



Today's highlights

- Eskom: Surprise, Surprise – Eskom is awash with cash
- Upcoming dividend dates and corporate actions
- Company calendar – 30 June to 7 July
- Economic calendar – 30 June to 7 July

Talking point: Greece avoids the full catastrophe (for now)

"Wife, children, house, everything. The full catastrophe!" So lamented Alexis Zorba in the classic 1960s movie, Zorba the Greek, referring to the burdens of married life. His country avoided "the full catastrophe" yesterday as the austerity measures necessary to secure IMF and EU funding were passed in parliament, against a backdrop of demonstrations on the streets of Athens.

However catastrophe has not entirely been avoided, and may just have been postponed. Furthermore the burdens, like those of Zorba, remain: the combined weight of tax increases, state asset sales and government spending cuts – alongside the increased debt burden of the new loans advanced by the EU and the IMF – may be too much for the Greek economy to bear, meaning that we could see further episodes of negotiations between Greece, the EU and the IMF. All the while the spectre of default at some stage remains.

Should the parties come back to the drawing board at some stage, the scope for squeezing more austerity out of Greece will have been narrowed considerably. This will increase the likelihood of default, restructuring, fiscal transfer (effectively European taxpayers having to take over Greece's debt) or even exit from the Eurozone. That would be a full catastrophe even Zorba would battle to contemplate.

Market highlights

Wall Street posted its biggest one day gain since March as Greece passed crucial austerity measures. Financial shares were also lifted by new favourable regulations for credit card transactions.

The JSE gained on the Greek news, with gold and resources shares making the most of the general market relief.

After a softish start, the rand closed slightly firmer yesterday as it tracked the euro against the US dollar. Bonds were a little weaker however.

Commodities climbed yesterday, as markets were given confidence by the voting through of key Greek austerity measures. Copper, gold and oil all rose strongly.

Key indicators in a nutshell – Wednesday 29 June 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	to 1 Year
JSE All Share	31726.3	1.39%	-2.05%	-1.48%	-1.22%	16.26%
S&P 500	1307.41	0.83%	-1.78%	-1.39%	3.96%	21.67%
Nikkei	9797.26	1.54%	3.08%	0.43%	-4.22%	1.07%
Rand/US \$	6.79	0.81%	1.93%	-0.60%	-2.56%	11.36%
Rand/GB Pound	10.90	0.37%	4.55%	-0.61%	-5.48%	4.57%
US\$/Euro	1.45	-0.85%	-1.11%	-2.20%	-7.55%	-15.23%
Gold \$/oz.	1511.5	0.62%	-1.74%	5.53%	6.34%	22.09%

Company results and updates

Nictus reported HEPS for the year to March of 29.12c, up from 19.05c previously. A final dividend of 9.5cps was declared, from 6.25cps previously.

ZCI reported a diluted headline loss per share for the year to March of 9.31c, from a previous 28.77c.

Primeserv reported HEPS of 9.08c for the 15 months to March, compared with 10.51c for the 12 months to December 2009. A final dividend of 2.5cps was declared.

City Lodge expects to report a decline in normalised HEPS for the year to June of between 30% and 36%. Results are due out on 12 August.

Murray and Roberts expects to report a decline in HEPS for the year to June of at least 20%. Its order book stands at R52bn, and the group says it has agreed on a way forward on resolving its issues with Hitachi and in its issues with Eskom over the Medupi civil works contract. Results are due out on 31 August.

Ellies expects to report an increase in HEPS for the year to April of between 18% and 23%. Results are due out on 20 July.

Daily ideas

Eskom: Surprise, Surprise – Eskom is awash with cash

A Business Day leader (29 June) referring to the more than doubling of Eskom's reported profits in 2010-11 to R8.5bn raised the question of whether the electricity utility should have been granted the large increases it was.

Reference in this regard might have been better made to the cash flow generated by Eskom's operations. These amounted to the very substantial flow of R28.3bn, representing an increase of R12.3bn or 77% from the year before.

However the net cash flow generated for the company was reduced to R22.3bn, after accounting for the cash lost through so called embedded derivatives (that is the cash cost of meeting Eskom's contractual obligations to the aluminium smelters) and cash lost and gained from Eskom's considerable trading activity in financial assets and liabilities, that is in its own debt. The equivalent net cash flow number the year before was a mere R9.1bn, making for an even larger percentage increase of 245% in internally generated cash flow in 2010-2011.

