2 March 2011

dailyview

Today's highlights

- Steinhoff (SHF): Predictably flat
- Santam (SNT): A great dividend play
- Currency markets: Explaining the weak US dollar and the strong rand
- Upcoming dividend dates and corporate actions
- Company calendar – 2 March to 9 March
- Economic calendar – 2 March to 9 March

Talking point: Good car sales news takes a back seat

Car sales continued their recovery in February, with new vehicle sales growing 25.2% on February last year,. There were good gains across the categories, reflecting the overall recovery in the SA economy and in business confidence as a whole.

Encouraging numbers such as these take a back seat while the conflict in Libya continues to unfold. More belligerent defiance from Libyan leader Muammar Gaddafi yesterday sent more jitters through markets, with the likelihood increasing of military intervention by the world's leading powers. As with all conflicts of this type, a rapid resolution of issues is to be hoped for (oil prices could come off as sharply as they have risen), but we also know not to take anything for granted.

Market highlights

Increased hostilities in Libya once more gave global markets the jitters, with the S&P 500 falling sharply overnight on rising oil prices.

The JSE ended lower yesterday, as mining shares fell despite global markets being up for most of the day.

Bonds were weaker but the rand managed to stay stable against the US dollar as the euro continued its gains against the greenback.

Oil and gold benefited from increased tensions in Libya, but most commodities were lower on worries about the impact of oil prices on global growth.

Key indicators in a nutshell – Tuesday 1 March 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32050.73**	-0.69%	1.61%	4.10%	-0.21%	19.75%
S&P 500	**1306.33**	-1.36%	2.35%	8.31%	3.87%	18.27%
Nikkei	**10754.03**	1.22%	3.80%	7.67%	5.13%	6.20%
Rand/US $	**6.99**	-0.34%	2.69%	0.52%	-5.24%	10.11%
Rand/GB Pound	**11.34**	-0.25%	0.30%	-3.47%	-9.10%	3.43%
US$/Euro	**1.38**	0.39%	-1.14%	-4.66%	-2.77%	-1.00%
Gold $/oz.	**1434.3**	1.64%	7.29%	3.42%	0.91%	28.46%

Company results and updates

Bell Equipment expects to report HEPS of between 20c and 35c for the year to December, from a previous headline loss per share of 274c. Results are due out on 14 March.

Sasfin reported HEPS for the six months to December of 163c, from 164c previously. An interim dividend of 49cps was declared, from 46cps previously.

Cafca reported diluted EPS for the year to December of 3.55 US cents, from 1.33 US cents previously.

Capital and Counties declared a final dividend per share for the year to December of 1p, bringing the total for the year to 1.5p. Adjusted NAV per share was 148p.

Investec

Petmin reported diluted HEPS for the six months to December of 8.14c, from 8.17c previously.

Ububele reported diluted HEPS for the six months to December of 4.84c, from 9.55c previously.

Hyprop declared a distribution for the year to December of 357c a combined unit, an increase of 8.8%.

Brait is to restructure as an investment company, and is to raise R6bn in new capital and acquire sizeable stakes in Pepkor and Premier Foods.

Afgri reported diluted HEPS for the six months to December of 41.2c, up from 40.9c previously. An unchanged interim dividend of 24.25cps was declared.

Aveng says it expects its HEPS for the year to December to decline by between 30% and 35%, after taking into account a R129m settlement with the competition authorities.

Daily ideas

Steinhoff (SHF): Predictably flat

Steinhoff (R24.54; market cap: R37.4bn; forward PE: 9x; forward DY: 2.5%) reported predictably flat results for the six months to December, with HEPS declining 3% to 108.6cps. This was comprised of operating profit declining 1%, a lower net interest charge but offset by higher shares in issue. Importantly, it should be noted that approximately 65% of the group's operating profit is generated in currencies other than the rand (predominantly sterling and euros). During this period, the rand strengthened by 15% against the euro, blunting what was otherwise a solid underlying performance from the group's UK and European retail and manufacturing operations.

At a divisional level, **retail of household goods & building supplies** (25% of group EBIT; mostly Poco retail in Germany & Homestyle in UK) grew profits by 5%, despite the rand's strength. Management alludes to an 'increase in turnover and stable overheads resulting in higher margins' in Continental Europe, while the UK operations sales were impacted by certain store closures in Ireland (albeit assisting margins – presumably these stores were loss-making). We estimate constant currency EBIT growth in this division of 15-20%, with trading margins rising to a healthy 6.7% (1H10: 5.9%).

