

Today's highlights

- Earnings: Growth is accelerating – perhaps faster than expected
- Wilson Bayly Holmes Ovcon (WBO): Quality shown in a tough environment
- Truworths (TRU): Highest margin in years
- Upcoming dividend dates and corporate actions
- Company calendar – 22 February to 1 March
- Economic calendar – 22 February to 1 March

Talking point: Resisting an idea whose time has come

Ordinarily, the release of fourth quarter GDP numbers today and the Budget speech for 2011/2012 tomorrow afternoon would have dominated the headlines, but happenings on the global scene have shifted the spotlight elsewhere. Popular demonstrations for democracy in Libya have provoked a violent response from the Muammar Gaddafi regime, and led to turbulence in financial markets, with spikes in the price of oil and gold. Can Gaddafi continue to resist popular pressures? And will demonstrations continue to spread to other countries or intensify?

The answer to the first is probably not for too much longer, and to the second, almost certainly. As Victor Hugo once said about the French Revolution (and one the Arab despots would do well to heed), there is little that can resist an idea whose time has come. There is some precedent for such events: one is the famous year of revolutions in 1848, in which there were popular risings against the monarchies of Europe; another is the collapse of communism in Eastern Europe in 1989. But these two examples also show how variable the endgame can be. The 1848 revolutions were mostly put down ruthlessly, though the popular movements they spawned affected politics for years. The 1989 collapse of communism by contrast saw a relatively quick and successful transition to democracy and market economies.

One cannot assume that the unrest in North Africa and the Middle East will lead to such an agreeable outcome as in 1989. While the people in these states clearly crave democracy, they probably have a more jaundiced view of the West and its values (particularly since the West supported many of the most unpopular regimes, such as in Egypt). So one cannot assume that even democratic solutions will lead to the kind of governments and policies the West would like to see. One should thus expect further uncertainty in financial markets.

Market highlights

US markets were closed yesterday, but locally the JSE had a strong day, gaining almost a percent as commodity prices rose on increased tensions in North Africa and the Middle East, with gold and oil prices rising in particular.

Bonds benefited were softer ahead of the Budget speech tomorrow, while the rand was a little softer in a quiet day of trading due to the closure of US markets.

Gold and oil prices surged over much of the day as continued protests in Arab countries, and Libya in particular, heightened geopolitical tensions.

Key indicators in a nutshell – Friday 18 February 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year date to	1 Year
JSE All Share	32806.67	0.90%	3.05%	6.19%	2.14%	20.26%
S&P 500	1343.01	0.00%	4.90%	13.74%	6.79%	21.35%
Nikkei	10857.53	0.14%	4.03%	7.34%	6.15%	5.05%
Rand/US \$	7.13	0.08%	-0.95%	-0.69%	-7.18%	7.40%
Rand/GB Pound	11.58	0.05%	-3.03%	-3.31%	-11.03%	2.09%
US\$/Euro	1.37	0.03%	-1.56%	-2.15%	-2.16%	-1.56%
Gold \$/oz.	1406.45	1.34%	4.48%	2.19%	-1.05%	25.18%

Company results and updates

Discovery reported a 25% increase in normalised HEPS for the six months to December, to 169.5c. An interim dividend of 42cps was declared, an increase of 27%.

Pan African Resources reported a 56% increase in EPS for the six months to December, to 0.53p.

Shoprite reported a 13.6% increase in diluted HEPS for the six months to December, to 236.8c. An interim dividend of 88cps was declared, an increase of 10%.

Brimstone reported diluted HEPS for the year to December of 148.3c, up from 129.6c previously.

Simmer and Jack reported a 34% increase in gold production at Buffelsfontein and Tau for the December quarter, to 49 170oz, from 36 609oz in the September quarter.

Blue Label reported diluted HEPS for the year to November of 25.22c, from 23.15c previously.

AECI grew its diluted HEPS for the year to December by 67% to 575c. A final dividend of 135cps was declared, bringing the total for the period to 205cps, from 90cps in 2009.

Kagiso Media reported a 31% increase in diluted HEPS for the six months to December, to 98.6c. An interim dividend of 50cps was declared, up from 35cps previously.

