

## Today's highlights

- SABMiller (SAB): Lukewarm beer
- The economy: Steady as it goes
- Upcoming dividend dates and corporate actions
- Company calendar – 22 June to 29 June
- Economic calendar – 22 June to 29 June

### Talking point: Sigh of relief for Greece

There was a sigh of relief as Greek Prime Minister Giorgos Papandreou survived a vote of no confidence in the Greek parliament, opening the way for the government to pass the necessary EUR78bn package of budget cuts in order to qualify for assistance of EUR12bn from the EU and IMF next month and avoid a default. Of course this is only one hurdle along the road to fiscal redemption for Greece, as it still faces some heavy debt commitments in the next few years.

In particular, the risks of contagion remain high, with pressure continuing to mount on other countries in the Eurozone, such as Spain and Belgium. Today the IMF called on Spain to do more to cut spending and to make the necessary reforms to make its economy more competitive. There will in all likelihood be no let up in pressure on these countries in the coming months.

Across the Atlantic, all eyes will be on the monthly meeting of the Federal Open Markets Committee meeting and in particular on the statement by Fed chairman Ben Bernanke on the outlook for the economy over the rest of this year, and on what will follow the current round of quantitative easing, due to finish this month. One suspects the Fed will hold back on any new rounds of easing, and instead wait to see if the current "soft patch" is temporary, as many suspect it is.

### Market highlights

US equities rose overnight as sentiment was lifted by increased optimism that Greece would be able to implement the necessary spending cuts to qualify for EU/IMF assistance.

The JSE rebounded yesterday, as global markets showed some signs of life on the expectation that some sort of resolution to the Greek debt crisis would be found.

The rand made some healthy gains against the US dollar yesterday as a semblance of confidence returned to the euro. Bonds were firmer in response to the stronger rand.

Optimism that Greece would avoid a default on its debt lifted most commodities yesterday although oil bucked the trend with small losses.

### Key indicators in a nutshell – Tuesday 21 June 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year date to	1 Year
JSE All Share	<b>30971.88</b>	1.12%	-2.59%	-0.78%	-3.57%	11.56%
S&P 500	<b>1295.52</b>	1.34%	-2.83%	-0.16%	3.01%	15.93%
Nikkei	<b>9459.66</b>	1.13%	-1.53%	0.11%	-7.52%	-5.36%
Rand/US \$	<b>6.69</b>	1.34%	3.26%	3.36%	-1.08%	11.94%
Rand/GB Pound	<b>10.86</b>	1.13%	3.20%	3.56%	-5.12%	2.28%
US\$/Euro	<b>1.44</b>	-0.37%	-1.50%	-1.90%	-6.89%	-13.82%
Gold \$/oz.	<b>1547.2</b>	0.45%	2.23%	7.58%	8.85%	23.16%

### Company results and updates

Remgro reported diluted HEPS for the 12 months to March of 785.1c, an increase of 16.1%. Intrinsic NAV per share came in at R136.12, an increase of 11.9%. No dividend was declared as Remgro has changed its year end to June.

