4 May 2011

dailyview

Today's highlights

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- Natural gas: Economic development vs the status quo
- Upcoming dividend dates and corporate actions
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- Economic calendar – 4 May to 11 May

Talking point: Still no real signs of progress on the jobs front

There will have been few surprises in yesterday's release of unemployment data for the first quarter of the year. Unemployment rose to 25% from 24% in the December quarter, but is a slight improvement on the first quarter of last year, when the unemployment rate was marginally higher, at 25.2%. Adding back discouraged job seekers, the unemployment rate for the first quarter of this year is 33.4%, from 32.4% in the December quarter.

While formal employment rose a little in the quarter, so did the number of new job seekers. These factors could be seasonal in nature, but since the quarterly labour report is a fairly new series, there are not yet seasonal adjustments to make things more meaningful. For now, the year on year numbers give probably the most insight, and on both measures both formal and informal employment is slightly up. It remains to be seen how the controversy about labour broking (and legislation that could limit it) will have on overall employment.

PMI data for April, also released yesterday, show that jobs growth in manufacturing is still lagging though, despite upturns in other activity levels. So whichever way one looks at it, the employment picture in SA does not look particularly encouraging, which would justify the status quo for monetary policy for the time being, as well as a rethink of labour policies by the government.

Market highlights

US equities continued their slide yesterday, responding to weaker oil prices and some disappointing earnings numbers.

The JSE followed most global markets lower yesterday, reacting to some weak global economic data which pushed all of the major indices lower.

Bonds gained some ground yesterday while the rand was slightly weaker against most crosses after its gains of last week.

Copper rose late yesterday after a positive factory orders number out of the US, but oil and hold prices were lower, the former on rising oil stocks data in the US.

Key indicators in a nutshell – Tuesday 3 May 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32325.83**	-1.55%	-0.18%	-0.50%	0.64%	12.89%
S&P 500	**1356.62**	-0.34%	1.82%	4.03%	7.87%	14.32%
Nikkei	**10004.2**	0.00%	3.05%	-4.33%	-2.20%	-9.52%
Rand/US $	**6.63**	-0.39%	0.91%	7.94%	-0.18%	11.31%
Rand/GB Pound	**10.93**	0.61%	-1.42%	5.98%	-5.74%	3.07%
US$/Euro	**1.48**	-0.07%	-4.03%	-6.85%	-9.76%	-10.36%
Gold $/oz.	**1536.93**	-0.54%	7.61%	14.99%	8.13%	31.50%

Company results and updates

Merafe reported ferrochrome production in the March quarter of 82 000t, an increase of 3.8% on the similar period in 2010, and puts production at 91% of its operating capacity. Ferrochrome prices for the second quarter have been set at US$1.35/lb, an increase of 8%.

Investec

Altron reported a 12% increase in adjusted diluted HEPS for the year to February, to 243c. Total dividends for the period rose 20% to 108cps.

Spanjaard expects its HEPS for the year to February to rise by between 105% and 115%.

Aquarius is to buy the southern block of Booysendal from Northam, for R1.2bn.

Redefine International reported a distribution of 2.02p per linked unit for the six months to February.

MillerCoors, the US JV between SABMiller and Molson Coors, grew its underlying net income for the March quarter (compared with the March quarter in 2010) by 8.7% to US$236m.

Daily ideas

Pinnacle Technology (PNC): Waiting to come on to the radar screen

Pinnacle (705c; market cap: R1.3bn: forward PE: 4.7x; forward DY: 4.2%): Pinnacle Technology yesterday announced that, subject to shareholder approval, it is planning to buy 20 million shares back from BEE shareholder Amabubesi at a price of 550c per share. This is an attractive price and by our calculations this will add close to 10% to F2012 earnings.

This adds additional appeal to a story that we already think is very compelling. Pinnacle is an IT play, primarily involved in distribution and networking. Management has shown an uncanny ability to grow earnings over the last 10 years (not one decline, even through the recession) through a combination of organic growth and carefully picked acquisitions. Compound earnings growth over this period is in excess of 30%. The F2011 acquisition was Axiz Technology, one of Pinnacle's biggest competitors and the group should make its money back on this in two to three years. This share buyback could effectively be viewed as its F2012 acquisition, where it is buying 11% of Pinnacle itself at a 4x PE multiple.

Trading is by all accounts very strong at the moment and industry margins appear to have picked up as corporate action in two of the other major industry players has seen them focus on holding gross profit percentage margins. This is a tight margin business, but if well run returns can be very attractive – the current return on capital employed is 44% and return on equity is 32%.