Clientele reported a 12% increase in HEPS for the six months to December, to 26.69c.

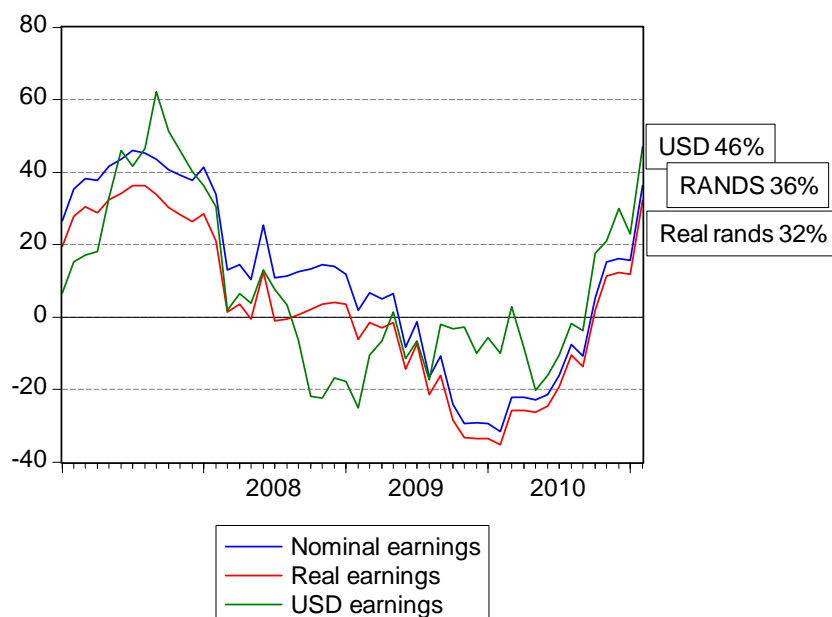
Rex Trueform expects to report an increase in HEPS of between 44% and 47% for the six months to December. Results are due out on 4 March.

Daily ideas

Earnings: Growth is accelerating – perhaps faster than expected

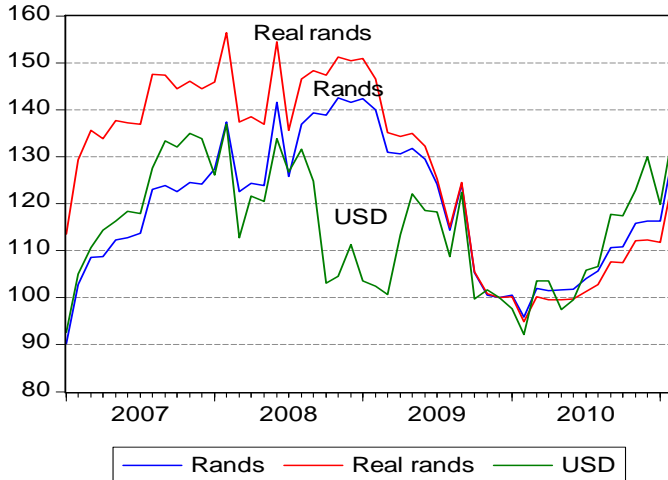
The much anticipated recovery in JSE earnings off a global financial crisis depressed base is now well under way. The results reported by Anglo and BHP Billiton (with a combined ALSI weight of about 24.7%) have contributed meaningfully to the reported growth rates. As we show below, ALSI earnings per share are now 36% higher than a year ago while in real CPI deflated terms the growth is 32% and in US dollars an even more impressive 46% higher than February 2010.

JSE Earnings growth 2007-2011



As we show below JSE earnings per share in US dollars are back to peak 2007 levels while in rands and real rands, earnings per share have still some way to go to surpass previous peak earnings.

