Deutsche Securities
A Member of Deutsche Bank Group

8 February 2010

Elephant Book

Storm abating

Market Update

The Elephant Book provides an overview of the economy, the outlook for equity and bond markets, and an analysis of the top 51 stocks by market cap under coverage.

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Cover photograph

African Elephant ((Loxodonta Africana) and Rainbow
by
Daryl Balfour

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Global outlook – Improving but with tail risks
Deutsche Bank's global macro outlook continued to evolve positively over the latter part of 2009, with global growth now expected to be 3.9% in 2010. Considerable thought has been given to the implications of the manner in which we exit the ultra-accommodative backdrop. The release of 2011 forecasts, which suggest only a modest slowdown as stimuli are withdrawn, implies that DB expects a self-sustaining rebound in all private demand components globally. The power of the credit impulse turning positive from extremely depressed levels continues to feature prominently in our thinking. Possibly the biggest risk seen right now, in our view, would be a material back-up in bond yields as quantitative easing is withdrawn while government issuance remains high.

South Africa – Gradual healing but no fireworks
Our macro backdrop for South Africa suggests an environment during which the healing continues, but with Eskom signalling a ceiling on growth at c.3.8% (rather anaemic in the context of EM) and the South African consumer proving slow to get up off the floor, we are becoming concerned that after the steady rise since March in sympathy with global markets, selectively, some primarily domestically focused shares are starting to discount too much. That consensus forecasts for 2010 earnings are still edging lower for South African, while virtually all other markets have been in net upgrade territory for some time is a nagging worry.

17% return from equities as the earnings recovery gets under way
Trading on a trailing and 12-month forward PEs of c.15x and 14x respectively, ratings remain lofty by historical standards. We do, however, see ourselves at the beginning of a multi-year earnings recovery, most strongly in 2011. With the help of a big upgrade to our Resources forecasts in the latest round of revisions, our expected rebound is even stronger than before. This does highlight the disconnect between GDP growth and the composition of the listed equity market. Our top down model suggests a total return of c.17% over the next 12 months.

Resources and Industrials preferred over Financials
Our current sector preference is for Resources and Industrials over Financials. Although Resources ratings appear to be particularly stretched right now, they unwind rapidly over the next 24 months. Financials are fully discounting the earnings recovery, while possible regulatory and accounting changes pose disappointment risk this year. We remain overweight Industrials, focusing on stocks that offer a superior dividend yield, are geared to the offshore recovery or where we see an earnings recovery that is not fully appreciated.

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Economic context

Global outlook: Improving but with tail risks

In summary, Deutsche Bank's macro outlook has continued to evolve positively over the last quarter. Our "sweet spot" scenario, powered in the main by very accommodative monetary policy and fiscal stimuli globally, at least until the middle of 2010, appears to have played out thus far. For the period ahead, considerable thought has been given over the last quarter to the implications of the manner in which we exit this ultra-accommodative backdrop. A further 50bp upgrade to world GDP growth expected for 2010 since our previous World Outlook piece in September 2009, together with the release of 2011 forecasts which suggest only a slight moderation in global growth as stimuli are withdrawn is driven off an expectation that we will see a self-sustaining rebound in all private demand components globally.

Figure 1: Continued upgrades to 2010 growth with modest slowdown for 2011

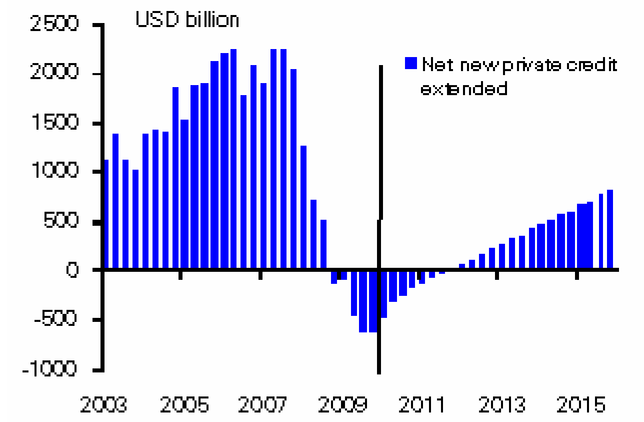
	Forecasts: September 2009				Forecasts: Current			
	GDP growth(%)		CPI inflation (%)		GDP growth(%)		CPI inflation (%)	
	2010F	2011F	2010F	2011F	2010F	2011F	2010F	2011F
US	2.8	–	0.8	–	3.6	3.3	1.8	1.7
Euroland	1.3	–	0.9	–	1.5	1.2	1.2	1.3
G7	**2.1**	**–**	**0.6**	**–**	**2.6**	**2.3**	**3.9**	**3.7**
China	8.8	–	3.0	–	9.0	9.0	3.4	2.5
EM countries	5.4	–	5.0	–	5.9	5.9	5	4.9
World	**3.3**	**–**	**2.5**	**–**	**3.9**	**3.8**	**2.9**	**2.8**

Source: Deutsche Bank

As far as global growth into 2011 is concerned, we believe much will depend on where the risks lie around US GDP growth at that point. Our US economist notes the current inventory correction has been unprecedented both in terms of its duration (six consecutive quarters) and depth. This provides the potential for a significant lengthy rebuild, with positive income gains associated with this rebuild also feeding through to consumer spending. Another factor contributing to a more positive view on the consumer contribution extending into 2011 is our belief that the US companies have over-cut payrolls, as well as the change in momentum of the credit impulse. Eight million US jobs lost since the beginning of the recession translates into a near 6% cumulative decline in employment – c.3x the average decline in an economic downturn.

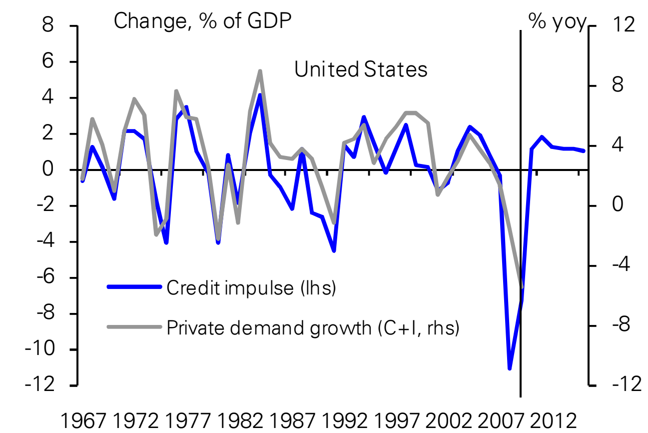
Revisiting the credit impulse argument, which is a central pillar to DB's growth expectations in the medium term, we suspect that many investors fear that as long as deleveraging continues, the outlook for private consumption and investment remains bleak. However, as our global economists have pointed out, it is the change in credit at the margin that is the key to understanding how credit affects private sector final demand. The rate of decline in new loans only has to slow for the credit impulse to turn positive. With reference to *Figure 10* below, in 2006 and 2007, the US non-financial private sector (households plus non-financial corporates) were borrowing on averaged USD2tr per year. Borrowing collapsed through 2008, and reached -US$640m (annualised) in 3Q09. Now we assume the rate of deleveraging stabilised in 4Q09, and the pace of deleveraging slows thereafter, reaching a point where a bit of net new borrowing resumes in 2011. Note: no borrowing takes place until mid-2011. What would this do to the credit impulse? As the chart below shows, this would be consistent with strong rebound in the credit impulse to levels that are consistent with 4.0% real private sector demand growth (C+I is consumption + investment).

Figure 2: Quarterly credit growth annualised



Source: Deutsche Bank, Haver

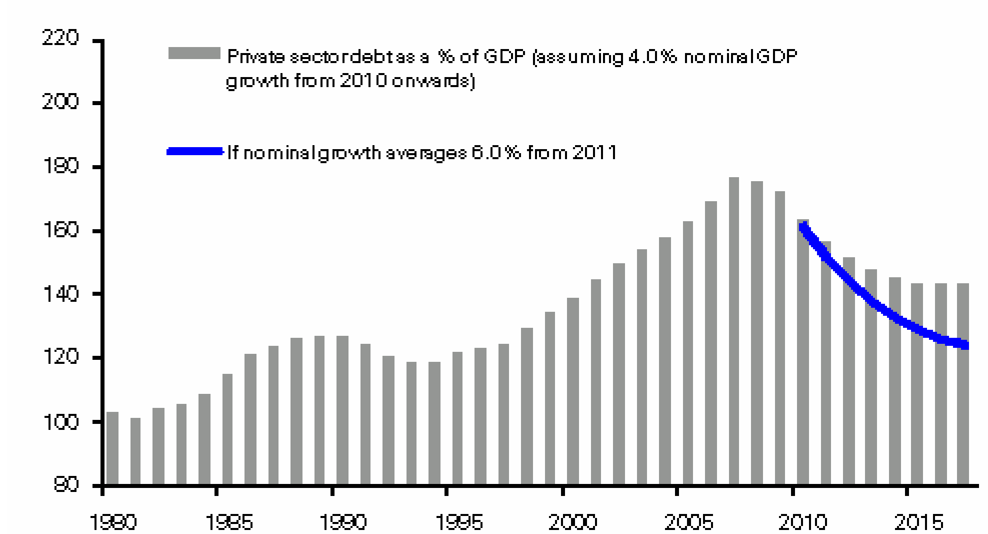
Figure 3: Resultant credit impulse



Source: Deutsche Bank, Haver

The point that one could draw from this analysis is that it is possible to have a consistent positive credit impulse providing decent support to GDP growth at a time where credit growth remains negative at first and thereafter remains very slow.

Figure 4: Deleverage despite positive credit impulse



Source: Deutsche Bank, Haver

The above fairly positive scenario, of course, has caveats. Of these, the most notable is the acknowledgement that consumers are still heavily indebted and balance sheets fragile. If bond yields were to rise suddenly (see more on this below), US mortgage rates would follow suit. Mortgage borrowing would drop back, causing a re-acceleration in the pace of deleveraging and a contraction in demand again. We suggest the "willingness to lend" index of senior loan officers is a good indicator to watch – another improvement in 1Q (due in the first week of February) should lend support to our view that the pace of deleveraging will slow, leading to the credit impulse turning positive.

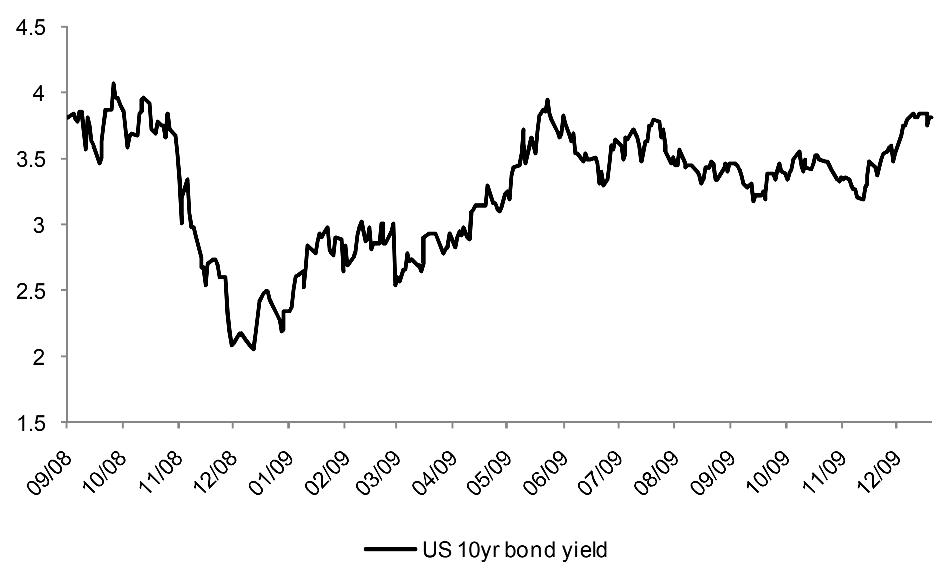
The exit: As far as the exit from the extremely accommodating economic policy is concerned, DB's view remains that policymakers will err on the side of a late exit to avoid the risk of a double dip recession or a return of financial instability. So long as the economy and financial system are perceived to be fragile, we expect central banks will tend to be forgiving financial system are perceived to be fragile, we expect central banks will tend to be forgiving of asset price increases and a gradual creep in inflation. Currently, DB is expecting the US Fed and ECB to commence with rate hikes in 3Q10.

A word on risks

While global growth is projected to return to what is considered sub-trend levels in the medium term, our outlook assumes we avoid several potential risks that remain.

- **Inflation:** Immediate upside risks to inflation are seen as limited, largely on the back of the significant surplus capacity that exists and well anchored inflation expectations. However, longer term, we think the risks to inflation are underestimated.
- **Chinese policy tightening:** Markets remain on a knife-edge with regard to the impact on Chinese growth from the recent initiation of monetary tightening in China. On the one hand, the tightening could increase the chance of a soft landing in China following a rapid expansion in Chinese bank credit, by avoiding a build up in asset price bubbles (property being one). However, a temporary slowdown in Chinese growth could have negative implications for global commodity prices and hence foreign appetite for emerging market assets leveraged to global commodity demand. In this scenario, the rand would be expected to come under pressure, and foreign appetite for South African equities to decline.
- **Increase in bond yields:** The benefits of accommodative monetary policy would be significantly negated in the event that bond yields begin to back up. We see this as one of the greatest risks to our view. How yields respond to an end to quantitative easing while government issuance remains high, as well as the impact on risk appetite in the event of any sovereign default are potential worries. We note a 60bp increase in the US 10-year yield through December. While a rise in yields had been expected, it was anticipated that this would occur later in 2010, implying that these recent developments will need to be watched closely.

Figure 5: US 10-year yield backing up in December



Source: I-Net Bridge

South Africa: Gradual healing but no fireworks

For South Africa, macro data released over the last quarter has provided little cause to alter our macro outlook. We continue to expect a stronger than current consensus rebound in growth in 2010, led by a rebound in manufacturing and underpinned by a rebuild in inventories.

Figure 6: Summary of key macroeconomic assumptions

	2007	2008	2009F	2010F	2011F
Real GDP (y-o-y%)	5.1	3.1	-1.6	3.1	3.3
Private consumption	6.6	2.3	-3.6	2.5	3.1
Government consumption	4.8	5	3.9	3.4	3.7
Investment	16.3	10.2	3.4	3.8	9.4
Exports	7.5	1.7	-19.0	7.0	9.6
Imports	10	2.2	-20.0	3.8	12.1
CPIX/CPI (Y0Y%)eop	7.3	9.1	6.6	4.3	5.6
Budget balance (% of GDP)	0.9	-1.2	-8.2	-6.4	-5.5
Current account balance (% of GDP)	-7.4	-7.3	-4.1	-5.2	-6.0
FX rate (eop) ZAR/USD	6.8	9.5	7.4	8.2	9.5
FX rate (eop) ZAR/EUR	10.1	11.9	10.5	11.9	

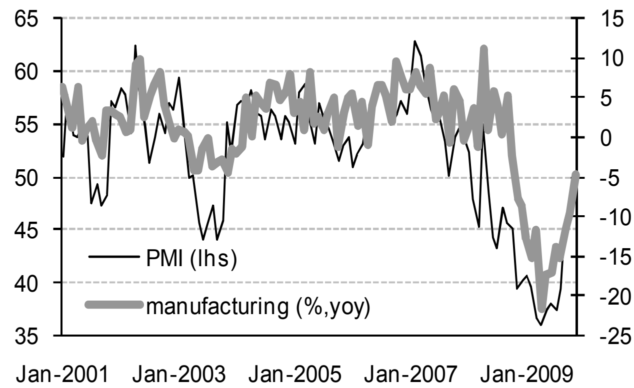
Financial Markets (end period)	3M	6M	12M
Policy rate (14 day repo rate)	7.0	6.5	6.5
3-month rate (Jibar)	7.1	6.6	6.8
10-year bond yields	8.7	8.8	9.0

Source: Deutsche Bank

From a strategy perspective, we highlight the key changes to our macroeconomic assumptions, as well as areas where we believe we may differ from consensus thinking at the moment.

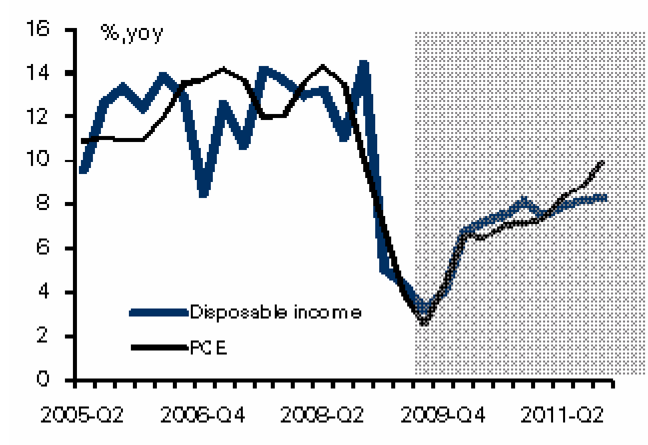
- **Real GDP:** Despite moderating our 2010 forecast slightly from 3.4% to 3.1%, we remain more bullish about the rebound in growth this year than current consensus. Our view remains that this will be a manufacturing/export-led recovery, while the South African consumer lags. The contrasting fortunes are evident from the two charts below, where manufacturing momentum has been recovering for some months now, while we have yet to see PCE bottom. Once PCE does start to recover, a relatively "jobless" improvement in growth (still very subdued business confidence suggests tentative re-hiring at best) and more constrained credit supply than we were used to in the 2004-07 period, leads us to believe PCE will not return to the nominal growth rates seen in the 2007.

Figure 7: Manufacturing rebound continues…



Source: Deutsche Bank, Haver

Figure 8: Subdued recovery in PCE still to come…



Source: Deutsche Bank, Haver

- **Policy rate:** Where previously we expected no further cuts in 2010, since November last year we have been forecasting 50bp rate cut by March and, thereafter, rates to remain flat for the remainder of the year. This change in view is driven by a lowering of our inflation forecast on the back of a stronger rand for longer.
- **Exchange rate:** While our year-end spot forecast sees the rand a fair bit weaker by the end of 2010, we see it as well supported around current levels through 1H10. The expected weakness into 2H10 is premised on a combination of the US dollar beginning to recover from its weak position as rates begin to rise, and the prospect of diminishing risk appetite as the easy money conditions that have supported risk assets begin to reverse course. Nevertheless, should the global inventory-led recovery prove stronger than expected, risks are skewed toward a stronger rand than our forecast.
- **Fiscal deficit:** We are projecting a fiscal deficit of -8.2% of GDP for this fiscal year with the government taking action at the February Budget statement to bring about a gradual decline in the deficit over the medium term. Given manageable levels of government debt to begin with, we are not concerned by the ability to fund this, as long as government's commitment to fiscal discipline remains clear. In this regard, given the lack of flexibility on the spending side (structural increases in social grants and public sector wages), we expect government will need turn to tax policy measures to remain within its forecast medium term deficit path.

In terms of domestic risk factors for 2010, from a newsflow perspective at least, electricity supply and the pricing negotiations with Eskom are likely to dominate debate for the early part of the year. We met recently with Eskom and are in the process of preparing a piece of research dedicated to this. At this stage, a few key points that stand out for us are that the decline in Eskom's price hike application from 45% to 35% compound over three years has been made possible by introducing a range of compromises, as well as many caveats that would allow it to return for further interim price adjustments should its assumptions prove incorrect. Despite rising demand as activity (particularly in the resources space comes back on line), we were interested to learn that Eskom's projections indicate that the 2011 and 2012 are in fact the tightest years (prior to the first new capacity from Kusile coming on line). Finally, Eskom's base case estimates have been driven off assumed real GDP growth of 3.8%. Given the resultant tightness that exists in the medium term, a significant positive growth surprise for South Africa looks a highly improbable outcome.

We think our base case for South Africa in 2010 can be summed up as a period of healing for South Africa without any major fireworks expected. Risks to our view are most likely linked to how some of the global concerns play out, which we highlighted above. In particular, with the Chinese authorities already beginning to normalise domestic interest rates and tighten monetary conditions, a temporary slowdown in Chinese growth could have negative implications for global commodity prices, which would have negative implications for the rand and foreign risk appetite for South African equities. A domestic growth recovery that some describe as "anaemic" in the context of EM, with limited room for material positive surprises in the medium term owing to Eskom limitations, coupled with a lagging consumer recovery means we will need to tread carefully. Shares rallying in sympathy with global peers or on the back of continued flows into the EM equity asset class means there is an increasing risk that selectively, ratings will over the course of 2010, begin to discount an unrealistic earnings recovery.

Market view

Our current projected 12 month total return from the various asset classes is provided in *Figure 9* below. Despite the strong rally from equities from the March 2009 lows, we continue to see the return prospects for equities as the most attractive for 2010.

Figure 9: Forecast sector returns (%)

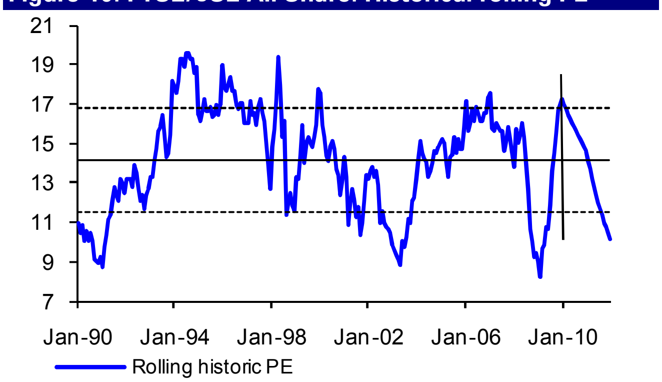
	Equities (J203)	Bonds (10-year RSA)	Cash 12-month NCD
Opening value	26 812	9.27	100
Forecast 12 month closing value	30 646	9.00	100
Expected capital return	14.3	3.00	0
Expected yield return	2.8	8.80	8.23
Expected total return	**17.10**	**11.80**	**8.23**

Source: Deutsche Bank

With respect to bonds, near term, we expect domestic newsflow to be fairly supportive. Our expectation that beyond a temporary rise in inflation in the first few months of the year due to base effects, that inflation will surprise to the downside and that government will show its intent to manage down the fiscal deficit, should prove supportive. However, given that we see one of the most prominent risks to our global macro view being that bond yields back up more than expected in response to an end to quantitative easing or a sovereign default, it implies that the balance of possible outcomes is heavily skewed to the downside of our base case.

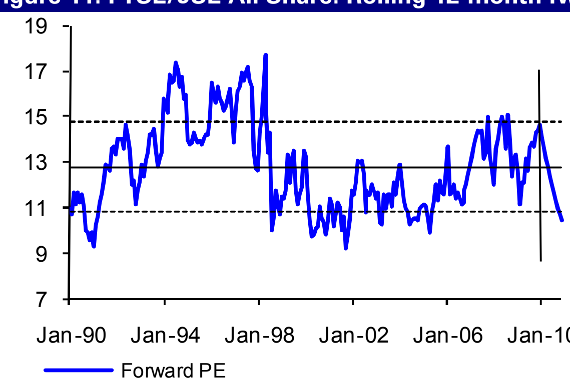
The rally in equities, while the earnings base has been declining through 2009 (off c.30% from its peak), has resulted in both trailing and 12 month forward multiples for the South African market becoming stretched relative to their respective histories.

Figure 10: FTSE/JSE All Share: Historical rolling PE



Source: Deutsche Bank, I-Net Bridge

Figure 11: FTSE/JSE All Share: Rolling 12-month fwd PE



Source: Deutsche Bank, I-Net Bridge

It is clear the market continues to price in a strong earnings recovery to come. Below are our current bottom-up aggregated forecasts. Just to clarify, the rolling version is according the JSE methodology (earnings move from forecast to history only on the date that a company in the index actually reports its results, while the interpolated basis adjusts the earnings history by time-apportioning earnings for the current period that has not yet been reported). While the latter approach is vulnerable to the quality of forecasts, it does have the advantage of giving a much more up-to-date view of market rating and growth outlook. It is perhaps a matter of personal preference as to which version investors prefer. The interpolated version gives the sense that we are considerably further through the period of negative earnings momentum for Resources than the rolling version suggests.

Figure 12: Alternative perspectives on growth forecasts (SWIX weighted)

Rolling earnings forecast and rating unwind

	Historical rolling PE	12 month earnings growth %	1 year fwd rolling PE	12-24 month earnings growth %	two year fwd rolling PE
ALL SHARE INDEX	**15.3**	**11**	**13.8**	**42**	**9.7**
Resources	16.7	-11	18.8	96	9.6
Industrial	14.4	18	12.2	18	10.3
Financial	15.0	26	11.9	29	9.0

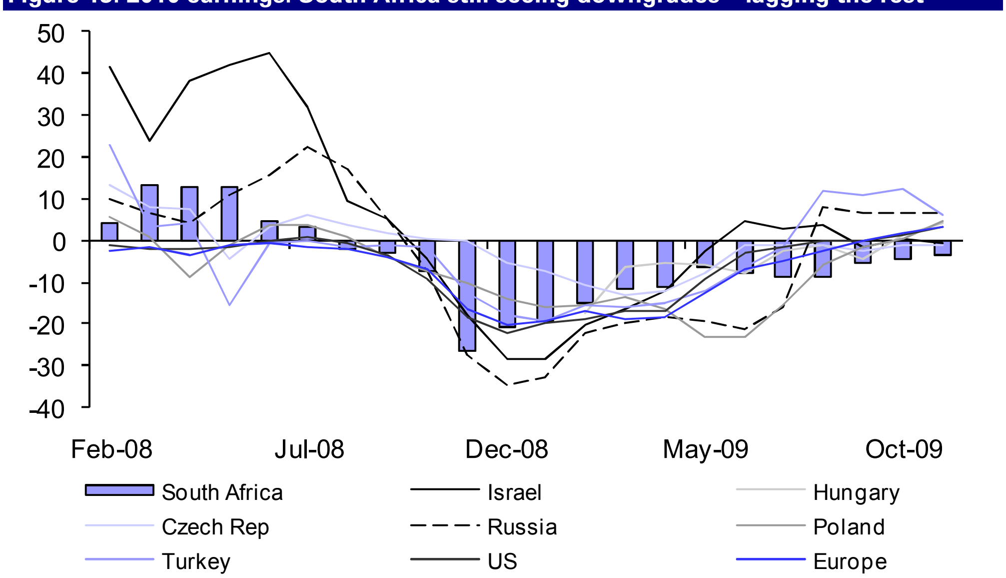
Interpolated earnings forecast and rating unwind

	Historical rolling PE	PE unwind %	Interpolate d PE	12 month earnings growth %	1 yr fwd interpolated PE	12-24 month earnings growth %	two year fwd interpolate d PE
ALL SHARE INDEX	**15.3**	**-1**	**15.4**	**30**	**11.9**	**30**	**9.1**
Resources	16.7	-29	23.6	53	15.4	52	10.1
Industrial	14.4	10	13.1	22	10.7	19	9.0
Financial	15.0	17	12.9	25	10.3	26	8.1

Source: Deutsche Bank

While DB's forecasts have begun to be revised upwards (almost entirely the result of our latest commodity price revisions, if we look at broader consensus, it is disappointing to see that South Africa is lagging the rest of the world, which for the most part is back in upgrade territory. *Figure 13* below shows the three-month rolling average change in consensus earnings expectations for 2010 over the period for which 2010 forecasts have been available. While it is at least clear that the momentum of downgrades is slowing steadily, it certainly supports the macro view that South Africa's recovery is likely to lag that being seen offshore.