## Daily ideas

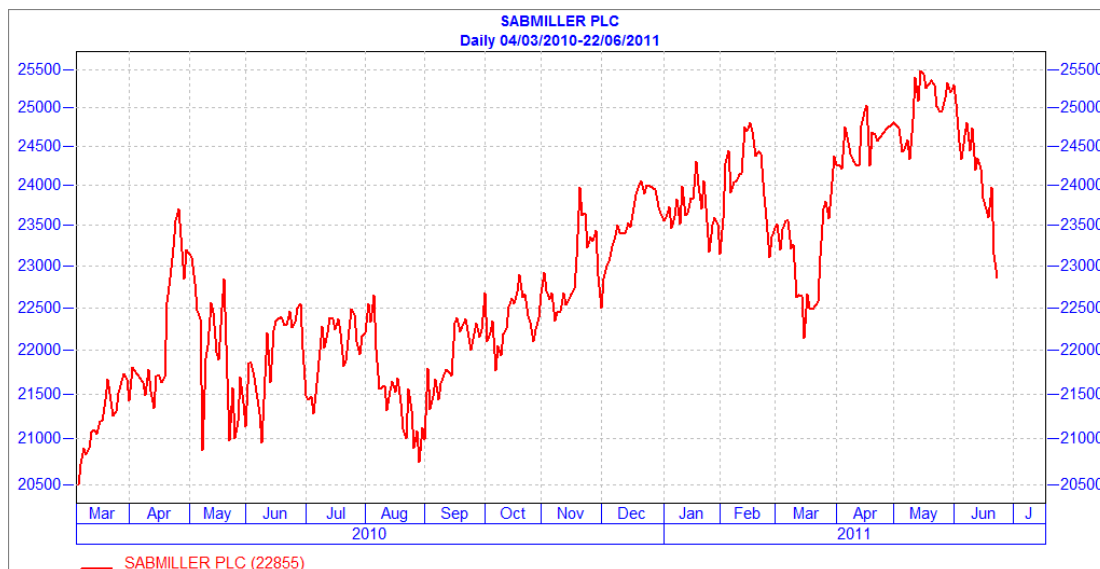
**SABMiller (SAB): Lukewarm beer**

SABMiller's touted \$9.5bn bid for Fosters reminds one of the Miller deal back in 2002, and has certainly been received by investors in a similar vein. The strategic rationale for an acquisition of Foster's is questionable: the business operates largely in the Australian beer market, which has experienced zero volume growth for 20 years and could be considered a "mature" or "developed" market. This clearly contrasts with SABMiller's largely emerging growth market focus, and this deal will almost certainly dilute the group's embedded volume growth rate – management comments that volume growth of Fosters "will not be at the level of the group." The pricing, while in line with some recent beer deals at 12.5x EBITDA, is also no bargain – we estimate these metrics translate into a trailing 20x PE multiple. In addition, while SABMiller maintains that Fosters is a poorly run asset that they could bring substantial operational improvements to, the fact remains that Foster's beer generates an EBIT margin in the mid-30s – roughly double the level of SABMiller as a whole. Admittedly, we do concede that this elevated margin is largely due to very strong pricing of beer in Australia (Foster's achieves about A\$250/hectolitre – well ahead of SAB's other markets) and SAB is confident it can achieve some synergies and cost savings that will enhance the profitability of Fosters.

So, why do the deal? In short, we think the answer boils down to cheap money. In this regard, the way in which SABMiller intends to finance the mooted deal is absolutely key: unlike most other transactions in the past, it does not intend to issue fresh equity, but will rather finance the transaction 100% with debt. Assuming SAB can raise debt at a 6% coupon to finance the deal (the weighted cost of its existing debt is 5.9%), by our estimates the **Foster's acquisition could add around 3% to F2012 SAB earnings before accounting for any synergies** – assuming SAB can do the deal at A\$4.90, which we think is unlikely (The Foster's share price is already trading higher than this, in anticipation of a higher bid or competing bids). This is in line with SAB management's view that the deal will be earnings accretive by year one, but we still question a transaction that will only beat a weighted cost of capital of 8.5% to 9% within six years. At the indicative offer price, the Fosters transaction will increase SABMiller's debt to equity ratio from 30% to 80% and will lower its interest cover from over nine times to around five times.

In short, we are lukewarm on this deal – we don't think it would happen without access to cheap debt funding, which is not a good enough reason to buy an asset with questionable long term growth prospects. We accept that SABMiller has the operational expertise to improve the Foster's group brand portfolio positioning, as well as potentially taking costs out of the business. However, margins are already high and volume growth may have to come at the expense of some pricing concessions. We think that the fact that beer has lost "share of throat" in Australia over many years could well be due to the fact that it appears expensive relative to the alternatives, notably low-priced wine, as SAB management pointed out in its deal presentation.

