

## Today's highlights

- Old Mutual (OML): Shaking out the US effect
- Oceana (OCE): Fishing in good waters
- Week at a glance: Upcoming results
- Upcoming dividend dates and corporate actions
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- Economic calendar – 13 May to 20 May

### Talking point: Think beyond just inflation

The Reserve Bank, as expected, kept its repo rate steady despite raising its estimate of inflation to come, now seeing inflation as marginally above 6% by year end. However it also predicted to return to within the band in 2012. The explanation of this increase was “cost push” rather than demand forces, therefore not justifying higher interest rates (in the absence of “second round effects”).

Second round effects are defined as higher inflation caused by more inflation expected. This, according to the theory of monetary policy, might demand higher interest rates to fight inflation expected, even if this depressed the economy. This dilemma – the unhappy trade off between inflation and economic activity – is something the MPC would naturally prefer to avoid. The big question is will it continue to do so?

Our own work has unambiguously identified the absence of second round effects. Inflation in SA has influenced inflation expected, not the other way round. Thus we do not expect second round effects to show up. But the inflation outlook remains particularly uncertain given the uncertainty about the direction of the US dollar and the oil price in particular. And if the inflation rate rises and is expected to stay above the upper band of 6% this policy dilemma will become more acute, with or without measurable second round effects.

We notice again and welcome the willingness of the Reserve Bank to think beyond actual inflation to the causes of inflation and the recognition that monetary policy must also bear the outlook for economic and employment growth in mind. The revised mandate for the Reserve Bank makes this very clear.

It should be pointed out though that, in answer to a question, this point about a broader focus than a focus on inflation only was not made by the governor. The governor, like all governors of central banks, would hate to be interpreted as being soft on inflation, particularly when inflation is expected to rise above the target band and even when there is very good reason to ignore “cost push” pressures. And so anti-inflationary vigilance must always be stressed by central bankers, for fear that their lack of monetary action being misinterpreted as evidence of a lack of anti-inflationary conviction by the market place.

However, as was made clear by the MPC, the state of the economy does not support higher interest rates. As we have previously indicated the Reserve Bank is also of the view that economic activity may have decelerated rather than accelerated recently. And so, until the economy does pick up significant momentum, accompanied by significantly faster growth in bank credit the Reserve Bank will prefer to keep interest rates on hold. Yet it might feel obliged to raise rates despite the weakness of aggregate demand (wrongly in our view) should the actual inflation outlook deteriorate even if such higher inflation is beyond the control of the Bank itself.

The oil price remains the big unknown for inflation to come. It was remarked at the Q&A session that food price inflation may have peaked according to the Bank. The consolation is that higher commodity prices will very likely be accompanied by a stronger rand. If the rand price of oil remains unchanged or falls, the danger of higher interest rates will be averted for perhaps up to a further 12 months, that is until the economy gains real traction, which it will if the rand remains stable and the oil price does not detract further from household spending. **Brian Kantor**

### Market highlights

US equities recovered overnight, as a recovery in commodity prices and better weekly jobless data lifted the market.

The JSE fell yesterday in concert with many global markets, as resources counters weighed on sentiment and risk aversion dominated proceedings.

Bonds fell yesterday as the MPC raised its inflation forecasts while the rand recovered some of its losses in later trading after declining on raised risk aversion earlier in proceedings.

Copper rebounded from a five month low on US trading while most other commodities staged comebacks after their heavy punishment earlier in the week.

## Key indicators in a nutshell – Thursday 12 May 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year date to	1 Year
JSE All Share	31681.83	-1.15%	-1.73%	-3.86%	-1.36%	15.15%
S&P 500	1348.65	0.49%	2.62%	1.47%	7.24%	16.69%
Nikkei	9716.65	-1.50%	1.69%	-8.38%	-5.01%	-6.67%
Rand/US \$	6.89	-0.21%	-2.19%	5.28%	-3.89%	9.05%
Rand/GB Pound	11.21	0.24%	-2.51%	3.50%	-8.06%	0.05%
US\$/Euro	1.42	-0.17%	1.68%	-4.84%	-5.98%	-11.28%
Gold \$/oz.	1506.45	0.40%	3.62%	11.03%	5.98%	22.39%

## Company results and updates

Liberty saw its indexed new business in the March quarter fall to R1.06bn, from R1.09bn previously. It grew new retail business by 3% in the period.