Automotive retail (6% of EBIT) comprises the SA Unitrans motor retail business, and generated good EBIT growth of 26% on the back of 14% higher sales. We would expect this performance to be repeated in the second half.

The **group's manufacturing & sourcing of household goods** division remains the largest contributor at 43% of EBIT; while not disclosed, we estimate that 75% of this division's profits are derived from its manufacturing operations in UK, Europe (Eastern Europe & Germany) as well as its international household goods sourcing office (China). The remainder comprises largely PG Bison in SA. Manufacturing & sourcing experienced an 8% profit decline – not bad considering the currency translation impact, with the underlying operations likely growing by 7-8% in home currencies. However, management does allude to 'mixed' results, with a good performance in the UK and Germany but the Eastern European manufacturing operations being impacted by increased competition from cheaper Asian imports of high-volume product. Turnover in the Eastern European manufacturing operations was down in home currencies. While not separately disclosed, we suspect that the group's sourcing operations (China) are accounting for an ever-increasingly large share of profitability for this division as a whole.

Logistics (17% of EBIT) performed reasonably well, with profits rising 10%. The vast majority of this division comprises Unitrans logistics in SA, so currency translation impacts are not a major issue.

The remainder of the group's profits are generated by its brand management activities (essentially royalties charged to retail operations), investment participations and central treasury, net of intersegment eliminations (the group's operations do substantial business with each other) – these line items are notoriously difficult to predict, and do introduce an element of forecast risk.

In terms of full year prospects, we would expect the pattern of the first half to be largely repeated, **with full year HEPS likely to be flat to slightly down at 235-240cps**.

Clearly, the big news in Steinhoff's life is its transformational deal to acquire France-based Conforama – the second largest furniture retailer in Europe (behind Ikea). The purchase price is Euro1.2bn in cash, funded via the placing of up to 130m Steinhoff shares, an acquisition facility of Euro600m and perpetual prefs to be issued. This business generates annual revenues of Euro3bn, and should make EBIT of about Euro150m per year. Steinhoff's own calculations suggest that the inclusion of this business would have boosted EPS by 7.5% if it were included for a full year in F2010; clearly this calculation would exclude any synergy benefits in terms of cheaper logistics costs for Conforama due to Steinhoff's extensive distribution footprint and other potential cost savings. We estimate that Conforama will account for 25% of the enlarged group's earnings, and that post-conclusion Steinhoff's South African EBIT contribution will be a mere 25%. We would expect a London listing of either Steinhoff's

European businesses, or the group as a whole in the not too distant future, presumably accompanied by a change in reporting currency to Euros.

From a rating perspective, Steinhoff trades at a 12-month forward PE of 9x – inclusive of Conforama. While this appears very cheap, investors should note that a number of large international retailers can be had at forward PE ratings of around 10-11x, indicating generally good value elsewhere. In addition, Steinhoff has historically paid dividends on fairly high cover given its acquisitive nature; at 4x expected cover, this translates into a fairly unexciting forward dividend yield of 2.5%. ***Sean Ashton***

Santam (SNT): A great dividend play

Santam (R125.50; market cap: R15.1bn; forward PE : 10.4x; forward DY [F2011, I-Net]: 4.3%) came out with full year results yesterday which were broadly in line with consensus estimates. HEPS were up 51% year on year and the dividend increased by 9.5% to 510c per share.

Interim	Dec 2010	Dec 2009	% change
Headline EPS	1367c	906c	51%
Diluted HEPS	1343c	889c	51%
DPS	510c	466c	9.5%

The results were supported by excellent underwriting and investment performances over the year. Underwriting margins increased from 3.5% in 2009 to 8.5% in 2010 which resulted in net underwriting profits increasing 153% to R1.146bn from R453m in the previous period. Within the underwriting results the performance of the crop business came under pressure from weather-related claims but margins were satisfactory in all other lines. Investment returns were slightly lower at R396m from R420m which was mainly as a result of lower interest rates despite substantially increased float balances.

The group solvency ratio of 45% is at the higher end of the target range of 35%-45% but the company stated that “at this point in time it is not considered appropriate to declare a further special dividend but it will remain under constant consideration”. As an aside, Santam has a fantastic record of total dividend growth, having grown dividends an average of 89% over the past 11 years – if one thinks that dividends are the best way to judge insurance companies Santam has done a fantastic job.