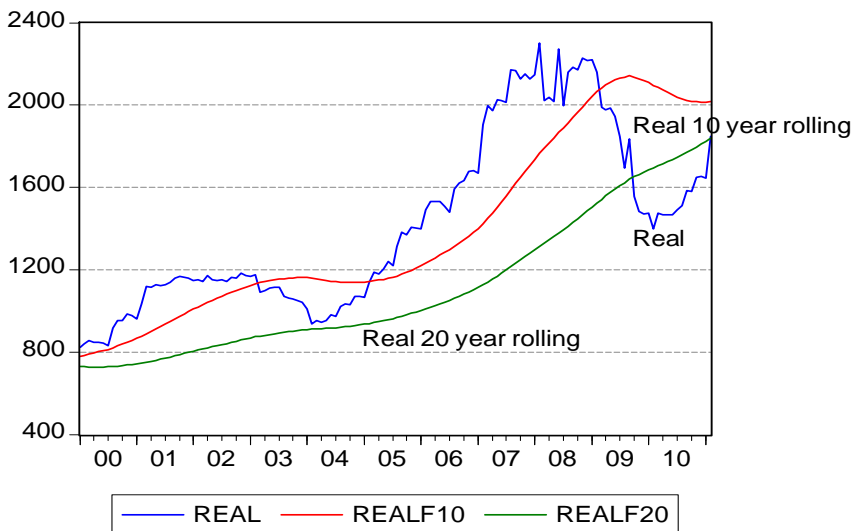
Earnings per JSE ALSI share, 1 January 2010 = 100



Source: I-Net Bridge and Investec Wealth and Investment

In the figure below we compare real earnings to 10 year and 20 year rolling earnings. As may be seen, real earnings are now equal to the 20 year rolling estimate and still below the 10 year rolling level. We prefer the 10 year rolling measure as a measure of cyclically adjusted or normalised earnings.

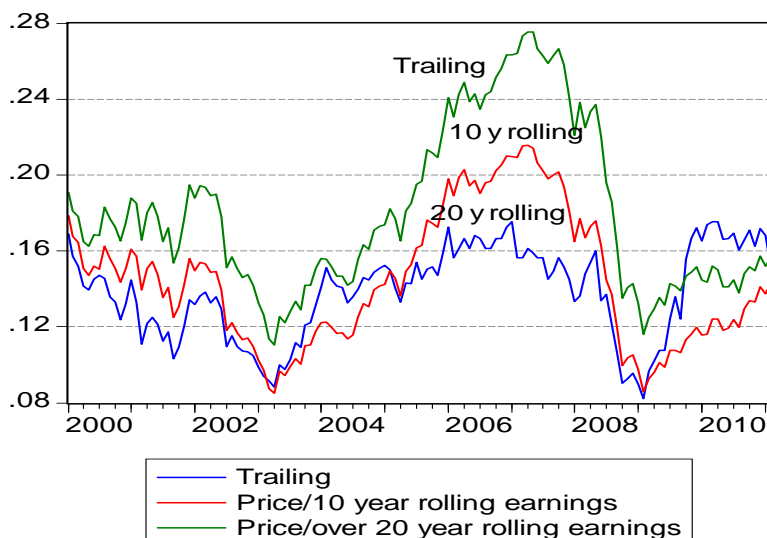
Real earnings and rolling 10 and 20 year earnings



Source: I-Net Bridge and Investec Wealth and Investment

In the figure below we compare the respective JSE price earnings (PE) multiples. As may be seen trailing and 10 year multiples are in line – though with 10 year rolling earnings still below actual earnings and earnings growth. This is very likely to grow rapidly from current levels, and may be regarded as a bullish indicator. **Brian Kantor**

Real price/ real earnings multiples 2000-2011



Source: I-Net Bridge and Investec Wealth and Investment

Wilson Bayly Holmes Ovcon (WBO): Quality shown in a tough environment

Wilson Bayly Holmes Ovcon (R120.23; market cap: R7.9bn; forward PE: 7.4x): Wilson Bayly reported fairly encouraging results for the six months to 31 December 2010, despite the impact of a R66m impairment of a loan to associate, Capital Africa Steel.

Fully diluted HEPS declined 19% to 676cps, within the guided range of minus 15 – 20%. Despite the earnings decline, the interim dividend was maintained at 110cps.

