21 February 2011

dailyview

Today's highlights

- Anglo American (AGL): Getting to the core
- Emira (EMI): Vacancies rise
- SA economy: Moving in step
- Upcoming dividend dates and corporate actions
- Company calendar – 21 February to 25 February
- Economic calendar – 21 February to 25 February

Talking point: Two big struggles that could shape the years ahead

Two big struggles are taking place in the world at the moment, and the outcome of both could have enormous ramifications for the world and the world economy in the coming years. One is the fight for democracy in countries in North Africa and the Middle East, as shown by the massive demonstrations that have been seen on our televisions. While confined mostly to Arab countries at the moment, there is the possibility that the unrest could spread to other parts of the globe where democracy is restricted, including China and sub Saharan Africa. While moves to democracy should always be welcomed, there is no guarantee that the transition will play out uniformly in each case: some will settle onto a path of true democracy, while others may see more troubled paths to extremism. It really is too early to tell how things will turn out in each case.

Less headline grabbing, but still important has been the battle between the world's leading economies over currencies, trade balances and capital flows. At last week's meeting of the finance leaders of the G20 nations a framework was agreed for an early warning system to detect fault lines that could lead to economic crisis. History suggests that crises have a way of happening despite the best efforts of regulators and in any event, getting buy in to a coordinated system of reporting or more importantly, into enforcing it, will be extremely difficult. Again, it remains to be seen how things will turn out.

Market highlights

US equities ended the week higher as markets looked ahead to the weekend's G20 meeting in Paris.

The JSE finished lower on Friday as mining shares, which had been lifted recently by a weak currency, lost ground due to rand strength.

Bonds benefited from a strong rand on Friday, which in turn made gains against the US dollar as speculation grew that the ECB may raise rates ahead of other developed market central banks, helping the euro firm in the process.

Copper prices rose on Friday despite measures by China to tighten monetary policy, while oil slid despite continuing civil tensions in many Arab states.

Key indicators in a nutshell – Friday 18 February 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32514.03**	-0.64%	0.46%	3.54%	1.23%	19.57%
S&P 500	**1343.01**	0.19%	4.77%	12.12%	6.79%	22.15%
Nikkei	**10842.8**	0.06%	2.71%	7.19%	6.00%	5.20%
Rand/US $	**7.14**	0.48%	-2.10%	-1.93%	-7.26%	6.47%
Rand/GB Pound	**11.59**	-0.02%	-3.85%	-3.87%	-11.07%	2.89%
US$/Euro	**1.37**	-0.46%	-1.72%	-0.64%	-2.19%	-0.56%
Gold $/oz.	**1387.8**	0.31%	1.28%	1.56%	-2.36%	24.48%

Company results and updates

Wilson Bayly Holmes Ovcon reported a 19.2% decline in diluted HEPS for the six months to December, to 676.3c. An unchanged interim dividend of 110cps was declared.

Investec

Mondi grew its HEPS for the year to December by 312% to 47 euro cents (the increase was 151% on an underlying EPS basis). Dividends for the year totalled 20 euro cents, an increase of 111%.

Freeworld is to remain listed after the close of the Kansai offer left it with 90.3% of the shares.

OneLogix reported a 72% increase in HEPS from continuing operations for the six months to December, to 10.3c. A capital reduction of 4cps was declared.

Eqstra reported HEPS for the six months to December of 30.4c, from a previous headline loss per share of 21.1c.

SA Corporate Real Estate reported a 2.6% increase in distribution for the year to December, to 28.42c.

South Ocean expects to report a 30% to 40% increase in HEPS for the year to December. The group reports on 1 March.

Daily ideas

Anglo American (AGL): Getting to the core

Anglo American (R371.49; market cap: R500bn; forward PE: 8.8x): reported FY2010 earnings that were largely in line with consensus estimates. The group reported EPS of $4.13 vs $4.04 consensus estimate. This puts the company on a 12.68x historic PE.

Most of the divisions had already reported earnings and of the ones remaining, copper appeared to be slightly better than expected and coal and nickel slightly worse.

