inflation soon follows the weaker rand to squeeze margins. And organised labour will soon add to the pressure on costs on margins as inflation picks up.

Businesses in SA should not hope for an increase in the risks of doing business in South Africa reflected in a weaker rand. They should rather wish for the benefits of a stronger rand that reveal a strong global economy and sensible economic policies for the long run. They should not hope for windfalls from currency weakness but rather learn to operate profitably in a low inflation world that can only materialise with rand stability. This is what successful businesses in permanently low inflation economies manage to achieve. They do not look to currency weakness as a business opportunity. SA business should follow their example and appreciate the opportunity to do so that a stable rand provides. ***Brian Kantor***

dailyview

Upcoming dividend dates and corporate actions

Share/security	Last day to trade	Ex-dividend	Record date	Pay date	Description	Per share amount/ result
Digicore NPLs	11 February	14 February	18 February	21 February	Rights take up	1 DGNN converts to 1 DGC at R3 a share
Freeworld	11 February	14 February	18 February	tba	Minority offer	R12 per share tendered
Trematon	11 February	14 February	18 February	21 February	Cash Dividend	R0.015
SA Coal	11 February		18 February	21 February	Minority offer (extended)	R0.30 a share
Sovereign	11 February	14 February	18 February	21 February	Rights issue	66.04155 SOVN per 100 SOV
Winhold	11 February	14 February	18 February	21 February	Cash Dividend	R0.10
AR Hold 5.5% Prefs	18 February	21 February	25 February	28 February	Cash Dividend	
Dialogue	18 February	21 February	25 February	28 February	Capital reduction	R0.1238
Marshall Monteagle	18 February		25 February	28 February	Restructure	2 MMP per 1 MTE
Premium NPLs	18 February		25 February	28 February	Rights take up	1 PMMN converts to 1 PMM on take up at R15 per unit
Rareco			28 February		Minority offer	R3 a share
EsorFranki NPLs	25 February		4 March	7 March	Rights take up	1 ESRN converts to 1 ESR at R2.15 a share
Hudaco	4 March	7 March	11 March	4 April	Cash Dividend	R2.35
RMB Holdings	4 March		7 March	14 March	Unbundling	1 Rand Merchant Insurance Holdings per RMH
Paracon	4 March	7 March	11 March	14 March	Cash Dividend	R0.10
Simeka Business Group	4 March	7 March	11 March	14 March	Name change	Morvest Business Group (MOR)
SBR002	4 March	7 March	11 March	15 March	Interest	R1.41
Sovereign NPLs	4 March		11 March	14 March	Rights take up	1 SOVN converts to 1 SOV at R4.75 a share
JOZI03	11 March	14 March	18 March	22 March	Interest	R14.83
Foschini Prefs	17 March	18 March	25 March	28 March	Cash Dividend	R0.065
Country Bird	6 May	9 May	13 May	16 May	Capital reduction	R0.111

Source: JSE

Company calendar – 9 February to 16 February

Thursday 10 February	Kumba Iron Ore finals Aquarius Platinum interims DRDGold quarterlies Astral Foods AGM Trencor finals
Monday 14 February	Group Five interims Spar Group AGM
Tuesday 15 February	Absa finals Tiger Brands AGM
Wednesday 16 February	BHP Billiton interims City Lodge interims Conduit Capital interims

Source: I-Net, Company updates

Economic calendar – 9 February to 16 February

Date	International	South Africa
Wednesday 9 February	**Germany** – December Foreign trade [09h00] **UK** – December Trade balance [11h30]	
Thursday 10 February	**China** – January Trade balance **UK** – December Industrial production [11h30] **UK** – BoE MPC meeting and rate decision [14h00] **EMU** – ECB monthly bulletin [17h00] **US** – Initial jobless claims for previous week [14h30]	December Manufacturing [12h00]
Friday 11 February	**China** – January Fixed asset investment **China** – January Retail sales **China** – January Industrial production **Germany** – January CPI final [09h00] **UK** – January PPI [11h30] **US** – December International trade [14h30] **US** – February Consumer sentiment prelim [15h55]	
Monday 14 February	**Japan** – Q4 GDP first estimate **EMU** – December Industrial production [12h00]	
Tuesday 15 February	**Japan** – December Industrial production **Japan** – BoJ MPC meeting and rate decision **China** – January CPI **China** – January PPI **Germany** – Q4 GDP flash [09h00] **UK** – January CPI [11h30] **EMU** – Q4 GDP flash [12h00] **EMU** – December Foreign trade [12h00] **US** – January Retail sales [14h30] **US** – February Empire State survey [14h30] **US** – December Long term TIC flows [15h00] **US** – February NAHB survey [16h00]	
Wednesday 16 February	**US** – January PPI [14h30] **US** – January Housing starts [14h30] **US** – January Industrial production [15h15] **US** – FOMC minutes	January CPI [09h00] December Retail sales [10h30]

Sources: Bloomberg, StatsSA

Key market indicators – Tuesday 8 February 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32788.86**	-0.03%	2.69%	4.03%	2.09%	27.12%
JSE Fini 15	**8086.52**	-0.40%	-2.20%	-1.53%	-1.04%	12.60%
JSE Indi 25	**26638.16**	0.28%	0.14%	2.74%	-0.58%	30.24%
JSE Mining	**39941.16**	-0.09%	8.84%	9.02%	7.38%	31.63%
JSE Resi 20	**60390.95**	-0.16%	8.86%	9.03%	7.26%	32.17%
S&P 500	**1324.57**	0.42%	4.17%	8.69%	5.32%	24.24%
DJI	**12233.15**	0.59%	4.78%	7.71%	5.66%	22.18%
NASDAQ	**2797.05**	0.47%	3.47%	8.46%	5.43%	30.63%
Nikkei	**10635.98**	0.41%	0.90%	8.19%	3.98%	5.76%
Hang Seng	**23484.30**	-0.29%	-0.85%	-4.15%	1.95%	19.42%
FTSE 100	**6091.33**	0.67%	1.79%	4.72%	2.02%	20.36%
CAC 40	**4108.27**	0.43%	6.28%	5.65%	7.98%	15.28%
DAX	**7323.24**	0.54%	5.40%	8.98%	5.92%	34.76%
ASX-ORD	**4983.10**	0.38%	3.56%	4.26%	2.81%	9.94%
JSE All Share (in US$)	**4572.81**	0.80%	-2.66%	-0.08%	-5.77%	37.55%
MS EM Index	**1126.94**	-0.12%	-1.76%	-1.83%	-2.12%	25.54%
MS World Index	**1347.36**	0.59%	5.15%	7.75%	5.26%	22.99%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**7.17**	0.83%	-5.21%	-3.96%	-7.69%	8.20%
Rand/GB Pound	**11.53**	1.02%	-8.41%	-3.61%	-10.61%	5.20%
Rand/Euro	**9.79**	0.45%	-10.37%	-2.90%	-9.64%	8.58%
Rand/Aus $	**7.30**	0.45%	-7.24%	-5.01%	-7.38%	-8.22%
Yen/ US $	**82.30**	-0.02%	0.89%	-0.12%	-1.45%	8.38%
Swiss Franc/US $	**0.96**	-0.88%	0.36%	0.75%	-3.00%	11.42%
US $/Euro	**1.36**	-0.22%	-5.27%	1.11%	-1.75%	0.38%
US $/GB Pound	**1.61**	0.40%	-3.21%	0.35%	-2.81%	-2.57%
US $/Aus $	**1.01**	-0.17%	-1.77%	-1.03%	0.77%	-15.12%
Nominal Effective Exchange Rate (2000 = 100)	**73.61**	-0.18%	9.05%	5.11%	10.39%	-3.59%

Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1363.81**	1.07%	-0.43%	-2.82%	-4.05%	27.90%
Platinum/oz.	**1860.5**	1.11%	7.20%	7.26%	5.11%	25.62%
Brent Crude $/bbl	**99.77**	0.13%	7.53%	12.70%	5.30%	42.86%

Fixed income	Closing yield %
SA R157	**7.85**
US 2 YEAR	**0.79**
US 10 YEAR	**3.66**
UK 2 YEAR	**0.80**
UK 10 YEAR	**3.84**
EURO 2 YEAR	**1.41**
EURO 10 YEAR	**3.26**

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