Figure 13: 2010 earnings: South Africa still seeing downgrades – lagging the rest



Source: Deutsche Bank, IBIS

Return expectation

Our one year equity return projection is based on a mean reversion model, which assumes the market will exit at its long term average earnings yield at the end of 24 months. The FTSE/JSE All Share Index has historically delivered an average real return of 7.9%. To the extent that the market earnings yield over time reflects the real return expectation, we use this as a reference point to estimate the one-year forward market PE.

Based on our bottom-up forecasts, we expect a real return for the second year of c.40% (earnings growth of 42% plus a dividend yield of 3.5% less our forecast 2011 average inflation of 5.5%). Over the course of the year, we have lowered the discretionary ERP expansion that we had factored in as the degree of uncertainty has dissipated. Given another quarter of positive momentum in macro data and signs that the rest of the world is back in net upgrade territory (even if South Africa is lagging in this respect to some extent), we remain comfortable with this position. Considering that we remain in somewhat uncharted territory, particularly in terms of how macro drivers are likely to respond to the withdrawal of the massive stimuli, we still believe an expanded risk premium is warranted. Our resultant total return expectation for the next 12 months is c.17% (14.3% price).

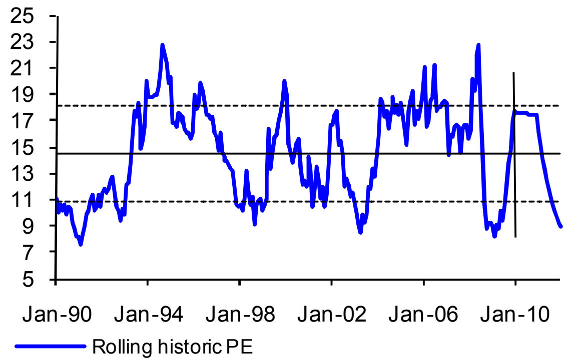
Figure 14: One-year equity market return projection

Market exit PE			One-year return projection	
Earnings growth (13m – 24m)		42.0%	Current rolling PE	15.3
Dividends (13m – 24m)		3.5%		
Total return		45.6%	One-year earnings growth (base)	10.5%
Inflation expectation (yr-2)		5.5%		
Total real return – year 2		40.1%	One-year forward PE	13.8
			Projected rolling exit PE	15.8
Mean historical real return/EY	12.7	7.9%	Price return	14.3%
Current ERP expansion/ (compression)		10%	Dividend return	2.8%
Adjusted real return expectation		8.4%		
Excess return		31.7%	**Total return**	**17.1%**
One-year exit EY		6.3%		
Equivalent one-year exit PE		**15.8**		

Source: Deutsche Bank

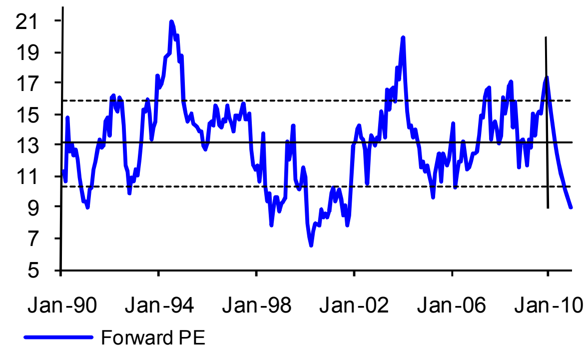
Resources: Rapid rating unwind as earnings recover

Figure 15: Resources sector historical PE



Source: Deutsche Bank, I-Net Bridge

Figure 16: Resources sector forward PE



Source: Deutsche Bank, I-Net Bridge

Having been cautious on the Resources sector throughout 2009, we have turned more positive. Since this move is largely at the expense of Financials, part of the rationale is as a consequence of the headwinds we now see for Financials in the year ahead, which we discuss later. With respect to Resources specifically:

- Successive upgrades to our global growth forecasts over the last six months. Importantly, our global view now envisages a self-sustaining rebound in private sector demand, resulting in only a moderate deceleration of global growth as monetary and fiscal stimuli are withdrawn. This has been accompanied by a steady moderation in our concerns about potential soft spot for commodities following the credit–fuelled restocking in China.
- The degree to which the multiples unwind over the next 24 months. Following our latest round of commodity price revisions, which we believe are either broadly in line or slightly on the bearish side of consensus currently, the forward multiples now unwind to comfortably below one standard deviation from the average (see *Figure 16* above). Relative to Financials in particular, but also Industrials, the forward ratings vs their respective long term average are now sufficiently compelling in favour of Resources.

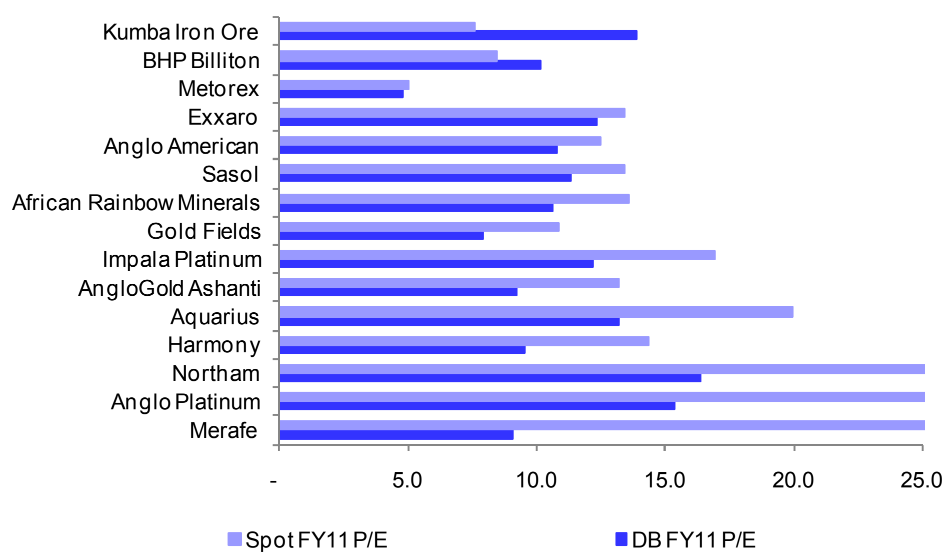
The two biggest swing factors that we are forced to live with are, of course, our views on commodity prices and the exchange rate. In *Figure 17* and *18* below, we have shown how the implied 2011 PE multiples change when we replace our current DB assumptions with spot. In most cases, there is an offset between moderating commodity prices relative to spot and a weakening profile for the rand further out. The one exception, thrown up by this analysis is the PGM complex, for which our own forecasts benefit from both a weakening rand and rising commodity price profile. The gearing either way is significant.

Figure 17: What happens to two year forward multiples if we put spot in the models?

	DB FY11 PE	Spot FY11 PE	Difference %
Merafe	9.1	48.1	430
Anglo Platinum	15.4	39.5	157
Northam	16.4	28.1	71
Harmony	9.5	14.4	51
Aquarius	13.2	20.0	51
AngloGold Ashanti	9.2	13.2	43
Impala Platinum	12.2	16.9	38
Gold Fields	7.9	10.9	38
African Rainbow Minerals	10.6	13.6	28
Sasol	11.3	13.4	19
Anglo American	10.7	12.5	16
Exxaro	12.3	13.4	9
Metorex	4.8	5.0	4
BHP Billiton	10.1	8.4	-17
Kumba Iron Ore	13.9	7.6	-45

Source: Deutsche Bank

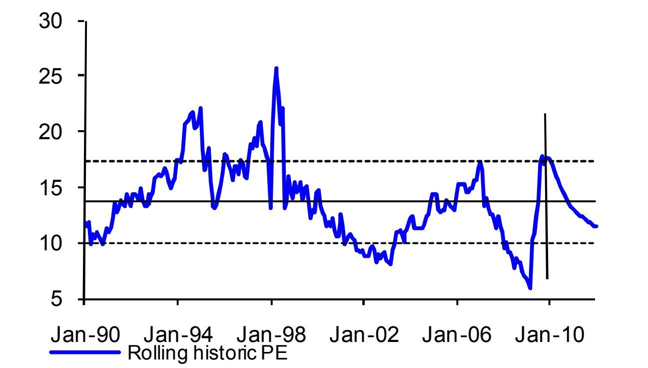
Figure 18: Two-year forward multiples under DB forecast and current spot prevailing scenarios



Source: Deutsche Bank

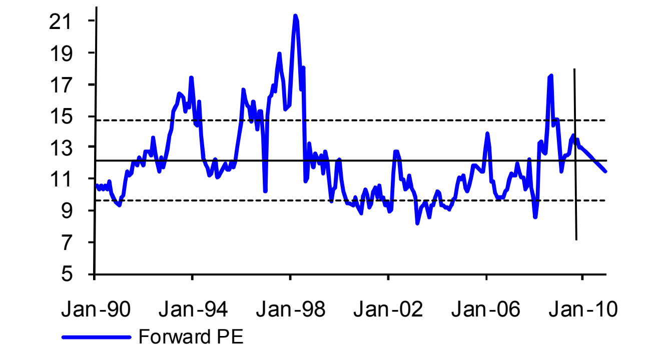
Financials: Ratings, Rate expectations, Regulatory uncertainty

Figure 19: Financials – Historical PE



Source: Deutsche Bank, I-Net Bridge

Figure 20: Financials – 12 month forward PE



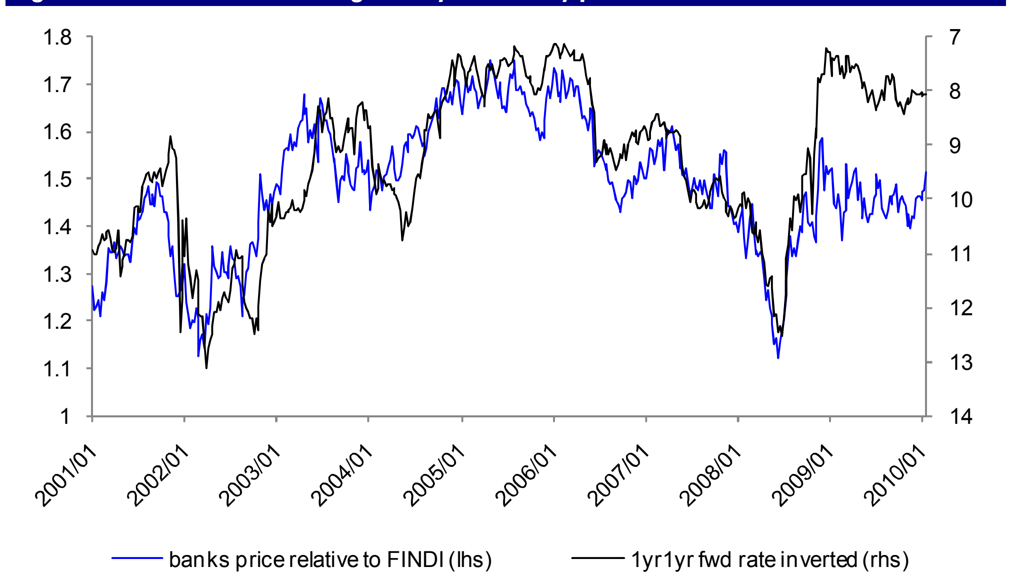
Source: Deutsche Bank, I-Net Bridge

Having endured a protracted rising rate cycle and the collateral damage to sentiment from the global financial crisis, one could hardly blame investors for believing the day of financials has finally arrived. However, we see three "Rs" that stand in the way of this:

Ratings: Given that it is slightly over a year since interest rates began to decline, easing credit stress alone should be expected to feed through into a strong earnings recovery in the Banks sector. The problem is, looking at the current ratings above, this earnings recovery is largely priced in. The forward multiple in particular suggests we will likely need a positive earnings surprise to deliver any further upside.

Rate expectations: With reference to *Figure 21* below, there has been a very tight relationship between the relative price performance of the Banks sector and the market's expectations of where short-term rates will be in one year's time (the 1yr1yr forward rate). Since bottoming in 1Q09, the 1yr1yr forward rate has been gradually edging upwards.

Figure 21: Best of the declining rate cycle already priced in?

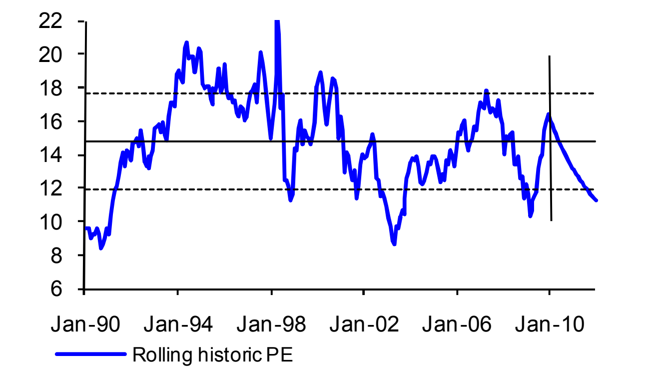


Source: Deutsche Bank

Regulatory uncertainty: This cycle may be different because it may be accompanied by the financial implications of regulatory change. We are concerned that banks will not escape the regulatory backlash from the financial crisis, the details of which is beginning to filter into the market. While the South African banks should take any capital adequacy changes in stride, we are particularly concerned by a proposal to introduce liquidity limits for the first time – an area where the South African market does not rate well. A further footnote that threatens to take much of the spice out of the earnings recovery is proposed counter-cyclical provisioning, which would likely cause a disappointment to the extent of provision releases. In the case of Life Assurers, with the exception of Old Mutual, we see little justification for further re-rating.

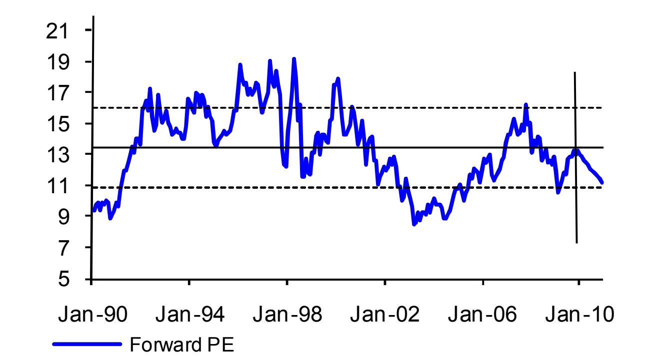
Industrials: Pockets of opportunity but tread carefully

Figure 22: Industrials – Historical PE



Source: Deutsche Bank, I-Net Bridge

Figure 23: Industrials – 12 month forward PE



Source: Deutsche Bank, I-Net Bridge

Relative to history, Industrials appear least stretched from a rating perspective of the three major sector groupings. However, two important points are worth noting:

- The historical average has been lifted by the more lofty ratings that prevailed in the years that followed the 1994 election of the first democratic government. Ratings remained elevated in the years that followed, possibly in part as investors looked for ways to play expected opportunities arising from the end of South Africa's isolation.
- The dominant weighting of MTN, which is currently trading at a rating well off levels in the past (particularly 2007-2008).

Another factor to consider is that, without venturing into the small cap end of the spectrum, the South African listed industrial sector is predominantly skewed to consumer orientated activities, as opposed to manufacturing. Where manufacturing does take place, it tends to be in the relatively defensive areas of food, pharmaceuticals and beverages. While to some extent, this may be an over-simplification of the South African market, a lagging and subdued consumer recovery in prospect for 2010 and beyond is likely to be a considerably more influential to the sector's prospects than our expected manufacturing rebound.

To sum up then, despite the aggregated rating appearing least stretched of the three major sector groups, at a sub-sector level, there are areas where we think the broad-based equity rally has begun to price in unrealistic prospects, particularly insofar as there is reliance on the recovery in the South African consumer for this. We feel 2010 will require careful stockpicking within Industrials and have aligned our preferences with the following themes:

- **Underpin of an attractive dividend yield:** Given the potentially elevated disappointment risk operationally, stocks such as British American Tobacco and Tiger Brands should be supported by their superior dividend yields and earnings visibility.
- **Stocks with better exposure to the global recovery:** While taking due cognisance of ratings, some stocks with material non-South African exposure, offer better gearing to the recovery could be stronger in the short-term. Some examples include Richemont

(high operational leverage to any rebound in luxury spend), and Naspers (internet businesses offshore starting to get traction, while the ex-Tencent rump trades on an implied multiple of c.2x).

- **Stocks for which the earnings recovery potential is still under-appreciated:** Some examples are the furniture retailers, for which we note that a normalisation of the credit losses alone results in PEs unwinding to around the mid-single digits. In addition, top line growth is expected to surprise, even in a sluggish consumer environment, as declining inflation in food and services leads to the reallocation of spend into the very low base durable sector. MTN too falls into this category – a strong earnings recovery in prospect and average penetration levels of just 50% have been overshadowed by a barrage of negative newsflow for the sector, which we do not expect to materially alter long-term prospects.

Equity review: Forecast summary

	Recent price (SAc)	Year end	EPS (cps) Historical	FY1	FY2	DPS (cps) FY1	FY2	PE FY1	DY F1 (%)	Rating
General Mining										
African Rainbow Minerals	16800	Jun-09	1079	652	2179	234	688	25.8	1.4	Buy
Anglo American plc*	3732	Dec-08	433	185	402	0	0	20.4	0.0	Buy
BHP Billiton plc*	2996	Jun-09	192	247	334	85	91	12.2	2.8	Hold
Exxaro Resources	10600	Dec-08	1006	-12	836	250	283	nm	2.4	Hold
Kumba Iron Ore	32498	Dec-08	2254	1956	2301	1310	1540	16.6	4.0	Sell
Platinum										
AngloPlat	72599	Dec-08	5582	256	2136	0	1	283.4	0.0	Hold
Impala Platinum	19750	Jun-09	994	849	1826	274	589	23.3	1.4	Buy
Non-Mining Resources										
Mondi plc**	421	Dec-08	32	16	15	8	8	25.0	1.9	Buy
Sappi*	431	Sep-09	-12	-9	20	0	0	nm	0.0	Sell
Sasol	28700	Jun-09	2525	2283	2754	850	1050	12.6	3.0	Buy
Banks and Financial Services										
ABIL	2969	Sep-09	225	311	361	202	230	9.5	6.8	Hold
Absa	13425	Dec-08	1412	892	1232	402	493	15.1	3.0	Hold
FirstRand	1865	Jun-09	123	139	198	64	98	12.7	3.4	Buy
Investec plc***	426.3	Mar-09	39.7	42.3	48.8	15.0	18.6	10.1	3.5	Buy
Nedbank	12200	Dec-08	1448	1067	1142	420	429	11.4	3.4	Hold
Standard Bank	10885	Dec-08	936	751	927	303	369	14.5	2.8	Hold
Life Assurance										
Discovery	3105	Jun-09	439	374	427	70	85	8.3	2.3	Buy
Liberty Holdings	6700	Dec-08	1173	760	1056	455	500	8.8	6.8	Hold
Old Mutual plc***	10410	Dec-08	12	13	15	2	6	8.0	0.2	Buy
Sanlam	2288	Dec-08	213	234	257	103	108	9.8	4.5	Hold

** Values in US¢*
*** Values in EUR cents*
****Values in GBP pence*
All prices are as at the close of business on Friday, 29 January 2010
Source: Company data; Deutsche Securities estimates

Equity review: Forecast summary (cont)

	Recent price (SAc)	Year end	EPS (cps) Historical	FY1	FY2	DPS (cps) FY1	FY2	PE FY1	DY F1 (%)	Rating
Real Estate										
Growthpoint	1369	Jun-09	140	147	235	122	134	9.3	8.9	Hold
Liberty International plc***	457	Dec-08	29.0	21.9	20.1	16.5	16.5	20.8	3.6	Hold
Redefine	716	Aug-09	40	101	108	68	71	7.1	9.5	Hold
Industrials										
Adcock Ingram	5365	Jun-09	452	494	548	164	183	10.9	3.1	Hold
Aveng	3550	Jun-09	428	467	545	126	147	7.6	3.6	Hold
Barloworld	4520	Jun-09	281	351	441	117	147	12.9	2.6	Hold
Bidvest	13117	Jun-09	981	1075	1240	442	509	12.2	3.4	Buy
British America Tobacco***	2070	Jun-09	129	151	164	98	106	13.8	4.7	Buy
Foschini	5617	Mar-09	553	564	666	294	347	10.0	5.2	Hold
Imperial	8014	Jun-09	640	637	725	242	242	12.6	3.0	Hold
JD Group	4360	Aug-09	42	382	650	154	262	11.4	3.5	Buy
Lewis	5225	Mar-09	634	677	835	318	392	7.7	6.1	Buy
Massmart	8715	Jun-09	610	615	709	386	417	14.2	4.4	Hold
MTN Group	10945	Dec-08	904	752	1085	181	235	14.6	1.7	Buy
Murray & Roberts	3952	Jun-09	651	627	695	179	199	6.3	4.5	Hold
Nampak	1560	Sep-09	81	113	127	57	64	13.8	3.6	Sell
Pick n Pay	4030	Feb-09	207	229	294	188	221	17.6	4.7	Buy
PP Cement	3355	Sep-09	169	266	293	222	244	12.6	6.6	Hold
Richemont**	244	Mar-09	133	114	141	44	44	21.5	1.8	Buy
SABMiller plc*	2741	Mar-09	137	162	186	65	74	16.9	2.4	Hold
Shoprite	6985	Jun-09	390	440	486	225	249	15.9	3.2	Hold
Spar	7100	Sep-09	392	522	590	362	414	13.6	5.1	Buy
Sun International	9250	Jun-09	618	644	781	215	260	14.4	2.3	Hold
Telkom	3319	Mar-09	989	594	698	250	300	5.6	7.5	Hold
Tiger Brands	17700	Sep-09	1398	1490	1570	745	785	11.3	4.4	Buy
Truworths	4240	Jun-09	332	387	459	200	236	11.0	4.7	Buy
Vodacom	5450	Mar-09	409	515	640	230	256	10.6	4.2	Buy
Woolworths	1828	Jun-09	107	137	165	92	110	13.3	5.0	Hold

** Values in US¢*
*** Values in EUR cents*
****Values in GBP pence*
All prices are as at the close of business on Friday, 29 January 2010
Source: Company data; Deutsche Securities estimates

South Africa – General Mining

African Rainbow Minerals Ltd

Business description: Following ARMgold's successful listing, the same management team created ARM, an important milestone in South African corporate BEE history. ARM was effectively formed through a four-way tie-up of Harmony and ARMgold (initially African Rainbow Minerals Investments (ARMI)), Avgold and Avmin to create South Africa's largest listed diversified BEE mining company. ARMI is the unlisted 100% historically disadvantaged South African-owned vehicle that comprises the Motsepe Family trusts. ARMI now holds 43% of the listed ARM.

The **ferrous metals division** (NAV contribution: 58%) consists of the 50% effective ownership of Assmang, comprising three divisions – manganese, iron ore and chrome. About 90% of its ferrous metal production is exported via Saldanha Bay, Port Elizabeth, Durban and Richards Bay. The division has significant growth opportunities at the Khumani iron ore mine, which is in commissioning and will be expanded to 16m tonnes pa of iron ore. Manganese and chrome were top performers late in the cycle. However the recent market weakness has resulted in downside pressure on pricing and on production curtailments that will limit contribution from these divisions going forward.

The **nickel** and **platinum divisions** (NAV contribution: 10%) comprise Nkomati, Modikwa, Two Rivers and Kalplats. Nkomati is in transition from being a high grade, low volume to a low grade, high volume nickel mine, though with significant PGM, chrome and base metal by-products. We estimate Modikwa is currently loss making at the headline level and that lower by-products will result in Nkomati being cash negative at current price levels.

Harmony (14% of NAV) is predominantly a South African gold producer; 100% of its total FY09 production is from South Africa. Harmony acquired 100% of Avgold in 1H04. ARM holds 15% of Harmony; we expect it to retain this stake in the short and medium term.

Copper JV with Vale, ARM's non-South African exploration operations are held through a 50:50 JV with Vale. These operations would not have been given priority given the capital requirements from the South African operations, hence the current structure. Value is difficult to ascertain as an exploration interest but we include a value of R1bn, around the level of the Vale offer.

Drivers

- Base and ferrous metal prices, in particular manganese, iron ore and nickel.
- Precious metal prices – gold and platinum.
- ZAR/USD exchange rate.

We expect production growth from the various projects to continue coming through in FY10 (Khumani and Nkomati). There is uncertainty over ferrochrome, iron ore and manganese (ore and alloys) volumes and pricing in the short term given weak steel and stainless steel markets.

Outlook: ARM has a strong project pipeline (Modikwa, Two Rivers, Nkomati and Khumani), putting the group into a cash-generative position in the medium term, which we expect to lead to further project approvals and continued dividends. Recent weaker manganese markets causing lower prices and volumes have resulted in the company trading below our fair value, upside to valuation leads us to rate the stock as a **Buy**.

Valuation: Our valuation is based on sum-of-the-parts with the stake in Harmony valued at our target price and other operations valued based on a DCF analysis with a WACC of 12.2% (Rf 8.5%, D/E 30%, ERP 4.5%, Beta 1.25) and discounting over the life of the mine.

Risks: Downside risks to our price target include lower-than-forecast commodity prices, in particular nickel, PGMs (platinum group metals), manganese, ferro-manganese and iron ore as well as stronger currencies. Other risks include delivery of the Khumani project on time and budget and limited available rail capacity in the long term which would hamper anticipated volume growth.

Model updated: 19 January 2010

Running the Numbers

S. Africa

South Africa

General Mining

ARM

Reuters: ARIJ.J	Bloomberg: ARI SJ

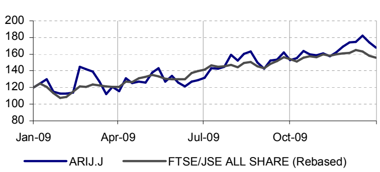
Buy

Price (29 Jan 10)	ZAR 168.00
Target price	ZAR 200.00
52-week Range	ZAR 107.63 – 184.25
Market Cap	ZAR 35,567m
	US$ 4,714m

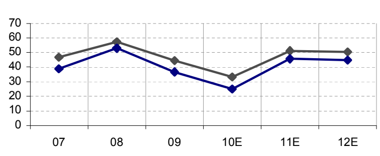
Company Profile

ARM is a South African-based diversified mining company. In order of significance, it has exposure to platinum, iron ore, nickel, manganese, gold. It is majority owned by a BEE company, African Rainbow Minerals Investments, chaired by Patrice Motsepe.