We expect Pinnacle to maintain its earnings growth trend both this year and next, by growing earnings by 40% in the year to June 2011 (to 113c) and by a further 32% to June 2012 (to 150c). The sporadic analyst forecasts which do exist are way below this level, which might explain why the share is trading at a forward 4.7x PE to June 2012. Big capital gains can be made on shares which are off the radar screen and deliver these kinds of results. (The downside is that sometimes you have to wait for the results or a trading update). So what is a fair price? The average PE for the last 8 years has been 7.5x and applying this to our F2012 forecast arrives at a value of 1125c per share, 60% above the current share price. A price projection of this magnitude might appear aggressive (and probably is), but it is an indication of the substantial upside potential, even at a moderate multiple. Pinnacle is a bigger business than its market capitalisation suggests, largely because of a low multiple – we project after tax earnings approaching R250m to June 2012. As the earnings continue to grow and if the share re-rates as we anticipate, this could be a R2.5bn market cap company in two years which would bring it on to the radar screen of additional investors. At a miserly 5x dividend cover, the forward dividend yield is still 4.2%. ***Peter Armitage***

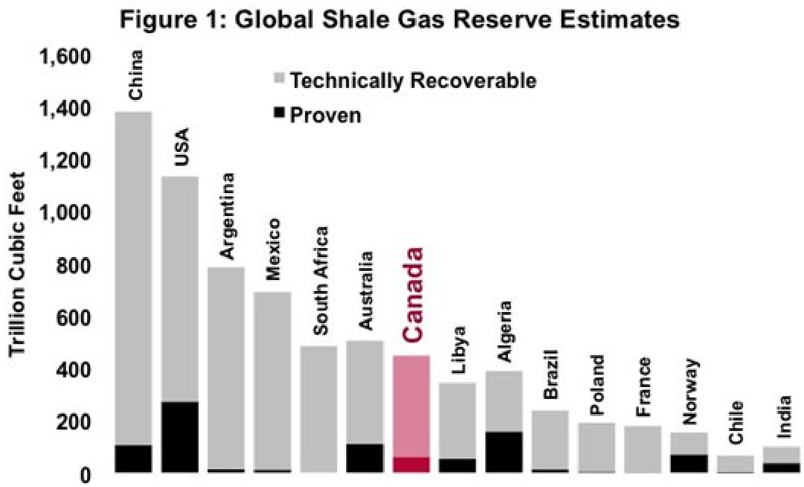
Natural gas: Economic development vs the status quo

More than a year ago we indicated the potential of natural gas extracted from shale rock and that the SA Karoo basin covered in shale rock might contain a great deal of this new source of energy. In a report in the Calgary Herald, of 18 April, Peter Terzakian referred to a very recent assessment of shale gas potential in 48 basins in 32 countries released by the US Energy Information Agency. (http://communities.canada.com/calgaryherald/blogs/tertzakian/archive/2011/04/18/natural-gas-fuel-of-the-future)

To quote the Calgary Herald: " The numbers are staggering: over a six-fold increase in the 1,001 trillion cubic feet (Tcf) of natural gas that was previously known to be "proven" reserves. According to the EIA report, over 6,600 Tcf of shale gas resources are estimated to be technically recoverable". As the Calgary Herald explains "……..To put this in perspective, 1,000 Tcf of natural gas contains the equivalent energy to 166 billion barrels of oil – a staggering amount considering that the discovery of 10 billion barrels of conventional oil these days is a rare occurrence…."

We might add by way of comparison that the annual global consumption of oil is of the order of 87m barrels per day of which SA consumes about approximately 555 000 barrels per day.

The Calgary Herald produced a table of the largest 15 such shale gas reserves to point to the vast recoverable resource in China. But as may be seen below the estimate of the technically recoverable resource in South Africa at 500 TCF (none yet proven) is no small potatoes either- it is the fifth largest such resource and equivalent to 83billion barrels.



Source: Calgary Herald

Were this potential output of natural gas, estimated as recoverable by the US EIA, to be captured from the Karoo shale it would be very large potatoes indeed. It would be the equivalent to about 400 years of SA consumption of oil at current rates: 365*550 00 = 202.575m per annum; (83000mb/202.575mbpa) = 402 years

These numbers derived from estimates that are as objective and scientific as any should help concentrate minds at the SA Department of Mineral Resources that has placed a freeze on rights to explore for natural gas in SA until it has formulated a policy. The benefits of discoveries of natural gas in SA of anything like this order of magnitude would very obviously be transformational for the SA economy. It would offer the prospect of much faster growth in national output and in incomes, including the incomes to be received by the SA government and of the poor to whom it may be hoped a good portion of the extra income would be distributed.

There might well be damage to the environment to be traded off for these great potential benefits. Such tradeoffs can presumably be calculated and compensation offered if necessary to those negatively affected. There is too much at stake for any other approach to be adopted.

