

## OMIGSA Comment – Paul Kahumuza, Analyst: Financials

### Old Mutual on track to full recovery



After touching its worst level ever of R4.80 in March 2009, the Old Mutual (OML) share price recovered strongly in 2009, posting gains of 175% and ending the year as one of the top performers on the JSE. The share has largely moved sideways since then, with some boost from the announcements of planned restructuring. Although the share did not move much following the results announcement, the positive reaction had already taken place following the announcement in mid-February that Old Mutual Plc was planning to rationalize its poorly performing US life business.

Old Mutual Share Price



Source: INET

Although extensive plans to restructure were unveiled at the results announcement, there was nothing much beyond what the market was already expecting, and also highlighted the difficulty in securing a quick turnaround.

The US life business is to be sold and US asset management business partially listed, while other underperforming businesses will either be turned around or sold. The money raised will be used to pay down debt, and major cost-cutting is to be undertaken. Most of these measures are dependent on market conditions and at best, are achievable only in the medium term. The market's lukewarm reaction to this announcement was an acknowledgement that there is still a lot of work to be done.

We believe the restructuring plans as outlined by OM management will unlock value and we are also encouraged by the move to align management incentives to the achievement of these strategic objectives. However, we also acknowledge that this might take a while to accomplish. The share is trading at a 32% discount to its fair value and on a 2-3 year time horizon, we believe management are on the right track to close this value gap.

#### 23 - 29 April 2010 in a nutshell

**Global:** A raft of positive macro-economic and corporate earnings news from the US, failed to lift global bourses as they were weighed down by growing worries over the downgrades of the sovereign credit ratings of Greece, Portugal and Spain, and the EU's failure to finalise Greek bailout plans. Markets closed the week in the red, for a second week in a row. The S&P 500 in the US was flat at -0.17% while its European counterpart slid 2.42% and emerging market stocks were 0.59% lower.

**South Africa:** The local market, which was playing catch-up after the Freedom Day public holiday on Tuesday, tracked its global peers lower, with the FTSE/JSE All Share Index ending the week 0.37% down.

#### Markets and Economics - Highlights

##### Global

- Home prices in the biggest US cities recorded their first annual increase in almost four years in February, but persistent weakness in some areas cast doubt over the housing market's recovery. House prices rose by 0.6% in February compared with the same month a year ago, according to S&P/Case-Schiller home price index.

- Europe's debt crisis flared again this week as Spain saw its credit rating lowered, just as Germany sought to reassure markets fearful over a possible Greek financial collapse by saying its share of a key aid package could be approved in the next few days, a newspaper report said.
- Brazil's central bank was expected to raise its core interest rate by as much a full percentage point this week as the unexpectedly fast pace of economic growth puts increasing pressure on prices.

### South Africa

- Inflation at SA's factories, mines and farms accelerated for the eighth month in a row last month, but did not rise quite as much as expected. The producer price index (PPI) climbed 3.7% compared to the same month last year, up from 3.5% in February, Stats SA said.
- The Consumer Price Inflation rate fell last month to 5.1%, the lowest rate in almost four years, as a stronger rand helped to curb prices. Consumer inflation had eased from 5.7% in February, reaching its lowest level since July 2006, Statistics SA said.
- Financial stress on households continued to build as the number of consumers with bad debt rose to 8.1 million in the third quarter of last year, from 7.9 million in the previous quarter and 7.1 million in the third quarter of 2008, figures from the National Credit Regulator showed.

#### Key Indicators:

| Market        | Index                    | Movement for the period |                          | Year to Date         |
|---------------|--------------------------|-------------------------|--------------------------|----------------------|
|               |                          | %                       | Index Value @ 29.04.2010 | % Performance Return |
| United States | S & P 500 (US\$)         | -0.17%                  | 1,207                    | 8.24%                |
| Europe        | Euro Stoxx 50 (Euro)     | -2.42%                  | 2,828                    | -4.66%               |
| Emerging Mkts | MSCI Emerg Mkts (US\$)   | -0.59%                  | 1,014                    | 2.48%                |
| South Africa  | FTSE/JSE All Share (ZAR) | -0.37%                  | 28,716                   | 3.79%                |
| Global        | MSCI (US\$)              | -0.82%                  | 1,208                    | 3.42%                |
| ZAR/Dollar    | Rand/US \$ (ZAR)         | -2.52%                  | 7.36                     | -0.41%               |
| ZAR/Pound     | Rand/£ (ZAR)             | -1.31%                  | 11.30                    | -4.72%               |
| ZAR/Euro      | Rand/Euro (ZAR)          | -1.21%                  | 9.77                     | 6.86%                |
| JSE           | Industrials              | 0.66%                   | 26,547                   | 5.16%                |
| JSE           | Financials               | -0.11%                  | 20,933                   | 8.31%                |
| JSE           | Resources 20             | -0.47%                  | 51,476                   | 0.77%                |
| JSE           | Small Companies          | -0.11%                  | 30,114                   | 7.99%                |
| JSE           | Listed Property          | 0.28%                   | 352                      | 8.98%                |
| JSE           | RAFI® ALSI               | -0.43%                  | 6,041                    | 5.02%                |
| JSE           | RAFI® 40                 | -0.75%                  | 5,839                    | 5.20%                |
| JSE           | SWIX                     | -0.17%                  | 5,998                    | 4.59%                |

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