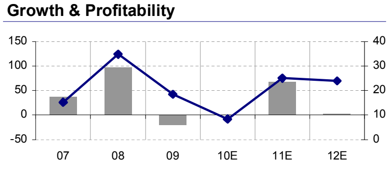
1yr Price Performance



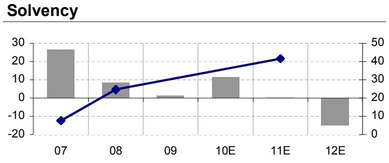
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	5.71	18.72	10.79	6.52	21.79	25.01
Reported EPS (ZAR)	5.77	20.93	13.36	6.52	21.79	25.01
DPS (ZAR)	1.50	4.00	1.75	2.34	6.88	5.54
BVPS (ZAR)	52.27	70.32	76.15	80.56	95.78	115.60
Weighted average shares (m)	208	211	212	212	212	212
Average market cap (ZARm)	18,197	38,314	30,842	35,567	35,567	35,567
Enterprise value (ZARm)	14,270	32,654	24,866	31,634	29,993	26,192
Valuation Metrics						
P/E (DB) (x)	15.3	9.7	13.5	25.8	7.7	6.7
P/E (Reported) (x)	15.2	8.7	10.9	25.8	7.7	6.7
P/BV (x)	2.36	3.98	1.71	2.09	1.75	1.45
FCF Yield (%)	0.6	4.0	2.6	nm	9.6	14.1
Dividend Yield (%)	1.7	2.2	1.2	1.4	4.1	3.3
EV/Sales (x)	2.24	2.59	2.46	3.15	1.78	1.52
EV/EBITDA (x)	4.8	4.5	5.5	9.5	3.5	3.0
EV/EBIT (x)	5.8	4.9	6.7	12.6	3.9	3.4
Income Statement (ZARm)						
Sales revenue	**6,374**	**12,590**	**10,094**	**10,035**	**16,868**	**17,281**
Gross profit	**2,988**	**7,209**	**4,494**	**3,341**	**8,638**	**8,725**
EBITDA	**2,988**	**7,209**	**4,494**	**3,341**	**8,638**	**8,725**
Depreciation	507	531	787	831	928	981
Amortisation	0	0	0	0	0	0
EBIT	**2,481**	**6,678**	**3,707**	**2,510**	**7,710**	**7,744**
Net interest income(expense)	-319	-270	29	12	-185	177
Associates/affiliates	16	461	147	-240	-102	263
Exceptionals/extraordinaries	14	162	514	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**2,192**	**7,031**	**4,397**	**2,283**	**7,423**	**8,183**
Income tax expense	781	2,084	1,727	869	2,513	2,506
Minorities	191	460	-198	14	230	308
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,220**	**4,487**	**2,868**	**1,400**	**4,680**	**5,370**
DB adjustments (including dilution)	-13	-474	-551	0	0	0
DB Net profit	**1,207**	**4,013**	**2,317**	**1,400**	**4,680**	**5,370**
Cash Flow (ZARm)						
Cash flow from operations	**1,974**	**4,169**	**4,050**	**977**	**4,981**	**6,589**
Net Capex	-1,859	-2,631	-3,255	-2,273	-1,550	-1,571
Free cash flow	**115**	**1,538**	**795**	**-1,296**	**3,431**	**5,018**
Equity raised/(bought back)	110	66	2	0	0	0
Dividends paid	0	0	0	-494	-1,457	-1,173
Net inc/(dec) in borrowings	1,452	-241	-173	-1,273	0	0
Other investing/financing cash flows	-832	204	107	0	0	0
Net cash flow	**845**	**1,567**	**731**	**-3,063**	**1,973**	**3,846**
Change in working capital	*0*	*-1,680*	*0*	*-1,562*	*-1,882*	*639*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,063	2,660	3,513	450	2,424	6,269
Tangible fixed assets	7,121	9,024	11,725	13,167	13,788	14,378
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	7,248	7,778	6,809	6,569	6,467	6,730
Other assets	2,712	5,416	3,452	6,003	8,407	7,831
Total assets	**18,144**	**24,878**	**25,499**	**26,189**	**31,087**	**35,209**
Interest bearing debt	4,044	3,978	3,744	2,471	2,471	2,471
Other liabilities	2,882	5,224	5,004	6,048	7,493	7,111
Total liabilities	**6,926**	**9,202**	**8,748**	**8,519**	**9,964**	**9,582**
Shareholders' equity	10,878	14,876	16,149	17,054	20,276	24,474
Minorities	340	800	602	616	846	1,154
Total shareholders' equity	**11,218**	**15,676**	**16,751**	**17,670**	**21,123**	**25,627**
Net debt	*2,981*	*1,318*	*231*	*2,021*	*47*	*-3,798*
Key Company Metrics						
Sales growth (%)	37.9	97.5	-19.8	-0.6	68.1	2.4
DB EPS growth (%)	162.5	228.1	-42.4	-39.6	234.3	14.8
EBITDA Margin (%)	46.9	57.3	44.5	33.3	51.2	50.5
EBIT Margin (%)	38.9	53.0	36.7	25.0	45.7	44.8
Payout ratio (%)	25.6	18.8	12.9	35.3	31.1	21.8
ROE (%)	15.3	34.8	18.5	8.4	25.1	24.0
Capex/sales (%)	29.2	21.1	32.3	22.6	9.2	9.1
Capex/depreciation (x)	3.7	5.0	4.1	2.7	1.7	1.6
Net debt/equity (%)	26.6	8.4	1.4	11.4	0.2	-14.8
Net interest cover (x)	7.8	24.7	nm	nm	41.6	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining

Anglo American plc

Business description: Anglo American's (Anglo's) portfolio now consists of seven core mining-based divisions (met coal, thermal coal, nickel, platinum, iron ore (including Kumba, Amapa, Minas Rio and Samancor), diamonds and copper) and a non-core division (industrial minerals, zinc, Scaw, Copebras, Catalao), to be realised in time. The group is now being managed along clearly defined and focused commodity lines, with management deployed to major production regions. The changes in structure have facilitated the ability for efficient capital allocation across the group, with potential cash inflow from non-core asset sales of USD6-7bn.

Since its 1999 London listing, the group's structure has improved dramatically due to the removal of several minority holdings, dissolution of the De Beers cross-holding, divestiture of non-core assets and acquisition of a number of major assets. The group has also been more active on the acquisition front since new CEO, Cynthia Carroll, took office. The group's acquisition of MMX's Minas-Rio and Amapá, Pebble, Michiquillay and Foxleigh indicate the acceleration of acquisitions across the core commodities, and illustrates a more aggressive view of the sustainability of the commodity cycle as well as potentially higher long-term price assumptions. There is also a strong portfolio of organic growth within the group with USD17bn committed to capital projects, mainly in the copper, iron ore and nickel division and up to USD40bn in total approved and unapproved future projects.

The aggressive capital returns to shareholders as well as acquisitions above have resulted in Anglo having net debt of USD11.5bn (DB estimate) at the end of FY09. Debt levels are expected to increase into 2010, peaking at USD13bn in 2011 before the higher production from the Sishen South, Barro Alto and Los Bronces projects starts to come through. In addition the sale of USD6-7bn of non-core assets should result in an accelerated debt reduction over time.

Anglo is trading on a similar FY2 rating as the other diversified mining companies but has three large divisions that are operating at very low margins – PGMs, industrial minerals and diamonds. Recovery of this margin will be a positive catalyst for Anglo's rating in our view.

Drivers

- Rand and AUD.
- PGMs, copper, coal and iron ore.

Anglo's primary business driver remains the global economic cycle with consumer exposure through diamonds and platinum. The group has significant exposure to PGMs, and diamonds, which performed late in this cycle. Its earnings base, dominated by South African assets, faces the greatest rand exposure of any of the large diversified houses.

CEO Cynthia Carroll is leading a series of far-reaching changes in Anglo's next chapter of development. Anglo is now focussed on operational performance (in particular at AngloPlat), internal restructuring, project delivery (in particular after the MMX acquisition) and asset optimisation.

Anglo has announced significant head office and AngloPlat restructuring and we think there is potential upside to earnings as the cost savings from this restructuring as well as the impact of the USD2bn asset optimisation and procurement programme are realised – these are significant positive catalysts.

Outlook: Anglo is focused on value delivery of USD2bn from the Asset Optimisation (AO) and procurement programmes underway and on delivering the three major growth projects expected to come on line in 2011 and 2012 (Minas Rio, Los Bronces and Barro Alto). We think that the turnaround of AngloPlat, the Australian coal business and De Beers are key to a further re-rating of Anglo as well as delivery of these savings are key to a rerating. We have factored limited upside from these turnarounds into our numbers and as a result see further potential upside on delivery. Given the upside potential based on our valuation we rate Anglo as a **Buy**.

Valuation: Our price target reflects an adjusted valuation (9.5% WACC -Beta 1.25, Equity Risk Premium 4.5%, Risk Free Rate 5%, cost of debt 6% on a through-the-cycle target gearing of 30%) taking into consideration both DCF for core asset valuations and market values or multiples for non-core assets. We feel this is justified given the market unwillingness to pay for future growth.

Risks: Risks to our view include stronger than expected operating currencies (rand, AUD) and lower commodity prices in particular PGMS, copper and iron ore. Risks include lack of delivery on asset optimisation, procurement targets as well as non-core asset sales and the turnaround of AngloPlat and De Beers.

Model updated: 12 January 2010

Running the Numbers

S. Africa

South Africa

General Mining

Anglo American

Reuters: AGLJ.J Bloomberg: AGL SJ

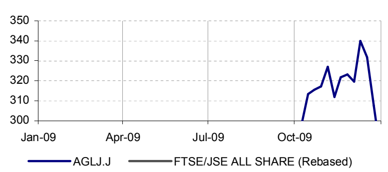
Buy

Price (29 Jan 10)	ZAR 284.00
Target price	ZAR 385.00
52-week Range	ZAR 138.21 – 344.61
Market Cap	ZAR 341,368m US$ 45,244m

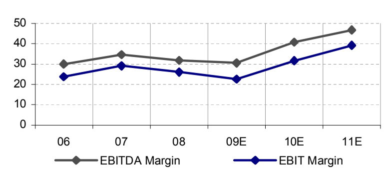
Company Profile

Anglo American plc is a global mining and natural resources company. It has interests in gold, diamonds, platinum, coal, copper, nickel, zinc, iron ore, industrial minerals and forest products. The Group has operations and developments in Africa, Europe, Australia, and South and North America. Anglo American also provides technology support and solutions.

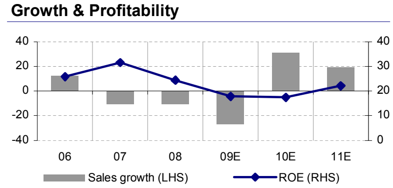
1yr Price Performance



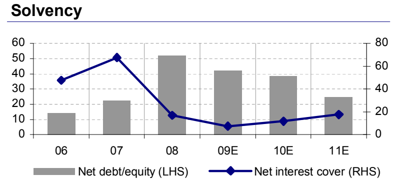
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS ($)	3.64	4.34	4.33	1.85	4.02	6.22
Reported EPS ($)	4.11	5.56	4.31	3.37	4.02	6.22
DPS ($)	1.08	1.24	0.44	0.00	0.00	0.50
BVPS ($)	16.53	17.16	16.85	21.87	26.07	32.37
Weighted average shares (m)	1,468	1,309	1,200	1,202	1,202	1,202
Average market cap (US$m)	62,777	76,226	57,106	45,244	45,244	45,244
Enterprise value (US$m)	61,483	74,673	62,766	52,494	52,557	48,619
Valuation Metrics						
P/E (DB) (x)	11.8	13.4	11.0	20.4	9.4	6.1
P/E (Reported) (x)	10.4	10.5	11.0	11.2	9.4	6.1
P/BV (x)	3.04	3.54	1.35	1.72	1.44	1.16
FCF Yield (%)	7.5	4.5	5.2	nm	2.1	6.6
Dividend Yield (%)	2.5	2.1	0.9	0.0	0.0	1.3
EV/Sales (x)	1.86	2.53	2.39	2.72	2.08	1.61
EV/EBITDA (x)	6.2	7.3	7.5	8.9	5.1	3.5
EV/EBIT (x)	7.8	8.7	9.2	12.0	6.6	4.1
Income Statement (US$m)						
Sales revenue	**33,072**	**29,532**	**26,311**	**19,287**	**25,297**	**30,113**
Gross profit	**9,910**	**10,225**	**8,359**	**5,884**	**10,303**	**14,073**
EBITDA	**9,910**	**10,225**	**8,359**	**5,884**	**10,303**	**14,073**
Depreciation	2,036	1,632	1,509	1,521	2,312	2,288
Amortisation	0	0	0	0	0	0
EBIT	**7,874**	**8,593**	**6,850**	**4,362**	**7,991**	**11,784**
Net interest income(expense)	-165	-127	-401	-587	-673	-662
Associates/affiliates	685	294	1,113	447	1,008	1,460
Exceptionals/extraordinaries	1,168	2,263	1,009	1,442	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**9,562**	**11,023**	**8,571**	**5,664**	**8,327**	**12,582**
Income tax expense	2,640	2,774	2,451	954	2,450	3,775
Minorities	736	868	905	560	858	1,042
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**6,186**	**7,381**	**5,215**	**4,150**	**5,018**	**7,764**
DB adjustments (including dilution)	-715	-1,620	22	-1,874	0	0
DB Net profit	**5,471**	**5,761**	**5,237**	**2,276**	**5,018**	**7,764**
Cash Flow (US$m)						
Cash flow from operations	**8,310**	**7,264**	**8,065**	**3,716**	**6,366**	**7,496**
Net Capex	-3,626	-3,821	-5,116	-4,945	-5,406	-4,512
Free cash flow	**4,684**	**3,443**	**2,949**	**-1,229**	**959**	**2,984**
Equity raised/(bought back)	-3,592	-6,054	-608	19	42	42
Dividends paid	-3,271	-2,266	-2,346	-594	-1,041	-1,249
Net inc/(dec) in borrowings	583	3,813	6,616	-1,614	-600	-5,100
Other investing/financing cash flows	1,181	870	-7,045	1,504	-673	-692
Net cash flow	**-415**	**-194**	**-434**	**-1,913**	**-1,313**	**-4,015**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (US$m)						
Cash and other liquid assets	3,004	3,129	2,771	995	-318	-2,174
Tangible fixed assets	23,498	23,534	29,545	35,479	38,573	39,907
Goodwill/intangible assets	2,655	1,811	3,250	3,400	3,400	3,400
Associates/investments	7,941	8,879	7,179	6,437	6,903	7,976
Other assets	9,385	7,409	6,993	8,006	9,321	10,351
Total assets	**46,483**	**44,762**	**49,738**	**54,317**	**57,880**	**59,460**
Interest bearing debt	6,795	8,586	14,075	12,861	12,261	7,761
Other liabilities	12,561	11,846	13,907	13,353	12,639	11,375
Total liabilities	**19,356**	**20,432**	**27,982**	**26,214**	**24,900**	**19,136**
Shareholders' equity	24,271	22,461	20,221	26,282	31,342	38,908
Minorities	2,856	1,869	1,535	1,821	1,638	1,416
Total shareholders' equity	**27,127**	**24,330**	**21,756**	**28,103**	**32,980**	**40,324**
Net debt	*3,791*	*5,457*	*11,304*	*11,866*	*12,579*	*9,935*
Key Company Metrics						
Sales growth (%)	12.4	-10.7	-10.9	-26.7	31.2	19.0
DB EPS growth (%)	47.3	19.3	-0.3	-57.4	117.9	54.7
EBITDA Margin (%)	30.0	34.6	31.8	30.5	40.7	46.7
EBIT Margin (%)	23.8	29.1	26.0	22.6	31.6	39.1
Payout ratio (%)	25.6	22.0	10.1	0.0	0.0	7.7
ROE (%)	25.8	31.6	24.4	17.8	17.4	22.1
Capex/sales (%)	11.3	13.3	19.6	25.7	21.4	15.0
Capex/depreciation (x)	1.8	2.4	3.4	3.3	2.3	2.0
Net debt/equity (%)	14.0	22.4	52.0	42.2	38.1	24.6
Net interest cover (x)	47.7	67.7	17.1	7.4	11.9	17.8

Source: Company data, Deutsche Bank estimates

South Africa – General Mining

BHP Billiton plc

Business description: BHP Billiton is the world's largest mining group, formed from the June 2001 unification of Billiton plc and BHP Ltd. BHP Billiton's assets are geographically diverse with most in Australia (52% of operating assets), South America (±8%) and southern Africa (c.9%). The group is also well diversified from a commodity perspective, with exposure to petroleum, iron ore, aluminium, alumina, metallurgical coal, thermal coal, copper, nickel, mineral sands and manganese.

The **petroleum** division is an upstream oil and gas company with key assets in Australasia, the UK, Middle East and Americas. Growth activities are centred on three segments: exploration with a focus on deepwater, gas commercialisation and discovered resources. BHP Billiton is an industry leader in the supply of core raw materials and services to the global **carbon steel** industry. The company supplies coking coal, iron ore, manganese ore and alloys among its key products from world-class coking coal, iron ore and manganese deposits in Australia, South America and South Africa. It is a global producer of **alumina** and **aluminium**. The alumina and smelting portfolios are attractively positioned, low cost, benefiting from high-return expansion potential (subject to electricity availability). BHP Billiton is the sixth largest producer of both aluminium and alumina, operating in Australia, Brazil, Mozambique and South Africa. The company is a producer and marketer of **base metal products**, including copper, silver, lead and zinc. BHP Billiton's base metals business primarily comprise Chilean operations Escondida (57.5%, the world's largest single source producer of copper) and Spence (100%), Olympic Dam in Australia, Cerro Colorado (also in Chile), and Cannington (silver/lead). BHP Billiton has a significant business in the mining, processing and marketing of high-quality **nickel** and **cobalt** products from Australian and South American operations. It is the world's third largest primary nickel producer. BHP Billiton is the world's largest exporter of **energy coal**, principally comprising South Africa, Australian and New Mexican operations as well as interests in two Colombian mines.

Drivers: The company's FY10 earnings profile remains dominated by carbon steel materials CSG – iron ore, coking coal and manganese (42% of EBIT) and the petroleum CSG (35% of EBIT). Key currency exposures include the AUD, CHP and rand, having a significant impact on operating costs (in USD) and earnings. We believe BHP Billiton's attractiveness as an investment rests on its ability to:

- Successfully develop a number of projects in the petroleum, copper, nickel, iron ore and coking coal sectors that given continued global growth, will boost volumes so that prices are not adversely affected.
- Continue to effectively manage the substantial free cash flow resulting from sustained high commodity prices.
- Maintain and enhance return on capital employed targets.

Outlook: The BHP Billiton story remains one of growth despite the current moderation in demand. BHP Billiton has the balance sheet strength to move on acquisition opportunities, and the potential iron ore JV with Rio has significant synergy benefits. Asset quality is high, which sees the group achieve above-sector returns and margins. Its petroleum business adds to its energy portfolio, a positive in a rising energy cost environment. Commodity skew is very much biased to Chinese raw material shortages, specifically iron ore, oil, coking coal, and copper amongst others. BHP Billiton has a strong balance sheet and the luxury to pick where its cash outflow will be moderated. In spite of the asset quality and volume growth above the industry average (it is one of the few that can do it at this point), with stock trading close to our NPV, we rate BHP Billiton a **Hold**.

Valuation: We value BHP Billiton using DCF over life-of-mine cash flows with a WACC of 9.34% (COE 11.4% – Rf 6%, Rp 4.5%; CoD 6.0% on a D/E of 30%, Beta is 1.25). Our price target is in line with NPV, as we believe BHP Billiton is very well placed in terms of operations and balance sheet position at this point in the cycle, we believe it should trade at fair valuation. BHP Billiton's assets are long life, low operating cost, and in lower- to moderate-risk countries (Australia, North America, Europe, Southern Africa, Brazil, Chile) and overall are considered premium quality relative to the sector, offering above-average returns and operating margins.

Risks: The key risks to our forecasts include changes to commodity prices and exchange rates beyond our expectations. Production cuts/rises beyond our expectations are also a risk (this particularly applies to iron ore, manganese and coking coal for BHP Billiton). Due to the company's strong balance sheet, M&A speculation may surface periodically, weighing on the share price. While we would not rule this out completely, we think BHP Billiton is unlikely to engage in M&A unless a "tier 1" asset becomes available.

Model updated: 20 January 2010

Running the Numbers

S. Africa

South Africa

General Mining

BHP Billiton

Reuters: BILJ.J Bloomberg: BIL SJ

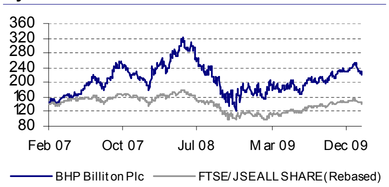
Hold

Price (29 Jan 10)	ZAR 228.00
Target price	ZAR 250.00
52-week Range	ZAR 155.40 – 253.25
Market Cap	ZAR 1,274,292m
	US$ 168,892m

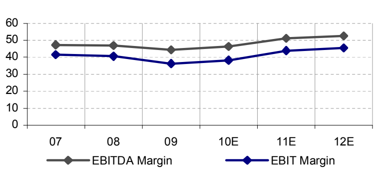
Company Profile

BHP Billiton is the world's largest mining group, was formed from the unification of Billiton Plc and BHP Ltd in June 2001. The merger has resulted in a group with a diverse asset base and strong pipeline of greenfield and brownfield projects, many of which are due to come on stream from 2003 onwards. The group's operations are divided into seven Customer Sector Groups (CSG): Aluminium, Base Metals, Carbon Steel Materials, Diamonds and Specialty Products, Energy Coal, Petroleum, Stainless Steel MaterMaterials.

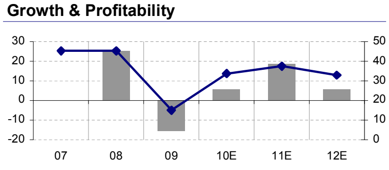
1yr Price Performance



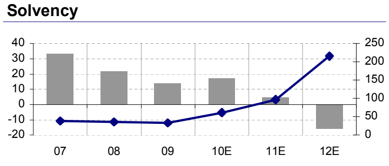
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS ($)	2.33	2.74	1.92	2.47	3.34	3.69
Reported EPS ($)	2.29	2.75	1.05	2.55	3.34	3.69
DPS ($)	0.47	0.70	0.82	0.85	0.91	0.95
BVPS ($)	5.18	6.86	7.15	8.02	9.86	12.67
Weighted average shares (m)	5,724	5,589	5,589	5,589	5,589	5,589
Average market cap (US$m)	116,442	182,338	117,775	168,892	168,892	168,892
Enterprise value (US$m)	124,706	188,002	121,812	175,495	170,756	157,199
Valuation Metrics						
P/E (DB) (x)	8.7	11.9	11.0	12.2	9.0	8.2
P/E (Reported) (x)	8.9	11.9	20.1	11.9	9.0	8.2
P/BV (x)	5.33	5.52	3.17	3.77	3.06	2.39
FCF Yield (%)	7.3	5.2	7.0	1.3	6.2	11.5
Dividend Yield (%)	2.3	2.1	3.9	2.8	3.0	3.1
EV/Sales (x)	2.63	3.16	2.43	3.31	2.71	2.37
EV/EBITDA (x)	5.5	6.7	5.5	7.1	5.3	4.5
EV/EBIT (x)	6.3	7.8	6.7	8.6	6.2	5.2
Income Statement (US$m)						
Sales revenue	**47,473**	**59,473**	**50,211**	**53,047**	**62,950**	**66,405**
Gross profit	**22,925**	**28,031**	**22,275**	**24,575**	**32,179**	**34,868**
EBITDA	**22,478**	**27,879**	**22,275**	**24,575**	**32,179**	**34,868**
Depreciation	2,754	3,734	4,061	4,260	4,546	4,662
Amortisation	0	0	0	0	0	0
EBIT	**19,724**	**24,145**	**18,214**	**20,315**	**27,633**	**30,206**
Net interest income(expense)	-512	-662	-543	-330	-285	-140
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	-6,054	630	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**19,212**	**23,483**	**11,617**	**20,615**	**27,348**	**30,066**
Income tax expense	5,716	7,521	5,279	6,179	8,208	9,020
Minorities	80	572	461	168	441	393
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**13,416**	**15,390**	**5,877**	**14,268**	**18,698**	**20,652**
DB adjustments (including dilution)	259	-22	4,845	-441	0	0
DB Net profit	**13,675**	**15,368**	**10,722**	**13,827**	**18,698**	**20,652**
Cash Flow (US$m)						
Cash flow from operations	**16,404**	**18,433**	**18,863**	**12,636**	**19,945**	**27,169**
Net Capex	-7,857	-8,865	-10,571	-10,497	-9,470	-7,721
Free cash flow	**8,547**	**9,568**	**8,292**	**2,139**	**10,475**	**19,447**
Equity raised/(bought back)	-5,719	-3,091	29	0	0	0
Dividends paid	-2,271	-3,135	-4,563	-4,758	-5,094	-5,318
Net inc/(dec) in borrowings	1,614	-750	3,575	0	0	0
Other investing/financing cash flows	-498	-804	-737	281	-101	-90
Net cash flow	**1,673**	**1,788**	**6,596**	**-2,339**	**5,281**	**14,040**
Change in working capital	*-937*	*-2,739*	*2,665*	*-6,142*	*-4,520*	*695*
Balance Sheet (US$m)						
Cash and other liquid assets	2,449	4,237	10,833	8,494	13,775	27,815
Tangible fixed assets	42,261	47,332	49,032	54,367	58,360	60,482
Goodwill/intangible assets	713	625	661	881	1,062	1,264
Associates/investments	1,958	3,502	2,306	2,306	2,306	2,306
Other assets	14,023	20,312	15,938	19,950	22,903	22,448
Total assets	**61,404**	**76,008**	**78,770**	**85,999**	**98,406**	**114,315**
Interest bearing debt	12,420	12,695	16,419	16,419	16,419	16,419
Other liabilities	19,066	24,270	21,640	23,770	25,338	25,096
Total liabilities	**31,486**	**36,965**	**38,059**	**40,189**	**41,757**	**41,515**
Shareholders' equity	29,667	38,335	39,954	44,825	55,124	70,791
Minorities	251	708	757	984	1,526	2,009
Total shareholders' equity	**29,918**	**39,043**	**40,711**	**45,810**	**56,650**	**72,800**
Net debt	*9,971*	*8,458*	*5,586*	*7,925*	*2,644*	*-11,396*
Key Company Metrics						
Sales growth (%)	na	25.3	-15.6	5.6	18.7	5.5
DB EPS growth (%)	na	17.6	-30.1	29.0	35.2	10.4
EBITDA Margin (%)	47.3	46.9	44.4	46.3	51.1	52.5
EBIT Margin (%)	41.5	40.6	36.3	38.3	43.9	45.5
Payout ratio (%)	20.1	25.4	78.0	33.3	27.2	25.7
ROE (%)	45.2	45.3	15.0	33.7	37.4	32.8
Capex/sales (%)	16.7	15.0	21.4	19.8	15.0	11.6
Capex/depreciation (x)	2.9	2.4	2.6	2.5	2.1	1.7
Net debt/equity (%)	33.3	21.7	13.7	17.3	4.7	-15.7
Net interest cover (x)	38.5	36.5	33.5	61.6	97.0	215.8

Source: Company data, Deutsche Bank estimates

South Africa – General Mining

Exxaro Resources Ltd

Business description: Exxaro, South Africa's premier BEE-owned and managed mining company, was created from Kumba Resources. Exxaro's controlling shareholder, BEE Holdco, is in turn controlled by Sipho Nkosi's Eyesizwe Mining. In our view, the Eyesizwe team with its extensive experience at profitably running marginal coal operations has much to offer Exxaro. Sipho Nkosi was appointed CEO on 1 September 2007. The merger of Kumba and Eyesizwe coal assets will make Exxaro the fourth-largest South African producer with initial capacity of 45m tonnes pa. The heavy minerals business (including Namakwa acquired in September 2008) will be the second-largest titanium slag producer and the third-largest titanium feedstock and zircon supplier globally, though recently Exxaro has announced plans to close or divest of KZN Sands. Exxaro also owns 20% of Sishen Iron Ore Company (SIOC), a world class iron ore asset based in the Northern Cape, owned (74%) and controlled by Kumba Iron Ore (Kumba) and in turn by Anglo American.