Winhold grew its HEPS for the six months to March by 18.2%, to 12.9%.

Eastern Platinum reported a loss per share of 1 US cent for the three months to March. PGM sales fell 15% in the quarter to 25 387oz.

## Daily ideas

## Old Mutual (OML): Shaking out the US effect

**Old Mutual (1478c; market cap: R84.2bn; forward PE [F2011, I-Net]: 7.9x; forward DY [F2011, I-Net]: 3.6%)** released its interim management statement for the first quarter to March with a steady performance in management's opinion but one that was perhaps a little disappointing for the market, with the share underperforming its sector by 2% on the day.

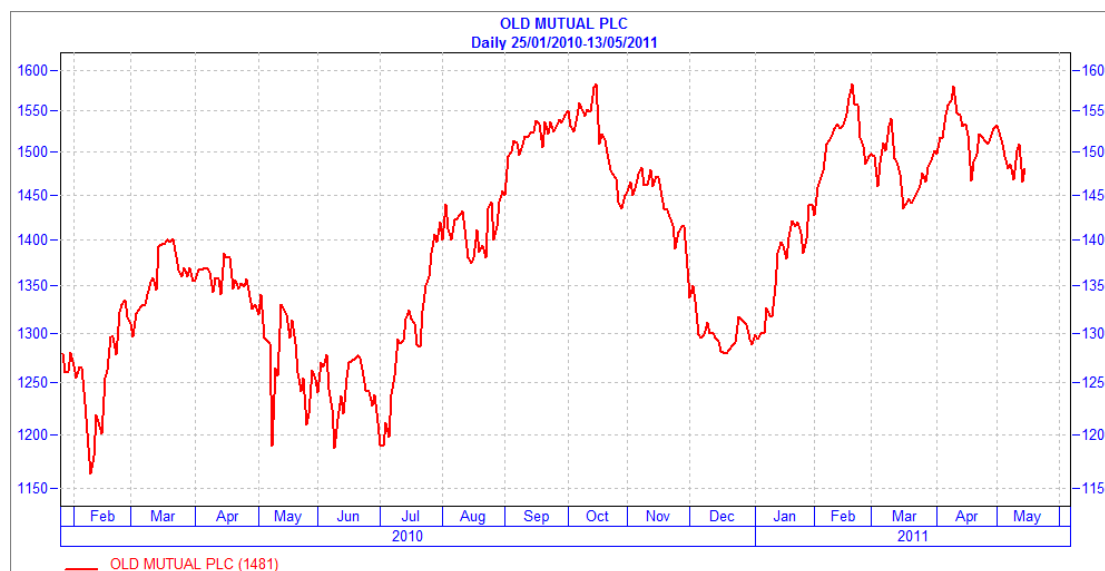
Net client cash flows were down to £2.6bn, mainly on the back of continued outflows in the US asset management business. The South African asset management business saw significant commitments to its alternative fund range including R4bn into the housing fund and R0.4bn into the Agri fund.

Group sales on an APE basis were disappointing, down 4% (£369bn) with Italy being an issue where there was a tax concession advantage in the prior comparative period – ex Italy sales were up 2%. An interesting area of growth for the group was the 48% APE growth in the lower income market in South Africa.

Unit trust and mutual fund sales saw a 20% increase over the period to £2.68bn.

Sale of the US Life business was finalised during the quarter and is a positive from a business structure and credit risk perspective.