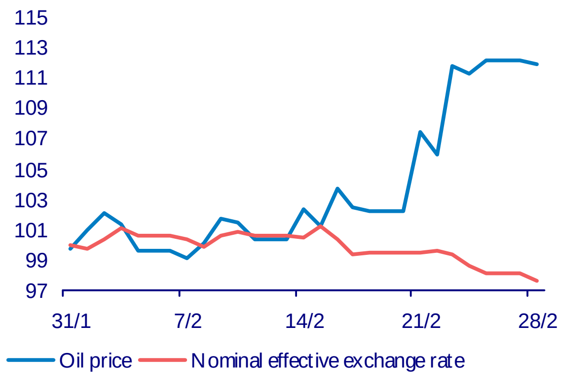
In terms of outlook, Santam expects the economic recovery to continue through 2011 but expects premium increases to remain subdued and growth to remain a challenge. Claims costs have continued to come under pressure from flooding but management thinks losses should be contained based on their reinsurance protection and risk diversification. Any weakening of the rand will increase the cost of claims (especially impacting the cost of imported motor parts). These issues lead management to expect underwriting margins to revert back to a more normalised range of 4%-6%.

With a high payout ratio and decent visibility of earnings (as far as analysts are concerned) Santam is a great dividend play and is expected to continue to be so in the future. The share is on a forward PE of 10.4 times and there is a strong likelihood of a special dividend in the next 18 months. ***Paul McKeaveney***

Currency markets: Explaining the weak US dollar and the strong rand

Recent trends in the currency markets following the spike in the oil price raise two questions: why has the US dollar weakened and why has the rand strengthened? It should be recognised that the rand has gained not only against the weaker US dollar but also against the crosses, including the Aussie dollar. In the figure below we show the trade weighted value of the rand and the oil price in US dollars based to 1 February 1 2011. The oil price is up about 13% while the trade weighted rand had gained nearly 3% since the oil price spiked in mid month.

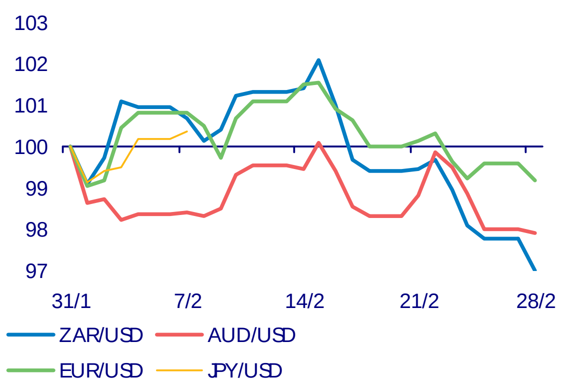
The rand and the oil price (1 Feb 2011 = 100)



Source: Bloomberg, Investec Securities and Investec Wealth and Investment

We will return to the question of rand strength further on, but the US dollar weakness shown below is perhaps to be explained by the different impact of a higher oil price on the outlook for growth in the US and Europe. It should be noted that the oil price is rising not because of additional demands for oil but because of fears that supplies of oil from the Middle East and North Africa might be disrupted.

Selected exchange rates (1 Feb 2011 = 100)



Source: Bloomberg, Investec Securities and Investec Wealth and Investment

The fact that fuel taxes are so much higher in Europe than the US cushions the European consumer against a higher oil price. The higher the tax at retail level, the smaller the impact of any increase in the price of a barrel of crude petroleum. Accordingly consumer spending and economic growth will be less inhibited in Europe than the US by a shortage of oil. Thus it might be thought that the hawkish European Central Bank with its inflation targets will be more inclined to allow interest rates to rise than the Fed with its dual mandate. Any expected widening of the difference between US and European interest rates would mean a weaker dollar.

How should one respond to an oil price shock?

The question arises as to the proper monetary policy response to a supply side shock that causes oil or food prices to rise. Given that higher food and energy prices effectively tax and reduce demands for all goods and services, it might be thought appropriate not to add the burden of higher interest rates to higher prices caused by reduced supplies.