Exxaro should also be able to offer itself as a preferred supplier to Eskom. Given the current expansion potential at Eskom, it looks well positioned for further growth, particularly in the Waterberg at Exxaro's Grootegeluk mine. Given its BEE status, Exxaro has acquired 6.3m tonnes pa allocation at the expanded RBCT available from mid 2009. Annual production is 45m tonnes; 83% of which is sold to Eskom on various terms including two cost-plus agreements and various coal mining inflation linked contracts. Only 4% is exported; the balance is sold locally (ArcelorMittal, ferroalloys and Sasol). Upside for the business is cost control below inflationary increases as well as sales of high value coking coals and other by-products not included in the Eskom contracts. Total export allocation is to be 6.3m tonnes pa when the RBCT expansion is complete, but the Witbank/RBCT Spoornet COALlink expansion remains a constraint to realising this potential capacity.

Current projects include Inyanda (1.5m tonnes pa export thermal), Medupi (a new power station near Grootegeluk requiring 15m tonnes pa, though on hold at present as contracts are renegotiated) and Mafube (5.3m tonnes pa).

Projects not yet approved include further expansions to Grootegeluk for IPP and export products, Belfast (2m tonnes pa export thermal), the Igoda JV (35% interest producing 7m tonnes pa of which 4m tonnes pa will be exported) and Moranbah South (with Anglo in Australia).

Exxaro's recent announcement of the disinvestment over time from KZN Sands as well as the zinc business and hence the focus on coal and iron ore is a positive as these value destructive assets will be divested and focus will move onto the high value coal growth from Grootegeluk.

Drivers:

- ZAR/USD exchange rate.
- Iron ore settlements.
- Thermal and semi-soft coal prices.
- Mining cost inflation for the captured operations.
- Zircon and zinc prices.

Exxaro's main profit drivers include potential growth in local and export coal sales dependent on power station growth as well as increased rail and port capacity. In addition, the turnaround of the heavy minerals operations and integration of the Namakwa operations are key to achieving short term profitability targets.

Outlook: We rate Exxaro Resources a Hold, primarily based on limited upside potential versus our 12 month target price. The recent announcement of the delay to Medupi and renegotiation of the contract are short term concerns and will be headwinds to the stock. Exxaro has a significant growth outlook from its Waterberg coal operations and we anticipate that these high return projects will be the driver of value for Exxaro for years to come after agreement with Eskom, though in the short term risks remain. Ltd upside to our valuation leads us to rate the stock a **Hold**.

Valuation: We value Exxaro using a DCF over the life of mine (WACC 12.23%, D/E 30%, Rf 8.5%, Beta 1.25 and MRP 4.5%) in line with the sector.

Risks: Downside risks to our view include stronger than expected currencies including the AUD and rand vs the USD as well as lower volumes due to prolonged weak conditions. Upside risks include stronger than anticipated commodity prices, in particular iron ore, zinc, coal and heavy minerals. Specific risks include the delivery of the project pipeline on time and budget, as well as realising benefit from the anticipated growth at Eskom.

Model updated: 12 January 2010

Running the Numbers

S. Africa

South Africa

General Mining

Exxaro Resources Ltd

Reuters: EXXJ.J Bloomberg: EXX SJ

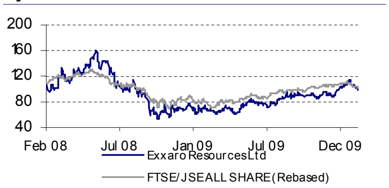
Hold

Price (29 Jan 10)	ZAR 106.00
Target price	ZAR 100.00
52-week Range	ZAR 61.50 – 113.60
Market Cap	ZAR 36,570m US$ 4,847m

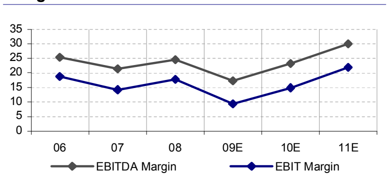
Company Profile

Exxaro is a diversified South African mining company with interests in coal, mineral sands, base metals and industrial minerals. It has exposure to iron ore through a 20% interest in Sishen Iron Ore Company . Exxaro is the fourth-largest South African coal producer with capacity of 45m tonnes pa and the third-largest global producer of mineral sands. As South Africa's largest black-controlled, diversified mining company, Exxaro has a strong domestic potential project pipeline.

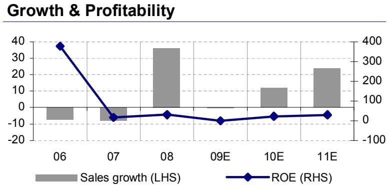
1yr Price Performance



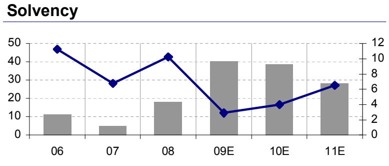
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Financial Summary						
DB EPS (ZAR)	2.96	4.01	10.06	-0.12	8.36	12.97
Reported EPS (ZAR)	49.94	4.02	9.43	-0.17	8.36	12.97
DPS (ZAR)	3.65	1.16	3.75	2.50	2.83	4.38
BVPS (ZAR)	23.18	27.91	36.71	35.42	41.07	49.84
Weighted average shares (m)	351	341	343	345	345	345
Average market cap (ZARm)	12,015	25,486	35,268	36,570	36,570	36,570
Enterprise value (ZARm)	11,886	24,200	34,351	38,761	39,314	38,661
Valuation Metrics						
P/E (DB) (x)	11.6	18.6	10.2	nm	12.7	8.2
P/E (Reported) (x)	0.7	18.6	10.9	nm	12.7	8.2
P/BV (x)	2.42	3.71	1.96	2.99	2.58	2.13
FCF Yield (%)	132.0	1.0	nm	nm	1.2	6.1
Dividend Yield (%)	10.7	1.5	3.6	2.4	2.7	4.1
EV/Sales (x)	1.07	2.38	2.48	2.82	2.55	2.03
EV/EBITDA (x)	4.2	11.1	10.1	16.2	11.0	6.8
EV/EBIT (x)	5.7	16.8	13.9	29.9	17.1	9.3
Income Statement (ZARm)						
Sales revenue	**11,068**	**10,157**	**13,843**	**13,767**	**15,405**	**19,067**
Gross profit	**2,812**	**2,181**	**3,398**	**2,389**	**3,581**	**5,720**
EBITDA	**2,812**	**2,181**	**3,398**	**2,389**	**3,581**	**5,720**
Depreciation	729	737	931	1,092	1,288	1,544
Amortisation	0	0	0	0	0	0
EBIT	**2,083**	**1,444**	**2,467**	**1,297**	**2,293**	**4,176**
Net interest income(expense)	-185	-213	-241	-445	-571	-642
Associates/affiliates	44	728	1,665	1,624	1,798	2,098
Exceptionals/extraordinaries	16,280	0	0	-2,300	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**18,222**	**1,959**	**3,891**	**176**	**3,519**	**5,632**
Income tax expense	641	512	510	244	500	951
Minorities	35	20	-24	-7	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**17,545**	**1,427**	**3,405**	**-61**	**3,019**	**4,681**
DB adjustments (including dilution)	-16,507	-3	225	16	0	0
DB Net profit	**1,038**	**1,424**	**3,630**	**-45**	**3,019**	**4,681**
Cash Flow (ZARm)						
Cash flow from operations	**19,198**	**1,507**	**1,910**	**-1,243**	**3,789**	**5,495**
Net Capex	-3,335	-1,246	-4,345	-3,189	-3,335	-3,282
Free cash flow	**15,863**	**261**	**-2,435**	**-4,432**	**454**	**2,213**
Equity raised/(bought back)	-683	114	31	20	0	0
Dividends paid	-6,769	-567	0	484	-1,006	-1,560
Net inc/(dec) in borrowings	-435	0	2,734	1,203	0	0
Other investing/financing cash flows	91	127	589	1,001	0	0
Net cash flow	**8,067**	**-65**	**919**	**-1,724**	**-553**	**653**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	906	850	1,769	45	-508	145
Tangible fixed assets	7,609	8,235	11,309	14,623	16,670	18,408
Goodwill/intangible assets	69	106	113	125	125	125
Associates/investments	1,077	1,788	3,426	3,001	3,001	3,001
Other assets	3,804	4,196	6,568	6,822	7,461	8,663
Total assets	**13,465**	**15,175**	**23,185**	**24,616**	**26,750**	**30,342**
Interest bearing debt	1,827	1,333	4,150	5,168	5,168	5,168
Other liabilities	3,469	4,019	5,911	6,771	6,892	7,364
Total liabilities	**5,296**	**5,352**	**10,061**	**11,939**	**12,060**	**12,532**
Shareholders' equity	8,142	9,804	12,996	12,608	14,620	17,741
Minorities	27	19	128	69	69	69
Total shareholders' equity	**8,169**	**9,823**	**13,124**	**12,677**	**14,689**	**17,810**
Net debt	*921*	*483*	*2,381*	*5,123*	*5,676*	*5,023*
Key Company Metrics						
Sales growth (%)	-7.5	-8.2	36.3	-0.6	11.9	23.8
DB EPS growth (%)	-71.5	35.7	150.7	nm	nm	55.1
EBITDA Margin (%)	25.4	21.5	24.5	17.4	23.2	30.0
EBIT Margin (%)	18.8	14.2	17.8	9.4	14.9	21.9
Payout ratio (%)	7.3	27.6	37.8	nm	32.3	32.3
ROE (%)	377.6	15.9	29.9	-0.5	22.2	28.9
Capex/sales (%)	10.5	12.8	11.7	15.6	21.7	17.2
Capex/depreciation (x)	1.6	1.8	1.7	2.0	2.6	2.1
Net debt/equity (%)	11.3	4.9	18.1	40.4	38.6	28.2
Net interest cover (x)	11.3	6.8	10.2	2.9	4.0	6.5

Source: Company data, Deutsche Bank estimates

South Africa – General Mining

Kumba Iron Ore Ltd

Business description: Kumba Iron Ore (Kumba) comprises a 74% holding in Sishen Iron Ore Company (SIOC), the fourth-largest listed quality seaborne iron ore producer globally. Kumba has an impressive potential growth pipeline, limited by Transnet's Sishen/Saldanha (861km) rail link. Production is currently 44m tonnes; 8.75m tonnes (27%) being sold on a cost plus 3% basis to ArcelorMittal (subject to offtake requirements). Expansions of 9m tonnes pa have been approved in the Sishen South project (approved in July 2008). These projects will take production capacity to 53m tonnes pa. Longer term expansions are dependent on an expansion of the Orex rail line from 60mt (current expanded capacity approved and in construction) to 90mt. We expect that the announcement and approval of this expansion will be in 2013/2014 at the earliest with a 4-5 year construction period.

Anglo American controls SIOC through its 63%-held subsidiary, Kumba. Its economic interest in SIOC is only 49%, however. Given Anglo's stated objective to make iron ore the cornerstone of the ferrous metals division, we think an offer to Kumba's minorities by Anglo is reasonably likely in the medium term, though on reasonable valuation terms and subject to affordability by Anglo. This results in Kumba's price having a floor support level, in our view. We believe Anglo will further increase its exposure in the long term by diluting down (given capex requirements for the expansions) or acquiring Exxaro's 20% SIOC stake when the requirements of the Mining Charter have been met in 2014.

Kumba has sold between 70-80% of export volumes to China this year and are highly to Chinese steel demand. At present we are forecasting a price increase of 34% for iron ore fines and 38% for lumps for JFY10, but spot prices are running 30% ahead of our forecasts.

Drivers

- Iron ore spot prices (as more volumes are now sold on spot and spot is leading contract expectations)
- Freight rates from South Africa to China
- ZAR/USD exchange rate.
- Iron ore settlements.
- Timing of further rail capacity increases.

Kumba is chiefly exposed to the ZAR/USD exchange rate and the key catalysts include a stronger rand and weaker iron ore price environment. We are assuming a weaker 2010 rand (R8.50 end 2010) and are forecasting a +34% (for Kumba) iron ore fines and +38% iron ore lump settlement for JFY10.

The SEP project (a 34% production increase for Kumba) is at the end of ramping up and should result in unit cost efficiencies as the economies of scale are realised in the coming year.

Outlook: Kumba has an impressive potential growth pipeline, limited by Transnet's expansion of the rail link between Sishen and Saldanha. 8.75m tonnes of the current 44m tonnes production is sold on a cost +3% basis to ArcelorMittal SA. The ten-year strategy is to increase production to 60-70m tonnes pa, most of which will come from Sishen and Sishen South which will require further rail extensions. Anglo American controls SIOC through its 63%-held subsidiary Kumba. Kumba is trading above its NPV and we think that risks to the dividend as well as the impact of the strong rand are key catalysts and hence our recommendation is a **Sell**.

Valuation: We value Kumba on the basis of a DCF (WACC 12.6%, D/E, 30%, rf 8.5%, Beta 1.25 and MRP 4.5%) valuation over life of mine, at a 20% premium to the sector given strong spot pricing and the superior quality of Kumba's product.

Risks: Upside risks to our view include a weaker-than-assumed ZAR/USD exchange rate, higher than forecast iron ore prices and potential for an offer to minorities by Kumba's parent Anglo. Company risks include higher than forecast rail capacity and production.

Model updated: 12 January 2010

Running the Numbers

S. Africa

South Africa

General Mining

Kumba Iron Ore Ltd

Reuters: KIOJ.J Bloomberg: KIO SJ

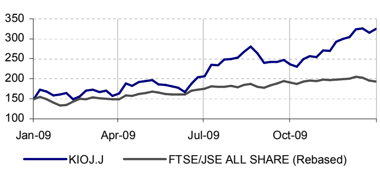
Sell

Price (29 Jan 10)	ZAR 324.98
Target price	ZAR 185.00
52-week Range	ZAR 140.10 – 331.00
Market Cap	ZAR 103,308m US$ 13,692m

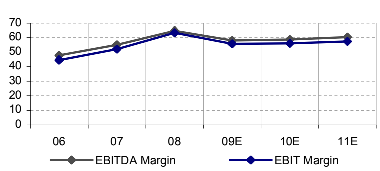
Company Profile

Kumba Iron Ore is a single commodity iron ore business that principally owns the Sishen Iron Ore Company. SIOC owns the Sishen and Thabazimbi mines and the Sishen South project in the Northern Cape of South Africa. Kumba Iron Ore was previously part of Kumba Resources and is a subsidiary of Anglo American plc.

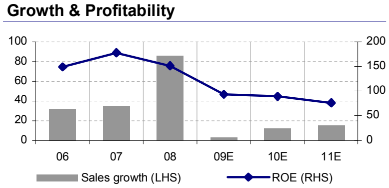
1yr Price Performance



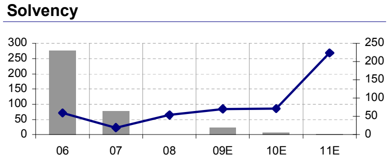
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (ZAR)	6.76	9.57	22.54	19.56	23.01	27.06
Reported EPS (ZAR)	10.23	9.72	22.54	19.56	23.01	27.06
DPS (ZAR)	0.81	7.50	21.10	13.10	15.40	18.20
BVPS (ZAR)	2.68	8.47	21.88	20.58	31.37	40.10
Weighted average shares (m)	314	315	316	318	318	318
Average market cap (ZARm)	34,945	59,171	79,582	103,308	103,308	103,308
Enterprise value (ZARm)	37,936	62,203	80,994	107,079	107,980	109,404
Valuation Metrics						
P/E (DB) (x)	16.5	19.7	11.2	16.6	14.1	12.0
P/E (Reported) (x)	10.9	19.4	11.2	16.6	14.1	12.0
P/BV (x)	41.58	33.67	7.40	15.79	10.36	8.10
FCF Yield (%)	nm	1.1	4.3	nm	2.3	2.9
Dividend Yield (%)	0.7	4.0	8.4	4.0	4.7	5.6
EV/Sales (x)	4.45	5.41	3.79	4.88	4.39	3.86
EV/EBITDA (x)	9.3	9.8	5.9	8.4	7.5	6.4
EV/EBIT (x)	9.9	10.4	6.0	8.7	7.8	6.7
Income Statement (ZARm)						
Sales revenue	**8,533**	**11,497**	**21,360**	**21,939**	**24,592**	**28,319**
Gross profit	**4,083**	**6,316**	**13,830**	**12,739**	**14,460**	**17,080**
EBITDA	**4,083**	**6,316**	**13,830**	**12,739**	**14,460**	**17,080**
Depreciation	269	338	317	491	687	843
Amortisation	0	0	0	0	0	0
EBIT	**3,814**	**5,978**	**13,513**	**12,248**	**13,773**	**16,237**
Net interest income(expense)	-64	-308	-251	-173	-193	-72
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	1,420	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**5,170**	**5,670**	**13,262**	**12,075**	**13,580**	**16,165**
Income tax expense	1,013	1,768	4,179	4,197	4,372	5,337
Minorities	894	802	1,875	1,616	1,842	2,166
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**3,263**	**3,100**	**7,208**	**6,262**	**7,367**	**8,662**
DB adjustments (including dilution)	-1,106	-47	0	0	0	0
DB Net profit	**2,157**	**3,053**	**7,208**	**6,262**	**7,367**	**8,662**
Cash Flow (ZARm)						
Cash flow from operations	**1,490**	**2,750**	**6,013**	**3,880**	**5,574**	**5,726**
Net Capex	-1,718	-2,119	-2,563	-3,952	-3,158	-2,776
Free cash flow	**-228**	**631**	**3,450**	**-71**	**2,416**	**2,950**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	-392	-1,076	-2,126	-1,476	-2,208
Net inc/(dec) in borrowings	-939	-489	328	1,682	0	0
Other investing/financing cash flows	1,670	55	76	188	0	0
Net cash flow	**503**	**-195**	**2,778**	**-327**	**940**	**742**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,094	952	3,810	3,548	4,488	5,230
Tangible fixed assets	3,871	5,748	7,911	11,433	13,903	15,837
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	150	187	283	309	309	309
Other assets	1,754	2,850	4,699	2,636	3,372	3,628
Total assets	**6,869**	**9,737**	**16,703**	**17,926**	**22,073**	**25,003**
Interest bearing debt	4,019	3,530	3,858	5,540	5,540	5,540
Other liabilities	1,795	2,912	4,339	4,664	5,016	5,215
Total liabilities	**5,814**	**6,442**	**8,197**	**10,204**	**10,556**	**10,755**
Shareholders' equity	839	2,654	6,859	6,543	9,973	12,747
Minorities	216	641	1,647	2,088	3,929	6,095
Total shareholders' equity	**1,055**	**3,295**	**8,506**	**8,631**	**13,902**	**18,842**
Net debt	*2,925*	*2,578*	*48*	*1,992*	*1,052*	*310*
Key Company Metrics						
Sales growth (%)	32.3	34.7	85.8	2.7	12.1	15.2
DB EPS growth (%)	-44.9	41.5	135.5	-13.2	17.6	17.6
EBITDA Margin (%)	47.8	54.9	64.7	58.1	58.8	60.3
EBIT Margin (%)	44.7	52.0	63.3	55.8	56.0	57.3
Payout ratio (%)	7.8	76.1	92.5	66.5	66.5	66.8
ROE (%)	148.8	177.5	151.5	93.5	89.2	76.3
Capex/sales (%)	20.1	18.4	12.0	18.0	12.8	9.8
Capex/depreciation (x)	6.4	6.3	8.1	8.1	4.6	3.3
Net debt/equity (%)	277.3	78.2	0.6	23.1	7.6	1.6
Net interest cover (x)	59.6	19.4	53.8	70.8	71.4	224.0

Source: Company data, Deutsche Bank estimates

South Africa – Gold

AngloGold Ashanti Ltd

Business description: AngloGold was created in 1998 when Anglo American plc (Anglo) consolidated its gold interests into a single, international, gold focused company with all the underlying companies being delisted. AngloGold Ashanti was established in April 2004 following a merger between AngloGold and Ghanaian gold miner, Ashanti Goldfields Company Ltd. AngloGold Ashanti Ltd is a global gold producer with 20 operations on four continents, a substantial project pipeline and an extensive, worldwide exploration programme. AngloGold Ashanti is fully compliant with the Mining Charter after concluding an employee share ownership plan (ESOP) and a BEE transaction with BEE partner, Izingwe.

Drivers: Key value drivers for AngloGold Ashanti include:

- USD gold price
- ZAR/USD, AUD/USD and BRL/USD exchange rates
- Attributable gold production
- Unit costs and capital expenditure

AngloGold Ashanti has performed poorly on the operational front over the last two years. This follows a series of operational challenges: 1) failure of the pit wall at the highly rated Tanzanian Geita mine, 2) delayed benefits realisation from the acquired Ashanti assets (specifically the Obuasi Mine in Ghana), and 3) a slowdown of mining rates in South Africa (both health and safety and ore reserve related). These issues, combined with the unwinding of its hedge book (from 10m ounces at the beginning of FY08 to the current 4m ounces; mark-to-market of USD1.8bn) have weighed on earnings, despite a clearly buoyant metal price environment.

Looking forward, we expect AngloGold Ashanti to produce 4.55m ounces in FY09, rising to 4.9m ounces in FY10. This is mainly as we expect both Geita and Obuasi to deliver improved performances as production at Geita is moving toward the higher-grade cut-3 and as operational turnaround strategies are starting to yield dividends at Obuasi. Aggressive hedge book restructuring over the past 24 months has also positioned AngloGold Ashanti favourably to benefit from the current higher gold price environment. However, having said that, we cannot help but highlight that further hedge book restructuring is likely in FY10 if the current-high gold price environment prevails. Even though this will weigh on earnings in the short-term, we view further hedge book restructuring as a positive longer-term move for AngloGold Ashanti and see little alternative capital allocation opportunities that will deliver the same level of value creation for AngloGold Ashanti.

Outlook: AngloGold Ashanti is our top pick in the sector and we rate the stock Buy. With the unwinding of its hedge book in 2008 and 2009, and its high-quality, low-cost assets compared to its peers, we believe AngloGold Ashanti is best positioned to benefit from the current high gold price environment and to deliver longer-term economic value creation. In the absence of further hedge book restructuring in FY10, we expect AngloGold Ashanti to deliver superior free cash flow margins relative to its peers. At the current level, the stock appears undervalued versus our price target: **Buy**, PT R400.

Valuation: Our valuation is based on a sum-of-the-parts DCF valuation of AngloGold Ashanti's operating assets. We derive our valuation by applying a USD nominal WACC of 9.0% (ERP 4.5%; Rfr 5.5%, Beta 1.0x), discounting cash flows over the life of the group's individual assets. To account for the positive outlook, we apply a 2.0x P/DCF exit multiple to AngloGold Ashanti's valuation, compared to our 1.8x South African gold sector benchmark. Our valuation is net of cash, investments and overhead costs.

Risks: Downside risks to our view include stronger operating currencies (rand, AUD), a lower gold price, deviations from our production and cost estimates, and deviations from management's proposed hedge book strategy.

Model updated: 17 January 2010

Running the Numbers

S. Africa

South Africa

Gold

AngloGold Ashanti Ltd

Reuters: ANGJ.J Bloomberg: ANG SJ

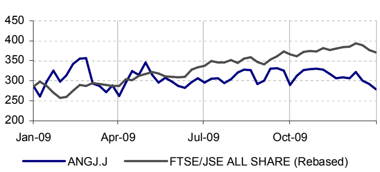
Buy

Price (29 Jan 10)	ZAR 278.95
Target price	ZAR 400.00
52-week Range	ZAR 254.06 – 359.76
Market Cap	ZAR 100,227m US$ 13,284m

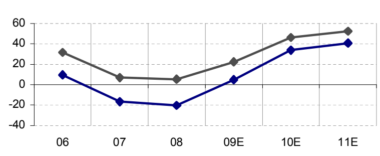
Company Profile

AngloGold Ashanti is a holding company for a group of companies which explore for and mine gold internationally. The group has operations in Africa, the Americas and Australia.