Most impressive of all in pure financial terms is that this R22bn went a long way, more than half the way, to funding the very large R44.3bn of capital expenditure incurred in 2010-2011. In other words, current consumers are now financing more than half of the very large capital expenditure being incurred by Eskom to meet future demands for electricity (for which future consumers will be expected to pay an appropriate price). Next year, after a further 25% increase in its regulated tariff, the revenues and cash flows and the contribution of internal funding can be expected to increase by similar large proportions and amounts.

These financial outcomes should not have come as a surprise to anyone familiar with Eskom's established generating and distribution capacity.

Once Eskom ran out of its excess supplies of generating capacity and new capacity had to be installed, it became essential to adjust tariffs from those based on historical costs to charges based on the returns required to justify the essential investment in additional generating and distribution capacity. This would inevitably mean large increases in revenue produced by the established power stations for as long as they remain economically viable (that is can cover their direct operational costs) and so in the accounting profits and cash flows delivered by Eskom.

Power plants, once constructed, can be expected to have very long economic lives as Eskom's history confirms. We have argued that the right price to charge current consumers for electricity today is the tariff that would provide the owners of Eskom (the RSA government) with an appropriate risk adjusted return on capital. We have judged this to be about 2% p.a. above the government's own cost of raising long term capital, as represented by the yield on long term RSA bonds. That is to say, an extra return of about 2% pa over the cost of borrowing, given the low risk nature of an electric utility Eskom with monopoly powers, would seem the right price.

We also argued that the issue of the right tariff and the appropriateness of the real investment decisions to be made in additional electricity capacity should not be confused with how the additional capacity should best be funded (that is, with debt or equity capital). We argued that the SA government should either provide the capital in the form of an infusion of equity capital or by guaranteeing the debts of its wholly owned subsidiary – so reducing the funding costs to its potential minimum. We also indicated that a low risk business like an electricity utility could be expected to fund most of its expansion with debt rather than equity capital. We argued that it would be poor economics and unhelpful economic policy to overcharge, that is to tax current consumers for electricity, to finance the expansion of Eskom. Current and future consumers could be expected to pay the right price for electricity. That is, enough to provide an appropriate return on capital: no more or no less.

When we simulated the operational costs of a new power station of the scale planned by Eskom with a required return of 10% pa, we came up with a tariff to be charged today of the order of the 40c per Kilowatt Hour currently being charged. Our own sense is that inflation adjusting this tariff over the foreseeable future would be sufficient to the purpose of recovering the full cost of generating and distributing electricity in SA. We would be inclined to agree that a further 25% increase in the tariff would be a step too far. Economic growth would benefit greatly from competitively priced electricity in SA.

We would also recommend that Eskom maintains an appropriately high debt to equity ratio of the order of 90% debt and 10% equity. Further, to maintain this recommended debt to equity ratio, current tax payers could benefit from their profitable stake in Eskom through a substantial flow of dividends and tax payments. This year, despite its much improved finances, Eskom is not paying a dividend nor is it paying much by way of actual taxes. The income tax reported in its accounts is an impressive R3.3bn. The actual cash tax paid reported in its cash flow statement is a mere R151m and even less than the cash tax of R210m paid the year before. **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
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
Telkom	1 July	4 July	7 July	11 July	Cash Dividend	R1.45
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 (TSH)
Imuniti	8 July	11 July	15 July	18 July	Name change	Nutritional Holdings (NUT)
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 Mpac (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
Mix Telematics	22 July	24 July	29 July	1 August	Cash Dividend	
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 – 30 June to 7 July