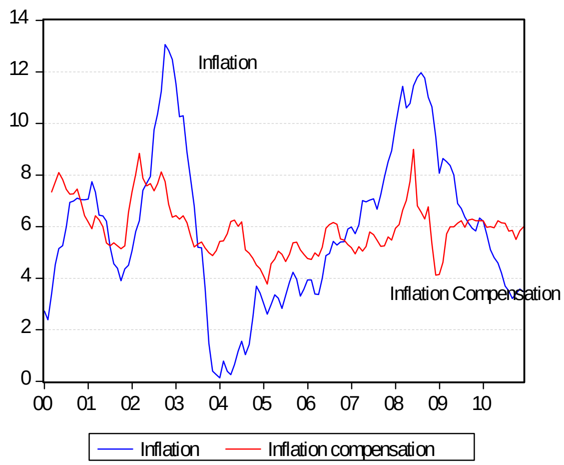
Wisdom might suggest that a (temporary) supply side shock to prices over which tighter monetary policy can have no immediate influence provides every reason to maintain a neutral stance on interest rates. Unless supplies decline continuously, prices generally will soon reach their higher level at which they will stabilise or retreat, should normal supply be resumed. The experience of the oil price shocks of the seventies strongly suggests that oil price shocks should not be accommodated by easier monetary policy, but that a neutral monetary policy stance is best maintained.

There is however a further argument that is influential in monetary policy circles, especially in Europe and also in SA. That is higher prices, following a supply side shock, leads to expectations of more inflation that are themselves self fulfilling. Therefore higher inflation, whatever its cause, has to be fought in the same way with higher interest rates regardless. Higher interest rates are thought necessary to dampen inflationary expectations, even though the rate of economic growth will slow down further. Short run growth pain for the long run gain in the form of less inflation is thought appropriate.

The bond markets are where inflationary expectations are made explicit in the form of the yield gap between vanilla government bonds and their inflation linked equivalents. This yield gap provides compensation for bond holders bearing the risk of inflation eroding the value of their fixed interest income. The more inflation expected, the higher the yields demanded of conventional bonds and so the greater the yield gap over inflation linked yields that will be sought as compensation.

The evidence for self fulfilling inflationary expectations however is not nearly as strong as conventional central bank wisdom might suggest. Inflation in SA spiked sharply in 2001-02 after the rand collapsed and rand weakness in 2007-08 caused a further spike in inflation. In 2003, despite much more inflation, inflation compensation (the gap between ordinary and inflation linked bond yields) narrowed rather than widened. In 2008 it took the global financial crisis, much more than rising inflation, to raise inflation compensation. This was soon reversed and inflation compensation has remained very stable at around 6% since 2005, almost independently of the rate of inflation in SA. Sacrificing growth for inflationary expectations (which seem impervious to inflation and interest rate settings) does not seem like a price worth paying.

Inflation and Inflationary expectations in SA



Source: I-Net Bridge and Investec Wealth and Investment

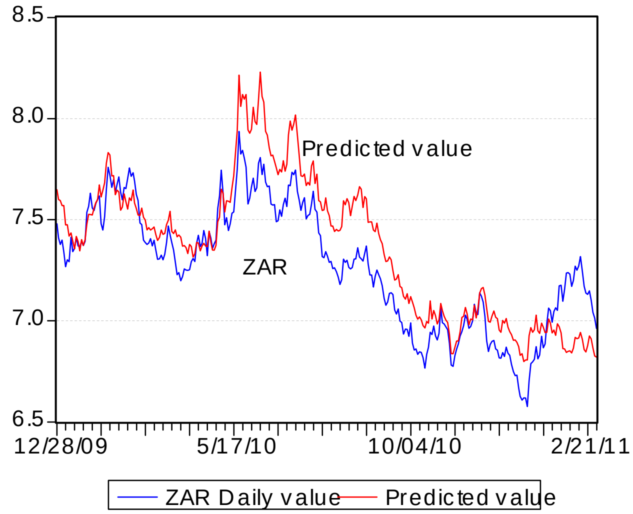
In this regard it was of great interest to read Fed chairman Ben Bernanke's testimony to Congress yesterday where he referred to inflation and inflationary expectations and how he might respond to a supply side shock.

Bernanke believes that inflationary expectations can be inflationary independently of the state of the economy over which his own monetary policy settings have influence. However he made it clear that he does not expect any build up in inflation or inflationary expectations and that monetary policy will maintain its current stance. The posture of the ECB has been less sanguine- supporting the case for a weaker US dollar and stronger euro. Our view however is not to expect significant changes in the euro/US dollar exchange rate nor any increase in US short term rates until next year.

