Richard Cluver Predicts
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The seemingly impervious record of South Africa's blue chips has been dented lately by tail winds of the world's intractable economic woes.

It was of course, only a matter of time before this happened because a growing number of the world's monetary authorities are technically bankrupt, having as a general rule run up unsustainable levels of sovereign debt in their attempts to keep on funding social benefits for their peoples on a level that is not justified by their tax bases. Ultimately this is the problem which has pushed the whole planet into economic recession with consequences which are now being made manifest by the collapse of both the consumption of commodities and consequently their prices.

So far as South African investors are concerned, the widening consequent ripples first impacted upon our primary producers; our mining companies which from an investment point of view have always been volatile cyclic plays more suited to opportunistic trading than investment. But now the widening ripples have begun to impact single revenue stream economies like that of Nigeria which is in the grip of a severe cash crunch in the wake of the collapse of oil prices. And because of this, Blue Chips like our own domestic telecommunications giant MTN, are finding it very difficult to repatriate the profits which it has made from its Nigerian operations.

Now the fact is that MTN operates in 22 countries across Africa and the Middle East should offer it a sufficient spread of risk to counter individual regional financial challenges but, probably somewhat imprudently, the company has become reliant upon Nigeria for a third of its revenue and now those chickens have come home to roost for MTN. As my graph below illustrates, a massive price pennant formastion developed over the past five years resulting in the inevitable break out in July last year and a subsequent 41 percent price fall that took the shares down to a long term support level which I have drawn in in mauve.

In January this year the shares price began a consolidation, recovering from R50.11 to R68.33 in May to another low of R43.50 since when it has again been making a consolidatio attempt which was breeched in mid-October at R47.97 resulting in a slide that became a plunge this week which prompted concerned questions from many of my clients this week.

Since August, MTN shares have been building another pennant formation. And a second sharp downward breakout occurred on Monday on the news that MTN could face a very substantial

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fine over a technical issue in Nigeria. Since then the price has recovered and was up R2.28 at the opening trade this morning. However, upon news that the company could face a ratings agency re-rating because of the impact of the fine that has been levied by the Nigerian Government, it seems likely that another price decline is due. ShareFinder projects that the price could fall to a low of R132 by the end of November if fresh panic grips investors. But note the orange line of ShareFinder's medium-term projection which sees a steady recovery from here on in to a range of between R165 and R170.

All of which brings me to the issue of what now constitutes fair value for this share? In my view a historic dividend yield of 7 percent is ridiculous for MTN when the average Blue Chip yield is 2.6 percent and I have been buying the shares this week. Even if the fine should seriously impair MTN's ability to pay dividends in the immediate future, the longer-term view is hardly so bleak. Its business model includes a massive 43.7% earnings margin which was only impacted by 2.6% because of weaker revenue and currency pressures as third world economies came under global pressure in the current year.

Furthermore, the company is committed to steadily increasing dividends at a rate of more than five percent annually in the long-term, all of which underpins its blue chip status. I will continue to accumulate MTN shares whenever fresh weakness occurs

The next month:

New York's SP500: I wrongly predicted a decline which I believe has been postponed until the new week. But I expect a recovery to begin around Wednesday lasting until the 10th before a protracted decline begins.

London's Footsie: I wrongly saw the start of declines. Now I think they have been postponed until next Friday with gains before then.

JSE Industrial Index: I correctly predicted a decline starting last Friday. Now I see a brief recovery and then declines until mid-November.

Top40 Index: I correctly predicted a brief decline. Now I see an equally brief recovery before a decline beginning the end of next week and lasting through November.

The ShareFinder Blue Chip Index: I correctly predicted the beginning of an erratic decline for most of November.

Golds: I correctly predicted losses until mid-November.

The Rand: I correctly predicted weakness followed by gains lasting from now until mid-November.

The Predicts accuracy rate on a running average basis over the past 565 weeks has been 83.48%. For the past 12 months it has been 94.16%.

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