The markets' initial reaction to this deal is clearly in line with our thinking, with the share price dropping 3.5% yesterday and a further 1.5% today – part of which may relate to a fear that the group will raise its bid price, perhaps to irrational levels. However, SABMiller is still a very good business with an attractive growing earnings stream and this may provide an opportunity to buy the share at a more reasonable valuation than in recent times. On our estimates, the share now trades at a forward rolling PE multiple of 14.7x excluding any potential earnings accretion from a deal – this rating could drop to less than 14x if one factors in the Fosters deal. **Sean Ashton**



Source: I-Net Bridge

## The economy: Steady as it goes

The Reserve Bank Quarterly Bulletin published yesterday has provided further detail on the highly satisfactory performance of the SA economy in the first quarter. Household spending growth has led the economic recovery and was sustained in the quarter at an above 5% rate. Government consumption spending also grew strongly.

The weakest spot in the economy remained the reluctance of the private sector to add to its plant and equipment. However the consistent run down in inventories had come to a natural end in the fourth quarter of 2010 and a sharp buildup in inventories, from highly depressed levels relative to output saw Gross Domestic Expenditure (GDE) rise by over 8% at an annual rate, much faster than Gross Domestic Output (GDP) that as was previously announced grew by 4.8% in the quarter.

### Real gross domestic expenditure

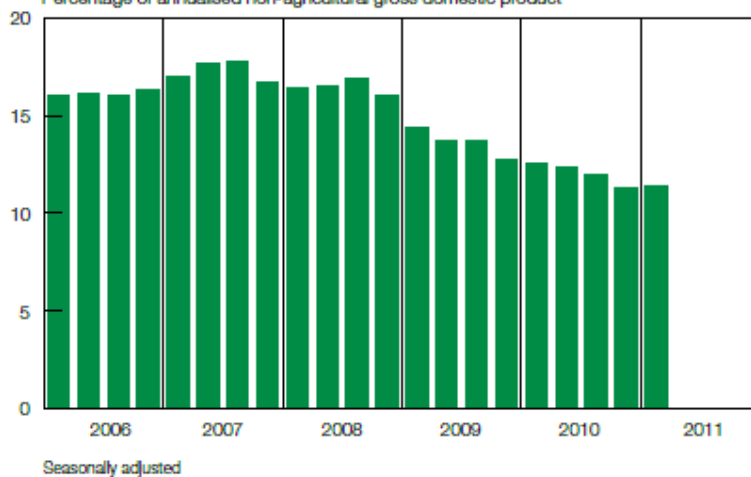
Percentage change at seasonally adjusted annualised rates

Component	2010					2011
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure						
Households .....	5,5	4,4	5,7	4,8	4,4	5,2
General government .....	7,1	7,1	-0,8	3,9	4,6	9,5
Gross fixed capital formation .....	-2,8	1,2	1,0	1,5	-3,7	3,1
Domestic final demand .....	4,1	4,3	3,5	4,0	2,8	5,6
Change in inventories (R billions)* .....	-7,9	-7,6	-0,9	1,1	-3,8	9,3
Gross domestic expenditure .....	10,9	3,2	6,6	2,4	4,2	8,3

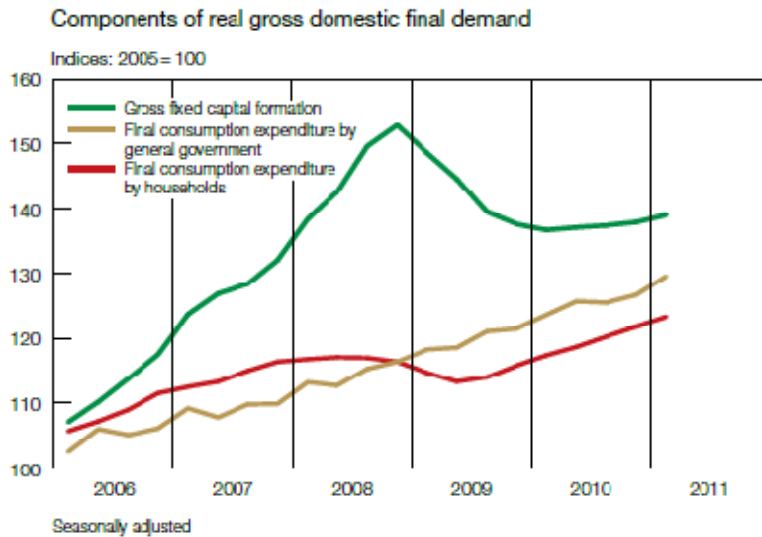
\* At constant 2005 prices

### Industrial and commercial inventories

Percentage of annualised non-agricultural gross domestic product

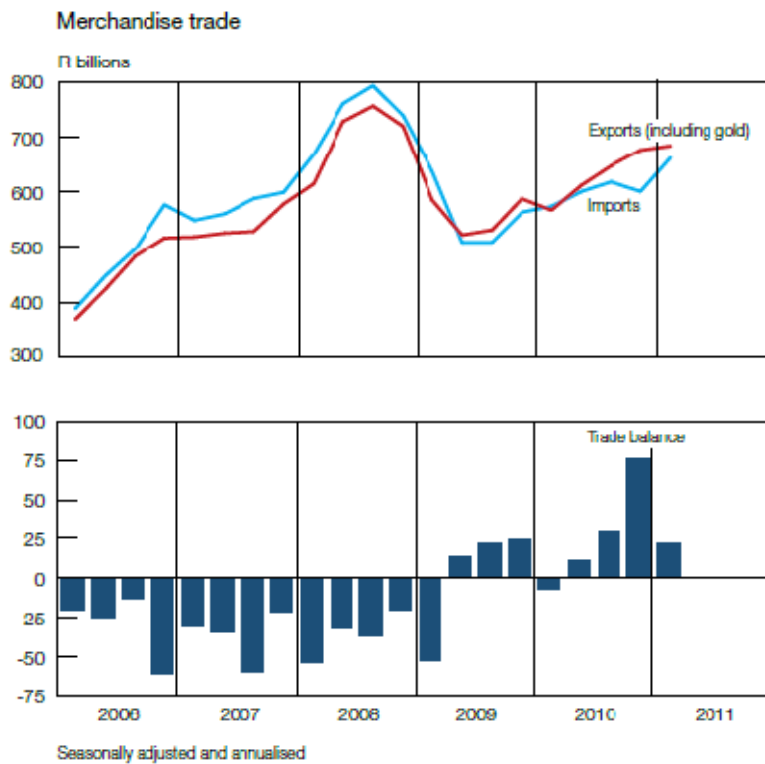


Source: Reserve Bank Quarterly Bulletin



Source: Reserve Bank Quarterly Bulletin

This meant a smaller trade surplus, though a surplus of exports over imports was still recorded, helped by much improved export prices especially of metals and minerals. The growth in volumes of exports remains subdued as does the share of imports in GDP.



Source: Reserve Bank Quarterly Bulletin

Extra spending on durable consumer goods, especially motor vehicles by households, led the way in the quarter. March was an especially good month for new vehicle sales though in April and May new vehicle sales declined significantly from March volumes.

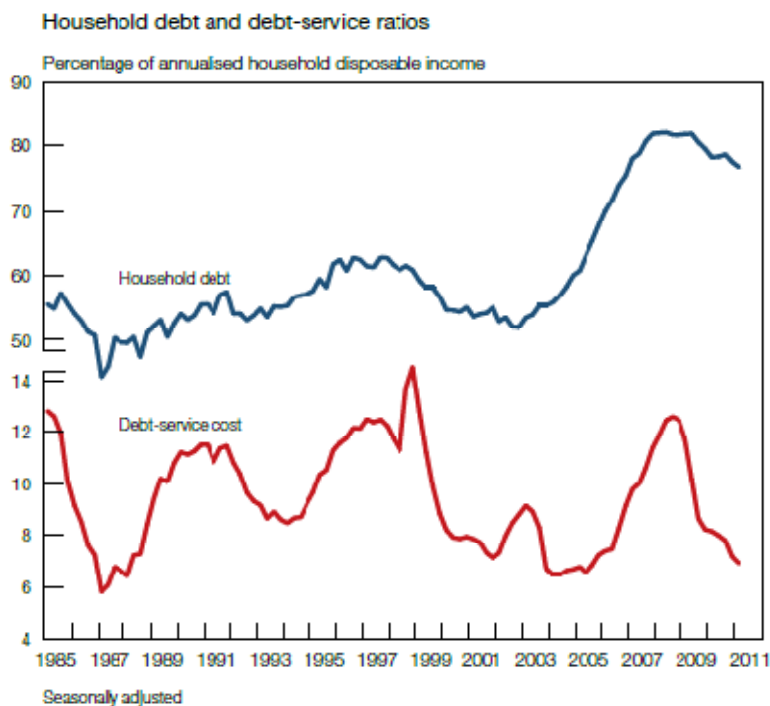
## Real final consumption expenditure by households

Percentage change at seasonally adjusted annualised rates

Component	2010				2011	
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods.....	39,2	45,4	13,4	5,0	24,0	21,5
Semi-durable goods.....	30,2	9,8	-4,8	4,6	6,5	8,6
Non-durable goods.....	12,1	-2,3	2,9	0,2	2,1	3,4
Services.....	-10,3	0,7	9,3	8,8	1,9	1,9
Total.....	5,5	4,4	5,7	4,8	4,4	5,2

Source: Reserve Bank Quarterly Bulletin

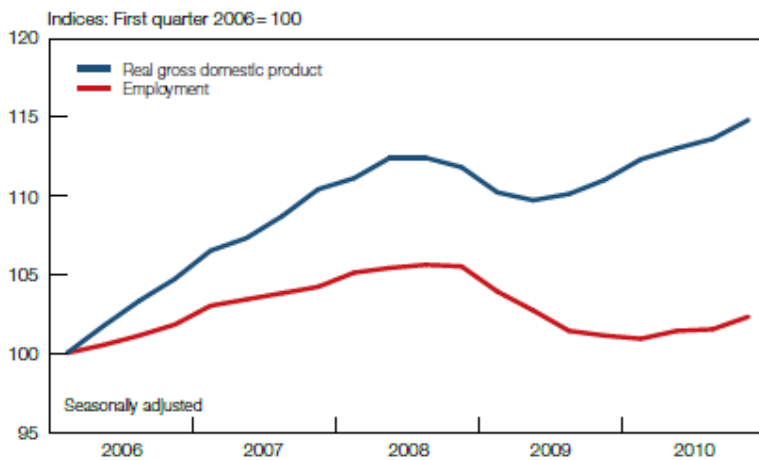
The balance sheets of households benefitted from a further decline in household debt (equity and house prices were mostly unchanged and would not have helped balance sheets). The household debt service to disposable income ratio, helped also by low interest rates, continued its decline to very low, record low ratios to disposable household incomes.



Source: Reserve Bank Quarterly Bulletin

Productivity and profit gains continue to come at the expense of formal sector employment. The gap between GDP and employment, which first opened up in 1995, widened further in the first quarter of 2011. The official concern with employment trends has every justification.

## Output and employment



Source: Reserve Bank Quarterly Bulletin

Improved profitability has led to an increased flow of dividends to foreign shareholders in SA business. The continuous inflows of foreign capital are no free lunch. They are followed by increasing outflows of dividends and so, notwithstanding a foreign trade surplus, a slightly wider current account deficit equivalent to 3.1% of GDP.

## Gross dividend payments to non-residents



Source: Reserve Bank Quarterly Bulletin

The relative reluctance of SA business to invest in new plant and equipment, coupled with improved profitability and so stronger balance sheets, has meant very slow growth in bank credit demanded by and supplied to business. With house prices moving sideways, demands for mortgage credit and new homes by households remained very subdued.