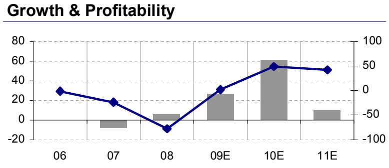
1yr Price Performance



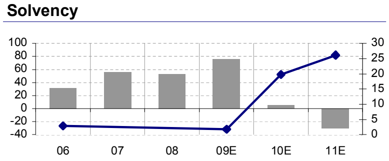
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Financial Summary						
DB EPS ($)	0.00	-2.32	-0.47	-0.40	3.37	4.52
Reported EPS ($)	-0.15	-2.37	-6.20	0.10	3.42	4.57
DPS ($)	0.00	0.00	0.00	0.16	0.67	0.90
BVPS ($)	11.53	8.64	8.13	5.23	8.67	12.91
Weighted average shares (m)	272	282	315	359	362	362
Average market cap (US$m)	12,152	11,536	9,166	13,284	13,384	13,384
Enterprise value (US$m)	12,970	12,774	27,548	31,756	13,353	11,764
Valuation Metrics						
P/E (DB) (x)	nm	nm	nm	nm	11.0	8.2
P/E (Reported) (x)	nm	nm	nm	375.8	10.8	8.1
P/BV (x)	3.80	4.64	3.35	7.07	4.27	2.86
FCF Yield (%)	3.2	nm	nm	nm	10.9	14.2
Dividend Yield (%)	0.0	0.0	0.0	0.4	1.8	2.4
EV/Sales (x)	4.76	5.11	10.42	9.48	2.47	1.99
EV/EBITDA (x)	15.0	73.4	192.2	42.7	5.4	3.8
EV/EBIT (x)	49.1	nm	nm	193.1	7.3	4.9
Income Statement (US$m)						
Sales revenue	**2,725**	**2,500**	**2,643**	**3,351**	**5,396**	**5,912**
Gross profit	**1,042**	**456**	**419**	**1,048**	**2,819**	**3,447**
EBITDA	**863**	**174**	**143**	**744**	**2,488**	**3,097**
Depreciation	599	592	570	552	666	689
Amortisation	0	0	109	28	0	0
EBIT	**264**	**-418**	**-536**	**164**	**1,821**	**2,408**
Net interest income(expense)	-91	-80	-49	-89	-92	-92
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-18	-21	-1,578	-2	0	0
Other pre-tax income/(expense)	13	27	29	-32	12	12
Profit before tax	**168**	**-492**	**-2,134**	**41**	**1,741**	**2,328**
Income tax expense	180	145	-184	6	505	675
Minorities	30	32	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**-42**	**-669**	**-1,950**	**35**	**1,236**	**1,653**
DB adjustments (including dilution)	41	14	1,801	-179	-15	-15
DB Net profit	**-1**	**-655**	**-149**	**-144**	**1,221**	**1,637**
Cash Flow (US$m)						
Cash flow from operations	**1,137**	**882**	**-637**	**-44**	**2,105**	**2,525**
Net Capex	-751	-994	-1,123	-347	-642	-625
Free cash flow	**386**	**-112**	**-1,760**	**-392**	**1,462**	**1,899**
Equity raised/(bought back)	507	34	1,756	297	0	0
Dividends paid	-132	-144	-52	-50	-210	-310
Net inc/(dec) in borrowings	-397	310	242	37	0	0
Other investing/financing cash flows	-75	-101	-14	-101	0	0
Net cash flow	**289**	**-13**	**172**	**-209**	**1,252**	**1,589**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (US$m)						
Cash and other liquid assets	495	496	575	483	1,735	3,324
Tangible fixed assets	6,054	6,722	4,345	5,375	5,352	5,288
Goodwill/intangible assets	415	440	148	175	175	175
Associates/investments	169	138	364	380	380	380
Other assets	1,810	2,024	2,628	1,997	2,233	2,319
Total assets	**8,943**	**9,820**	**8,060**	**8,411**	**9,875**	**11,486**
Interest bearing debt	1,482	1,872	1,933	1,914	1,914	1,914
Other liabilities	4,324	5,506	3,568	4,617	4,823	4,898
Total liabilities	**5,806**	**7,378**	**5,501**	**6,531**	**6,737**	**6,812**
Shareholders' equity	3,137	2,442	2,559	1,880	3,138	4,674
Minorities	0	0	0	0	0	0
Total shareholders' equity	**3,137**	**2,442**	**2,559**	**1,880**	**3,138**	**4,674**
Net debt	*987*	*1,376*	*1,358*	*1,431*	*179*	*-1,410*
Key Company Metrics						
Sales growth (%)	na	-8.3	5.7	26.8	61.0	9.6
DB EPS growth (%)	na	-110239.2	79.6	15.2	nm	34.1
EBITDA Margin (%)	31.7	7.0	5.4	22.2	46.1	52.4
EBIT Margin (%)	9.7	-16.7	-20.3	4.9	33.8	40.7
Payout ratio (%)	nm	nm	nm	162.0	19.7	19.8
ROE (%)	-1.3	-24.0	-78.0	1.6	49.3	42.3
Capex/sales (%)	30.0	41.0	45.2	45.3	11.9	10.6
Capex/depreciation (x)	1.4	1.7	2.1	2.7	1.0	0.9
Net debt/equity (%)	31.5	56.3	53.1	76.1	5.7	-30.2
Net interest cover (x)	2.9	nm	nm	1.8	19.8	26.2

Source: Company data, Deutsche Bank estimates

South Africa – Gold

Gold Fields Ltd

Business description: Gold Fields was formed in 1998 after the amalgamation of the gold assets of Gold Fields of SA Ltd and Gencor Ltd. It is the world's fourth largest producer, with operations in South Africa, Ghana, Australia and South America (Cerro Corona in Peru). Group production is largely concentrated in South Africa (60%) and takes the form of medium to deep level underground mines. Gold Fields has added more bulk to its portfolio through the acquisition of the South Deep mine in 2008. This has resulted in a significant increase to the group's reserve base, and should be supportive to a rising production profile from FY09's 3.4m ounces in the short- to medium-term. Following the sale of 15% of its South African operations to Mvelaphanda Resources (Mvela), Gold Fields complies with the first leg of the Mining Charter.

Drivers: Key value drivers for Gold Fields include:

- USD gold price
- ZAR/USD and AUD/USD exchange rates
- Attributable gold production
- Unit costs and capital expenditure

Following a series of safety- and electricity-related production delays in South Africa during FY08, Gold Fields has experienced a decrease in production from 4m ounces in FY07 to 3.6m ounces in FY08 and 3.4m ounces in FY09. The company has since adopted a "we won't mine if we can't mine safely" approach and has recapitalised shaft infrastructure at its South African operations, which has resulted in a significant improvement in safety. However, since then, development has fallen behind and Gold Fields is struggling to move back to a 4.0m ounce pa production run rate.

Going forward, we expect the ramp up in production from South Deep to result in an increase in production to 3.8m ounces in FY10. Gold Fields aims to increase production to 5.2m ounces by 2014, however, this target is largely dependent on exploration successes in Australia, Africa, and Latin America. Even with the discovery of new deposits in these continents, we believe that substantially more time would be required to bring new production on-line. In the medium-term, we see little upside above FY10's 3.8m ounces despite the ramp up in production from South Deep and despite an extensive R26bn three-year capex budget.

Gold Fields' total reserves are estimated at 81m ounces, supported by a resource base of c.272m ounces. South Deep alone attributes 30m ounces to Gold Fields' reserve base. In South Africa, growth is expected to primarily be organic, largely as a result of the South Deep acquisition and improving economics following the recent increase in the rand gold price.

Outlook: Gold Fields is emerging from a very challenging FY08 and FY09 as safety-related delays and critical rehabilitation of infrastructure at its Kloof and Driefontein operations hampered production. Gold Fields' initial aim of getting back to a 4.0m ounce pa run rate in FY09 has been delayed. In fact, Gold Fields only expects 3.8m ounces in FY10, despite an extensive R26bn three-year capex budget and despite the ramp up in production at South Deep. Given this extensive capex budget for limited net-growth, we see little post-capex free cash flow to shareholders in the medium term. In the absence of a continuing rise in the rand gold price, we caution the likelihood of some form of balance sheet recapitalisation from Gold Fields over the next 12-24 months. **Hold**, PT R105.

Valuation: Our valuation is based on a sum-of-the-parts DCF valuation of Gold Fields' assets. We derive our valuation by applying a USD nominal WACC of 9.0% (ERP 4.5%; RFR 5.5%; Beta 1.0) to discount cash flows over the life of the group's individual assets. We apply a 1.8x P/DCF exit multiple, in line with the exit multiple we use as a benchmark for the South African gold sector, derived from the sector's valuation in previous free cash flow cycles. Our valuation is net of cash, investments, and overhead costs.

Risks: Upside risks include a higher-than-expected gold price, weaker-than-expected operating currencies (rand, AUD), and a better-than expected operating performance. Conversely, downside risks to our view include a lower gold price, stronger operating currencies and a weaker-than-expected operating performance – in particular, a slower-than-expected ramp-up in production from South Deep.

Model updated: 17 January 2010

Running the Numbers

S. Africa

South Africa

Gold

Gold Fields

Reuters: GFIJ.J Bloomberg: GFI SJ

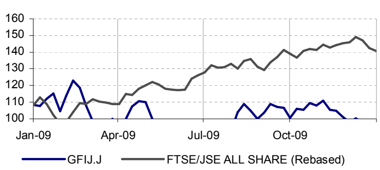
Hold

Price (29 Jan 10)	ZAR 89.05
Target price	ZAR 105.00
52-week Range	ZAR 88.35 – 123.50
Market Cap	ZAR 62,709m
	US$ 8,311m

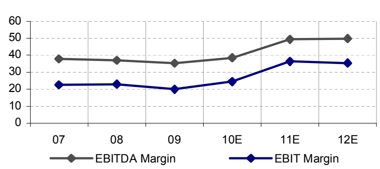
Company Profile

Gold Fields Limited is a producer of gold and holder of gold reserves in South Africa, Ghana, Australia and Peru. The company is engaged in underground and surface gold mining and related activities including exploration, extraction, processing and smelting. The company has probable reserves of approximately 89.7 million ounces of gold.

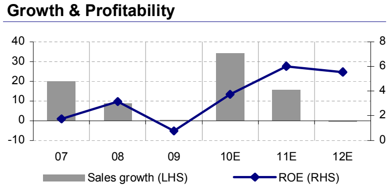
1yr Price Performance



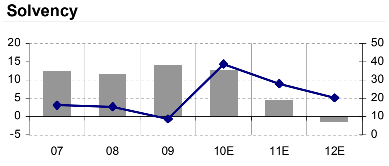
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS ($)	0.58	0.52	0.49	0.94	1.68	1.60
Reported EPS ($)	0.59	0.87	0.20	0.92	1.53	1.46
DPS ($)	0.29	0.26	0.12	0.47	0.84	0.80
BVPS ($)	9.30	8.16	7.90	8.81	9.89	10.82
Weighted average shares (m)	558	653	670	704	704	704
Average market cap (US$m)	10,206	9,968	6,607	8,311	8,311	8,311
Enterprise value (US$m)	10,529	9,879	6,997	8,952	8,482	8,053
Valuation Metrics						
P/E (DB) (x)	31.7	29.6	20.1	12.5	7.0	7.4
P/E (Reported) (x)	31.1	17.5	49.6	12.8	7.7	8.1
P/BV (x)	1.67	1.56	1.53	1.34	1.19	1.09
FCF Yield (%)	nm	1.0	nm	3.5	12.1	12.8
Dividend Yield (%)	1.6	1.7	1.3	4.0	7.1	6.8
EV/Sales (x)	3.85	3.32	2.34	2.24	1.83	1.75
EV/EBITDA (x)	10.2	9.0	6.6	5.8	3.7	3.5
EV/EBIT (x)	17.0	14.5	11.8	9.1	5.0	4.9
Income Statement (US$m)						
Sales revenue	**2,735**	**2,976**	**2,984**	**4,004**	**4,626**	**4,601**
Gross profit	**1,076**	**1,162**	**1,154**	**1,687**	**2,436**	**2,453**
EBITDA	**1,035**	**1,099**	**1,054**	**1,544**	**2,286**	**2,296**
Depreciation	417	416	459	565	604	665
Amortisation	0	0	0	0	0	0
EBIT	**618**	**683**	**594**	**979**	**1,682**	**1,630**
Net interest income(expense)	-38	-44	-68	-25	-60	-80
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	34	184	-143	85	0	0
Other pre-tax income/(expense)	-30	13	11	-100	-100	-100
Profit before tax	**584**	**836**	**394**	**939**	**1,522**	**1,450**
Income tax expense	218	267	261	289	441	421
Minorities	38	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**328**	**569**	**133**	**650**	**1,081**	**1,030**
DB adjustments (including dilution)	-5	-233	168	13	100	100
DB Net profit	**322**	**336**	**301**	**663**	**1,180**	**1,130**
Cash Flow (US$m)						
Cash flow from operations	**332**	**1,029**	**791**	**1,357**	**1,915**	**1,941**
Net Capex	-838	-932	-849	-1,067	-909	-875
Free cash flow	**-506**	**97**	**-58**	**290**	**1,006**	**1,066**
Equity raised/(bought back)	1,409	106	11	0	0	0
Dividends paid	-160	-143	-121	-252	-537	-636
Net inc/(dec) in borrowings	602	-39	252	0	0	0
Other investing/financing cash flows	-1,278	-124	-7	0	0	0
Net cash flow	**67**	**-102**	**76**	**38**	**470**	**430**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (US$m)						
Cash and other liquid assets	326	254	348	422	891	1,321
Tangible fixed assets	5,870	5,691	5,997	7,224	7,528	7,738
Goodwill/intangible assets	624	557	553	605	605	605
Associates/investments	318	713	369	158	158	158
Other assets	612	649	822	957	1,047	929
Total assets	**7,750**	**7,864**	**8,089**	**9,365**	**10,229**	**10,750**
Interest bearing debt	967	875	1,104	1,217	1,217	1,217
Other liabilities	1,594	1,667	1,692	1,945	2,045	1,913
Total liabilities	**2,561**	**2,542**	**2,796**	**3,163**	**3,263**	**3,130**
Shareholders' equity	5,190	5,322	5,294	6,203	6,966	7,620
Minorities	0	0	0	0	0	0
Total shareholders' equity	**5,190**	**5,322**	**5,294**	**6,203**	**6,966**	**7,620**
Net debt	*640*	*621*	*756*	*796*	*326*	*-104*
Key Company Metrics						
Sales growth (%)	19.9	8.8	0.3	34.2	15.5	-0.5
DB EPS growth (%)	5.8	-10.7	-5.0	92.3	77.9	-4.3
EBITDA Margin (%)	37.8	36.9	35.3	38.6	49.4	49.9
EBIT Margin (%)	22.6	22.9	19.9	24.4	36.4	35.4
Payout ratio (%)	49.2	29.6	62.6	51.0	54.6	54.9
ROE (%)	1.7	3.1	0.8	3.7	6.0	5.5
Capex/sales (%)	31.0	41.9	28.4	26.7	19.6	19.0
Capex/depreciation (x)	2.0	3.0	1.8	1.9	1.5	1.3
Net debt/equity (%)	12.3	11.7	14.3	12.8	4.7	-1.4
Net interest cover (x)	16.3	15.4	8.8	38.8	28.0	20.4

Source: Company data, Deutsche Bank estimates

South Africa – Gold

Harmony Gold Mining Co Ltd

Business description: Harmony Gold Mining Company Ltd's primary listing is on the JSE Securities Exchange. It has mining operations in South Africa and a project under commissioning in Papua New Guinea (PNG). Having long been at the forefront of consolidation in the South African gold mining sector, Harmony recently shifted its attention to its organic growth programmes, the recapitalisation of its South African deep level mining operations, and the development of the Hidden Valley and Wafi/Goldpu projects in PNG.

Drivers: Key value drivers for Harmony include:

- USD gold price
- ZAR/USD exchange rate
- Attributable gold production
- Unit costs and capital expenditure

Even though Harmony has experienced a decreasing production profile over the past 2-3 years (mainly due to the closure or sale of marginal assets), the ramp up of organic growth projects like Hidden Valley, Phakisa and Doornkop in FY10 and FY11 is likely to result in a rising production profile. We expect Harmony to produce 1.6m attributable ounces of gold in FY10, rising to 1.7m ounces in FY11 and 1.87m ounces in FY12. However, even though we forecast a rising production profile, our expectations are below management's guidance of 2.2m ounces by FY12. This is mainly as we view a number of Harmony's existing assets as high-cost and technically challenging to operate. As a result, we expect the gain from organic growth projects to be partially offset by a declining production profile from current mining areas. We also expect the focus on safety (and subsequent safety related delays) to become an ever-more predominant theme in South Africa. We expect cash costs of USD771/ounce in FY10e, decreasing 20% to USD614/ounce in FY11e on the back of a weakening rand and a rising production profile from organic growth projects.

Future growth in South Africa is mainly through brownfields expansions. We expect these projects to help replace many of the low quality leverage operations that we expect to be sold off or closed down as reserves are depleted. At the international operations, Harmony's main focus is a ramp up to full production at Hidden Valley and proving up Wafi (feasibility studies are well underway). Hidden Valley, which is currently being commissioned, is expected to reach steady state production of 120,000 ounces (attributable to Harmony) towards the end of FY10 with average unit cash costs of USD400-420/ounce.

Outlook: Harmony operates high-cost low-margin assets and is geographically concentrated in South Africa. Even though Harmony has attractive growth prospects in projects like Hidden Valley and Phakisa, the benefit from these assets are likely to be diluted by the fact that its other operations are highly exposed to a rising inflationary environment in South Africa where electricity tariff increases of 35% pa are likely over the next three years. As a result, given its already-high cost position and the prospects of continuing inflationary pressures in South Africa, we believe that Harmony will return little economic value to share holders over the next 12 months, despite our view of a rising gold price. **Hold**, PT R85.

Valuation: Our valuation is based on a sum-of-the-parts discounted cash flow valuation of Harmony's operating assets. We derive our valuation by applying a USD nominal WACC of 9.0% (ERP 4.5%; RFR 5.5%, Beta 1.0) to discount cash flows over the life of the group's individual assets. We apply a 1.7x P/DCF exit multiple, compared to 1.8x for our South African gold sector benchmark. Our valuation is net of cash, investments and overhead costs.

Risks: Downside risk to our view is a "stronger-for-longer" rand relative to the USD, a slower-than-expected ramp-up in production from Hidden Valley and Phakisa, a weaker-than-expected operating performance, and a weaker gold price. Conversely, upside risks to our view include a weaker rand, higher-than-expected gold price and a better-than-expected operating performance.

Model updated: 26 January 2010

Running the Numbers

S. Africa

South Africa

Gold

Harmony Gold Mining Ltd

Reuters: HARJ.J Bloomberg: HAR SJ

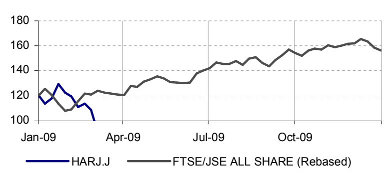
Hold

Price (29 Jan 10)	ZAR 72.00
Target price	ZAR 85.00
52-week Range	ZAR 69.05 – 129.50
Market Cap	ZAR 30,658m US$ 4,063m

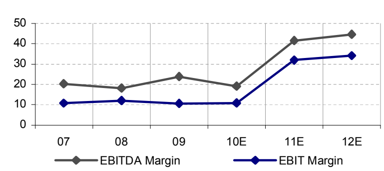
Company Profile

Harmony Gold is a mining company which produces gold from its operations in South Africa. It also has operations in Australia.

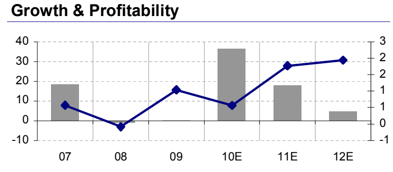
1yr Price Performance



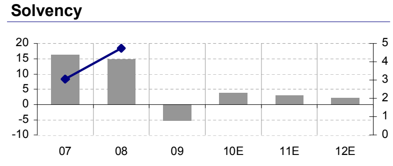
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS ($)	0.15	0.04	0.39	0.33	1.11	1.23
Reported EPS ($)	0.34	-0.05	0.61	0.33	1.11	1.23
DPS ($)	0.00	0.00	5.00	0.00	0.00	0.00
BVPS ($)	8.51	7.92	9.24	9.26	9.57	9.68
Weighted average shares (m)	394	401	414	426	426	426
Average market cap (US$m)	5,719	4,590	4,063	4,063	4,063	4,063
Enterprise value (US$m)	6,090	5,035	3,808	4,180	4,151	4,124
Valuation Metrics						
P/E (DB) (x)	98.6	269.5	25.4	28.6	8.6	7.8
P/E (Reported) (x)	42.7	nm	16.1	28.6	8.6	7.8
P/BV (x)	1.67	1.53	1.12	1.03	1.00	0.99
FCF Yield (%)	nm	nm	11.0	nm	8.2	11.5
Dividend Yield (%)	0.0	0.0	50.9	0.0	0.0	0.0
EV/Sales (x)	4.79	4.00	3.02	2.44	2.06	1.96
EV/EBITDA (x)	23.6	22.0	12.7	12.8	4.9	4.4
EV/EBIT (x)	44.1	33.1	28.4	22.4	6.4	5.7
Income Statement (US$m)						
Sales revenue	**1,271**	**1,259**	**1,260**	**1,715**	**2,019**	**2,109**
Gross profit	**317**	**353**	**391**	**442**	**967**	**1,074**
EBITDA	**258**	**229**	**301**	**328**	**839**	**939**
Depreciation	120	118	167	141	194	220
Amortisation	0	-41	0	0	0	0
EBIT	**138**	**152**	**134**	**187**	**645**	**720**
Net interest income(expense)	-45	-32	26	18	18	18
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	87	-74	92	0	0	0
Other pre-tax income/(expense)	-11	-5	0	0	0	0
Profit before tax	**169**	**41**	**252**	**205**	**663**	**738**
Income tax expense	35	62	0	63	192	214
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**134**	**-21**	**252**	**142**	**471**	**524**
DB adjustments (including dilution)	-76	38	-92	0	0	0
DB Net profit	**58**	**17**	**160**	**142**	**471**	**524**
Cash Flow (US$m)						
Cash flow from operations	**252**	**232**	**366**	**248**	**621**	**717**
Net Capex	-356	-508	83	-506	-289	-249
Free cash flow	**-104**	**-276**	**449**	**-259**	**332**	**468**
Equity raised/(bought back)	19	12	201	0	0	0
Dividends paid	-1	-1	0	-97	-304	-440
Net inc/(dec) in borrowings	114	68	-470	-1	0	0
Other investing/financing cash flows	-49	179	-13	3	0	0
Net cash flow	**-21**	**-18**	**167**	**-353**	**28**	**28**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (US$m)						
Cash and other liquid assets	101	53	252	-100	-71	-43
Tangible fixed assets	3,466	3,533	3,616	4,067	4,163	4,192
Goodwill/intangible assets	328	283	288	294	294	294
Associates/investments	198	28	50	53	53	53
Other assets	1,150	624	500	587	617	580
Total assets	**5,243**	**4,521**	**4,706**	**4,902**	**5,056**	**5,076**
Interest bearing debt	653	526	47	48	48	48
Other liabilities	1,238	823	835	911	934	906
Total liabilities	**1,891**	**1,349**	**882**	**959**	**982**	**954**
Shareholders' equity	3,352	3,172	3,824	3,943	4,074	4,122
Minorities	0	0	0	0	0	0
Total shareholders' equity	**3,352**	**3,172**	**3,824**	**3,943**	**4,074**	**4,122**
Net debt	*552*	*473*	*-205*	*148*	*119*	*91*
Key Company Metrics						
Sales growth (%)	18.5	-1.0	0.1	36.2	17.7	4.5
DB EPS growth (%)	nm	-71.1	808.5	-13.6	231.3	11.3
EBITDA Margin (%)	20.3	18.2	23.9	19.1	41.6	44.5
EBIT Margin (%)	10.9	12.1	10.6	10.9	32.0	34.1
Payout ratio (%)	0.0	nm	821.1	0.0	0.0	0.0
ROE (%)	0.6	-0.1	1.0	0.6	1.8	1.9
Capex/sales (%)	28.0	40.4	-6.6	29.5	14.3	11.8
Capex/depreciation (x)	3.0	6.6	-0.5	3.6	1.5	1.1
Net debt/equity (%)	16.5	14.9	-5.4	3.7	2.9	2.2
Net interest cover (x)	3.1	4.8	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Platinum

Anglo Platinum Ltd

Business description: Anglo Platinum Ltd (AngloPlat) is the world's leading primary producer of PGMs. For 2010, the company should produce around 2.4m ounces platinum (all operations are based in South Africa), accounting for around half of South African production and 35% of global mine supply. AngloPlat's 2009 estimated production of 1.4m ounces palladium accounts for c.17% of world supply, while production of 0.3m ounces rhodium accounts for ±35%. To meet growing demand for PGMs, AngloPlat initiated a number of brownfield and greenfield expansion projects in May 2000. These included the 250,000 ounce pa Bafokeng-Rasimone mine, (now a 50/50 JV with the Royal Bafokeng incorporating the Styldrift property), the 160,000 ounce pa Modikwa JV with an ARM-led consortium, the UG2 expansion project at RPM and the 160,000 ounce pa Twickenham project (implementation slowed). According to the last publicly disclosed information, around 79% of AngloPlat's shares are held by parent Anglo American plc (Anglo) (with the remaining free float being widely held). One of the group's main competitors is Implats (total platinum production of around 1.8m ounces). The industry is highly consolidated with major barriers to entry in the form of smelting and refining technology (and capital costs) and a lack of alternate ore sources. Customers buy the vast majority of their metal through volume contracts with pricing based on the relatively illiquid spot market. In a tight, regulated market, this tends to work in favour of the producers who achieve significant excess returns to capital as a rule (of course, during periods where global economic growth and vehicle sales are under pressure, PGM producers are not immune to the resultant impact on metal prices). While PGMs can be substituted amongst each other, there is no viable substitute outside the PGM family in autocatalysis (the primary market for PGMs).

Drivers: Key value drivers for Anglo Platinum include:

- ZAR/USD exchange rate
- PGM prices, mainly platinum, palladium, and rhodium

Although AngloPlat's primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. Even though the PGM sector has experienced depressed margins in FY09, following a collapse in global automotive sales, we expect AngloPlat's EBITDA margins to recover to around 30% in FY10 (FY09e: 19%). The following sensitivities apply to our FY10 earnings expectations: A 10% fall in the ZAR/USD exchange rate would result in a c.54% increase in rand EPS. A 10% increase in the USD platinum price would result in a c.39% increase in rand EPS. A 10% increase in the USD palladium price would result in a c.6% increase in rand EPS.

The timing and amount of AngloPlat's capex could materially affect its project returns and DCF valuation, as could the timing of its production build-up. With capex commitments of around R10bn in the next financial year, and volumes fixed at 2.4-2.5m ounces, post-capex free cash flow returns are likely to remain depressed for the short to medium term.

Outlook: AngloPlat recently announced its three-pronged operational turnaround strategy that mainly focuses on rightsizing the operations to support an annual output of 2.5m Pt ounces. Given this strategy, AngloPlat aims to return to an annual output of 2.5m Pt ounces in 2010 and to keep input costs constant in nominal terms over the next three years. Even though the viability of this attempt might be questioned given its current high-cost base and recent labour reductions, some sort of cost stabilisation is very likely, in our view. However, we believe this is well reflected in AngloPlat's current market valuation. Also, given an expected R22bn net debt position by end 2009, a R30bn capex budget for the next three years, and our view of sustained rand strength, we do not see significant upside in the stock over the next 12 months. **Hold**, PT R900.

Valuation: We value AngloPlat on a sum-of-the-parts DCF basis, applying a nominal WACC of 11.9% (Beta 1.0, equity risk premium 5.0%, risk free rate of 8.5%) and a P/DCF exit multiple of 1.3x to the group's respective assets (equivalent to the exit multiple applied to the other South African PGM equities).

Risks: Upside risks to our view include a weakening in the ZAR/USD exchange rate, PGM prices rising above our expectations and gains at the core operations materialising more rapidly than we currently anticipate. Conversely, downside risks include a stronger rand, lower-than-expected PGM prices and a failure to deliver on operational turnaround initiatives.

Model updated: 18 January 2010

Running the Numbers

S. Africa

South Africa

Platinum

AngloPlat

Reuters: AMSJ.J Bloomberg: AMS SJ

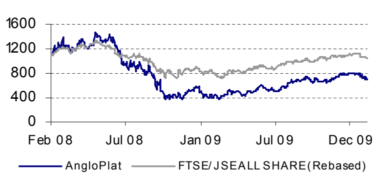
Hold

Price (29 Jan 10)	ZAR 725.99
Target price	ZAR 900.00
52-week Range	ZAR 385.87 – 810.00
Market Cap	ZAR 172,786m US$ 22,901m

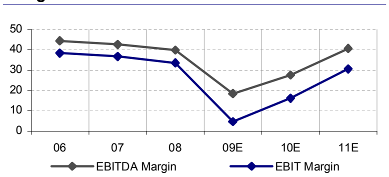
Company Profile

Anglo Platinum is the holding company for a group of companies which operate platinum mines. In addition to platinum, the group mines and produces platinum group metals such as palladium, rhodium, iridium, nickel, copper and cobalt.

