

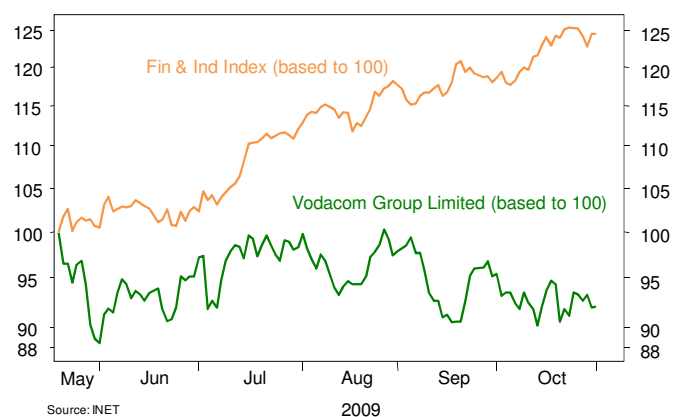
## OMIGSA Comment – Jonathan Larcombe, Senior Equity Analyst: Investment Research

### Vodacom faces headwinds .....but still offers high cash-flow yields



In May 2009, Vodacom, the pan-Sub Saharan African (SSA) mobile operator, was unbundled from SA's fixed-line operator, Telkom SA. This paved the way for Vodacom to pursue business opportunities in the corporate sector of both South Africa and SSA, which until then was dominated by Telkom. Post the unbundling, the share price has underperformed both the Findi and the Telecommunications index. The main reasons for this underperformance, albeit over a short timeframe, have been first, regulatory matters and second, a disappointing trading statement.

Vodacom Group relative to Financial & Industrial Index



On the regulation front:

- The recent introduction of RICA (Regulation of Interception of Communications and Provision of Communication-Related Information Act) has seen new subscriber growth drop-off materially. New systems are required and both new and old customers need to comply with the identification process.
- ICASA, Parliament and the Competition Commission have publicly highlighted the need for lower mobile termination rates. As mobile operators make material profits, mainly from Telkom, a halving of this rate (as proposed) will have negative consequences. This is a complicated legal matter and has been deferred to the second quarter of 2010 for resolution.

The trading statement for the interim results for the period ending 30 September 2009 indicate major challenges in Vodacom's African operations, particularly in the DRC (Democratic Republic of Congo) and its recent investment in Gateway (carrier service) being written down by over half. Increased competition in the mobile cellular phone market, convergence between voice and data and industry liberalization has led to massive consolidation in the industry and this is set to continue, going forward. Although Vodacom and MTN, for that matter, face headwinds in the SA market, these investments do offer investors a good defensive play with high free cash-flow yields.

#### 23 - 29 Oct 2009 in a nutshell

**Global:** The bears advanced for a second consecutive week on a mixed bag of economic data from the US, leading to speculation that the market is due for correction after a seven-month rally. The S&P 500 in the US retreated 2.47% while its European peers slid 2.65% and the emerging market shares plummeted 4.16%.

**South Africa:** The resources-heavy local bourse slid this week, mirroring Wall Street's lacklustre performance, with the FTSE/JSE All Share Index giving up 0.68%. The winner was Listed Property, which rose 1.05%.

#### Markets and Economics - Highlights

##### Global

- The US economy grew at a rate of 3.5% in the third quarter, the best showing in two years, fuelled by government-supported spending on cars and homes, said the Commerce Department.

- Credit tightening by banks in the euro zone has reached a turning point. Banks continued to tighten credit standards in the third quarter but less than they did in the previous quarter, with the relaxation bigger for companies than for households, according to the European Central Bank (ECB).
- China planned to tighten rules on personal loans to prevent them from being used for speculation after the benchmark stock index surged 66% this year and property prices rebounded, official data showed.

### South Africa

- The Consumer Price Index (CPI) retreated to a two-and-a-half low last month, slowing more than expected and nearly touching the top of the official 3%-6% target range. Consumer prices rose 6.1% compared with the same month last year, and down from 6.4% in August as food price increases moderated and a stronger rand made imports less expensive, official data from Stats SA showed.
- The expected budget deficit this fiscal year equals 7.6% of gross domestic product (GDP), up from 3.8% projected in the February budget. The latest estimate of revenue from personal income tax at R203bn is down 4.5% on the projections in the February budget. Corporate tax at R139bn is down 21%, said Finance Minister Pravin Gordhan.
- The economy is likely to contract by 1.9% this year, a swing from the growth of 1.2% that was originally estimated. The poor performance was due, in part, to caution on the part of debt-burdened consumers, said Finance Minister Pravin Gordhan in his medium-term budget policy statement.

Key Indicators:					
Market	Index	Movement for the period		Year to Date	
		%	Index Value @ 29.10.2009	% Performance Return	
United States	S & P 500 (US\$)	-2.47%	1,066	18.05%	
Europe	Euro Stoxx 50 (Euro)	-2.65%	2,865	15.26%	
Emerging Mkts	MSCI Emerg Mkts (US\$)	-4.16%	921	62.43%	
South Africa	FTSE/JSE All Share (ZAR)	-0.68%	26,549	23.43%	
Global	MSCI (US\$)	-3.09%	1,128	22.61%	
ZAR/Dollar	Rand/US \$ (ZAR)	4.74%	7.73	-18.89%	
ZAR/Pound	Rand/£ (ZAR)	3.99%	12.77	-6.92%	
ZAR/Euro	Rand/Euro (ZAR)	2.97%	11.43	-13.15%	
JSE	Industrials	-1.02%	25,451	18.40%	
JSE	Financials	-0.68%	19,254	22.02%	
JSE	Resources 20	-0.69%	47,862	24.28%	
JSE	Small Companies	1.05%	27,019	18.97%	
JSE	Listed Property	-1.54%	320	3.23%	
JSE	RAFI® ALSI	0.02%	5,575	29.71%	
JSE	RAFI® 40	0.17%	5,389	26.44%	
JSE	SWIX	-1.04%	5,529	21.52%	

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