Old Mutual has outperformed the market by around 16% year to date so the overweight call from Investec's institutional team has been a good one. Despite the challenges and relatively weak performance over the quarter the institutional desk has retained its call for valuation reasons. **Paul McKeaveney**



Source: I-Net Bridge

### Oceana (OCE): Fishing in good waters

**Oceana (3900c; market cap: R4.6bn; forward PE: 11.2x; forward DY: 6%)** released interim results to the end of March 2011 this week. Trading conditions seemed fair, with a particularly good performance from the midwater and deep-sea operation. Revenue for the period increased 16%, while increased overhead costs and marketing expenditure saw operating profit increase 11% before any abnormal items (in the previous year the business impaired goodwill on the UK Glenryck operation). Diluted HEPS increased 10% to 130.5c per share, while the company declared a dividend of 37c, an increase of 12% on the previous corresponding period.

From a divisional perspective the business saw good revenue growth from its inshore fishing division (up 12.66%), while the midwater and deep sea fishing unit performed exceptionally well (revenue up 28.96%). Commercial cold storage saw a fall in revenues (down 12%).

Operating profits across two of the three business units experienced a very weak performance. Inshore fishing saw operating profits fall 33.75%, where a fall in Anchovy TAC volumes and actual catches led to a material loss. Midwater and deep-sea fishing had an excellent performance, increasing operating profits by a 56% (this operation now made up 74% of operating profit, from 40% at the yearend). Horse Mackerel TAC volumes in Namibia increased materially by 25% for 2011 – the business attributes the improved performance to technology and efficiency improvements, which reduced catch cost per ton. Cold storage experienced a decline of 51.6% in operating profits, local and import volume declines affected this division.

Conditions are expected to remain stable in the second half of the year, however the business mentions that higher fuel costs will impact second half costs. Management expects HEPS to exceed last year's 299.2c. From a geographical perspective European markets are improving, while Africa and the Far East are expected to remain stable. Volumes in the cold storage business are anticipated to improve. If we continue to see the rand remain firm, we should see this stock remain stable, however, as we have mentioned before, any meaningful rand weakness could have a material negative impact on operating profits. The business trades on a consensus forward PE of 11.2x to September and a forward dividend yield of 6% (I-Net consensus). We expect that we will need to see an improved performance from the inshore and cold storage business for a meaningful rerating from this business. **Bradley Seaward**

**Week at a glance: Upcoming results**

Despite a public holiday on Wednesday for the municipal elections, there is no let up for company followers with a number of real heavyweights reporting next week. Look out for big index counters like Richemont and SABMiller, not to mention quarterlies of Gold Fields and end year numbers from Vodacom and Investec (and many others besides). **Patrick Lawlor**

	Company		Year end	Prev FY EPS	Next FY EPS (I-Net)	2yr (I-Net)	Next DPS (I-Net)	Rec (I-Net)	Price	FPE
16/05	Lonmin	I	September	959	1137.6	1417.6	780	Buy	13100	11.5
16/05	JD Group	I	August	300.1	421	559.5	213	Hold	4621	11
16/05	Netcare	I	September	94.1	113.6	134.8	55.7	Buy	1405	12.4
16/05	Raubex	F	February	321.8	284.9	272	97	Hold	1947	6.8
16/05	Vodacom	F	March	509.4	639	693.7	390	Hold	7900	12.4
17/05	Barloworld	I	September	170.3	449.2	637	165.3	Hold +	6775	15.1
17/05	PPC	I	September	215.6	188.8	198.6	150	Hold	2504	13.3
17/05	Reunert	I	September	501.1	558.9	627.9	312.5	Hold +	5997	10.7
17/05	Tiger Brands	I	September	1370.6	1499.1	1645.4	760.5	Hold	18652	12.4
17/05	Stefanutti Stocks	F	February	208.5	172.8	184.8	57.5	Buy	1220	7.1
19/05	Gold Fields	Q	December	177	888.8	990.2	292.3	Hold	10660	12
19/05	Investec	F	March	468	509.5	608	188.7	Hold +	5246	10.3
19/05	Richemont	F	March	120.6	187.1	230.9	55	Hold	4345	23.2
19/05	SABMiller	F	March	986.9	1342.9	1578.4	560.9	Hold +	25089	18.7