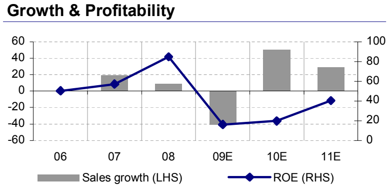
1yr Price Performance



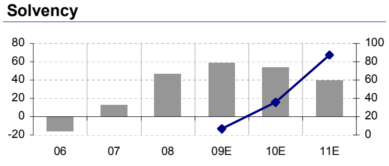
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (ZAR)	47.14	47.32	55.82	2.56	21.36	52.64
Reported EPS (ZAR)	48.51	48.48	65.57	14.39	21.36	52.64
DPS (ZAR)	26.59	26.02	34.20	0.00	0.01	26.32
BVPS (ZAR)	131.13	117.03	116.93	141.69	175.98	215.45
Weighted average shares (m)	219	235	237	238	238	238
Average market cap (ZARm)	146,563	246,595	230,481	172,786	172,786	172,786
Enterprise value (ZARm)	140,731	249,680	242,835	190,272	193,058	190,927
Valuation Metrics						
P/E (DB) (x)	14.2	22.2	17.4	283.4	34.0	13.8
P/E (Reported) (x)	13.8	21.7	14.8	50.5	34.0	13.8
P/BV (x)	6.53	8.63	4.43	5.12	4.13	3.37
FCF Yield (%)	nm	nm	nm	nm	nm	3.1
Dividend Yield (%)	4.0	2.5	3.5	0.0	0.0	3.6
EV/Sales (x)	3.58	5.32	4.75	6.30	4.25	3.26
EV/EBITDA (x)	8.1	12.5	11.9	34.1	15.4	8.0
EV/EBIT (x)	9.3	14.5	14.2	134.3	26.4	10.7
Income Statement (ZARm)						
Sales revenue	**39,356**	**46,961**	**51,118**	**30,190**	**45,388**	**58,489**
Gross profit	**19,507**	**21,979**	**22,583**	**5,937**	**14,764**	**26,107**
EBITDA	**17,477**	**19,961**	**20,371**	**5,573**	**12,526**	**23,740**
Depreciation	2,421	2,757	3,218	4,155	5,221	5,876
Amortisation	0	0	0	0	0	0
EBIT	**15,056**	**17,204**	**17,153**	**1,417**	**7,306**	**17,864**
Net interest income(expense)	26	221	118	-204	-204	-204
Associates/affiliates	430	448	161	-26	-26	-26
Exceptionals/extraordinaries	0	0	1,141	2,318	0	0
Other pre-tax income/(expense)	-130	-176	1,008	65	136	136
Profit before tax	**15,382**	**17,697**	**19,581**	**3,570**	**7,212**	**17,770**
Income tax expense	4,782	6,656	4,470	80	2,091	5,153
Minorities	-15	-337	-416	66	36	89
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**10,615**	**11,378**	**15,527**	**3,424**	**5,084**	**12,528**
DB adjustments (including dilution)	-300	-272	-2,310	-2,814	0	0
DB Net profit	**10,315**	**11,106**	**13,217**	**610**	**5,084**	**12,528**
Cash Flow (ZARm)						
Cash flow from operations	**0**	**0**	**0**	**2,184**	**4,263**	**15,358**
Net Capex	-6,496	-10,572	-14,362	-11,295	-10,088	-10,004
Free cash flow	**-6,496**	**-10,572**	**-14,362**	**-9,111**	**-5,825**	**5,353**
Equity raised/(bought back)	169	100	78	12	0	0
Dividends paid	0	0	0	3	-3	-6,264
Net inc/(dec) in borrowings	-3,705	7,553	10,495	2,945	0	0
Other investing/financing cash flows	-4,185	-12,107	-14,431	2,909	3,042	3,042
Net cash flow	**-14,217**	**-15,026**	**-18,220**	**-3,242**	**-2,786**	**2,132**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,724	4,079	2,870	-372	-3,158	-1,026
Tangible fixed assets	20,872	20,697	28,435	35,215	40,082	44,210
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	1,208	511	596	2,441	2,441	2,441
Other assets	19,509	26,509	34,214	36,308	45,464	50,187
Total assets	**46,313**	**51,796**	**66,115**	**73,591**	**84,829**	**95,812**
Interest bearing debt	100	7,675	15,820	19,556	19,556	19,556
Other liabilities	17,521	16,655	22,606	20,313	23,391	24,979
Total liabilities	**17,621**	**24,330**	**38,426**	**39,869**	**42,947**	**44,535**
Shareholders' equity	28,692	27,466	27,689	33,723	41,883	51,277
Minorities	0	0	0	0	0	0
Total shareholders' equity	**28,692**	**27,466**	**27,689**	**33,723**	**41,883**	**51,277**
Net debt	*-4,624*	*3,596*	*12,950*	*19,928*	*22,714*	*20,582*
Key Company Metrics						
Sales growth (%)	na	19.3	8.9	-40.9	50.3	28.9
DB EPS growth (%)	na	0.4	18.0	-95.4	733.8	146.4
EBITDA Margin (%)	44.4	42.5	39.9	18.5	27.6	40.6
EBIT Margin (%)	38.3	36.6	33.6	4.7	16.1	30.5
Payout ratio (%)	54.8	53.7	52.2	0.0	0.1	50.0
ROE (%)	50.2	57.2	84.6	16.1	19.6	40.4
Capex/sales (%)	16.5	22.5	28.1	37.4	22.2	17.1
Capex/depreciation (x)	2.7	3.8	4.5	2.7	1.9	1.7
Net debt/equity (%)	-16.1	13.1	46.8	59.1	54.2	40.1
Net interest cover (x)	nm	nm	nm	6.9	35.8	87.6

Source: Company data, Deutsche Bank estimates

South Africa – Platinum

Impala Platinum Holdings Ltd

Business description: Implats is the world's second-largest platinum miner at around 1.7m ounces (attributable) pa. Its operations are in southern Africa (around 90% in South Africa and 10% in Zimbabwe), where its largest mine, Impala Platinum, produces 0.9m ounces of platinum pa. In addition, Implats processes and refines around 0.8m ounces pa (gross production of around 1.8m ounces). Implats has strategic holdings in Zimplats (87%), Marula (73%) and Two Rivers (45%). The group completed the sale of its 27.1% stake in Lonplats towards end 2004, a transaction that saw Implats increase its 'BEE credit' from around 1.5% to 9%. More recently, Implats announced a transaction that resulted in the Royal Bafokeng nation increasing its equity stake to around 13.4%. In conjunction with the Employee Share Ownership Programme and credit from a recent transaction, this raised the group's total empowerment credit to around 33.6% at the Impala Lease Area. The remainder of the group's free float is widely held. Implats' main competitors include AngloPlat (total platinum production of around 2.4m ounces) and Lonmin (total platinum production of around 0.7m ounces). The industry is highly consolidated with major barriers to entry in the form of smelting and refining technology (and capital costs) and a lack of alternate ore sources. Customers buy the vast majority of their metal through volume contracts with pricing based on the relatively illiquid spot market. In a tight, regulated market, this tends to work in favour of the producers who achieve significant excess returns to capital as a rule (of course, during periods where global economic growth and vehicle sales are under pressure, PGM producers are not immune to the resultant impact on metal prices). While PGMs can be substituted amongst each other, there is no viable substitute outside the PGM family in autocatalysis (the primary market for PGMs).

Drivers: Key value drivers for Implats include:

- ZAR/USD and ZWD/USD exchange rates
- PGM prices, mainly platinum, palladium, and rhodium

Although Implats' primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. Based on our FY10 forecasts, Implats is likely to deliver an EBITDA margin of around 25-30%. The following sensitivities apply to our FY10 earnings expectations: A 10% fall in the ZAR/USD exchange rate would result in a c.28% increase in rand EPS. A 10% increase in the USD platinum price would result in a c.21% increase in rand EPS. A 10% increase in the USD palladium price would result in a c.3% increase in rand EPS.

Outlook: Even though Implats is facing near-term operational issues, we believe this to be well reflected. Looking through these near-term operational issues, we believe Implats to be best positioned in the PGM sector for longer-term economic value creation relative to its peers. We see any near-term pull back in Implats' share price as a good long-term investment opportunity. As such Implats' valuation is looking attractive. **Buy**, PT R260.

Valuation: We value Implats on a sum-of-the-parts DCF valuation basis, applying a nominal WACC of 11.9% (Beta 1.0, equity risk premium 5.0%, risk free rate of 8.5%) and a P/DCF exit multiple of 1.3x to the group's respective assets (equivalent to the exit multiple applied to the other South African PGM equities).

Risks: Downside risks to our view include a strengthening in the ZAR/USD and ZWD/USD exchange rates, PGM prices failing to rise to our bullish expectations and a worse-than-expected operational performance from Implats' core operating assets.

Model updated: 18 January 2010

Running the Numbers

S. Africa

South Africa

Platinum

Impala Platinum

Reuters: IMPJ.J Bloomberg: IMP SJ

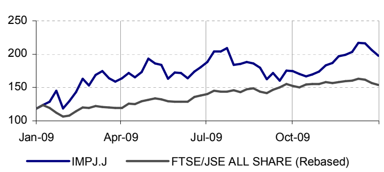
Buy

Price (29 Jan 10)	ZAR 197.50
Target price	ZAR 260.00
52-week Range	ZAR 109.00 – 222.51
Market Cap	ZAR 118,854m US$ 15,753m

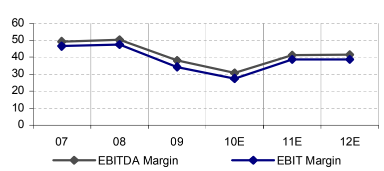
Company Profile

Impala is the holding company for a group of companies which operate platinum mines. In addition to platinum, the company mines, produces palladium, rhodium and nickel. Impala also provides refining services for base and precious metal producers.

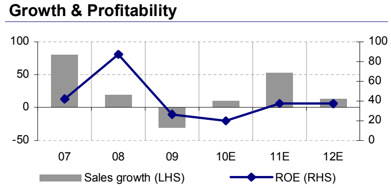
1yr Price Performance



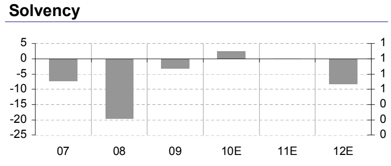
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	13.57	21.45	9.94	8.49	18.26	20.60
Reported EPS (ZAR)	13.20	29.07	9.99	8.49	18.26	20.60
DPS (ZAR)	8.98	11.47	3.20	2.74	5.89	6.64
BVPS (ZAR)	61.03	74.86	71.03	76.98	89.48	103.58
Weighted average shares (m)	569	605	603	602	602	602
Average market cap (ZARm)	108,269	160,849	97,430	118,854	118,854	118,854
Enterprise value (ZARm)	106,852	159,811	95,084	119,041	117,759	112,606
Valuation Metrics						
P/E (DB) (x)	14.0	12.4	16.3	23.3	10.8	9.6
P/E (Reported) (x)	14.4	9.1	16.2	23.3	10.8	9.6
P/BV (x)	3.54	4.13	2.40	2.57	2.21	1.91
FCF Yield (%)	nm	nm	nm	nm	4.1	7.7
Dividend Yield (%)	4.7	4.3	2.0	1.4	3.0	3.4
EV/Sales (x)	3.39	4.25	3.64	4.15	2.69	2.27
EV/EBITDA (x)	6.9	8.5	9.6	13.5	6.5	5.5
EV/EBIT (x)	7.3	8.9	10.6	15.1	6.9	5.9
Income Statement (ZARm)						
Sales revenue	**31,482**	**37,619**	**26,121**	**28,668**	**43,800**	**49,504**
Gross profit	**15,607**	**18,744**	**10,172**	**8,788**	**18,049**	**20,464**
EBITDA	**15,517**	**18,889**	**9,935**	**8,828**	**18,091**	**20,508**
Depreciation	865	1,013	979	946	1,127	1,358
Amortisation	0	0	0	0	0	0
EBIT	**14,653**	**17,876**	**8,956**	**7,882**	**16,964**	**19,150**
Net interest income(expense)	561	534	794	72	72	72
Associates/affiliates	0	0	41	0	0	0
Exceptionals/extraordinaries	-214	4,616	29	0	0	0
Other pre-tax income/(expense)	-3,509	-209	-427	-706	-1,447	-1,641
Profit before tax	**11,490**	**22,817**	**9,393**	**7,248**	**15,589**	**17,581**
Income tax expense	3,895	5,112	3,389	2,102	4,521	5,099
Minorities	93	109	-16	36	78	88
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**7,502**	**17,596**	**6,020**	**5,110**	**10,990**	**12,395**
DB adjustments (including dilution)	214	-4,616	-29	0	0	0
DB Net profit	**7,716**	**12,980**	**5,991**	**5,110**	**10,990**	**12,395**
Cash Flow (ZARm)						
Cash flow from operations	**0**	**0**	**6,507**	**3,715**	**9,508**	**13,889**
Net Capex	-2,806	-5,242	-6,740	-4,625	-4,682	-4,740
Free cash flow	**-2,806**	**-5,242**	**-233**	**-910**	**4,825**	**9,149**
Equity raised/(bought back)	12,544	22	-681	0	0	0
Dividends paid	-3,112	-6,055	-7,822	-1,648	-3,545	-3,998
Net inc/(dec) in borrowings	414	685	563	0	0	0
Other investing/financing cash flows	-15,644	6,500	1,014	2	2	2
Net cash flow	**-8,604**	**-4,090**	**-7,159**	**-2,556**	**1,282**	**5,153**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,222	10,393	3,348	814	2,096	7,249
Tangible fixed assets	16,029	20,601	26,224	29,903	33,459	36,840
Goodwill/intangible assets	1,020	1,018	1,018	1,018	1,018	1,018
Associates/investments	1,417	1,038	983	983	983	983
Other assets	28,272	29,059	26,107	29,181	34,299	34,207
Total assets	**49,960**	**62,109**	**57,680**	**61,899**	**71,854**	**80,297**
Interest bearing debt	718	1,510	1,985	1,985	1,985	1,985
Other liabilities	14,544	15,296	12,892	13,589	16,019	15,976
Total liabilities	**15,262**	**16,806**	**14,877**	**15,574**	**18,004**	**17,961**
Shareholders' equity	34,698	45,303	42,803	46,325	53,850	62,336
Minorities	0	0	0	0	0	0
Total shareholders' equity	**34,698**	**45,303**	**42,803**	**46,325**	**53,850**	**62,336**
Net debt	*-2,504*	*-8,883*	*-1,363*	*1,171*	*-111*	*-5,264*
Key Company Metrics						
Sales growth (%)	79.9	19.5	-30.6	9.8	52.8	13.0
DB EPS growth (%)	-77.5	58.0	-53.7	-14.6	115.1	12.8
EBITDA Margin (%)	49.3	50.2	38.0	30.8	41.3	41.4
EBIT Margin (%)	46.5	47.5	34.3	27.5	38.7	38.7
Payout ratio (%)	68.0	39.4	32.1	32.3	32.3	32.3
ROE (%)	42.1	87.2	26.5	19.8	37.3	37.2
Capex/sales (%)	8.9	13.9	25.8	16.1	10.7	9.6
Capex/depreciation (x)	3.2	5.2	6.9	4.9	4.2	3.5
Net debt/equity (%)	-7.2	-19.6	-3.2	2.5	-0.2	-8.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South African – Oil & Gas Producers

Sasol Ltd

Business description: Sasol produces fuel and petrochemicals from low-cost, low-quality coal and natural gas. The group also has other interests in the petroleum (refining) and chemicals industries. Sasol has eight main divisions:

- **Sasol Mining** provides c.40m tonnes of low-grade coal annually for conversion to synthetic fuels and petrochemicals. Sasol exports c.3m tonnes of higher quality thermal coal pa.
- **Sasol Synthetic Fuels** is the world leader in commercial scale conversion of low-grade coal to liquid fuels, chemical feedstock and pipeline gas. Fischer-Tropsch (FT) technology forms the backbone of the conversion process.
- **Sasol Oil** operates the only inland complex crude oil refinery in South Africa, Natref, in partnership with Total SA.
- **Sasol Gas** provides feedstock to the synthetic Sasolburg chemicals plant and pipeline gas to South African industrial consumers.
- **Sasol Synfuels International** intends leveraging its FT technology expertise by rolling out gas-to-liquids (GTL) and coal-to-liquids (CTL) plants worldwide.
- **Sasol Chemical Industries** produces a large variety of primary, intermediate and fine chemical products for South Africa and export markets.
- **Sasol Petroleum International (SPI)** is responsible for oil and gas exploration. SPI extracts gas from Mozambique and supplies it to the Synfuels division and Sasol Gas.

Drivers: Sasol's most important profit drivers include the levels of the ZAR/USD exchange rate, crude oil prices, fuel product prices (and refining margins), chemical prices (and margins), and growth in fuel and chemical product demand. Sasol's South African domestic sales of fuel and chemical products are based on international fuel and chemical product prices. The most topical issue in Sasol investment case is whether this is truly a growth story. The company's technology and expertise to convert coal and natural gas into transportation fuel is in demand, but the potential for monetising is not entirely clear. We have not yet incorporated any of the proposed projects in China, India, Uzbekistan, Australia or PNG into our Sasol model. The near-term production growth is due to be principally based on the volume recovery in the chemicals cluster complemented to some extent by expansion of the domestic synfuels operations. Management has guided that the current low gearing may be back to a targeted level in the medium term. This is an indirect guidance, in our view, that capital investments may start to pick up in consistency with the company's project pipeline. What is still missing, however, are particular details on the projects which management is unwilling to discuss at pre-feasibility/feasibility stages. However, we expect these to become available once Sasol and its partners conclude investment decisions on particular projects. The best candidates, in our view, are Uzbekistan GTL, which progresses quickly, China CTL, which has all chances of materialising given hunger for energy in the Chinese economy, as well as probably Mafutha CTL, given its proposed location on the main Sasol market. Sasol has also sought to expand its hydrocarbons base as it works on Mozambican gas exploration and has recently been joined by Statoil and Chesapeake Energy in an exploration effort for shale gas resources in South Africa.

Outlook: Sasol is an integrated oil, gas and coal company with substantial chemical interests and production facilities in South Africa and the Middle East. The company's management plans to grow the company's international business but has so far not pursued GTL/CTL investments outside of Qatar and Nigeria. In the current environment, the company has entered a cash conservation mode. We believe this will result in lower capex and lower long-term volume growth but stable dividend flows throughout the crisis period. We forecast significant earnings volatility (which we expect will be especially negative in FY10) to be a test for Sasol, but we see it as fully manageable. We expect prices to recover from 2011E which should help Sasol to improve profitability to pre-crisis levels and demonstrate strong growth in cash flows. **Buy**.

Valuation: We use discounted cash flow valuation (DCF) as the primary tool in assigning our investment rating to Sasol. We believe that this methodology allows us to take a much wider range of fundamental factors into account than a comparable multiples valuation, which often fails to factor in differences related to capex plans, capital structure and growth rates. Our discount rate is derived on the basis of the CAPM. Our one-year target price is derived by rolling our DCF forward at the cost of equity. Our WACC of 12.1% assumes a target debt equity ratio of 20:80. We use a cost of equity, calculated by using a beta based on historical estimates of Sasol's beta, estimates of the South African risk free rate and a risk premium of 4.5%. Our estimates of the cost of debt incorporate our estimates of the South African risk free rate together with an appropriate corporate credit spread. Our long-term growth rate of 3% is estimated with reference to the relationship between long-term South African GDP growth rates and the associated increase in demand for refined products.

Risks: Downside risks to our valuation include deviations from our forecast crude oil levels, ZAR/USD and chemical prices. In addition, lumpy capital investments could increase the forecast downside risk associated with our capital investment forecasts.

Model updated: 10 December 2009

Running the Numbers

S. Africa

South Africa

Oil & Gas Producers

Sasol

Reuters: SOLJ.J Bloomberg: SOL SJ

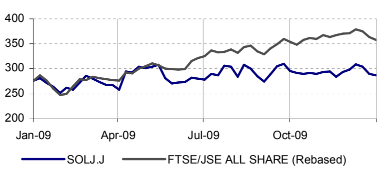
Buy

Price (29 Jan 10)	ZAR 287.00
Target price	ZAR 360.00
52-week Range	ZAR 246.47 – 318.00
Market Cap	ZAR 171,290m US$ 22,703m

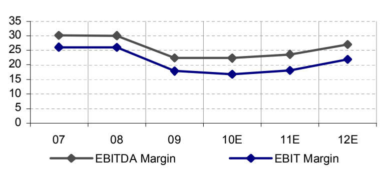
Company Profile

Sasol is an integrated oil and gas company with substantial chemical interests, and production facilities in SA, Europe, North America and Asia. The group operates commercial scale facilities to produce fuels and chemicals from coal in SA, and is developing ventures internationally to convert natural gas into clean diesel fuel.

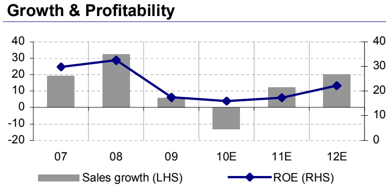
1yr Price Performance



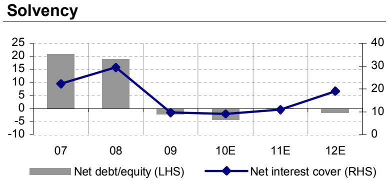
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	25.06	37.56	25.25	22.83	27.54	40.36
Reported EPS (ZAR)	27.02	36.78	22.80	22.83	27.54	40.36
DPS (ZAR)	9.00	13.00	8.50	8.50	10.50	13.45
BVPS (ZAR)	98.97	127.24	140.64	154.72	172.82	202.10
Weighted average shares (m)	623	601	596	597	597	597
Average market cap (ZARm)	154,897	216,691	182,182	171,290	171,290	171,290
Enterprise value (ZARm)	166,847	227,307	178,899	165,914	170,314	168,090
Valuation Metrics						
P/E (DB) (x)	9.9	9.6	12.1	12.6	10.4	7.1
P/E (Reported) (x)	9.2	9.8	13.4	12.6	10.4	7.1
P/BV (x)	2.69	3.62	1.92	1.85	1.66	1.42
FCF Yield (%)	5.5	6.0	12.7	4.3	0.9	5.4
Dividend Yield (%)	3.6	3.6	2.8	3.0	3.7	4.7
EV/Sales (x)	1.70	1.75	1.30	1.39	1.27	1.05
EV/EBITDA (x)	5.6	5.8	5.8	6.2	5.4	3.9
EV/EBIT (x)	6.5	6.7	7.3	8.2	7.0	4.8
Income Statement (ZARm)						
Sales revenue	**98,127**	**129,943**	**137,836**	**119,666**	**134,077**	**160,689**
Gross profit	**29,643**	**39,028**	**30,911**	**26,801**	**31,684**	**43,397**
EBITDA	**29,643**	**39,028**	**30,911**	**26,801**	**31,684**	**43,397**
Depreciation	3,743	5,020	6,059	6,671	7,388	8,137
Amortisation	279	192	186	0	0	0
EBIT	**25,621**	**33,816**	**24,666**	**20,130**	**24,296**	**35,259**
Net interest income(expense)	-1,148	-1,148	-2,531	-2,215	-2,215	-1,846
Associates/affiliates	405	254	270	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	825	735	1,790	1,763	1,763	1,763
Profit before tax	**25,703**	**33,657**	**24,195**	**19,678**	**23,844**	**35,176**
Income tax expense	8,153	10,129	10,480	5,929	7,184	10,598
Minorities	520	1,111	67	67	81	120
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**17,030**	**22,417**	**13,648**	**13,682**	**16,579**	**24,458**
DB adjustments (including dilution)	-1,233	473	1,854	350	350	350
DB Net profit	**15,797**	**22,890**	**15,502**	**14,032**	**16,929**	**24,808**
Cash Flow (ZARm)						
Cash flow from operations	**20,424**	**23,720**	**38,031**	**22,832**	**18,472**	**28,606**
Net Capex	-11,852	-10,671	-14,975	-15,496	-17,013	-19,283
Free cash flow	**8,572**	**13,049**	**23,056**	**7,336**	**1,459**	**9,323**
Equity raised/(bought back)	-3,337	-6,825	75	0	0	0
Dividends paid	-4,613	-5,766	-7,193	-5,176	-5,777	-6,979
Net inc/(dec) in borrowings	852	-1,132	-1,056	0	0	0
Other investing/financing cash flows	842	-207	1,915	0	0	0
Net cash flow	**2,316**	**-881**	**16,797**	**2,160**	**-4,318**	**2,344**
Change in working capital	*-1,259*	*-7,404*	*10,375*	*2,411*	*-5,577*	*-4,110*
Balance Sheet (ZARm)						
Cash and other liquid assets	6,633	5,249	20,672	22,832	18,514	20,858
Tangible fixed assets	75,222	77,966	84,866	93,691	103,315	114,460
Goodwill/intangible assets	1,215	1,838	1,873	1,873	1,873	1,873
Associates/investments	2,977	6,815	3,804	3,804	3,804	3,804
Other assets	33,018	48,244	34,623	30,704	40,545	46,725
Total assets	**119,065**	**140,112**	**145,838**	**152,904**	**168,051**	**187,720**
Interest bearing debt	19,908	20,159	18,811	18,811	18,811	18,811
Other liabilities	35,888	40,958	40,810	39,303	43,567	45,637
Total liabilities	**55,796**	**61,117**	**59,621**	**58,114**	**62,378**	**64,448**
Shareholders' equity	61,617	76,474	83,835	92,341	103,142	120,621
Minorities	1,652	2,521	2,382	2,449	2,531	2,651
Total shareholders' equity	**63,269**	**78,995**	**86,217**	**94,790**	**105,673**	**123,272**
Net debt	*13,275*	*14,910*	*-1,861*	*-4,021*	*297*	*-2,047*
Key Company Metrics						
Sales growth (%)	19.1	32.4	6.1	-13.2	12.0	19.8
DB EPS growth (%)	10.9	49.9	-32.8	-9.6	20.6	46.5
EBITDA Margin (%)	30.2	30.0	22.4	22.4	23.6	27.0
EBIT Margin (%)	26.1	26.0	17.9	16.8	18.1	21.9
Payout ratio (%)	32.9	34.9	37.1	37.1	37.8	32.8
ROE (%)	29.8	32.5	17.5	15.9	17.3	22.2
Capex/sales (%)	12.3	8.4	11.4	12.9	12.7	12.0
Capex/depreciation (x)	3.0	2.1	2.5	2.3	2.3	2.4
Net debt/equity (%)	21.0	18.9	-2.2	-4.2	0.3	-1.7
Net interest cover (x)	22.3	29.5	9.7	9.1	11.0	19.1

Source: Company data, Deutsche Bank estimates

South Africa – Forestry & Paper

Mondi plc

Business description: Mondi is an integrated producer of packaging paper, converted packaging (including corrugated packaging – 31% of sales in 08 and bags and specialities – 33% of sales) and business paper (36% of sales). The group operates in Western Europe, Eastern Europe and South Africa, and has leading market positions in selected paper and packaging grades. Mondi is the fourth largest European producer of corrugated packaging and second largest producer of virgin containerboard. Within the printing and writing paper segment, Mondi is the third largest producer of uncoated fine papers (Europe) with a market share of 11%. Mondi Packaging operates six mills in Europe with an annual capacity of c.1.9m tonnes and four mills in South Africa with an annual capacity of c.0.7m tonnes (Kraftliner/testliner). The bags and specialities division operates six mills in Europe with an annual capacity of c.1m tonnes. Mondi also operates 1.4m tonnes of uncoated fine paper in Europe and a further 0.5m tonnes of capacity in South Africa. Mondi has a distinct low-cost advantage relative to other paper and packaging producers, which follows from the geographical locations of the company's assets.