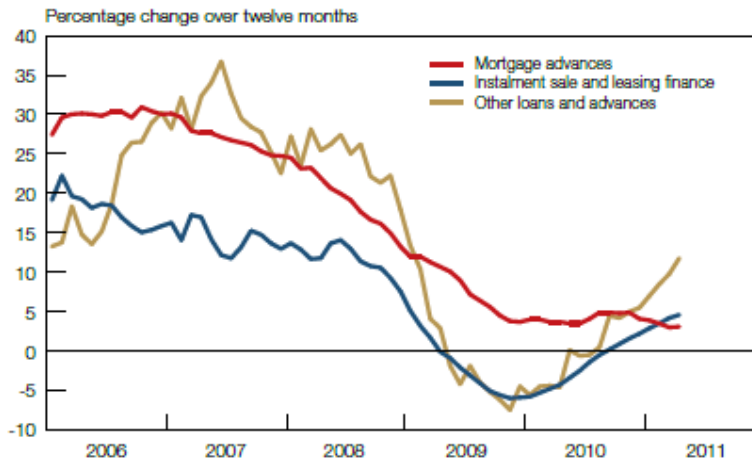
The growth in the supply of money and credit remains highly subdued. The trend in money supply and bank credit growth moreover appears to be turning down rather than up. We indicated as much in our reports on money and credit and these unwelcome trends, especially to shareholders in Banks, as confirmed by the Reserve Bank.

## Loans and advances extended to households and companies

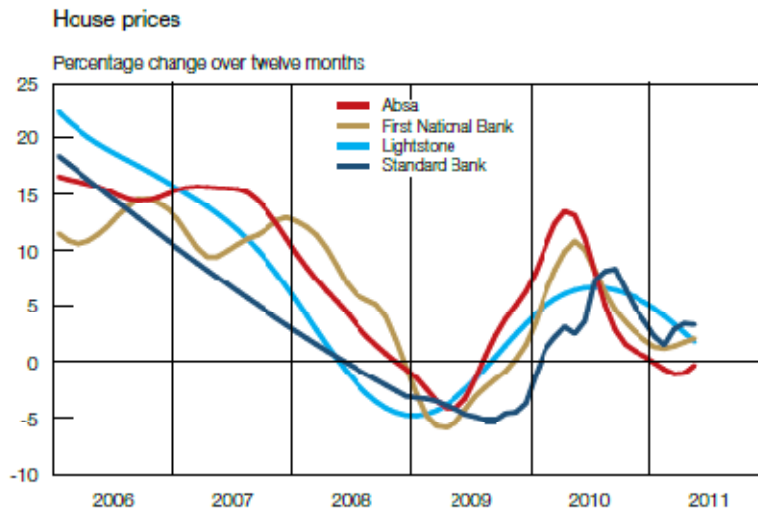


Source: Reserve Bank Quarterly Bulletin

## Credit extension to the private sector by type of credit



Source: Reserve Bank Quarterly Bulletin



Source: Reserve Bank Quarterly Bulletin

If one is to draw a bottom line on the update provided by the Reserve Bank, it is that the economy is growing satisfactorily enough led by household and government spending. However if these growth rates are to be sustained and improved, as must be the objective of policy, the economy needs a stronger commitment by business to additional capital expenditure and to the provision of more employment. More formal employment would help the housing market and highly depressed construction of housing activity that is labour intensive. A business friendly approach by government and its agencies seems to be an essential and urgent requirement for economic and employment growth.

The almost stagnant money and credit numbers indicate very clearly the lack of demand for plant and equipment and for new homes. They also confirm that the economy is not yet operating at what might be regarded as its growth potential. The balance of trade, including the weakness in demand for imports, also confirms that the economy could be growing faster (given easy access to foreign capital on favourable terms). There is moreover little indication that the economy is picking up momentum.

The concern rather, given recent trends, must be that the economy could easily lose momentum (depending in part on the uncertain state of the global economy and demands for exports). The fragility of business confidence could be another negative influence. The best monetary policy could do in the circumstances, would be leave interest rates well alone and unchanged.

