



## Monthly Commentary – June 2011

Last week saw Greece approve austerity measures, required in order to ensure another tranche of bail out loans as the country faced imminent debt defaults. Markets in Europe seemed, for a while, to be taking their cue from Greek bond and equity markets as the roller coaster ride that was the debt crisis unfolded. The European banking sector was particularly affected, as was the local banking sector, as fears of contagion spread to our markets. SA banking shares took a beating, despite local banks not having any appreciable direct exposure to Greek debt. The JSE Banks' sector ended the quarter down 1% having reached a peak of 3% and a trough of -5% during the quarter.

We have detected a rising level of alarm regarding the requirement for investment advisors to write the Level 1 Regulatory exams, as required under the Financial Advisory and Intermediary Service Act. Likely to be hardest hit are independent brokers and tied agents that operate predominantly in the mass market.

On the banking side, early indications of an increasing appetite to grant credit came in the form of an announcement by Standard Bank that it would grant business and personal loans of over R50bn this year. This was welcome news as the prospects of balance sheet led growth in the sector were looking quite slim.

One area that has received much attention over the past year has been the possibility of all the big SA banks expanding their footprint into Africa. Standard Bank has a head start in this respect with FirstRand a close second. During the quarter, however, that expansion strategy took a step back as FirstRand Bank announced that they had terminated talks with Sterling Bank Plc, a small retail bank in Nigeria. However, FirstRand made it clear that it still sees Nigeria as key in its Africa strategy and that they continue to evaluate opportunities in that market.

This quarter saw Vodacom (VOD) report sterling results. We were encouraged by a strong increase (22%) in free cash flow with future cash flow prospects looking strong as the group increased its payout ratio to at least 70% of headline earnings. Group net debt declined by R2.7bn to R9.5bn, an excellent performance given the share buy backs seen during the year. VOD was the biggest contributor to the performance of our equity funds, being up 9.4% over the quarter. VOD's dividend yield is currently 5.5%, a generous premium to the market yield of 2.56%.

### THE ORTHOGONAL TEAM