Drivers: Key profit drivers and risk areas for Mondi are:

- Containerboard and corrugated board prices.
- Uncoated fine paper prices
- Sack paper prices
- Softwood and hardwood pulp prices
- ZAR/USD and EUR/USD exchange rates
- Movement of input costs
- Economic growth in Europe

Outlook: A demand recovery has still not materialised and we have factored in a gradual improvement in 2010. However containerboard prices have bottomed out and corrugated board prices are expected to positively impact 1H10. Containerboard price increases were announced in September and October (EUR40/t for kraftliner and EUR50/t for recycled containerboard). It is supported by low inventory driven by supply discipline and substantial capacity closures (2m tonnes YTD). We believe 40% of the containerboard producers are still cash negative despite the recent price increase. We expect additional capacity to exit the industry in the next few quarters. It could be as much as 1.5m tonnes, according to industry sources. There is scope for sustainability in higher container board and corrugated board prices in 2010. Additional supply (650,000 tonnes) will enter the market next year, but capacity closures would mute the negative effects. In addition the release of currency hedging on the Polish Zloty will provide more support to the corrugated business. The South African business will continue to suffer from a stronger rand and deteriorating market conditions. The oversupply continues to be severe in uncoated fine papers, and Portucel's 500,000 t/y new machine has added a further 4% new capacity. Uncoated fine paper prices are down ~ 3% in Q4 '09 (q-o-q) and we expect the decline to continue into 2010 resulting in a 5% reduction in prices y-o-y. We expect limited demand recovery in sack paper, however the price increase of 12% announced in September will support earnings in 2010 we believe. When market conditions start to pick up Mondi should be well positioned to benefit given its geographical exposure / cost position. We reiterate our **Hold** rating due to resilient earnings in extreme market conditions and sound financial position, but struggle to find a catalyst that could motivate a different recommendation.

Valuation: We use the DCF valuation due to relatively stable CF generation over the cycle. Our target price of GBP4.50 uses a WACC of 8.4% (RFR 4.5%, ERP 6.5%, 62% equity/38% debt) and a 0.5% TGR. We use a growth rate of 0.5% due to the long-term structural decline in office papers.

Risks: Lower than anticipated demand and price recovery. Our DB economist assumes a European GDP growth of 1.5% in 2010 and GDP growth of 1.2% in 2011. We expect this GDP growth scenario to result in a 10-15% increase in packaging prices in 2010 and a 4% increase in packaging consumption. An average corrugated price decrease of 5% would reduce our 2010E EPS by EUR 0.06 (38%).

Model updated: 20 January 2010

Running the Numbers

Europe

UK

Paper & Forest Products

Mondi

Reuters: MNDI.L Bloomberg: MNDI LN

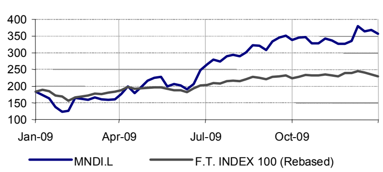
Buy

Price (30 Jan 10)	GBp 357.00
Target price	GBp 450.00
52-week Range	GBp 120.75 – 379.10
Market Cap	£ 1,835m US$ 2,940m

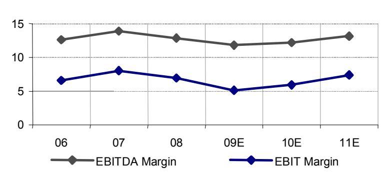
Company Profile

Mondi is an integrated producer of packaging paper, converted packaging (including corrugated packaging - 31% of sales in 08 and bags and specialities-33% of sales) and business paper (36% of sales). The group operates in Western Europe, Eastern Europe and South Africa and has leading market positions in selected paper and packaging grades. Mondi is the fourth largest European producer of corrugated packaging and the second largest producer of virgin containerboard.

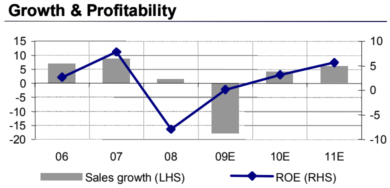
1yr Price Performance



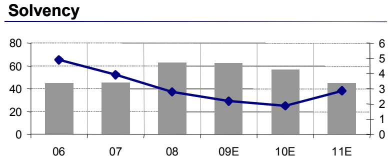
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (€)	0.22	0.46	0.32	0.16	0.15	0.27
Reported EPS (€)	0.15	0.45	-0.41	0.01	0.15	0.27
DPS (€)	0.00	0.23	0.13	0.08	0.08	0.08
BVPS (€)	5.81	5.76	4.52	4.63	4.68	4.95
Weighted average shares (m)	514	514	514	514	514	514
Average market cap (€m)	na	na	na	2,115	2,115	2,115
Enterprise value (€m)	na	na	na	4,220	4,122	3,933
Valuation Metrics						
P/E (DB) (x)	na	14.1	12.4	25.0	27.8	15.1
P/E (Reported) (x)	na	14.2	nm	803.4	27.8	15.1
P/BV (x)	na	1.00	0.47	0.89	0.88	0.83
FCF Yield (%)	na	12.9	0.8	5.5	16.4	18.6
Dividend Yield (%)	na	3.6	3.3	1.9	1.9	1.9
EV/Sales (x)	na	na	na	0.81	0.76	0.68
EV/EBITDA (x)	na	na	na	6.9	6.2	5.2
EV/EBIT (x)	na	na	na	15.8	12.8	9.2
Income Statement (€m)						
Sales revenue	**5,751**	**6,255**	**6,345**	**5,209**	**5,429**	**5,761**
Gross profit	**5,751**	**6,255**	**6,345**	**5,209**	**5,429**	**5,761**
EBITDA	**726**	**867**	**814**	**615**	**661**	**757**
Depreciation	349	365	371	348	339	332
Amortisation	0	0	0	0	0	0
EBIT	**377**	**502**	**443**	**266**	**322**	**426**
Net interest income(expense)	-77	-128	-159	-122	-171	-149
Associates/affiliates	5	2	2	3	3	4
Exceptionals/extraordinaries	-82	6	-387	-82	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**223**	**382**	**-101**	**65**	**153**	**281**
Income tax expense	94	102	78	42	44	82
Minorities	51	47	30	20	33	60
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**78**	**233**	**-209**	**3**	**76**	**140**
DB adjustments (including dilution)	34	2	371	82	0	0
DB Net profit	**112**	**235**	**162**	**85**	**76**	**140**
Cash Flow (€m)						
Cash flow from operations	**621**	**861**	**726**	**658**	**598**	**644**
Net Capex	13	-435	-710	-542	-250	-250
Free cash flow	**634**	**426**	**16**	**116**	**348**	**394**
Equity raised/(bought back)	105	87	-15	9	0	0
Dividends paid	-223	-287	-138	-39	-49	0
Net inc/(dec) in borrowings	-341	-381	329	113	-130	-300
Other investing/financing cash flows	-83	-136	-168	-74	-171	-149
Net cash flow	**92**	**-291**	**24**	**125**	**-2**	**-55**
Change in working capital	*-59*	*97*	*27*	*95*	*-25*	*-43*
Balance Sheet (€m)						
Cash and other liquid assets	415	180	155	296	293	239
Tangible fixed assets	3,659	3,731	3,611	3,848	3,759	3,677
Goodwill/intangible assets	381	520	323	321	321	321
Associates/investments	46	31	24	34	37	41
Other assets	2,366	2,400	2,148	2,024	2,147	2,254
Total assets	**6,867**	**6,862**	**6,261**	**6,522**	**6,557**	**6,532**
Interest bearing debt	1,894	1,687	1,845	2,032	1,902	1,602
Other liabilities	1,656	1,839	1,720	1,709	1,814	1,889
Total liabilities	**3,550**	**3,526**	**3,565**	**3,741**	**3,716**	**3,491**
Shareholders' equity	2,986	2,963	2,323	2,379	2,406	2,546
Minorities	331	373	373	402	435	495
Total shareholders' equity	**3,317**	**3,336**	**2,696**	**2,781**	**2,841**	**3,041**
Net debt	*1,479*	*1,507*	*1,690*	*1,736*	*1,609*	*1,363*
Key Company Metrics						
Sales growth (%)	7.2	8.8	1.4	-17.9	4.2	6.1
DB EPS growth (%)	-32.5	109.8	-31.1	-47.8	-10.1	83.6
EBITDA Margin (%)	12.6	13.9	12.8	11.8	12.2	13.1
EBIT Margin (%)	6.6	8.0	7.0	5.1	5.9	7.4
Payout ratio (%)	0.0	50.7	nm	nm	54.0	29.4
ROE (%)	2.7	7.8	-7.9	0.1	3.2	5.6
Capex/sales (%)	2.7	7.1	11.6	10.9	4.6	4.3
Capex/depreciation (x)	0.5	1.2	2.0	1.6	0.7	0.8
Net debt/equity (%)	44.6	45.2	62.7	62.4	56.6	44.8
Net interest cover (x)	4.9	3.9	2.8	2.2	1.9	2.9

Source: Company data, Deutsche Bank estimates

South Africa – Forestry & Paper

Sappi Ltd

Business description: Sappi is one of the world's leading coated fine paper, coated magazine paper and dissolving pulp producer, with producing assets in Europe, North America and South Africa. With the acquisition of M-real's coated paper assets in December 2008 Sappi has become the largest producer of coated fine paper in Europe and globally with a market share of 26% and 12% respectively. The acquisition also resulted in Sappi becoming the fifth largest producer of coated magazine paper in the world with a market share of 7% and the fourth largest producer in Europe with a market share of 13%. **Sappi Fine Paper** (the largest business unit) is managed in three principal regions – Sappi Fine Paper Europe, Sappi Fine Paper North America and Sappi Fine Paper SA. **Sappi Fine** Paper Europe operates nine mills in Europe, with an annual production capacity of about 4.2m tonnes of paper and c.1.1m tonnes of pulp. Sappi Fine Paper North America operates three paper mills in the US, with an annual production capacity of c.1.1m tonnes and paper pulp capacity of c.0.9m tonnes. Sappi Fine Paper SA operates three mills in South Africa with an annual production capacity of about 350,000 tonnes of paper and paper pulp capacity of c.165,000 tonnes. Sappi Forest Products operates five pulp and paper mills in South Africa and Swaziland, with a production capacity of 830,000 tonnes of paper, 800,000 tonnes of dissolving pulp and 860,000 tonnes of paper pulp pa.

Drivers: Key profit drivers and risk areas for Sappi are:

- Global coated fine paper prices
- Global coated magazine paper prices
- Softwood, hardwood pulp prices
- ZAR/USD and EUR/USD exchange rates
- Movement of input costs, particularly electricity
- Synergy benefits from the acquisition of M-real's coated paper assets
- Economic growth in the US and Western Europe

Outlook: We expect the paper price pressure to continue but additional acquisition synergies and cost savings from restructuring programmes should support earnings in 2010. The risk of further price erosion in 2010 is still high, in our view, driven by weak demand for coated papers in Europe and US combined with a substantial oversupply. In addition, a stronger rand vs the USD puts additional pressure on the South African operations. The refinancing has improved the liquidity but finance costs are expected to increase significantly to USD 250m in 2010. Note that EBITDA 2010 is expected at USD 528m. CF and balance sheet is expected to remain weak. The financial risk remains high, we believe. Capex 2010 is expected at USD 200m (the maintenance level is USD 150m). Our **Sell** rating is supported by continued weak earnings, high financial risk and excessive valuation.

Valuation: Valuation may offer little guidance to the near- or even medium-term performance of paper stocks. However, it offers a useful yardstick to assess fundamental value and helps to facilitate the best possible understanding of the risk-reward characteristics of paper stocks – for example, upside potential as well as downside risk – at any stage of the cycle. We consider normalised or mid-cycle earnings (PENORM multiples) a useful tool in assessing 'fair' long-term valuations since they eliminate the cyclicality in earnings. Sappi trades at close to its historical low, but even at this level we believe there is limited support. The average ROE over the past five years has been 3.0%. Our price target of R20.0 is based on our mid-cycle approach of PE NORM of 11.0x multiplied by EPS NORM of R1.8. The PE NORM multiple is derived using the Gordon formula: 1/(cost of equity – growth), i.e. 1/(10.0% – 1.0%). We use a growth rate of 1% due to the structural demand decline for graphics papers.

Risks: The paper industry has cut costs substantially over the last few years, and it has a strong operational leverage to increased volumes. If demand recovers stronger and faster than anticipated, there could be substantial upside potential to our earnings estimates. In addition, if the substantial oversupply of paper is reduced by capacity closures, it could lead to increased paper prices. Hence, a combination of increased demand and higher paper prices could result in a strong earnings scenario in 2010-11. An average fine paper price increase of 5% for would increase our 2010E EPS by USD0.10. Industry consolidation and significant restructuring are additional risks.

Model updated: 28 January 2010

Running the Numbers

S. Africa

South Africa

Forestry & Paper

Sappi

Reuters: SAPJ.J Bloomberg: SAP SJ

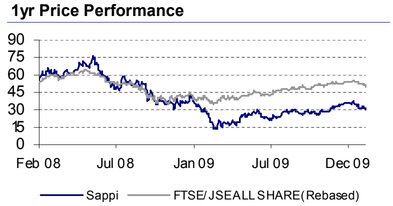
Sell

Price (30 Jan 10)	ZAR 32.80
Target price	ZAR 20.00
52-week Range	ZAR 13.50 – 37.00
Market Cap	ZAR 16,892m US$ 2,239m

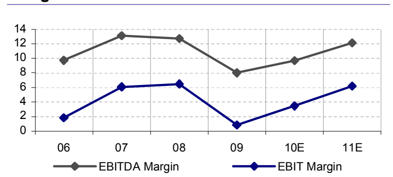
Company Profile

Sappi is a world leading coated woodfree paper and dissolving pulp producer, with producing assets in South Africa, Europe and North America.With the acquisition of M-real's coated paper assets Sappi has become the largest producer of coated fine paper in Europe and globally with a market share of 25% and 11% respectively. The acquisition also resulted in Sappi becoming the 3rd largest producer of coated magazine paper in the world with a market share of 8% and the second largest producer in Europe with a market share of 14%.

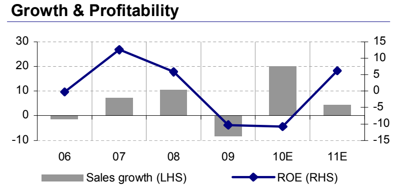
1yr Price Performance



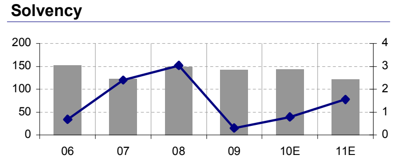
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**
Financial Summary						
DB EPS ($)	-0.02	0.67	0.48	-0.12	-0.09	0.20
Reported EPS ($)	-0.02	0.89	0.28	-0.36	-0.36	0.20
DPS ($)	0.30	0.32	0.10	0.00	0.00	0.00
BVPS ($)	6.14	8.05	4.60	3.72	3.21	3.41
Weighted average shares (m)	226	226	349	483	515	515
Average market cap (US$m)	1,810	2,290	2,797	1,529	2,239	2,239
Enterprise value (US$m)	3,811	4,413	5,052	4,086	4,614	4,376
Valuation Metrics						
P/E (DB) (x)	nm	15.1	16.9	nm	nm	21.5
P/E (Reported) (x)	nm	11.4	28.2	nm	nm	21.5
P/BV (x)	1.34	1.20	1.34	1.00	1.35	1.27
FCF Yield (%)	nm	3.1	nm	nm	3.3	10.6
Dividend Yield (%)	3.7	3.2	1.3	0.0	0.0	0.0
EV/Sales (x)	0.77	0.83	0.86	0.76	0.72	0.65
EV/EBITDA (x)	7.9	6.3	6.8	9.5	7.4	5.4
EV/EBIT (x)	42.3	13.7	13.3	89.8	20.7	10.5
Income Statement (US$m)						
Sales revenue	**4,941**	**5,304**	**5,863**	**5,369**	**6,444**	**6,729**
Gross profit	**522**	**713**	**847**	**101**	**495**	**925**
EBITDA	**481**	**697**	**747**	**431**	**624**	**816**
Depreciation	391	374	366	385	401	400
Amortisation	0	0	0	0	0	0
EBIT	**90**	**323**	**381**	**46**	**223**	**416**
Net interest income(expense)	-130	-134	-125	-145	-279	-266
Associates/affiliates	1	-10	-17	-11	-18	-18
Exceptionals/extraordinaries	34	70	-52	-106	-142	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**-5**	**249**	**187**	**-217**	**-217**	**132**
Income tax expense	-1	47	87	-41	-30	26
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**-4**	**202**	**100**	**-176**	**-186**	**105**
DB adjustments (including dilution)	0	-49	68	117	142	0
DB Net profit	**-4**	**153**	**168**	**-59**	**-44**	**105**
Cash Flow (US$m)						
Cash flow from operations	**228**	**435**	**404**	**486**	**275**	**438**
Net Capex	-287	-364	-494	-762	-202	-200
Free cash flow	**-59**	**71**	**-90**	**-276**	**73**	**238**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-68	-68	-73	-37	0	0
Net inc/(dec) in borrowings	-21	98	49	707	-108	-200
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	**-148**	**101**	**-114**	**394**	**-35**	**38**
Change in working capital	*-17*	*60*	*1*	*152*	*-19*	*-26*
Balance Sheet (US$m)						
Cash and other liquid assets	224	364	274	770	827	865
Tangible fixed assets	3,649	4,127	3,992	4,545	4,119	3,918
Goodwill/intangible assets	8	7	7	0	0	0
Associates/investments	103	112	124	0	0	0
Other assets	1,533	1,734	1,712	1,982	2,173	2,258
Total assets	**5,517**	**6,344**	**6,109**	**7,297**	**7,119**	**7,042**
Interest bearing debt	2,328	2,599	2,653	3,327	3,202	3,002
Other liabilities	1,803	1,929	1,851	2,176	2,264	2,282
Total liabilities	**4,131**	**4,528**	**4,504**	**5,503**	**5,466**	**5,284**
Shareholders' equity	1,386	1,816	1,605	1,794	1,653	1,758
Minorities	0	0	0	0	0	0
Total shareholders' equity	**1,386**	**1,816**	**1,605**	**1,794**	**1,653**	**1,758**
Net debt	*2,104*	*2,235*	*2,379*	*2,557*	*2,375*	*2,137*
Key Company Metrics						
Sales growth (%)	-1.5	7.3	10.5	-8.4	20.0	4.4
DB EPS growth (%)	nm	nm	-29.4	nm	29.9	nm
EBITDA Margin (%)	9.7	13.1	12.7	8.0	9.7	12.1
EBIT Margin (%)	1.8	6.1	6.5	0.8	3.5	6.2
Payout ratio (%)	nm	35.8	36.5	nm	nm	0.0
ROE (%)	-0.3	12.6	5.8	-10.3	-10.8	6.2
Capex/sales (%)	6.1	6.9	8.4	3.2	3.1	3.0
Capex/depreciation (x)	0.8	1.0	1.3	0.4	0.5	0.5
Net debt/equity (%)	151.8	123.1	148.2	142.5	143.7	121.5
Net interest cover (x)	0.7	2.4	3.0	0.3	0.8	1.6

Source: Company data, Deutsche Bank estimates

South Africa – Banks

Absa Group Ltd

Business description: Absa was formed in 1991 by the merger of United and Allied Building Societies and Volkskas Bank. In January 1992, Absa acquired Bankorp Holdings, who operated through TrustBank, Bankfin and Senbank. The incorporation of Bankorp established Absa as the largest local banking group by assets at the time. Absa is predominantly a retail bank (72% of assets/49% of earnings) that has operated under a single brand, Absa Bank, since 1998. The corporate bank was re-branded 'Absa Capital' in 2006 following Barclays acquiring a controlling stake (currently 59%) in 2005. Outside South Africa, Absa has a limited African footprint, with Tanzania being its largest operation. Africa contributes just 1% of earnings. Following its unsuccessful foray into micro-lending through the acquisition of UniFer in FY00, which eventually led to a R2bn write-off, Absa has been more cautious on the acquisition front. Although some of the rationale for the takeover of Absa by Barclays was that Barclays' African operations would be consolidated under Absa, a subsequent disagreement over price has meant that talks were called off. As such, Absa remains focussed on southern Africa resulting in very little opportunity for growth by geographic expansion.

Drivers: For the banking operations, retail constitutes 63.4% of net advances. Overall, we expect muted asset growth in 2009 and 2010 as the consumer and corporates rehabilitate from the difficult economic and interest rate environment. We expect the margin to decline in the current year due to increased cost of funding and the negative endowment impact of our expected 50bp rate cut early next year. With that said, we expect earnings to be driven by non-interest revenue (48.7% of operating income) in the medium-term as retail fees remain resilient supplemented by respectable growth in Absa Capital and Absa Financial Services (Absa's short-term and life insurance unit). We note, however, that cost pressures are likely to build into 2010 as much of the cost savings are likely to have been carried out in 2009 (FY10 costs: +10%).

Outlook: We continue to believe that current consensus earnings for Absa are overly optimistic (4% for FY09 and 8% for FY10). In particular, we see limited scope for a sharp decline in credit impairments due to lower portfolio provisioning while we remain unconvinced that the cost control exercised in 1H09 will carry through to year end. Regarding the longer-term outlook, we note that Absa's portfolio of businesses is relatively defensive and as such, earnings are likely to lag the peer group as we emerge from the credit cycle. **Hold**.

Valuation: We value Absa on a sum-of-the-parts basis by applying a price-to-book methodology on the banking and short-term insurance operations and a fair multiple to embedded value for the life insurance operations. Based on our medium-term average ROE of 18.7%, we apply a 1.61x book for our banking operations (COE: 13.9% – risk-free: 8.5%, ERP:4.5%, beta 1.2x). This is well below our normalised price-to-book multiple of 2.11x (based on normalised ROEs of 22.6%), suggesting further upside risk to our valuation on a longer-term basis. For the life insurance operations, we apply a 1.8x price-to-embedded value on account of the expected ROEs of over 30% over the next three years, while we value the short-term insurance operations at 1.5x.

Risks: The key upside risk to our recommendation is continued strength in Absa Capital (27% of bank earnings), which would result in Absa having more defensive revenues and outperforming its peers through this cycle. On the downside, we continue to believe Absa is relatively under provided when compared to FirstRand and Standard Bank, which may result in sub-par earnings growth should the credit cycle continue beyond our current expectations (due to rising unemployment and corporate failures).