F = final, I = interim, Q = quarterly; EPS = earnings per share; DPS = dividend per share; FY = full year;

FPE = forward PE

All prices, earnings and dividends in cents per share

\*dividend yield

## Upcoming dividend dates and corporate actions

Share/security	Last day to trade	Ex-dividend	Record date	Pay date	Description	Per share amount/ result
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
Octodec	12 May	13 May	20 May	23 May	Cash Dividend	R0.0032
Octodec	12 May	13 May	20 May	23 May	Interest	R0.6468
Premium Property	12 May	13 May	20 May	23 May	Cash Dividend	R0.0029
Premium Property	12 May	13 May	20 May	23 May	Interest	R0.5791
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
Altech	20 May	23 May	27 May	30 May	Cash Dividend	R3.56
JSE	20 May	23 May	27 May	30 May	Cash Dividend	R2.10
KayDav	20 May	23 May	27 May	30 May	Capital reduction	R0.055
PBT	20 May	23 May	27 May	30 May	Cash Dividend	R0.03
Redefine	20 May	23 May	27 May	30 May	Interest	R0.16
Redefine International	20 May	23 May	27 May	30 May	Interest	R0.221594
Spanjaard	20 May	23 May	27 May	30 May	Cash Dividend	R0.16
Barloworld Prefs	27 May	31 May	3 June	6 June	Cash Dividend	R0.06
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
Mvela Resources	27 May	31 May	3 June	6 June	Scheme of arrangement	9.5980 NHM per 100 MVL
CMH	3 June	6 June	10 June	13 June	Cash Dividend	R0.30
Pick n Pay	3 June	6 June	10 June	13 June	Cash Dividend	R1.055
Pikwik	3 June	6 June	10 June	13 June	Cash Dividend	R0.5134
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
Altron	24 June	27 June	1 July	4 July	Cash Dividend	R1.08
Altron Prefs	24 June	27 June	1 July	4 July	Cash Dividend	R1.08
Clicks	24 June	27 June	1 July	4 July	Cash Dividend	R0.37

Source: JSE

## Company calendar – 13 May to 20 May

<b>Friday 13 May</b>	Highveld Steel AGM Hyprop AGM
<b>Monday 16 May</b>	Vodacom finals JD Group interims Raubex finals (approx date) Astral Foods interims Kelly interims Calgro M3 finals Netcare interims
<b>Tuesday 17 May</b>	PPC interims Barloworld interims Reunert interims Coronation interims Mazor finals Resilient Property Income Fund AGM
<b>Thursday 19 May</b>	SABMiller finals Investec finals Gold Fields quarterlies Richemont finals
<b>Friday 20 May</b>	Tradehold finals

Source: I-Net, Company updates

## Economic calendar – 13 May to 20 May

Date	International	South Africa
<b>Friday 13 May</b>	<b>Germany</b> – Q1 GDP flash [08h00] <b>EMU</b> – Q1 GDP flash [11h00] <b>US</b> – April CPI [14h30] <b>US</b> – May Consumer sentiment [15h55]	
<b>Monday 16 May</b>	<b>EMU</b> – March Foreign trade [11h00] <b>US</b> – May Empire State survey [14h30] <b>US</b> – March Long term TIC flows [15h00] <b>US</b> – May NAHB survey [16h00]	
<b>Tuesday 17 May</b>	<b>UK</b> – April CPI [10h30] <b>Germany</b> – May ZEW Business survey [11h00] <b>US</b> – April Housing starts [14h30] <b>US</b> – April Industrial production [15h15]	April CPI [10h00]
<b>Wednesday 18 May</b>	<b>UK</b> – MPC minutes [10h30] <b>UK</b> – April Labour market report [10h30] <b>US</b> – FOMC minutes	<b>Public holiday – municipal elections</b>
<b>Thursday 19 May</b>	<b>Japan</b> – Q1 GDP first estimate <b>Japan</b> – March Industrial production final <b>UK</b> – April Retail sales [10h30] <b>US</b> – Initial jobless claims for previous week [14h30] <b>US</b> – April Existing home sales [16h00] <b>US</b> – April Leading indicators [16h00]	
<b>Friday 20 May</b>	<b>Japan</b> – MPC meeting and interest rate announcement <b>Germany</b> – April PPI [08h00] <b>EMU</b> – March BoP [10h00]	

