

WORLD AT SIX, NOVEMBER 13

Easy growth is behind us

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After five years of growth, market commentators caution that it may be harder to find bargains especially as earnings slow and the US sees a downturn.

Bruce Whitfield:

Norman Mackechnie from RMB Asset Management is tonight's market commentator. We were talking to Thys du Toit from Coronation and I liked his response to the question can you repeat this, can you do as well as this into the future five years into a bull run and his answer was quite short and sweet, no we can't, and that is realistic I guess.

Norman Mackechnie:

I think very much so Bruce. We have had probably compound growth for the market over the last 4 and a bit coming onto five years next year probably May or roundabout or close to 40 percent compound per annum which I don't think you are likely to see continuing. I must say I think this year again has been a year of surprises and I wouldn't be surprised to see next year being a year of disappointments maybe with sort of slowing earnings growth, slowing US, and you know those two factors contributing to perhaps disappointing returns in our market.

Bruce Whitfield:

And again looking at the South African market today we are down below 30 500 we seem to be holding up quite well and I guess that is a relative term, global markets are in some kind of turmoil, we have seen quite a lot of turmoil in Europe and the United States over the last couple of months and that hasn't yet really impacted us significantly. Do you anticipate that we can actually see for the first time in five years a negative year next year?

Norman Mackechnie:

Bruce I wouldn't say that no. I think if you look at what has happened in the market I mean the market came off in August and since August we are up about 18 odd percent in spite of the fact that we have come off more recently. If you analyse that it takes you up to about probably 90 odd percent so that is some fair going in terms of the bounce we went back to new highs. If one looks at it I think certainly earnings growth looking to slow from here certainly if one looks at consensus numbers although those numbers have been continuing to be revised upwards and that clearly will support the market. I think in terms of valuations we are reasonably full and I think if you look at our dollar earnings growth relative to the US while in the next year we probably are likely to outperform I think the subsequent year the numbers look like we will underperform. So perhaps with the US slowing down, interest-rates basing out, and the US economy then coming back in 2009 I wouldn't be surprised to see some switch out of emerging markets back into developed markets.

Bruce Whitfield:

So some tough times ahead for us but a couple of good stories to be told as well. HCI came out with a trading update today, Hoskin Consolidated Investments, a number of investments in that house, the best known one I suppose as far as we are concerned is eTV. That looks okay.

Norman Mackechnie:

Yes it does. I think you know it truly is what we call a net asset value play in the underlying assets and clearly as your earnings grow there so the underlying asset values increase but yes I think it has. I mean if one went back and look at eTV seven or so years ago it wasn't looking good I mean they were making losses and I think Rembrandt now Remgro, I think it is now Venfin that holds that portion, they had to put a lot of money behind that and clearly things have turned around, advertising revenues have come through and yes they have certainly carved a niche in the South African television market.

Bruce Whitfield:

And Sanyati one of the new listings in the construction sector we have seen a number of these companies coming out with results and the results out of all of these companies, the new listings, had been quite spectacular. Did Sanyati disappoint at all?

Norman Mackechnie:

I think it was pretty much in line with expectations. There are very robust conditions in the construction industry across the country. They are in five provinces out of the nine, they made two

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acquisitions, I think one down in KwaZulu Natal and one up here in Gauteng. They are really in the civil, the building, and one other area; I forget what it is, but in the construction space. They have got some big contracts; they are part of the consortium that is constructing the new airport, doing the civil work, outside Durban. I think it is a R1.9-billion contract, they have got 10 percent of that and I think if one looks at the two acquisitions I think it is Ruthcon and Gem, I think the latter is a piling operation, those two operations probably contributed somewhere equivalent to about 100 percent of the growth. So I think while there was underlying growth clearly you have had acquisitions that have come through and bolstered those earnings and going forward I imagine that those earnings will moderate somewhat. I mean 109 percent sort of earnings growth is very robust but yes I still think there is growth if you look at the consensus numbers in terms of Murray and Roberts and the like you've got good growth the next three years coming through for Murray and other companies and really the issue is are the current share prices fully discounting that growth and let's say post year three are we seeing similar growth and probably if that is the case maybe to some extent you can justify those prices although I must say they do look fairly full to me.

Bruce Whitfield:

They do look pricey. Johnson Matthey the platinum review coming out, they are forecasting shortages, they are saying we will see platinum at \$1575 an ounce next year. It all depends what happens to the dollar as to how worthwhile that is but now our companies coming under a bit of pressure, they are blaming South African producers, they have had trouble in recent months so again the platinum market is one that perhaps has got some legs.

Norman Mackechnie:

Yes I think so Bruce. If you look at what happened in the platinum market in the latter part of 2006 we saw the price coming off probably from the \$1300 level to \$1150 or so per ounce. That has subsequently picked up to just under \$1500 an ounce. Clearly we are moving from a deficit of about 60 000 to almost 300 000 ounces although with the dollar and some volatility in markets we have almost lost a \$100 off the platinum price but yes I think the fact is also if one looks at the gold price they have moved up fairly sharply and yes the underlying fundamentals look good there.

Bruce Whitfield: