

Omigsa Comment – Cavan Osborne, Portfolio Manager: Old Mutual Industrial Fund Super Group – is it a sell or buy?



Super Group shareholders have gone through a tough time. The company has been hit by a triple storm:

- Industry-wide conditions have softened – the sale of motor vehicles and spare parts has slowed, demand for its logistics services has dropped as wider consumer demand has slowed. This has also affected volumes in its MICA hardware franchise network. The leasing division has been reasonably stable as most of the contracts are long term. Higher claims have resulted in the insurance business incurring losses.
- Financial gearing: borrowing spreads have risen (although actual rates have declined).
- Fraud in the Industrial Products division. This operation imports and distributes construction equipment such as cranes and graders and commercial vehicles (small trucks and bakkies).

Super Group Limited



These pressures have caused the company to restate earnings and write-off a significant portion of its assets base. As at 30 June 2009, Super Group reported a R1.3bn loss and a negative tangible net asset value (i.e. it has more physical liabilities than assets). These problems prompted its debt lenders to force Super Group to recapitalize the business with R1bn and dispose of certain assets. After the initial recapitalization proposal was tabled, a foreign logistics company presented a new proposal whereby it would gain a 51% stake in the business.

Last week, the new proposal was withdrawn and Super Group announced that the initial proposal would be implemented. Under the initial proposal, existing shareholders will be given the right to acquire an additional 2.2 billion of new shares at 45c per share. Currently there are 500m shares in issue. Because of the restrictive covenants on the debt, the dilution that additional shares will have on the earnings and the potential loss of contracts as customers lose confidence in the group, we have a **SELL** recommendation on the company.

24 Sept - 01 Oct 2009 in a nutshell

Global: A flurry of disappointing economic news from the US raised concerns that the seven-month rally in equities outpaced prospects for an economic recovery, sending most global bourses in the red. The S&P500 in the US slid 2.00% while the European market shares tumbled 0.99% and emerging market stocks were slightly higher, at 0.33%.

South Africa: The local market followed suit with the FTSE/All Share dropping 1.56%. The winner was listed property, climbing 0.63%.

Markets and Economics - Highlights

Global

- The recession faded in the April-June quarter with US economic activity shrinking at a pace of just 0.7%, a better than expected showing that buttressed beliefs that the economy is now growing. The small dip in gross domestic product (GDP) for that period follows the 6.4% annual drop in the first three months of this year, the worst slide in nearly three decades, the Commerce Dept. reported.
- European confidence in the economic outlook reached its highest level in 12 months in September 2009 as the economy showed signs of rebounding from the worst recession in more than six

decades. The index of executive and consumer sentiment in the 16-nation euro zone rose to 82.8 points – its highest since September last year – from 80.8 points last month, said the European Commission.

- China's manufacturing expanded at the fastest pace in 17 months last month on stimulus spending and this year's record growth in new loans. The purchasing managers' index rose to a seasonally adjusted 54.3 from 54 points in August, the Federation of Logistics and Purchasing said in a statement.

South Africa

- News that India's Bharti Airtel had called off its talks with MTN sent the rand tumbling. The rand lost as much as 2.5% against the dollar to R7.62 after the news on Wednesday. At 5pm, it was bid at R7.535 to the dollar, 11.23c weaker than Tuesday.
- South Africa's economic "bleeding" had slowed down as negative trends started to subside, the SA Chamber of Commerce and Industry (Sacci) said. The September purchasing managers index (PMI) jumped to 48 from 39.3 in August, its highest since May 2008, pointing to a pending recovery in the manufacturing sector.
- Households and businesses remain reluctant, or unable, to borrow despite the five percentage point cut in interest rates since December last year – a sign that the economic recovery could be slow. Data released by the Reserve Bank showed growth in credit to the private sector subsided to 2.34% y/y last month. The figure was the weakest since October 1966, said a local asset manager.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 01.10.2009	% Performance Return
United States	S & P 500 (US\$)	-2.00%	1,030	14.06%
Europe	Euro Stoxx 50 (Euro)	-0.99%	2,810	14.65%
Emerging Mkts	MSCI Emerg Mkts (US\$)	0.33%	911	60.67%
South Africa	FTSE/JSE All Share (ZAR)	-1.56%	24,967	16.08%
Global	MSCI (US\$)	-1.87%	1,102	19.78%
ZAR/Dollar	Rand/US \$ (ZAR)	3.22%	7.70	-19.20%
ZAR/Pound	Rand/£ (ZAR)	2.51%	12.26	-10.64%
ZAR/Euro	Rand/Euro (ZAR)	2.85%	11.19	-14.97%
JSE	Industrials	-1.92%	25,119	16.85%
JSE	Financials	-0.70%	18,243	15.62%
JSE	Resources 20	-3.89%	43,729	13.55%
JSE	Small Companies	0.05%	26,330	15.94%
JSE	Listed Property	0.63%	317	2.26%
JSE	RAFI® ALSI	-1.95%	5,169	20.27%
JSE	RAFI® 40	-1.97%	4,979	16.82%
JSE	SWIX	-1.15%	5,307	16.64%

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