Net debt at the end of the period amounted to $7.4bn, (reduced through various asset sales). Cash inflows from disposals was $2.8bn.

The company reported a dividend for H2 of 40 US cents a share which brings the full year dividend at 65 US cents a share, which equates to a 1.24% dividend yield.

In terms of divisional contributions, the iron ore and manganese divisions' EBIT was the largest, more than doubling from the previous year, to $3.68bn followed by copper with EBIT of $2.8bn. These two divisions contributed more than two thirds of group operating profit.

There is a strong project pipeline of $70bn. These include Barro Alto, Los Bronces and Minas Rio.

In other news, Anglo announced the creation of a 50/50 JV with Lafarge. Anglo had been looking to exit its Tarmac UK business but has instead opted to create a UK construction materials business that would have sales of GBP 1.8bn. The JV would combine all concrete, cement, asphalt and contracting businesses of Tarmac UK and Lafarge UK. The market may be slightly disappointed at this announcement as this strays from Anglo's policy of divesting of all non-core assets.

The share ended 2.07% down in London on Friday.

Based on consensus estimates the company is on a forward PE of 8.8x to December 2011. Based on spot prices the group remains an attractive investment. ***Barry Shamley***

Emira (EMI): Vacancies rise

Emira (1310c; market cap: R6.6bn; forward yield: 9.5%): Emira released interim results to December 2010, declaring distributions of 55.2c, or 6.5% growth which was in line with market expectations. Growth in distributions was constrained by rising bad debts, higher vacancies and refurbishments to buildings.

Reversions were relatively flat while rental escalations achieved were strong, between 8-9%. These escalations however lagged the increase in operating costs.

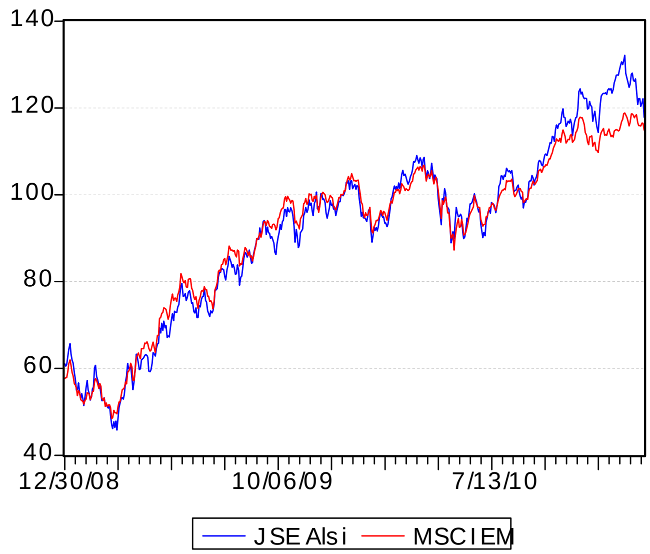
Vacancies are still the highest in the sector, rising from 9.2% in June to 11.4% in December. However if one strips out vacancies due to refurbishments, then the number drops to 10%. Emira's office space is cause for concern though, with vacancies at 18% or 15.1% excluding refurbishments.

Bad debts have risen 35% (R73m) since June, while arrears are up 62%. The share is currently trading on a 9.5% forward yield compared to the sector average of 8.6%. If one believes that management can reduce vacancies and rental arrears, then the stock is looking fairly cheap and might be worth a look at these levels. ***Giulio Frigenti***

SA economy: Moving in step

We have made the point recently that the companies listed on JSE, have become increasingly exposed to the state of the global rather than the SA economy. Hence the close links between JSE earnings (and performance) in US dollars and emerging markets earnings.