Sources: Bloomberg, StatsSA

## Key market indicators – Thursday 12 May 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	31681.83	-1.15%	-1.73%	-3.86%	-1.36%	15.15%
JSE Fini 15	8049.86	-1.33%	-2.06%	-1.06%	-1.49%	4.02%
JSE Indi 25	27444.99	-0.84%	3.06%	2.64%	2.43%	26.12%
JSE Mining	35525.29	-1.53%	-5.93%	-11.38%	-4.49%	10.44%
JSE Resi 20	54056.05	-1.58%	-5.87%	-11.19%	-3.99%	11.83%
S&P 500	1348.65	0.49%	2.62%	1.47%	7.24%	16.69%
DJI	12695.92	0.52%	3.53%	3.44%	9.66%	18.12%
NASDAQ	2863.04	0.63%	4.31%	1.91%	7.92%	20.53%
Nikkei	9716.65	-1.50%	1.69%	-8.38%	-5.01%	-6.67%
Hang Seng	23073.76	-0.94%	-3.76%	1.07%	0.17%	14.53%
FTSE 100	5944.96	-0.52%	-0.33%	-1.95%	-0.44%	11.45%
CAC 40	4023.29	-0.86%	1.17%	-1.90%	5.74%	8.94%
DAX	7443.95	-0.68%	4.80%	0.99%	7.66%	23.29%
ASX-ORD	4776.60	-1.68%	-4.28%	-3.90%	-1.45%	4.45%
JSE All Share (in US\$)	4600.37	-1.36%	-3.89%	1.21%	-5.20%	25.56%
MS EM Index	1147.59	-1.57%	-2.52%	5.17%	-0.33%	19.69%
MS World Index	1351.14	-0.46%	1.30%	0.76%	5.55%	18.01%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US \$	6.89	-0.21%	-2.19%	5.28%	-3.89%	9.05%
Rand/GB Pound	11.21	0.24%	-2.51%	3.50%	-8.06%	0.05%
Rand/Euro	9.81	-0.43%	-0.69%	0.14%	-9.83%	-3.14%
Rand/Aus \$	7.34	0.20%	-4.27%	-1.13%	-8.00%	-7.82%
Yen/ US \$	81.04	-0.02%	3.16%	2.96%	0.09%	14.17%
Swiss Franc/US \$	0.88	0.20%	1.43%	10.04%	5.68%	25.72%
US \$/Euro	1.42	-0.17%	1.68%	-4.84%	-5.98%	-11.28%
US \$/GB Pound	1.63	0.50%	-0.18%	-1.73%	-4.13%	-8.36%
US \$/Aus \$	1.07	0.47%	-1.98%	-5.97%	-4.07%	-16.10%
Nominal Effective Exchange Rate (2000 = 100)	74.97	0.35%	3.51%	-1.93%	8.39%	0.12%

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
<b>Commodities</b>						
Gold \$/oz.	1506.45	0.40%	3.62%	11.03%	5.98%	22.39%
Platinum/oz.	1771.5	-0.25%	-0.08%	-1.83%	0.08%	4.08%
Brent Crude \$/bbl	113.58	0.45%	-5.98%	13.09%	19.87%	41.36%

Fixed income	Closing yield %
SA R157	7.61
US 2 YEAR	0.55
US 10 YEAR	3.20
UK 2 YEAR	0.66
UK 10 YEAR	3.39
EURO 2 YEAR	1.68
EURO 10 YEAR	3.11

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