Commodities and the Aussies

Returning to the rand, our view is that the recovery of the rand is well explained, as usual, by commodity prices and the behaviour of the Aussie dollar. The value of the rand, explained only by the US dollar/Aussie dollar exchange rate, indicates that the rand was somewhat overvalued last year, became undervalued in January 2011, and has since regained some of the ground it lost against the Aussie dollar. As we show below, fair value for the rand/US dollar (given the current value of the Australian dollar) is R6.82.

The ZAR and its value as predicted by the AUD/USD



Source: I-Net Bridge and Investec Wealth and Investment

Our sense is that global growth will withstand the oil price shock, so adding continued support for other commodity prices, the Aussie dollar and the rand. If so, higher inflation and higher interest rates in SA will be sensibly delayed until the economy closes the gap between actual and potential growth and potential growth in employment. ***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
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
AngloGold Ashanti	4 March	7 March	11 March	18 March	Cash Dividend	R0.80
Assore	4 March	7 March	11 March	14 March	Cash Dividend	R2
BHP Billiton	4 March	7 March	11 March	31 March	Cash Dividend	USD0.46
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
Emira	4 March	7 March	11 March	14 March	Interest	R0.5521
Gold Fields	4 March	7 March	11 March	14 March	Cash Dividend	R0.70
Hospitality A	4 March	7 March	11 March	14 March	Interest	R0.6033
Hospitality B	4 March	7 March	11 March	14 March	Interest	R0.3845
Hudaco	4 March	7 March	11 March	4 April	Cash Dividend	R2.35
Imperial	4 March	7 March	11 March	4 April	Cash Dividend	R1.50
Panprop	4 March	7 March	11 March	14 March	Interest	R0.7404
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
City Lodge	11 March	14 March	18 March	22 March	Cash Dividend	R1.24
Discovery	11 March	14 March	18 March	22 March	Cash Dividend	R0.42
Fountainhead	11 March	14 March	18 March	22 March	Rights issue	16.73288 FPTN per 100 FPT
JOZI03	11 March	14 March	18 March	22 March	Interest	R14.83
Kagiso Media	11 March	14 March	18 March	22 March	Cash Dividend	R0.50
Kumba Iron Ore	11 March	14 March	18 March	22 March	Cash Dividend	R21
Shoprite	11 March	14 March	18 March	22 March	Cash Dividend	R0.88
Truworths	11 March	14 March	18 March	22 March	Cash Dividend	R1.28
Foschini Prefs	17 March	18 March	25 March	28 March	Cash Dividend	R0.065
OneLogix	17 March	18 March	25 March	28 March	Capital Reduction	R0.03
Panprop	17 March	18 March	25 March	28 March	Scheme of arrangement with election	2.38 CPL per PAP (for holders of over 100 PAP)
SA Corporate	17 March	18 March	25 March	28 March	Interest	R0.1418
Anglo American	25 March	28 March	1 April	28 April	Cash Dividend and reinvestment plan	R2.8906

Fountainhead NPLs	1 April	4 April	8 April	11 April	Rights take up	1 FPTN converts into 1 FPT on take up at R6 per unit
Glenrand MIB	1 April	4 April	8 April	11 April	Scheme of arrangement	R2
AECI	8 April	11 April	15 April	18 April	Cash Dividend	R1.35
Group Five	8 April	11 April	15 April	18 April	Capital Reduction	R0.52
Mondi	8 April	11 April	15 April	12 May	Cash Dividend and reinvestment plan	R1.61324545
Wilson Bayly Holmes	8 April	11 April	15 April	18 April	Cash Dividend	R1.10
Afrox	14 April	15 April	21 April	26 April	Cash Dividend	R0.08
Mvela Resources	28 April	29 April	6 May	9 May	Unbundling and scheme of arrangement	83.5230 NHM and 9.5980 NHM per 100 MVL
Brimstone	6 May	9 May	13 May	16 May	Cash Dividend	R0.15
Country Bird	6 May	9 May	13 May	16 May	Capital reduction	R0.111

Source: JSE

Company calendar – 2 March to 9 March

Thursday 3 March	Standard Bank finals Aspen interims Spur interims The Don Group AGM
Monday 7 March	Sasol interims AVI interims
Tuesday 8 March	Royal Bafokeng Platinum finals Old Mutual finals Uranium One finals FirstRand interims Paracon AGM Hyprop shareholder meeting to approve Attfund deal
Wednesday 9 March	MTN finals MMI interims Gijima interims