In the midst of the toughest operating environment in decades, the group did well to grow operating profit by 1%, despite a 6% decline in revenue. This was largely attributable to an increase in the operating margin within the Building & Civil Engineering division, which delivered a 21% increase in operating profit. The largest division, Roads & Earthworks, however, saw a 5% decline in operating profit as a more competitive environment placed pressure on margins. Results from the Australian business, Probuild, which contributes c18% of the Group's operating profit, produced results in line with the previous year, albeit that the results were boosted by a weaker rand relative to the Australian dollar.

There is some criticism of the quality of the reported results, given that cR100m of provisions were released during the half-year. The counter argument to this is that the group's conservative accounting policies have allowed it to avoid the type of difficulty experienced by the likes of competitor, Murray & Roberts. Current consensus expectations for the full year are for earnings of 1638cps, a year-on-year decline of 6.6%. Given the recent report, we calculate that to meet the full year consensus, year-on-year growth of only 4% in the second half is required. Given that provisions of a further R900m are retained, this forecast looks attainable, placing the share on a forward earnings multiple to June of 7.4x.

In our opinion, Wilson Bayly continues to offer the highest quality exposure to the construction sector. While margin guidance, particularly in Roads & Earthworks, is clearly negative, the growth in the group order book from R12.3bn to R13bn and strong cash of position (cash on hand equals 40% of market capitalisation), suggests Wilson Bayly is well placed to see out what is expected to remain a difficult year. Our estimate of "mid-cycle fair value", based on 10-year normalised earnings, is R168 per share. **Rory Spangenberg**

Truworths (TRU): Highest margin in years

Truworths International (R66.79; market cap: R30.6bn; 12m forward PE: 13.9x; 12m forward DY: 3.9%): Truworths announced good results for the first half to December 2010, in line with the recent trading update. HEPS increased by 19% (guidance had been 17% - 20%). Group sales were up 15% (previous comparable period 12%), with same stores sales growing by an impressive 11% (3%). Both these numbers included product inflation of only 1% (10%) which implies like for like volumes were up by 10% (-7%). Trading space also increased by 4% (10%). The dividend cover was maintained at 1.9x HEPS, resulting in an interim dividend of 128c (102c), up 25% on the same period last year.

Interim	Dec 2010	Dec 2009	% change
Revenue	R4232m	R3689m	15%
ROE	44%	45%	
HEPS	238C	199.4C	19%
DPS	128C	102C	25%

Gross margin was the highest in 10 years at 56.6%. Whilst this is commendable it does mean the opportunity for much further improvement in margin is limited. The operating margin was 35.9% (34.3%) and trading margin 25.9% (27%). The return on equity (ROE) was 44% (45%). The ever increasing cash on the balance sheet, now at R1.8bn (R1.07bl) has held back the ROE in the last few years. The market has been looking for management to deploy the cash more efficiently through either an earnings enhancing acquisition or continued share buybacks, which management do allude to in the results comments. Alternatively, a special dividend could be considered, which we assume is still a possibility in six months time at year end results, although no mention is made by management in this regard.

The debtors' book increased in size by 16% (11%) as guided and the book's performance (ie bad debt experience) was satisfactory as anticipated by management. The increased book size is therefore merely a result of healthy sales rather than a deteriorating book quality.

Retail sales for the first eight weeks of the second half were up only 9.8% on similar period in 2010, compared to the 15% for the previous six months. This is somewhat slower than we had been hoping for, however, management has indicated that mark downs applied were at lower levels than in the previous corresponding period, implying that margins would have been higher on the lower volume.

Since the company had a strong second half last year, achieving similar growth over the next six months to June 2011 will be more challenging. In its outlook comment management remains cautious until there is more evidence that the recovery in consumer spending will be sustained. Assuming the company can increase fully diluted HEPS by 17% for the year to June 2011 and by 17% to June 2012, the 12 month forward PE is 14x and the 12 month forward dividend yield is 3.9%. I-Net consensus is a hold. **James Croxton**

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 – 22 February to 1 March

Tuesday 22 February	Super Group interims (approx date) Kelly Group AGM
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
Monday 28 February	Nedbank finals ARM interims
Tuesday 1 March	Bidvest interims KAP interims