Thursday 30 June	Oando AGM
Friday 1 July	Reunert AGM
Tuesday 5 July	Datatec AGM

Source: I-Net, Company updates

Economic calendar – 30 June to 7 July

Date	International	South Africa
Thursday 30 June	Japan – June PMI manufacturing Germany – May Employment [09h55] EMU – May M3 [10h00]	May PPI [11h30] May Exchequer account [14h00] May Trade balance [14h00]
Friday 1 July	Japan – May CPI Japan – May Unemployment Germany – June PMI manufacturing [09h55] EMU – June PMI manufacturing [10h00] EMU – May Unemployment [11h00] UK – June PMI manufacturing [10h30] US – June ISM manufacturing [16h00] US – May Consumer credit [21h00]	June Kagiso PMI [10h00]
Monday 4 July	EMU – May PPI [11h00] US – Markets closed, Independence Day	June New vehicle sales [11h00]
Tuesday 5 July	Japan – June PMI services and composite Germany – June PMI services and composite [09h55] EMU – June PMI services and composite [10h00] UK – June PMI services [10h30] US – May Factory orders [16h00]	June Gold and forex reserves [08h00]
Wednesday 6 July	EMU – Q1 GDP final [11h00] US – June ADP employment [14h15] US – June ISM nonmanufacturing [16h00]	
Thursday 7 July	UK – May Industrial production [10h30] UK – BoE MPC meeting and rate announcement [13h00] Germany – May Industrial production [12h00] EMU – ECB meeting and rates announcement [13h45] US – Initial jobless claims for previous week [14h30]	

Sources: Bloomberg, StatsSA, SA Reserve Bank, SARS

Key market indicators – Wednesday 29 June 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	31726.30	1.39%	-2.05%	-1.48%	-1.22%	16.26%
JSE Fini 15	8101.78	1.16%	-1.93%	-1.33%	-0.85%	8.61%
JSE Indi 25	27578.00	1.15%	-0.97%	3.03%	2.93%	26.12%
JSE Mining	35283.35	1.96%	-3.71%	-5.56%	-5.14%	10.50%
JSE Resi 20	53728.66	1.89%	-3.57%	-6.14%	-4.57%	11.82%
S&P 500	1307.41	0.83%	-1.78%	-1.39%	3.96%	21.67%
DJI	12261.42	0.60%	-1.45%	-0.47%	5.91%	20.94%
NASDAQ	2740.49	0.41%	-2.02%	-1.46%	3.30%	23.41%
Nikkei	9797.26	1.54%	3.08%	0.43%	-4.22%	1.07%
Hang Seng	22061.18	0.00%	-4.84%	-6.23%	-4.23%	6.44%
FTSE 100	5855.95	1.54%	-1.40%	-0.89%	-1.93%	15.46%
CAC 40	3924.23	1.88%	-0.46%	-1.63%	3.14%	9.72%
DAX	7294.14	1.73%	1.87%	3.59%	5.50%	18.46%
ASX-ORD	4579.80	1.25%	-3.50%	-7.08%	-5.51%	3.86%
JSE All Share (in US\$)	4670.58	2.21%	-0.16%	-2.07%	-3.75%	29.46%
MS EM Index	1132.79	1.04%	-1.34%	-3.25%	-1.62%	19.01%
MS World Index	1314.00	1.36%	-1.82%	-1.57%	2.65%	21.38%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US \$	6.79	0.81%	1.93%	-0.60%	-2.56%	11.36%
Rand/GB Pound	10.90	0.37%	4.55%	-0.61%	-5.48%	4.57%
Rand/Euro	9.83	0.02%	0.81%	-2.56%	-10.03%	-5.54%
Rand/Aus \$	7.26	-0.62%	1.98%	-3.74%	-6.93%	-9.49%
Yen/ US \$	80.71	0.46%	0.21%	3.28%	0.50%	10.66%
Swiss Franc/US \$	0.83	-0.05%	2.11%	10.36%	12.16%	30.50%
US \$/Euro	1.45	-0.85%	-1.11%	-2.20%	-7.55%	-15.23%
US \$/GB Pound	1.61	-0.55%	2.55%	-0.26%	-2.88%	-6.10%
US \$/Aus \$	1.07	-1.42%	0.08%	-3.34%	-4.32%	-18.67%
Nominal Effective Exchange Rate (2000 = 100)	75.76	-0.61%	-1.10%	1.86%	7.26%	-0.26%

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Commodities						
Gold \$/oz.	1511.5	0.62%	-1.74%	5.53%	6.34%	22.09%
Platinum/oz.	1728	2.19%	-4.19%	-2.18%	-2.37%	10.24%
Brent Crude \$/bbl	111.78	3.46%	-2.77%	-4.77%	17.97%	45.53%

Fixed income	Closing yield %
SA R157	7.50
US 2 YEAR	0.47
US 10 YEAR	3.07
UK 2 YEAR	0.61
UK 10 YEAR	3.34
EURO 2 YEAR	1.54
EURO 10 YEAR	2.98

Feedback

We welcome your feedback. Please email iso@investec.co.za or call 0861 003 020.

Unsubscribe

Should you no longer wish to receive this newsletter in future, please reply to this e-mail with the word "unsubscribe" in the subject box.