Source: I-Net, Company updates

Economic calendar – 2 March to 9 March

Date	International	South Africa
Wednesday 2 March	**US** – Beige Book [20h00]	
Thursday 3 March	**Japan –** February PMI services and composite **Germany** – February PMI services and composite [10h55] **UK** – February PMI services [11h30] **EMU** – February PMI services and composite [11h00] **EMU** – ECB rate announcement [12h00] **EMU** – Q4 GDP prelim [12h00] **EMU** – January Retail sales [12h00] **US –** Initial jobless claims for previous week [14h30] **US** – February ISM nonmanufacturing [16h00]	
Friday 4 March	**US** – February Employment [14h30] **US** – January Factory orders [16h00]	
Monday 7 March	**Japan** – January Coincident indicator **US** – January Consumer credit [21h00]	February Gold and forex reserves [08h00]
Tuesday 8 March	**Japan** – January Current account **Germany** – January Industrial orders [13h00]	
Wednesday 9 March	**UK** – January Trade balance [13h00] **Germany** – January Industrial production [14h00]	

Sources: Bloomberg, Reserve Bank

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dailyview

Key market indicators – Tuesday 1 March 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32050.73**	-0.69%	1.61%	4.10%	-0.21%	19.75%
JSE Fini 15	**7977.57**	-0.65%	-1.88%	1.40%	-2.37%	5.90%
JSE Indi 25	**26255.43**	-0.18%	0.83%	2.12%	-2.00%	23.95%
JSE Mining	**38349.52**	-0.89%	4.51%	7.84%	3.10%	22.09%
JSE Resi 20	**58295.03**	-1.17%	4.67%	8.79%	3.54%	23.17%
S&P 500	**1306.33**	-1.36%	2.35%	8.31%	3.87%	18.27%
DJI	**12058.02**	-1.38%	1.98%	7.13%	4.15%	16.78%
NASDAQ	**2737.41**	-1.61%	1.88%	7.37%	3.19%	22.30%
Nikkei	**10754.03**	1.22%	3.80%	7.67%	5.13%	6.20%
Hang Seng	**23396.42**	0.25%	-0.93%	0.63%	1.57%	13.53%
FTSE 100	**5935.76**	-0.97%	0.92%	5.20%	-0.59%	10.86%
CAC 40	**4067.15**	-1.05%	1.62%	10.84%	6.90%	9.66%
DAX	**7223.30**	-0.67%	1.70%	5.19%	4.47%	29.02%
ASX-ORD	**4920.40**	-0.06%	0.98%	5.21%	1.52%	5.79%
JSE All Share (in US$)	**4588.51**	-1.02%	4.34%	4.64%	-5.44%	31.86%
MS EM Index	**1112.15**	0.40%	-1.26%	1.33%	-3.41%	18.83%
MS World Index	**1340.89**	-0.80%	2.98%	10.21%	4.75%	18.31%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**6.99**	-0.34%	2.69%	0.52%	-5.24%	10.11%
Rand/GB Pound	**11.34**	-0.25%	0.30%	-3.47%	-9.10%	3.43%
Rand/Euro	**9.62**	-0.05%	1.49%	-4.28%	-8.07%	9.02%
Rand/Aus $	**7.07**	0.30%	0.28%	-4.20%	-4.46%	-4.64%
Yen/ US $	**81.90**	-0.02%	0.24%	2.71%	-0.96%	8.60%
Swiss Franc/US $	**0.93**	0.05%	1.43%	8.04%	0.66%	15.61%
US $/Euro	**1.38**	0.39%	-1.14%	-4.66%	-2.77%	-1.00%
US $/GB Pound	**1.63**	0.09%	-2.44%	-3.96%	-3.96%	-6.28%
US $/Aus $	**1.01**	0.52%	-2.08%	-4.68%	0.93%	-11.58%
Nominal Effective Exchange Rate (2000 = 100)	**76.12**	-0.41%	-1.33%	1.90%	6.75%	-7.38%

Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1434.3**	1.64%	7.29%	3.42%	0.91%	28.46%
Platinum/oz.	**1841.5**	1.82%	2.53%	9.22%	4.04%	19.42%
Brent Crude $/bbl	**113.75**	1.61%	15.21%	29.56%	20.05%	48.34%

Fixed income	Closing yield %
SA R157	**7.78**
US 2 YEAR	**0.71**
US 10 YEAR	**3.48**
UK 2 YEAR	**0.87**
UK 10 YEAR	**3.74**
EURO 2 YEAR	**1.56**
EURO 10 YEAR	**3.20**

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