Source: I-Net, Company updates

Economic calendar – 22 February to 1 March

Date	International	South Africa
Tuesday 22 February	US – December/Q4 S&P Case-Shiller HPI [15h00] US – February Consumer confidence [16h00]	
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]	
Monday 28 February	Japan – February PMI manufacturing Japan – January Industrial production prelim US – January Personal income [14h30] US – February Chicago PMI [15h45] US – January Pending home sales [16h00]	January PSCE [08h00] January Trade [14h00] January Exchequer account [14h00]
Tuesday 1 March	Japan – January Unemployment Germany – February PMI manufacturing [10h55] Germany – February Unemployment [10h55] EMU – February PMI manufacturing [11h00] EMU – January Unemployment [12h00] UK – February PMI manufacturing [11h30] UK – January M4 money supply [11h30] US – February ISM manufacturing [16h00]	February Kagiso PMI [10h00] February New vehicle sales [10h00]

Sources: Bloomberg, StatsSA, National Treasury, NAAMSA

Key market indicators – Monday 21 February 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	32806.67	0.90%	3.05%	6.19%	2.14%	20.26%
JSE Fini 15	8216.45	0.64%	0.81%	3.19%	0.55%	8.75%
JSE Indi 25	26955.63	0.64%	3.31%	4.35%	0.61%	26.33%
JSE Mining	39144.80	1.08%	4.96%	10.28%	5.24%	18.91%
JSE Resi 20	59462.13	1.30%	4.81%	11.00%	5.61%	20.56%
S&P 500	1343.01	0.00%	4.90%	13.74%	6.79%	21.35%
DJI	12391.25	0.00%	4.81%	12.28%	7.03%	19.23%
NASDAQ	2833.95	0.00%	4.79%	13.59%	6.83%	26.42%
Nikkei	10857.53	0.14%	4.03%	7.34%	6.15%	5.05%
Hang Seng	23485.42	-0.47%	-2.16%	2.57%	1.95%	15.00%
FTSE 100	6014.80	-1.12%	2.50%	7.77%	0.73%	12.95%
CAC 40	4097.41	-1.44%	3.34%	10.01%	7.69%	9.33%
DAX	7321.81	-1.41%	4.24%	9.20%	5.90%	28.90%
ASX-ORD	4990.90	-0.70%	2.02%	6.71%	2.97%	6.78%
JSE All Share (in US\$)	4600.64	0.98%	2.07%	5.46%	-5.19%	29.16%
MS EM Index	1120.48	-0.14%	-1.98%	2.80%	-2.68%	18.81%
MS World Index	1358.10	-0.33%	4.86%	12.18%	6.10%	19.24%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US \$	7.13	0.08%	-0.95%	-0.69%	-7.18%	7.40%
Rand/GB Pound	11.58	0.05%	-3.03%	-3.31%	-11.03%	2.09%
Rand/Euro	9.77	-0.04%	-2.57%	-2.83%	-9.51%	5.71%
Rand/Aus \$	7.20	0.06%	-3.32%	-4.04%	-6.20%	-5.26%
Yen/ US \$	83.07	0.02%	-0.18%	0.24%	-2.36%	10.71%
Swiss Franc/US \$	0.95	-0.03%	2.22%	5.36%	-1.22%	14.93%
US \$/Euro	1.37	0.03%	-1.56%	-2.15%	-2.16%	-1.56%
US \$/GB Pound	1.62	0.04%	-1.98%	-2.64%	-3.80%	-4.94%
US \$/Aus \$	1.01	0.58%	-2.27%	-3.38%	1.42%	-11.77%
Nominal Effective Exchange Rate (2000 = 100)	74.51	-0.54%	2.54%	2.29%	9.06%	-3.70%

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Commodities						
Gold \$/oz.	1406.45	1.34%	4.48%	2.19%	-1.05%	25.18%
Platinum/oz.	1852.5	0.93%	2.26%	12.14%	4.66%	21.00%
Brent Crude \$/bbl	104.42	2.10%	8.59%	25.73%	10.21%	36.91%

Fixed income	Closing yield %
SA R157	7.68
US 2 YEAR	0.76
US 10 YEAR	3.59
UK 2 YEAR	0.81
UK 10 YEAR	3.81
EURO 2 YEAR	1.38
EURO 10 YEAR	3.20

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