JSE USD VS EM Index (Jan 2010=100; Daily data)



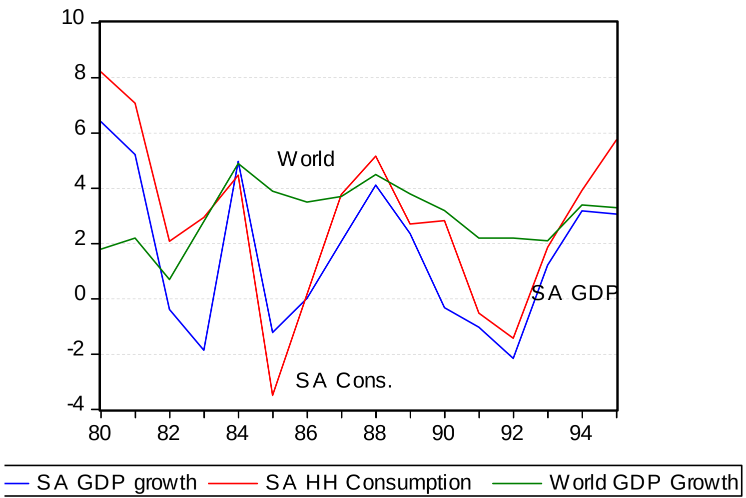
Source: I-Net Bridge and Investec Wealth and Investment

When analysing the relationship between the earnings per index weighted share of the Financial and Industrial Index of the JSE (FINDI) and the SA economy, we were therefore somewhat surprised to discover that the links between the FINDI and the SA economy had become stronger rather than weaker over recent years. That is despite the much more global character of the FINDI itself.

The explanation for this apparent conundrum soon became apparent. The closer links between the FINDI and the SA economy can be understood by observing the relationship between the global and SA economy. This linkage has become that much closer, in fact extraordinarily close, over the years, so making the JSE and its FINDI simultaneously, but not coincidentally, a play on both the SA and Global economies, that behave very similarly. And so the FINDI is better explained by the global aspect than the SA economy: they just happen to move closely together.

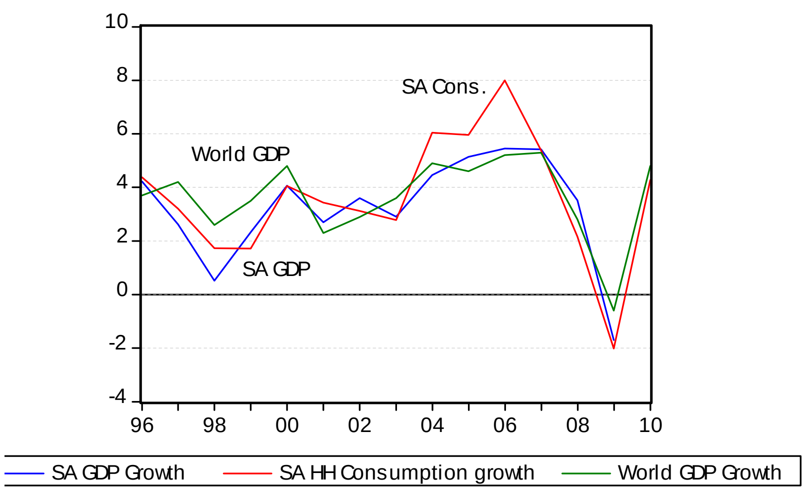
As we show below the SA economy and household consumption in recent years have been growing almost exactly, almost uncannily, in line with world growth. This, as we also show, was not at all the case before the world opened up to the SA economy after 1994.

SA and Global Growth 1980- 1995



Source: IMF, SA Reserve Bank and Investec Wealth and Investment

SA and Global Growth 1996 -2010



Source: IMF, SA Reserve Bank and Investec Wealth and Investment

The correlation between global and SA annual growth since 1996 has been close to one while, in the fifteen years before, the correlation of annual growth rates was insignificantly low. It was the severe political confidence shocks to the SA economy in 1985 – 1986 and again in the early 1990s that caused the SA economy to diverge from global growth. But it was politics and a most uncertain political future that denied SA access to much foreign capital before 1995 that separated the SA economy from global capital market forces.

Accordingly South Africans were forced to rely on their own savings to finance growth. Thus when demand to grow the capital stock exceeded domestic savings and the current account went into deficit, domestic demand and output growth had to be more or less immediately scaled back, because foreign capital would just not be forthcoming to help prolong a period of faster growth.

