

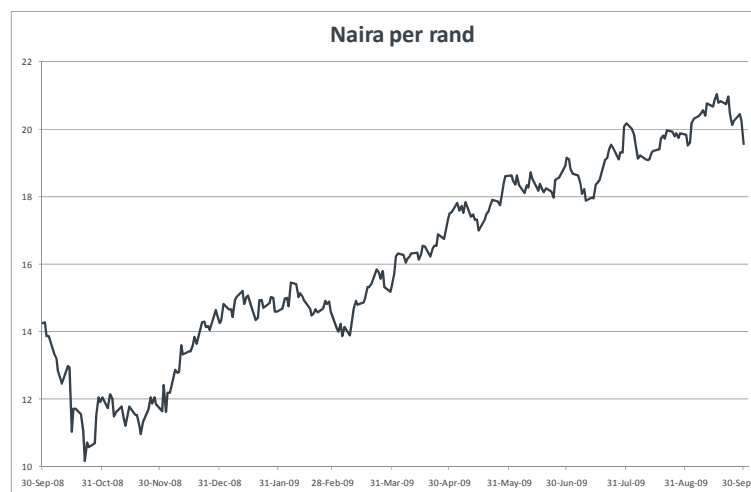
## Monthly Commentary – September 2009

*IS MTN KEYNES' PRETTY GIRL? - Does it matter more whether we think MTN is pretty or whether we think other investors think MTN is pretty?*

British economist John Maynard Keynes, in his book “The General Theory of Employment, Interest and Money”, famously compared the stock market to a type of beauty competition. A contest in a London newspaper of his day featured pictures of about a hundred young women. To win, one had not to pick the prettiest, but a list of the five women one thought most other readers would pick. It is easy to see how this quickly becomes a game of second (and third and fourth etc) guessing. Each potential entrant (investor) ignores his or her taste in beauty (fundamental value) and instead tries to predict what others will think.

Imagine the outcry of foul play if the newspaper printed one photo clearer, larger or more revealing than the others. That is what the local investment community has achieved with the so-called SWIX index, which has contrived to increase the weight of MTN from 7.2% in the unfettered All Share Index to 10.7% in the manipulated SWIX index, to the detriment of economically much larger listed companies. The SWIX index was designed to closer mimic the actual average holdings of the asset management community, or to look like what most other readers thought was the prettiest girl. This strikes us as a rather unambitious approach to investing.

Meanwhile, the vaunted MTN – Bharti deal appears to have floundered. We remain puzzled by MTN’s eagerness to do a deal. Could it be that they, like us, wonder whether they can continue to grow at the rate of the past decade; something the market seems to expect but is unlikely to be achievable? Another headwind for MTN which has attracted surprisingly little attention is the weakness of Nigeria’s naira against the rand. Nigeria’s contribution to MTN’s EBITDA is about 45%, so we imagine that the chart below is unsettling to management, as it should be to shareholders. For the record, EBITDA is hardly our favourite metric, but MTN’s financial statements do not provide a geographical breakdown of contribution to bottom line earnings.

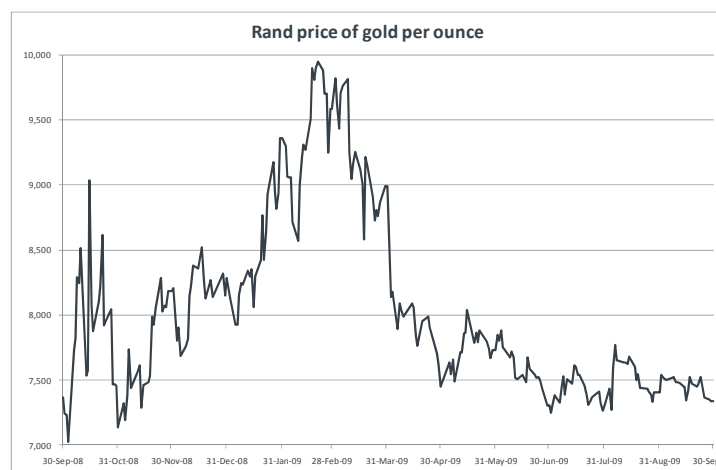


Another victim of the rand’s strength is the price of gold. It has been trumpeted that gold’s dollar price per ounce has gone above \$1,000. Ordinarily, that would justifiably be received as good news for South Africa’s gold mining companies. However, the more important issue for them is the rand price of gold, which is hardly getting our vuvuzelas going, especially as the mines’ production costs have been escalating quite noticeably.

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So, given that gold shares were up 4% in September, we are left to assume that for now that sector of the market is in a Panglossian frame of mind. Incorrectly, the dollar gold price seems to be the palliative to the less palatable facts.

During September, ABSA announced that it is prepared to grant mortgages to the value of 110% of the value of the mortgaged houses, provided that the buyers earn below a certain amount. In a country that patted itself on the back for having escaped the worst excesses of sub-prime, this is an astounding bit of news, the more so since interest rates are not generally expected to fall any further and retrenchments are on the increase.

Some company news during September:

**First Rand Limited** (held) reported final results. Normalised earnings were down 31% and return on equity declined from 22% to 14%, both measures being reflective of a downturn in the performance of the investment banking franchise, which was previously a significant beneficiary in terms of internal capital allocation. Consumer banking did not escape unscathed with impairment charges increasing by 58% to R8bn, resulting in a credit loss ratio of 1.8%. It was heartening to see, however, a deceleration in the rate of increase of bad debts, hopefully signalling an easing in client distress.

**Investec Plc** (held) gave a pre-close briefing. The Group has been focussing on conserving liquidity as evidenced by a number of balance sheet measures: loan growth moderated to a conservative 3% but deposits were up 16%. Cash and near cash are now up to £6.6bn with the South African banking business gaining traction in the retail market. Investec indicated that it is experiencing inflows of about R1.7bn per month in South Africa and £200m per month in the U.K. In November last year, the Tier 1 capital target was revised to 11% with an expectation that the target would be achieved in 2010. Indications are that this target will be achieved this year. More broadly, there are early indications of improved operational performance, especially when compared to 2H09. Investec is currently trading at about 1.6x tangible NAV, still comfortably off a long run average of 2.8x.

**Sasol** (held) management took an ultra-conservative stance, cutting the full year dividend for the 1<sup>st</sup> time in Sasol's history (-35% to R8.50), slashing the capex budget, and guiding 2010 earnings further down from 2009's depressed levels. The latter view (certainly not shared by consensus forecasts at the time) cited their expectation of a \$65 - 70 /bbl oil price and a Rand/US\$ exchange rate averaging R7.90/\$ for FY 2010. The company is currently unleveraged, despite a target gearing range of 30% - 50%.

**Rowan Williams-Short**  
CIO - Orthogonal Investments

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