**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
Astrapak	24 June	27 June	1 July	4 July	Cash Dividend	R0.264
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
Famous Brands	24 June	27 June	1 July	4 July	Cash Dividend	R0.85
Libhold Prefs	24 June	27 June	1 July	4 July	Cash Dividend	R0.055
Oceana	24 June	27 June	1 July	4 July	Cash Dividend	R0.37
Pioneer	24 June	27 June	1 July	4 July	Cash Dividend	R0.40
Pinnacle Point NPLs	24 June	27 June	1 July	4 July	Rights takeover	1 PNGN converts to 1 PNG at R0.01
Sallies CD	24 June	27 June	1 July		Interest	R0.0248221
Stefanutti Stocks	24 June	27 June	1 July	4 July	Cash Dividend	R0.25
Steinhoff NPLs	24 June	27 June	1 July	4 July	Rights takeover	1 SHFN converts to 1 SFH at R0.05
Tiger Brands	24 June	27 June	1 July	4 July	Cash Dividend	R2.81
Value Group	24 June	27 June	1 July	4 July	Cash Dividend	R0.12
Vodacom	24 June	27 June	1 July	4 July	Cash Dividend	R2.80
Crookes Brothers	1 July	4 July	7 July	11 July	Cash Dividend	R0.65
Curro NPLs	1 July	4 July	7 July	11 July	Rights takeover	1 COHN converts to 1 COH at R4
Datatec	1 July	4 July	7 July	11 July	Capital reduction	R0.88
Foschini	1 July	4 July	7 July	11 July	Cash Dividend	R2.12
Illovo	1 July	4 July	7 July	11 July	Capital reduction	R0.34
Invicta	1 July	4 July	7 July	11 July	Cash Dividend	R1.26
Nampak	1 July	4 July	7 July	11 July	Cash Dividend	R0.34
Rare NPLs	1 July	4 July	7 July	11 July	Rights take up	1 RARN converts to 1 RAR at R0.20 a share
Taste	1 July	4 July	7 July	11 July	Cash Dividend	R0.03
Adcorp	8 July	11 July	15 July	18 July	Cash Dividend	R1.21
Austro	8 July	11 July	15 July	18 July	Capital Reduction	R0.02
Cadiz	8 July	11 July	15 July	18 July	Cash Dividend	R0.20
Gold Reef	8 July	11 July	15 July	18 July	Name change	Tsogo Sun Holdings
ISA	8 July	11 July	15 July	18 July	Cash Dividend	R0.062
ISA	8 July	11 July	15 July	18 July	Capital Reduction	R0.01
Mondi Ltd	8 July	11 July	15 July	18 July	Unbundling	1 Mpack (MPT) per MND
Tongaat	8 July	11 July	15 July	18 July	Cash Dividend	R1.40
Lewis	15 July	18 July	22 July	25 July	Cash Dividend	R2.07
Netcare	15 July	18 July	22 July	25 July	Cash Dividend	R0.22
Peregrine	15 July	18 July	22 July	25 July	Cash Dividend	R0.35
Investec Ltd	22 July	24 July	29 July	8 August	Cash Dividend	R1.02

Investec plc	22 July	24 July	29 July	8 August	Cash Dividend	R1.02
SBR003	22 July	24 July	29 July	5 August	Interest	R1.49
SABMiller	29 July	1 August	5 August	12 August	Cash Dividend	USD0.615
Richemont	9 September	12 September	16 September	23 September	Cash Dividend	CHF0.02925 less Swiss withholding tax
Foschini Prefs	16 September	19 September	23 September	26 September	Cash Dividend	R0.065

Source: JSE

### Company calendar – 22 June to 29 June

**Thursday 23 June** Avusa finals

**Tuesday 28 June** Omnia finals

Source: I-Net, Company updates

### Economic calendar – 22 June to 29 June

Date	International	South Africa
<b>Wednesday 22 June</b>	<b>EMU</b> – April Industrial new orders [11h00] <b>EMU</b> – June Consumer confidence prelim [16h00] <b>US</b> – FOMC meeting ends and statement [20h15]	
<b>Thursday 23 June</b>	<b>Germany</b> – June PMI flash [09h30] <b>EMU</b> – June PMI flash [10h00] <b>US</b> – Initial jobless claims for previous week [14h30]	
<b>Friday 24 June</b>	<b>Germany</b> – June Ifo business survey [10h00] <b>US</b> – May Durable goods [14h30] <b>US</b> – Q1 Real GDP final [14h30]	
<b>Monday 27 June</b>	<b>Germany</b> – May Retail sales [08h00] <b>US</b> – May Personal income [14h30]	
<b>Tuesday 28 June</b>	<b>Germany</b> – June CPI prelim [08h00] <b>UK</b> – Q1 GDP final [10h30] <b>UK</b> – Q1 Balance of payments [10h30] <b>US</b> – April S&P/Case Shiller Home price index [15h00] <b>US</b> – June Consumer confidence [16h00]	
<b>Wednesday 29 June</b>	<b>Japan</b> – May Industrial production <b>UK</b> – May M4 and M4 lending [10h30] <b>EMU</b> – June Business and consumer confidence [11h00] <b>US</b> – May Pending home sales [16h00]	

