Weekly Investment Update

15 June 2016

PSG Wealth

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MTN to pay Nigerian government R25bn over next 3 years - pg. 3

Market moves

Performace: 07/06/2016 to 13/06/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	-2.72
Ind/Financials TR ZAR	-3.92
Ind/Industrials TR ZAR	-3.61
Financials&Indl 30 TR ZAR	-2.48
Ind/Basic Materials TR ZAR	-3.79
Gold Mining TR ZAR	4.75
SA Listed Property TR ZAR	-2.36
Beassa ALBI TR ZAR	-0.35
Commodities	
Oil Price Brent Crude PR	-0.40
LBMA Platinum AM PR USD	0.61
Gold London AM Fixing PR USD	3.51

The week ahead

Domestic

15 Retail sales

16 Youth Day

International

15 US: Industrial production

16 EU: Inflation rate

Macro

ZA

The current account deficit widened to R211bn or 5% of GDP in the first quarter, revised from a gap of R191bn in the previous period, as the shortfall on the services, income and current transfer account increased, due to a rise in net income payments to the rest of the world. Meantime, the trade balance deficit declined to R38bn compared with a revised R41bn gap in the fourth quarter.

UK

Consumer prices in the United Kingdom increased 0.3% YoY in May, the same as in April and below market expectations of a 0.4% increase. Transport prices declined less while food deflation deepened.

Hong Kong

Manufacturing production declined 0.4% YoY in three months to March, following an upwardly revised 1.3% drop in the previous period. The highest decrease in output was recorded in textiles (-16.7 percent), while metal, computer, electronic and optical products, machinery and equipment industry dropped by 9.6%.

Markets

Best performer

For the week was MTN with a return of 13%. Followed by Aspen with a 12% return for the week.

Worst performer

Trencor was the worst performer for the week with a loss of 10%. Followed by Pallinghurst Resources with a 9% drop for the same period.

Sectors

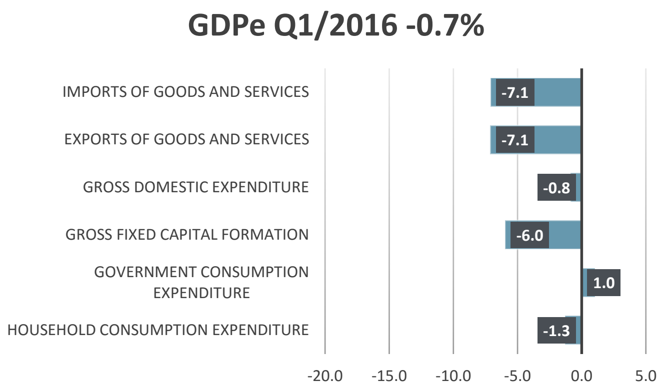
The best performing sector was pharmaceuticals, which includes companies like Adcock, with a return of 11.2% for this sector for the week. Food and drug retailers with companies like Clicks, was the worst performing sector for the week with a 5.5% loss.

Macro note

Stats SA now gives more nuanced picture of the economy

Stats SA has, for the first time, introduced expenditure on gross domestic product (GDPe) in the GDP statistical release. Historically Stats SA only published GDP production (GDPp) figures, measuring the supply side of the economy. The overall figure of -1.2%, reflecting the change in GDPp, continues to be the headline growth rate. GDPe, on the other hand, is a measure of the demand side of the economy. GDPe includes data on household and government spending, capital investment and exports (minus imports). Stats SA has taken over the responsibility of calculating GDPe from SARB. While most economists focused on the huge contraction in the GDPp figure released last week, not much has been said about the new GDPe figure.

GDPe fell by 0.7% QoQ, joining GDPp growth in negative territory. Demand for goods and services declined for all components of GDPe with the exception of government, which experienced 1% QoQ increase in expenditure. Exports of goods and services declined by 7.1% and contributed most (-2.2 percentage points) to the overall decline.



Source: PSG Wealth investment division, Stats SA

Bottom line

The additional method used to report on GDP growth from the demand side of the economic cycle is a valuable contribution in understanding the driving forces behind our economic growth. The weakness in overall demand shown in data is without a doubt negatively influenced by higher inflation and interest rates. It may also be true that the expectation of higher interest rates compete with the willingness of consumers to continue with their current savings. Consumers could prefer to temporarily reduce their savings to reduce their debt burden.

However, data suggests that inflation and interest rates are currently close to the top of their cycle. The current high rate cycle offers those clients who depend on their investments for a monthly income with a golden opportunity to increase their exposure to high yielding assets. Good fixed interest portfolio managers, such as those used in the PSG Wealth Income FoF, will be able to lock the higher yields on short term instruments in, to deliver attractive returns until well after the interest rate cycle has peaked.

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Market note

MTN to pay Nigerian government R25bn over next 3 years

MTN's market cap returned to almost pre-Nigerian fine levels after the telecoms giant announced that it reached a settlement with the Nigerian Communications Commissions (NCC). On Friday MTN said it would pay a third, 330 billion naira (R24.94bn), of the original reduced fine (R59bn) to settle the penalty for missing the deadline to disconnect unregistered SIM cards.

MTN Group executive chairman Phuthuma Nhleko told investors during a conference call that a R3.8 billion "good faith payment" already paid by MTN in February will be deducted from the R24.94 billion ($1.7bn) settlement amount. The remaining penalty will be settled in six instalments over the next three years. He added that MTN Nigeria can afford to pay the fine under its own balance sheet, and that it will not impact the MTN Group's balance sheet.

The fine had weakened MTN's share price by about 35% since it was imposed in late October and placed pressure on its operations in Nigeria, its biggest market. After the announcement shares in MTN South Africa spiked by more than 20% and closed more than 13% higher. In the few days following the groups' announcement its share price rose by about 16%.

The fine also saw MTN tightening its dividend policy over uncertainty about the quantum fine and the dollar liquidity situation facing that country. During the conference call group CFO, Brett Goschen said there might be an "upside potential" to the minimum R7 per share dividend announced after October. He added that 40% of the groups' cash is in Nigeria, which is still struggling with liquidity challenges, which led to a reduction in the dividend.

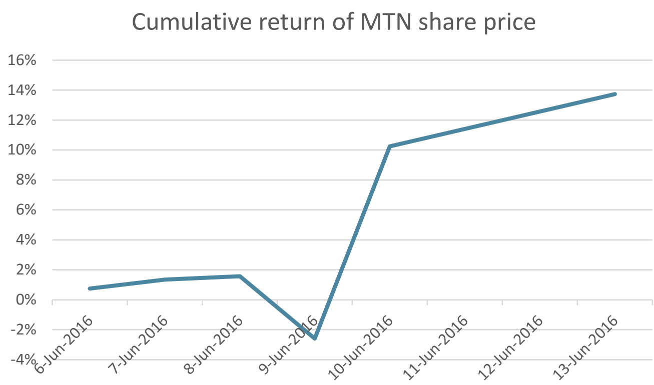
"The fine settlement does not change that. Only liquidity in their market to get dollars out will enable us to change the dividend guidance. This will be communicated to investors."

As part of the settlement, MTN agreed that MTN Nigeria's shares would be listed on the Nigerian Stock Exchange as soon as commercially and legally possible after the date of carrying out of the settlement.

"We agreed to work expeditiously to see the listing come to pass," Nhleko told investors.

MTN is looking to replace Sifiso Dabengwa, its former chief executive, who resigned after the record fine. Nhleko told the Sunday Times the company was expecting to make an announcement of the new chief executive at the end of the second quarter.

How MTN share price spiked after announcement



Source: PSG Wealth investment division, Bloomberg

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Previous publications

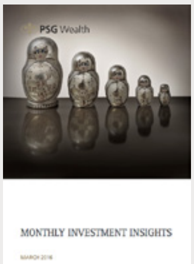
Daily

Published on a daily basis

Weekly

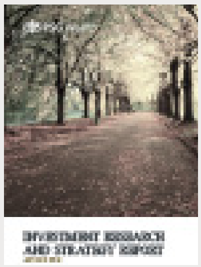
8 June	5 April
1 June	23 March
25 May	16 March
18 May	9 March
11 May	1 March
4 May	23 Feb
26 April	11 Dec
20 April	20 Nov
12 April	16 Nov

Monthly



May 2016	July 2015
April 2016	June 2015
March 2016	May 2015
Feb 2016	
Dec 2015	
Nov 2015	
Oct 2015	
Sept 2015	
Aug 2015	

Quarterly



Autumn 2016
Summer 2015
Spring 2015