How much actual damage to be caused will continue to be disputed. However what should be borne in mind is that the damage to the environment caused by extracting other sources of energy in SA especially open cast or even deep level coal mining, would need to be brought into the calculation. Or in other words, less damage to the Waterberg traded off for damage to the Karoo

In many countries the prospects of shale gas have been greeted like the proverbial manna from heaven. Technically recoverable gas is being converted into proven reserves and actual output at a rapid rate. The economics of shale gas are rapidly transforming the energy equation in the US. But in SA the green movement seemed to have sounded an alarm that has deafened any account of the potential benefits. That the Karoo farmers have (recently) been denied any direct benefits from the gas under their land has no doubt added to the cacophony of protest.

Shell Oil, which appears to be well ahead in the race for Karoo gas, has argued (Business Report May 3 2011 p 17) to the contrary, that the process of extracting gas from shale "can be done without significant environmental damage". That Shell has an interest in such arguments does not make the argument invalid. Furthermore the actual experience of damage to the environment in shale basins where gas is already being extracted in significant volumes will provide very important evidence.

The negative external effects of extraction or of any minerals in the ground do not remove the necessity to actually calculate the relevant tradeoffs as best as science will allow. Without such calculations and tradeoffs, economic development itself becomes much more difficult to realise. This is a fact of economic life well enough known to the greens who have no taste for the rising incomes and especially the rising consumption power of the masses.

Such an environmental assessment would then enable full compensation to be actually paid out to those damaged directly. The great potential extra income to be generated from natural gas potentially available deep under the Karoo shale rock is very likely to greatly exceed the damage caused to neighbours. If this is not the case then the project should not be allowed to go ahead.

The Department of Mineral Resources should however be well aware when establishing its policy that not only will natural gas discoveries on this potential scale be transformational for the SA economy, it will prove even more transforming of the energy sector of the economy. The Department should know that transformation of this order of magnitude will naturally not only be resisted by those directly in the path of discovery. Resistance would also come from those who think they may lose the race for supremacy for natural gas from SA sources because they have been slow out the blocks. The national interest in economic growth will count for little when opposed by vested interests. ***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
Beige NPLs	6 May	9 May	13 May	16 May	Rights take up	1 BEGN converts to 1 BEGP2 at R1 a share
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
Cipla Medpro	6 May	9 May	13 May	16 May	Cash Dividend	R0.06
Mvela Resources	6 May	9 May	13 May	16 May	Scheme of arrangement	9.5980 NHM per 100 MVL
Afgri	12 May	13 May	20 May	23 May	Cash Dividend	R0.2415
Brait	12 May	13 May	20 May	23 May	Rights issue	3 rights per 1 BAT
CIL	12 May	13 May	20 May	23 May	Consolidation	1 new CIL per 10 old CIL
Simmer and Jack	12 May	13 May	20 May	23 May	Unbundling	47.72727 VIL in addition to every 100 SIM
White Water Resources	12 May	13 May	20 May	23 May	Name change	Goliath Gold (GGM)
UCS	12 May	13 May	20 May	23 May	Unbundling	34.087 BCX and 8.428 Business Connection Group A shares per 100 UCS
JSE	20 May	23 May	27 May	30 May	Cash Dividend	R2.10
Spanjaard	20 May	23 May	27 May	30 May	Cash Dividend	R0.16
Basil Read	27 May	31 May	3 June	6 June	Cash Dividend	R0.30
Capital Shopping	27 May	31 May	3 June	21 June	Cash Dividend	R1.15355
ELB	27 May	31 May	3 June	6 June	Cash Dividend	R0.15
ELB Prefs	27 May	31 May	3 June	6 June	Cash Dividend	R0.06
Brait NPLs	3 June	6 June	10 June	15 June	Rights take up	1 right converts to 1 BAT at R16.50
SBR002	3 June	6 June	10 June	15 June	Interest	R1.45
Freeworld	9 June	10 June	17 June	tbc	Minority offer	R12 per share tendered
JOZI03	9 June	10 June	17 June	21 June	Interest	R14.90
Brait NPLs	17 June	20 June	24 June	27 June	Rights take up	1 right converts to 1 BAT at R16.50
Capitec	17 June	20 June	24 June	27 June	Cash Dividend	R2.05

Source: JSE

Company calendar – 4 May to 11 May

Thursday 5 May	Randgold Resources quarterlies Harmony quarterlies Net1 UEPS quarterlies
Friday 6 May	Metmar finals AngloGold Ashanti quarterlies Nedbank AGM and trading update Kumba Iron Ore AGM
Monday 9 May	Astrapak finals Sappi quarterlies
Tuesday 10 May	Value Group finals Life Healthcare finals Paracon interims
Wednesday 11 May	Datatec finals Spar interim Nu-World interims Oceana interims

Source: I-Net, Company updates

Economic calendar – 4 May to 11 May

Date	International	South Africa
Wednesday 4 May	**Germany** – April PMI services & composite [09h55] **EMU** – April PMI services & composite [10h00] **UK** – April PMI construction [10h30] **UK** – March M4 and M4 lending **US** – April ADP employment [14h15] **US** – April ISM nonmanufacturing [16h00]	April New vehicle sales [11h00]
Thursday 5 May	**UK** – April PMI services [10h30] **UK** – BoE MPC rate announcement [13h00] **EMU** – ECB meeting and rate announcement [13h45] **US –** Initial jobless claims for previous week [14h30] **US** – Q1 Productivity and costs [14h30]	March Electricity consumption [13h00] 2010 Household survey [14h30]
Friday 6 May	**Japan** – April PMI services & composite **Germany** – March Industrial production [12h00] **US** – April Employment report [14h30]	
Monday 9 May	**Germany** – March Foreign trade [08h00]	April Gold and forex reserves [08h00]
Tuesday 10 May	**China** – April Trade balance **US –** March Wholesale trade [16h00]	
Wednesday 11 May	**China** – April CPI **China** – April PPI **China** – April Fixed asset investment **China** – April Retail sales **China** – April Industrial production **Germany** – April CPI final [08h00] **UK** – March Trade balance [10h30] **US** – March International trade [14h30]	March Manufacturing output [13h00]

Sources: Bloomberg, StatsSA, NAAMSA

Key market indicators – Tuesday 3 May 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32325.83**	-1.55%	-0.18%	-0.50%	0.64%	12.89%
JSE Fini 15	**8208.30**	-1.60%	-0.96%	-0.17%	0.45%	2.36%
JSE Indi 25	**27567.50**	-1.16%	2.27%	4.02%	2.89%	22.53%
JSE Mining	**36759.58**	-2.12%	-2.07%	-5.93%	-1.17%	8.60%
JSE Resi 20	**55952.84**	-2.24%	-2.46%	-5.04%	-0.62%	9.82%
S&P 500	**1356.62**	-0.34%	1.82%	4.03%	7.87%	14.32%
DJI	**12807.51**	0.00%	3.48%	6.36%	10.62%	16.34%
NASDAQ	**2841.62**	-0.78%	1.86%	3.35%	7.11%	15.46%
Nikkei	**10004.20**	0.00%	3.05%	-4.33%	-2.20%	-9.52%
Hang Seng	**23633.25**	-0.37%	-0.71%	-1.15%	2.60%	11.96%
FTSE 100	**6082.88**	0.21%	1.21%	1.38%	1.87%	9.54%
CAC 40	**4096.84**	-0.29%	1.04%	0.75%	7.68%	7.33%
DAX	**7500.70**	-0.36%	4.47%	4.41%	8.48%	22.25%
ASX-ORD	**4854.70**	-0.85%	-2.02%	-0.88%	0.16%	0.43%
JSE All Share (in US$)	**4875.18**	-2.66%	0.73%	7.40%	0.46%	25.66%
MS EM Index	**1185.76**	-1.72%	0.05%	4.44%	2.99%	16.25%
MS World Index	**1382.99**	-0.64%	3.10%	3.77%	8.04%	15.39%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**6.63**	-0.39%	0.91%	7.94%	-0.18%	11.31%
Rand/GB Pound	**10.93**	0.61%	-1.42%	5.98%	-5.74%	3.07%
Rand/Euro	**9.84**	-0.56%	-3.19%	0.51%	-10.10%	-0.25%
Rand/Aus $	**7.19**	0.63%	-3.35%	0.68%	-6.01%	-4.85%
Yen/ US $	**80.97**	0.26%	3.80%	0.64%	0.17%	15.88%
Swiss Franc/US $	**0.86**	0.43%	7.27%	9.13%	8.52%	24.92%
US $/Euro	**1.48**	-0.07%	-4.03%	-6.85%	-9.76%	-10.36%
US $/GB Pound	**1.65**	1.01%	-2.31%	-1.75%	-5.34%	-7.25%
US $/Aus $	**1.09**	0.87%	-4.36%	-6.81%	-5.77%	-14.26%
Nominal Effective Exchange Rate (2000 = 100)	**76.72**	0.23%	1.07%	-3.01%	5.92%	-1.55%

dailyview

Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1536.93**	-0.54%	7.61%	14.99%	8.13%	31.50%
Platinum/oz.	**1855**	-0.30%	5.07%	1.17%	4.80%	7.47%
Brent Crude $/bbl	**123.38**	-0.95%	4.07%	21.16%	30.22%	43.67%

Fixed income	Closing yield %
SA R157	**7.62**
US 2 YEAR	**0.61**
US 10 YEAR	**3.27**
UK 2 YEAR	**0.60**
UK 10 YEAR	**3.43**
EURO 2 YEAR	**1.85**
EURO 10 YEAR	**3.27**

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