This is no longer the case. It was access to foreign capital that helped to extend the consumption and investment boom that began in 2003. And capital continues to flow into and out of SA in response to global economic forces. The better the performance of the global economy the higher will be the prices of commodities and so the greater the strength in emerging markets. This however becomes vice versa when the global economy deteriorates. Favourable global forces, as recently, have encouraged capital to flow to SA, thus providing for rand strength, lower inflation and so lower interest rates that have been so helpful for reviving domestic spending.

And so the SA economy in 2010 is growing again closely in line with the global economy and the JSE is performing closely in line with emerging equity markets. One wonders whether this relatively new virtuous growth cycle is well enough appreciated by commentators and indeed monetary policy settings in SA?

The limits to growth in SA are not set by SA savings. They are set by the ability of the SA economy to attract foreign capital. This capital is most easily attracted by improving SA growth prospects. Therefore monetary policy in SA should have growth as its primary objective, so as to help attract foreign capital that will support the rand and hold down inflation. Faster growth and less inflation is a distinct possibility for SA, given access to foreign capital. Higher interest rates can threaten growth and weaken the rand, as they did in 2006 and 2007. We may hope the authorities do not repeat the mistakes of 2006-2007 and act pre-emptively to restrain sustainable growth with uncalled for higher interest rates. ***Brian Kantor***

Upcoming dividend dates and corporate actions

Share/security	Last day to trade	Ex-dividend	Record date	Pay date	Description	Per share amount/ result
AR Hold 5.5% Prefs	18 February	21 February	25 February	28 February	Cash Dividend	
Capital Property	18 February	21 February	25 February	28 February	Interest	R0.3178
FirstRand Prefs	18 February	21 February	25 February	28 February	Cash Dividend	R3.13545
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
Redefine	18 February	21 February	25 February	28 February	Interest	R0.15
Aquarius Platinum	25 February	28 February	4 March	25 March	Cash Dividend	USD0.04
Cullinan Prefs	25 February	28 February	4 March	7 March	Cash Dividend	R0.055
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
NEPI	25 February	28 February	4 March	11 March	Cash Dividend	EUR0.0926
Palabora	25 February	28 February	4 March	7 March	Cash Dividend	R7.24
Resilient	25 February	28 February	4 March	7 March	Interest	R1.1123
Shoprite 6% Prefs	25 February	28 February	4 March	7 March	Cash Dividend	R0.06
Shoprite 5% Prefs	25 February	28 February	4 March	7 March	Cash Dividend	R0.05
Absa Prefs	4 March	7 March	11 March	14 March	Cash Dividend	R28.876
Anglo Platinum	4 March	7 March	11 March	14 March	Cash Dividend	R6.83
Absa	4 March	7 March	11 March	14 March	Cash Dividend	R2.30
Assore	4 March	7 March	11 March	14 March	Cash Dividend	R2
Digicore	4 March	7 March	11 March	14 March	Cash Dividend	R0.03
Distell	4 March	7 March	11 March	14 March	Cash Dividend	R1.24
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
Kumba Iron Ore	11 March	14 March	18 March	22 March	Cash Dividend	R21
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 – 21 February to 25 February

Tuesday 22 February	AECI finals (approx date) Super Group interims (approx date) Shoprite interims Blue Label Telecomms interims Discovery interims Kelly Group AGM Pan African Resources interims Gijima interims Wilson Bayly Holmes Ovcon interims
Wednesday 23 February	Imperial Holdings interims Murray & Roberts interims (approx date) Capital Shopping Centres annuals Growthpoint Properties interims Great Basin Gold Q4 annuals
Thursday 24 February	British American Tobacco finals Liberty Holdings finals Exxaro finals Grindrod finals Massmart interims Truworths interims Fortress Income Fund interims
Friday 25 February	Northam Platinum interims