Sources: Bloomberg, StatsSA

## Key market indicators – Tuesday 21 June 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	30971.88	1.12%	-2.59%	-0.78%	-3.57%	11.56%
JSE Fini 15	7960.45	0.85%	-1.82%	0.85%	-2.58%	5.50%
JSE Indi 25	26817.41	0.37%	-3.04%	3.51%	0.09%	19.85%
JSE Mining	34134.33	1.96%	-3.86%	-6.39%	-8.23%	5.09%
JSE Resi 20	52251.35	2.17%	-3.28%	-6.35%	-7.19%	7.02%
S&P 500	1295.52	1.34%	-2.83%	-0.16%	3.01%	15.93%
DJI	12190.01	0.91%	-2.57%	0.86%	5.29%	16.64%
NASDAQ	2687.26	2.19%	-4.14%	-0.41%	1.30%	16.34%
Nikkei	9459.66	1.13%	-1.53%	0.11%	-7.52%	-5.36%
Hang Seng	21850.59	1.16%	-5.81%	-4.27%	-5.14%	7.71%
FTSE 100	5775.31	1.44%	-2.91%	-0.35%	-3.28%	9.99%
CAC 40	3877.07	2.04%	-2.85%	-0.94%	1.90%	5.15%
DAX	7285.51	1.89%	0.26%	7.07%	5.37%	17.19%
ASX-ORD	4565.20	1.17%	-5.04%	-3.82%	-5.81%	-0.19%
JSE All Share (in US\$)	4628.96	2.48%	0.59%	2.56%	-4.61%	24.89%
MS EM Index	1113.03	1.34%	-2.41%	-0.94%	-3.33%	16.73%
MS World Index	1301.77	1.58%	-2.61%	-0.75%	1.70%	16.71%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US \$	6.69	1.34%	3.26%	3.36%	-1.08%	11.94%
Rand/GB Pound	10.86	1.13%	3.20%	3.56%	-5.12%	2.28%
Rand/Euro	9.64	0.73%	1.49%	1.46%	-8.26%	-3.63%
Rand/Aus \$	7.10	1.10%	3.64%	-1.19%	-4.87%	-7.70%
Yen/ US \$	80.22	0.01%	1.83%	0.80%	1.11%	13.04%
Swiss Franc/US \$	0.84	0.36%	4.19%	7.85%	10.99%	31.61%
US \$/Euro	1.44	-0.37%	-1.50%	-1.90%	-6.89%	-13.82%
US \$/GB Pound	1.62	-0.06%	0.09%	0.19%	-3.73%	-8.59%
US \$/Aus \$	1.06	0.01%	0.49%	-4.37%	-3.46%	-17.71%
Nominal Effective Exchange Rate (2000 = 100)	76.47	-0.37%	-1.44%	-1.20%	6.26%	-0.94%

22 June 2011

# dailyview

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
<b>Commodities</b>						
Gold \$/oz.	1547.2	0.45%	2.23%	7.58%	8.85%	23.16%
Platinum/oz.	1750.5	0.92%	-1.21%	-0.37%	-1.10%	10.37%
Brent Crude \$/bbl	111.47	-0.23%	-0.92%	-3.52%	17.65%	44.34%

Fixed income	Closing yield %
SA R157	7.46
US 2 YEAR	0.39
US 10 YEAR	2.99
UK 2 YEAR	0.58
UK 10 YEAR	3.23
EURO 2 YEAR	1.52
EURO 10 YEAR	2.97

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