

Old Mutual Limited

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South African rand slumps after finance minister is dismissed

South Africa's president, Jacob Zuma, sacked his finance minister last night, sending the rand into a tailspin and dragging down share prices.

The South African currency, the rand, hit the skids after Nhlhla Nene was removed from office, though the president said Nene would be deployed to "another strategic position".

The US dollar now buys around 15.33 rand, compared to around 14.51 overnight, which is the lowest level the South African currency has ever sunk to against the greenback.

Against the pound, the rand's value tumbled to around 23.21 to the pound from around 21.98 overnight, which has serious ramifications for London-listed but South Africa focused operators such as finance houses Old Mutual and Investec, plus commodities plays such as Acacia Mining.

Old Mutual (LON:OML) had lost around one-eighth of its value, reflecting the fact that its South African Nedbank subsidiary, Nedbank, accounted for just under 45% of Old Mutual's adjusted operating profit before tax in its recent half year results.

In the first half of the year, the rand traded at 18.16 to the pound on average, so the depreciation to more than 23 will put a dent in Old Mutual's profits when translated into sterling.

RBC Capital Markets was quick off the mark, downgrading the stock to 'under-perform' from 'sector perform' and chopping the price target to 180p from 200p.

Investec (LON:INVP), meanwhile, was down 9% in lunchtime trading. It also reports in sterling but has a large corporate and private banking business in South Africa.

You can see the effects of a soft rand on its figures in its six months results to the end of September, where operating profit before tax was up 16.1% in sterling terms and up 27.0% in rand terms.

For Acacia Mining (LON:ACA), the decline of the rand is less of an issue, as indicated by the fact its shares had only dipped 3.8% towards the end of the lunchtime session.

It reports in US dollars, so there will be translation losses when South African revenues are converted into dollars, but the company formerly known as African Barrick Gold is more concerned about the value of the Tanzanian shilling these days, being the largest gold producer in Tanzania.

Likewise, Vedanta Resources (LON:VED) is more concerned these days about the movements of the Indian rupee (and the Zambian kwacha) as the rand.

Price: 58.9

Market Cap: £2.85 billion

1 Year Share Price Graph



Share Information

Code: OML

Listing: LSE

52 week High Low
127.26 42.76

Sector: Insurance

Website: www.oldmutual.com

Company Synopsis:

Old Mutual Limited (OML) is a premium African financial services group that offers a broad spectrum of financial solutions to retail and corporate customers across key markets in 17 countries.

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It remains to be seen whether President Zuma can appoint someone to restore confidence in the country's economic management; one of the first problems the new finance minister will have to deal with is the likely interest rate rise in the US, which will put the rand under further pressure.

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