Source: I-Net, Company updates

Economic calendar – 21 February to 25 February

Date	International	South Africa
Monday 21 February	**Germany** – February PMI flash [10h30] **EMU** – February PMI flash [11h00]	
Tuesday 22 February	**US** – December/Q4 S&P Case-Shiller HPI [15h00] **US** – February Consumer confidence [16h00]	Q4 GDP [11h30]
Wednesday 23 February	**Japan** – January Trade balance **US** – January Existing home sales [16h00]	2011/2012 Budget speech [14h00]
Thursday 24 February	**Germany** – Q4 GDP final [09h00] **EMU** – February Consumer confidence [12h00] **US** – Initial jobless claims for previous week [14h30] **US** – January Durable sales [14h30] **US** – January New home sales [16h00]	January PPI [10h30]
Friday 25 February	**Germany** – February CPI [09h00] **EMU** – January M3 [11h00] **UK** – Q4 GDP second estimate [11h30] **US** – Q4 Real GDP second estimate [14h30] **US** – February Consumer sentiment final [15h55]	

Sources: Bloomberg, StatsSA, National Treasury

Key market indicators – Friday 18 February 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32514.03**	-0.64%	0.46%	3.54%	1.23%	19.57%
JSE Fini 15	**8164.20**	-0.44%	-0.82%	1.31%	-0.09%	8.10%
JSE Indi 25	**26783.11**	0.04%	1.32%	1.35%	-0.04%	26.55%
JSE Mining	**38726.62**	-1.50%	1.12%	7.73%	4.12%	17.57%
JSE Resi 20	**58699.59**	-1.33%	1.08%	7.95%	4.26%	19.07%
S&P 500	**1343.01**	0.19%	4.77%	12.12%	6.79%	22.15%
DJI	**12391.25**	0.59%	4.79%	10.85%	7.03%	20.20%
NASDAQ	**2833.95**	0.08%	3.98%	11.92%	6.83%	27.29%
Nikkei	**10842.80**	0.06%	2.71%	7.19%	6.00%	5.20%
Hang Seng	**23595.24**	1.26%	-3.38%	0.30%	2.43%	14.91%
FTSE 100	**6082.99**	-0.07%	1.78%	7.08%	1.88%	15.28%
CAC 40	**4157.14**	0.12%	4.54%	8.86%	9.26%	11.59%
DAX	**7426.81**	0.29%	4.86%	8.86%	7.41%	31.49%
ASX-ORD	**5026.10**	0.00%	1.66%	6.22%	3.70%	7.24%
JSE All Share (in US$)	**4555.83**	-0.16%	-1.65%	1.54%	-6.12%	27.31%
MS EM Index	**1122.01**	0.91%	-3.37%	0.75%	-2.55%	18.72%
MS World Index	**1362.62**	0.22%	4.11%	10.65%	6.45%	20.18%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**7.14**	0.48%	-2.10%	-1.93%	-7.26%	6.47%
Rand/GB Pound	**11.59**	-0.02%	-3.85%	-3.87%	-11.07%	2.89%
Rand/Euro	**9.77**	-0.02%	-3.87%	-2.61%	-9.47%	6.02%
Rand/Aus $	**7.21**	0.62%	-3.46%	-4.25%	-6.26%	-5.11%
Yen/ US $	**83.09**	0.23%	-1.14%	0.24%	-2.38%	9.59%
Swiss Franc/US $	**0.95**	0.40%	1.08%	4.46%	-1.18%	13.95%
US $/Euro	**1.37**	-0.46%	-1.72%	-0.64%	-2.19%	-0.56%
US $/GB Pound	**1.62**	-0.36%	-1.61%	-1.81%	-3.84%	-3.43%
US $/Aus $	**1.01**	-0.23%	-1.72%	-2.75%	0.84%	-11.38%
Nominal Effective Exchange Rate (2000 = 100)	**74.11**	-0.08%	5.07%	3.29%	9.65%	-4.24%

Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1387.8**	0.31%	1.28%	1.56%	-2.36%	24.48%
Platinum/oz.	**1835.5**	-0.60%	0.00%	10.41%	3.70%	19.73%
Brent Crude $/bbl	**102.27**	-0.81%	4.58%	23.45%	7.94%	35.85%

Fixed income	Closing yield %
SA R157	**7.68**
US 2 YEAR	**0.76**
US 10 YEAR	**3.59**
UK 2 YEAR	**0.84**
UK 10 YEAR	**3.81**
EURO 2 YEAR	**1.39**
EURO 10 YEAR	**3.23**

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