Model updated: 06 December 2009

Running the Numbers

Sth Africa

South Africa

Bank

Absa

Reuters: ASAJ.J Bloomberg: ASA SJ

Hold

Price as of 29 January	ZAR 134.25
Target price	ZAR 120.00

Company website

http://www.absa.co.za

Company description

Absa was formed in 1991 by the merger of United and Allied Building Societies and Volkskas Bank. In January 1992, Absa acquired Bankorp Holdings, who operated through TrustBank, Bankfin and Senbank. The incorporation of Bankorp established Absa as the largest local banking group by assets at the time. Absa is predominantly a retail bank (72% of assets/49% of earnings), which has operated under a single brand, Absa Bank, since 1998. The corporate bank was re-branded "Absa Capital" in 2006 following Barclays acquiring a

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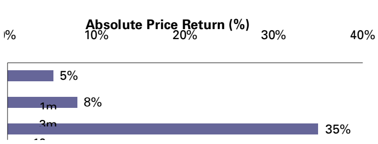
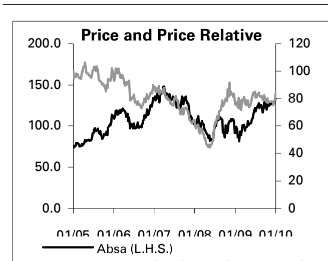
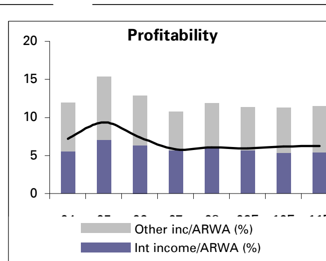


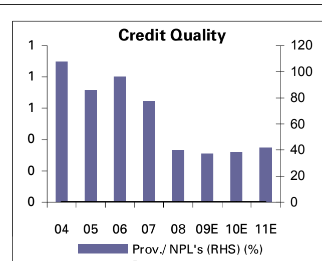
52-week Range:	ZAR 76.90 - 134.25
Market Cap (m)	ZAR 95,861
	USD 12,705

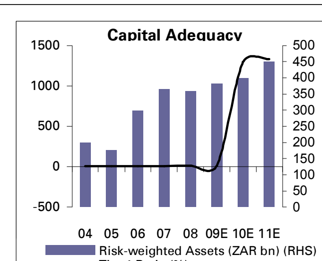
Company identifiers	
Cusip	
SEDOL	B0DR0K7

Year Ending 31 December	2004	2005	2006	2007	2008	2009E	2010E	2011E
DATA PER SHARE								
EPS (stated) (ZAR)	8.23	9.55	11.93	14.02	14.69	10.05	12.34	16.93
EPS (DB) (ZAR)	8.17	9.28	11.20	13.05	14.12	8.92	12.32	16.91
Growth Rate - EPS (DB) (%)	nm	13.7	20.7	16.5	8.2	-36.8	38.1	37.3
DPS (ZAR)	2.95	2.95	4.73	5.60	5.95	4.02	4.93	6.76
BVPS (stated) (ZAR)	35.53	38.62	47.17	55.37	69.50	67.71	76.57	88.08
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	34.95	38.21	46.63	54.16	66.69	65.10	74.03	85.62
Market Capitalisation Y/E (ZAR m)	49,781	67,352	84,062	75,322	73,572	96,227	95,861	96,040
Shares in issue (m)	677	684	703	716	703	698	716	716
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	6.6	8.9	9.1	9.4	6.8	13.4	10.9	7.9
P/E (core DB)	6.6	9.2	9.7	10.1	7.0	15.1	10.9	7.9
P/B (stated)	2.1	2.6	2.7	2.0	1.6	2.0	1.8	1.5
P/Tangible equity (DB)	2.2	2.6	2.7	2.0	1.6	2.1	1.8	1.6
ROE (stated) (%)	25.6	29.5	27.7	27.2	23.4	14.6	17.1	20.6
RoTE (core tangible equity) (%)	24.2	26.3	27.7	27.5	24.2	13.5	17.7	21.2
ROIC (invested capital) (%)	26.7	26.0	27.5	27.2	23.8	13.2	17.4	20.8
Dividend yield (%)	5.5	3.5	4.3	4.2	6.0	3.0	3.7	5.0
Dividend cover (x)	2.8	3.2	2.5	2.5	2.5	2.5	2.5	2.5
Simple free cash flow yield (%)	-30.9	14.6	-4.3	3.9	16.0	3.5	7.3	5.6
PROFIT & LOSS (ZAR m)								
Net interest revenue	10,431	11,810	14,941	18,890	21,795	21,118	21,027	22,984
Non-interest income	12,168	13,780	15,502	16,728	21,115	20,879	23,167	25,819
Commissions	12,168	13,780	10,246	13,222	16,985	17,128	19,183	21,423
Trading revenue	0	0	740	0	0	0	0	0
Other revenue	0	0	4,516	3,506	4,130	3,751	3,984	4,396
Total revenue	22,599	25,590	30,443	35,618	42,910	41,997	44,194	48,803
Total Operating Costs	13,590	15,547	17,491	19,209	21,917	21,937	24,152	26,543
Employee costs	0	0	8,218	10,117	11,604	11,372	12,623	13,885
Other costs	13,590	15,547	9,273	9,092	10,313	10,565	11,529	12,657
Pre-Provision profit / (loss)	9,009	10,043	12,952	16,409	20,993	20,060	20,042	22,260
Bad debt expense	1,284	875	1,573	2,433	5,839	9,489	7,431	5,060
Operating Profit	7,725	9,168	11,379	13,976	15,154	10,572	12,610	17,201
Pre-tax associates	78	112	113	91	73	0	15	28
Pre-tax profit	7,803	9,280	11,492	14,067	15,227	10,572	12,625	17,229
Tax	2,172	2,875	3,151	4,042	3,966	2,302	3,156	4,479
Minority shareholders	75	85	88	117	194	237	265	297
Other post tax items	-137	-68	-73	-313	-457	-1,598	-390	-343
Stated net profit	**5,394**	**6,282**	**7,947**	**9,413**	**9,926**	**6,989**	**8,814**	**12,109**
Reconciliation to DB adjusted core earnings								
Goodwill	137	68	0	0	0	0	0	0
Extraordinary & Other items	0	0	-70	-65	0	-768	0	0
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	**5,531**	**6,350**	**7,877**	**9,348**	**9,926**	**6,221**	**8,814**	**12,109**
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	199,995	176,317	297,168	364,749	357,959	382,664	398,419	449,914
Interest-earnings assets	312,934	367,929	459,062	582,896	661,703	658,197	685,364	764,717
Total loans	268,240	322,097	386,154	455,958	532,171	530,925	556,631	631,898
Total deposits	276,355	328,729	403,605	524,969	602,814	663,095	729,405	802,345
Stated Shareholder Equity	23,273	25,755	31,693	37,575	47,280	48,532	54,678	63,008
Tangible shareholders equity	22,893	25,478	31,334	36,751	45,366	46,662	52,858	61,253
Tier 1 capital	16,441	13,633	26,998	31,632	44,149	45,401	51,547	59,877
Tier 1 ratio (%)	8.2	7.7	9.1	8.7	12.3	11.9	1293.8	1330.9
o/w core tier 1 capital ratio (%)	8.2	7.7	9.1	8.7	12.3	11.9	12.9	13.3
Tangible equity / total assets (%)	6.6	6.3	6.3	5.7	5.9	6.1	6.6	6.8
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	108	86	96	77	40	37	38	42
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	nm	13	19	17	20	-2	5	10
Growth in costs (%)	nm	14	13	10	14	0	10	10
Growth in bad debts (%)	nm	-32	80	55	140	63	-22	-32
Growth in RWA (%)	nm	-12	69	23	-2	7	4	13
Growth in loans (%)	nm	6	36	19	17	8	2	9
Growth in deposits (%)	nm	19	23	30	15	10	10	10
Net int. margin (%)	3.71	3.88	3.61	3.63	3.50	3.20	3.13	3.17
Cost income ratio (%)	60.1	60.8	57.5	53.9	51.1	52.2	54.7	54.4
Total loans / Total deposits (%)	97	98	96	87	88	80	76	79









Source: Company data, Deutsche Bank estimates

South Africa – Financial Services

African Bank Investments Ltd

Business description: African Bank Investments Ltd (ABIL) was formed from the merger of several non-traditional retail lending institutions (NTRLI) servicing the credit needs of the bottom end of the retail market. With the acquisition of African Bank in 1998, these NTRLIs were integrated under the African Bank brand. In August 2002, ABIL acquired Saambou's R2.83bn microlending book, significantly boosting ABIL's total advances. In 2005, ABIL integrated the operations of Credit Indemnity into African Bank. More recent corporate activity has seen ABIL acquiring Ellerines, providing it with a further c.R7bn of gross advances and tripling ABIL's distribution footprint.

Drivers: ABIL's mono-line focus on providing credit limits the number of its drivers relative to the larger commercial banks. Specifically, the key elements are interest margin, asset growth, bad debts and operating expenses. With run-off from the pay-down books largely offsetting organic asset growth from the continuing business, margin income growth has historically been achieved through rapidly expanding margin. This margin expansion has resulted from new business being at significantly wider margins than the Saambou and Persal businesses, which are part of the pay-down books. However, with the introduction of new pricing models, which has almost halved pricing for the best clients and reduced cross-subsidisation, margins have compressed. Although management is pushing down margins, the loss has thus far been more than offset by stronger advances growth. We expect the cost line to be a further key source of bottom-line growth in the medium term, particularly following the acquisition of Ellerines. We expect some of the cost savings to be driven by more efficient collection methods, lower cost of originating loans and the integration of Ellerines and ABIL's back-office. Bad debts remain a particularly sensitive area for ABIL, given its sub-prime focus. ABIL has historically proved relatively adept at maintaining the relationship between margin and bad debts. However 2009 appears to have been a challenging period for the bank as sales and bad debts deteriorated. Whether these represent a short term issue rather than a structural problem needs to be monitored.

The other key driver currently is the recovery in Ellerines which has been heavily impacted by high bad debts and slowing sales. ABIL has outlined a five year plan to double sales while African Bank's credit models should get the bad debt charge under control.

Outlook: ABIL historically has offered a maximum of 36-month loans limited to R10,000. However, following the promulgation of the National Credit Act, ABIL is able to offer loans for greater values and over longer terms. Additionally, ABIL has implemented an increased number of credit buckets for its clients, allowing it to more accurately price for the credit risk. In addition to ABIL's traditional business, it acquired a 100% interest in a credit retailer (Ellerines) effective January 2008. While management has indicated that it will review of its medium-term target of the retail business we believe this still provides ABIL with significant opportunity from extracting further scale however may take longer to arrive at the targets. We recommend a **Hold** pending signs of marked progress on the Ellerines acquisition.

Valuation: Our two-stage valuation methodology is as follows: In the first stage, intended to capture the "super profits" phase, we perform a discounted cash flow calculation of dividends projected over the next 10 years. In the second stage, we set a terminal value at the end of 10 years by applying our calculated fair price-to-book multiple to the projected NAV at that point. We calculate the fair price-to-book using the following formula: Price/Book =(Tangible ROE – g)/(Cost of equity – g) Where: Tangible ROE – sustainable ROE is 25% on the belief that ABIL may now no longer be in a position to gear up significantly in light of current global concerns of banks leverage ratios. Cost of equity is 15%, comprising a risk-free rate of 8.5%, an equity risk premium of 4.5% and a beta of 1.45x. Perpetuity growth assumption (g) is 6% which is in line with our group policy on global banks valuations. This is based on USD nominal GDP plus an inflation differential.

Risks: Key downside investment risks are how ABIL's new pricing model will perform in a more difficult macro environment as well as the risk of continued competitive pressures in the future as banks increase appetite in the lower end of the credit market. In addition, a further forecast risk (both to the upside and downside) is the ability to turnaround the Ellerines unit which it acquired at the beginning of 2008.

Model updated: 23 November 2009

Running the Numbers

Sth Africa

South Africa

Financial Services

African Bank

Reuters: ABLJ.J Bloomberg: ABL SJ

Hold

Price as of 29 January	ZAR 29.69
Target price	ZAR 30.00

Company website
http://www.africanbank.co.za

Company description

African Bank is a bank holding company. The group provides financial services to the under-serviced areas of the SA population. African Bank specialises in extending consumer loans and microlending products to individuals and small businesses.

Research Team

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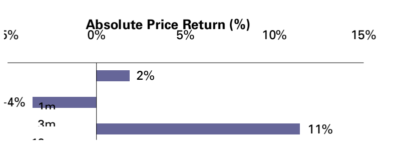
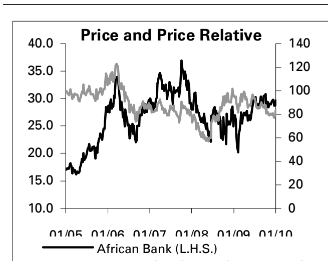
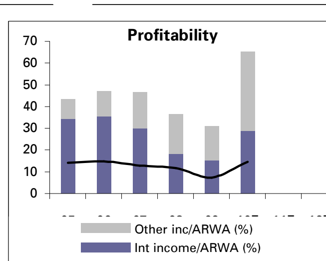


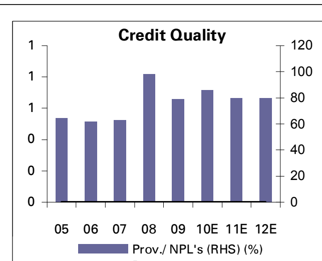
52-week Range:	ZAR 19.45 - 31.80
Market Cap (m)	ZAR 23,850
	USD 3,161

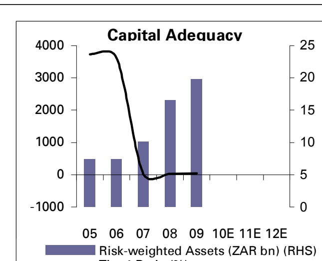
Company identifiers
Cusip
SEDOL 6040776

Year Ending 30 September	04/05	05/06	06/07	07/08	08/09	09/10E	10/11E	11/12E
DATA PER SHARE								
EPS (stated) (ZAR)	2.01	2.23	2.68	2.10	2.25	3.11	3.61	4.15
EPS (DB) (ZAR)	2.16	2.27	2.68	2.51	2.25	3.11	3.61	4.15
Growth Rate - EPS (DB) (%)	28.8	4.9	18.3	-6.4	-10.3	38.3	15.8	15.0
DPS (ZAR)	2.22	2.00	2.25	2.10	1.85	2.02	2.30	2.83
BVPS (stated) (ZAR)	4.29	4.44	4.99	14.84	15.15	16.33	17.62	19.14
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	4.15	4.12	4.68	0.06	-0.10	1.04	2.49	4.14
Market Capitalisation Y/E (ZAR m)	10,521	10,984	15,561	20,253	23,712	23,850	23,850	23,850
Shares in issue (m)	472	497	497	718	804	804	804	804
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	8.7	11.7	11.1	13.6	11.8	9.5	8.2	7.2
P/E (core DB)	8.2	11.5	11.1	11.4	11.8	9.5	8.2	7.2
P/B (stated)	5.0	5.0	6.3	1.7	1.9	1.8	1.7	1.6
P/Tangible equity (DB)	5.1	5.4	6.7	430.9	-301.8	28.4	11.9	7.2
ROE (stated) (%)	39.8	51.2	56.9	21.0	15.0	19.8	21.3	22.6
RoTE (core tangible equity) (%)	44.2	55.0	61.0	151.9	-11,470.2	658.5	204.1	125.2
ROIC (invested capital) (%)	44.0	55.0	61.0	47.0	33.7	42.8	42.1	41.0
Dividend yield (%)	12.6	7.6	7.5	7.4	7.0	6.8	7.7	9.5
Dividend cover (x)	0.9	1.1	1.2	1.0	1.2	1.5	1.6	1.5
Simple free cash flow yield (%)	9.0	8.7	3.0	-0.7	2.6	nm	nm	nm
PROFIT & LOSS (ZAR m)								
Net interest revenue	2,416	2,622	2,632	2,448	2,757	2,866	2,992	3,132
Non-interest income	631	870	1,449	2,435	2,834	3,585	4,161	4,744
Commissions	274	446	707	1,244	1,591	1,966	2,258	2,545
Trading revenue	0	0	0	0	0	0	0	0
Other revenue	357	424	742	1,191	1,243	1,619	1,904	2,199
Total revenue	3,047	3,492	4,081	4,883	5,591	6,451	7,153	7,876
Total Operating Costs	1,001	1,094	1,129	1,554	1,348	1,446	1,550	1,663
Employee costs	0	0	0	0	0	0	0	0
Other costs	1,001	1,094	1,129	1,554	1,348	1,446	1,550	1,663
Pre-Provision profit / (loss)	2,046	2,398	2,952	3,329	4,243	5,005	5,603	6,213
Bad debt expense	488	606	823	1,361	1,929	2,313	2,612	2,955
Operating Profit	1,558	1,792	2,129	1,968	2,314	2,693	2,991	3,258
Pre-tax associates	0	0	0	0	0	0	0	0
Pre-tax profit	1,558	1,792	2,129	1,968	2,314	2,693	2,991	3,258
Tax	616	653	754	768	737	754	837	912
Minority shareholders	0	0	0	0	0	0	0	0
Other post tax items	-7	1	-41	-49	-52	-52	-52	-52
Stated net profit	**948**	**1,109**	**1,334**	**1,511**	**1,810**	**2,503**	**2,899**	**3,334**
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	73	19	0	291	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	**1,021**	**1,128**	**1,334**	**1,802**	**1,810**	**2,503**	**2,899**	**3,334**
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	7,380	7,380	10,130	16,481	19,772	0	0	0
Interest-earnings assets	7,502	9,329	13,346	19,383	24,729	29,027	33,822	38,548
Total loans	5,119	6,120	8,752	16,702	20,486	25,493	30,435	34,703
Total deposits	644	0	0	37	25	23	20	18
Stated Shareholder Equity	2,122	2,207	2,482	11,929	12,174	13,119	14,154	15,375
Tangible shareholders equity	2,055	2,047	2,326	47	-79	839	2,002	3,325
Tier 1 capital	2,757	2,675	3,265	5,061	7,566	9,472	10,959	12,595
Tier 1 ratio (%)	3735.8	3624.7	32.2	30.7	38.3	0.0	0.0	0.0
o/w core tier 1 capital ratio (%)	37.4	36.2	32.2	30.7	38.3	nm	nm	nm
Tangible equity / total assets (%)	28.7	24.9	19.8	0.2	-0.2	2.2	4.5	6.8
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	65	62	63	98	79	86	80	80
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	11	15	17	20	14	15	11	10
Growth in costs (%)	-1	9	3	38	-13	7	7	7
Growth in bad debts (%)	1	24	36	65	42	20	13	13
Growth in RWA (%)	11	0	37	63	20	nm	nm	nm
Growth in loans (%)	8	17	32	71	46	24	22	16
Growth in deposits (%)	18	nm	nm	nm	-32	-10	-10	-10
Net int. margin (%)	32.31	31.16	23.21	14.96	12.50	10.66	9.52	8.66
Cost income ratio (%)	32.9	31.3	27.7	31.8	24.1	22.4	21.7	21.1
Total loans / Total deposits (%)	795	nm	nm	45141	81944	113302	150295	190412









Source: Company data, Deutsche Bank estimates

South Africa – Banks

FirstRand Ltd

Business description: FirstRand was formed when Anglo American plc and RMB Holdings merged their respective financial services interests, FNB Holdings, Momentum Life and Southern Life (April 1998). FirstRand offers a comprehensive range of financial services and is led by a highly respected management team. Although FNB and Southern Life were substantially larger than Momentum Life, Momentum formed the core of the group's management team. Its operations included life insurance, fund management, financial administration services, healthcare insurance, investment banking and private banking. FirstRand Bank is ranked third among South Africa's four large commercial banks ranked by total assets. Having operated its retail corporate and investment banking operations under three relatively independent management teams, the management of the retail and corporate banks was integrated in 2004.

The main shareholders in FirstRand are RMB Holdings (c.30%) and Remgro (c.9% directly and c.8% indirectly via a 25% stake in RMB Holdings). Senior management holds a 18.4% stake in RMB Holdings that, due to a co-operative voting arrangement with Remgro, ensures a degree of control is retained by management. In FY02, FirstRand bulked up its sub-scale mortgage business by R16.8bn, through the acquisition of NBS' and Saambou's homeloan books. There have also been a number of acquisitions of smaller instalment finance books since then. On the disposals side, it disposed its underperforming Ansbacher operation offshore in 1H05 and more recently unbundled its 57% stake in Discovery in November 2007.

In recent results, 88% of earnings came from the banking operations, with the balance from its life business.

Drivers: For the banking operations, the dominant earnings driver, real asset growth remains depressed however momentum is expected to slowly accelerate as the impact of flat interest rates filters through the system next year. We expect a compression in net interest margin in FY10 and only a marginal expansion in FY11 as the negative endowment impact adds to the pressure of higher liability pricing and a shift in asset mix towards lower margin corporate lending. Bad debts remain a key focus area, the outcome of which will be highly dependent on whether our expectation of further rate cuts proves correct. FirstRand's asset mix (exposure to instalment finance rather than mortgages) has resulted in a structurally higher bad debts charge than its peers during FY09, which we believe has peaked and begun to decline in line with low rates. Additionally, due to this mix, NIR is likely to prove more stable than peers due to the significant one-off losses suffered in the past 12 months

Outlook: Despite suffering significant losses in its international operations recently, we continue to believe that FirstRand's domestic franchises are in good shape. In addition to the higher ROAs that these units generate we also highlight the reversal of one off losses (-17% on total earnings in FY09), the potential for greater cost control (due to 5% higher cost to income) and strong on balance sheet credit provisioning as further support to the earnings recovery in the medium term (we expect 26% CAGR in earnings from FY09 to FY12e). **Buy**.

Valuation: We value FirstRand on a sum-of-the-parts basis by applying a fair price-to-book on the banking operations and applying a 1x EV to the life operations, namely Momentum. As highlighted earlier, we expect FirstRand to deliver the most dramatic ROE recovery of all the Big 4, but due to its current depressed ROEs, the average for the next three years is only 19.6%. This results in a 1.7x book for the banking operations (COE: 13.9% – risk-free: 8.5%, ERP: 4.5%, beta 1.2x). This 1.7x multiple remains well below our normalised PB of 2.4x highlighted earlier (based on a sustainable ROE of 25.1%), implying that momentum and risks to our valuation remain to the upside.

Risks: FirstRand's large private equity operations and remaining legacy portfolios remain areas of significant forecast risk and potential earnings pressure. In addition, we remain concerned about the longer-term outlook for the investment banking operations due to a potential loss in market share to larger peers (Absa Capital after its tie-up with Barclays Capital and broadening foot-print and product for Standard Bank).

Model updated: 16 September 2009

Running the Numbers

Sth Africa

South Africa

Bank

FirstRand

Reuters: FSRJ.J Bloomberg: FSR SJ

Buy

Price as of 29 January	ZAR 18.65
Target price	ZAR 18.00

Company website

http://www.firstrand.co.za

Company description

FirstRand is a diversified financial services company. The group provides merchant banking, asset and fund management, property management and other services through subsidiaries Rand Merchant Bank and First National Bank .

Research Team

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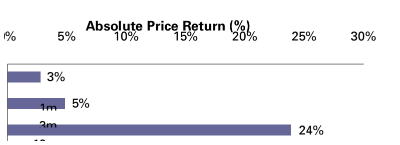
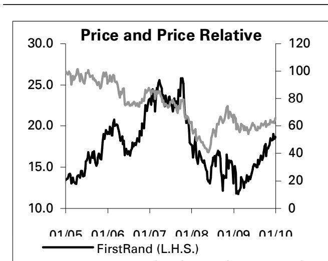
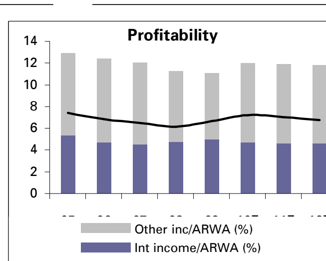


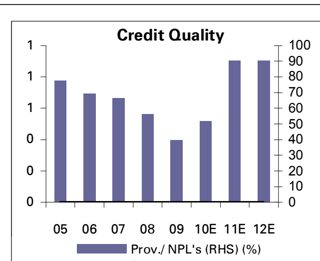
52-week Range:	ZAR 11.16 - 19.02
Market Cap (m)	ZAR 105,279
	USD 13,954

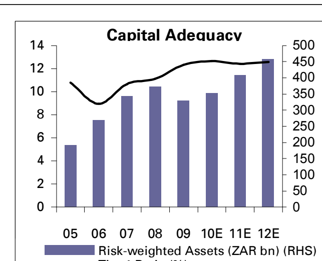
Company identifiers	
Cusip	
SEDOL	6606996

Year Ending 30 June	04/05	05/06	06/07	07/08	08/09	09/10E	10/11E	11/12E
DATA PER SHARE								
EPS (stated) (ZAR)	1.29	1.47	1.92	1.76	1.23	1.39	1.98	2.37
EPS (DB) (ZAR)	1.40	1.66	2.10	1.88	1.27	1.47	2.07	2.47
Growth Rate - EPS (DB) (%)	26.6	18.5	26.9	-10.7	-32.3	15.8	40.7	19.5
DPS (ZAR)	0.55	0.66	0.83	0.83	0.56	0.64	0.98	1.17
BVPS (stated) (ZAR)	5.57	6.45	8.02	8.90	9.13	9.95	11.12	12.51
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	5.36	5.73	7.25	8.11	8.12	8.89	10.01	11.34
Market Capitalisation Y/E (ZAR m)	77,861	95,217	127,367	74,983	79,270	105,279	105,410	105,540
Shares in issue (m)	5,536	5,626	5,639	5,641	5,631	5,681	5,688	5,695
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	9.8	12.0	10.9	11.2	11.6	13.4	9.4	7.9
P/E (core DB)	9.0	10.6	10.0	10.5	11.3	12.7	9.0	7.5
P/B (stated)	2.5	2.6	2.8	1.5	1.5	1.9	1.7	1.5
P/Tangible equity (DB)	2.6	2.9	3.1	1.6	1.7	2.1	1.9	1.6
ROE (stated) (%)	24.9	24.4	26.6	20.8	13.7	14.7	18.9	20.2
RoTE (core tangible equity) (%)	28.4	29.9	32.4	24.4	15.6	17.4	22.1	23.3
ROIC (invested capital) (%)	28.4	29.9	32.4	24.4	15.6	17.4	22.1	23.3
Dividend yield (%)	4.4	3.8	3.9	4.2	3.9	3.4	5.2	6.3
Dividend cover (x)	2.3	2.2	2.3	2.1	2.2	2.2	2.0	2.0
Simple free cash flow yield (%)	6.6	2.5	3.4	7.0	16.9	5.5	5.1	7.8
PROFIT & LOSS (ZAR m)								
Net interest revenue	9,460	10,895	13,998	17,098	17,634	16,147	17,638	19,878
Non-interest income	13,271	17,696	23,002	23,279	21,418	24,862	27,669	31,133
Commissions	8,188	9,696	11,725	13,722	15,298	16,355	18,062	20,141
Trading revenue	2,238	3,733	5,969	2,842	1,427	3,659	4,188	4,602
Other revenue	2,845	4,267	5,308	6,715	4,693	4,848	5,419	6,390
Total revenue	22,731	28,591	37,000	40,377	39,052	41,009	45,308	51,011
Total Operating Costs	13,062	15,768	19,910	22,059	23,387	24,652	26,768	29,241
Employee costs	6,408	8,114	10,308	10,976	11,241	11,803	12,865	14,023
Other costs	6,654	7,654	9,602	11,083	12,146	12,849	13,903	15,218
Pre-Provision profit / (loss)	9,669	12,823	17,090	18,318	15,665	16,357	18,539	21,770
Bad debt expense	706	1,411	2,857	5,064	8,024	6,792	4,684	4,164
Operating Profit	8,963	11,412	14,233	13,254	7,641	9,565	13,856	17,606
Pre-tax associates	987	1,259	2,013	1,690	1,577	1,648	1,860	2,160
Pre-tax profit	9,950	12,671	16,246	14,944	9,218	11,213	15,716	19,766
Tax	2,347	3,197	3,909	2,565	1,300	1,965	3,087	4,740
Minority shareholders	294	639	823	1,205	890	988	1,087	1,195
Other post tax items	-275	-371	-586	-409	-463	-383	-337	-367
Stated net profit	**7,129**	**8,253**	**10,854**	**9,922**	**6,939**	**7,887**	**11,255**	**13,514**
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	604	1,062	991	661	212	469	515	567
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	**7,733**	**9,315**	**11,845**	**10,583**	**7,151**	**8,356**	**11,770**	**14,081**
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	191,566	269,272	344,368	373,584	329,504	352,938	406,989	457,468
Interest-earnings assets	265,232	340,745	426,040	497,356	476,075	502,521	550,506	618,785
Total loans	226,436	294,031	383,485	449,156	420,224	437,835	477,734	536,986
Total deposits	247,084	319,522	419,965	470,361	489,746	524,028	560,710	599,960
Stated Shareholder Equity	31,287	36,359	45,178	50,193	51,461	56,184	62,837	70,795
Tangible shareholders equity	30,110	32,283	40,876	45,696	45,763	50,201	56,555	64,199
Tier 1 capital	20,624	24,129	36,754	41,566	40,612	44,621	50,562	57,588
Tier 1 ratio (%)	10.8	9.0	10.7	11.1	12.3	12.6	12.4	12.6
o/w core tier 1 capital ratio (%)	10.8	9.0	10.7	11.1	12.3	12.6	12.4	12.6
Tangible equity / total assets (%)	7.1	7.1	nm	nm	nm	nm	nm	nm
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	77	69	67	56	40	52	90	90
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	16	26	29	9	-3	5	10	13
Growth in costs (%)	18	21	26	11	6	5	9	9
Growth in bad debts (%)	-15	100	102	77	58	-15	-31	-11
Growth in RWA (%)	19	41	28	8	-12	7	15	12
Growth in loans (%)	9	19	30	23	4	-1	7	11
Growth in deposits (%)	9	29	31	12	4	7	7	7
Net int. margin (%)	3.52	3.60	3.65	3.70	3.62	3.30	3.35	3.40
Cost income ratio (%)	57.5	55.2	53.8	54.6	59.9	60.1	59.1	57.3
Total loans / Total deposits (%)	92	92	91	95	86	84	85	90









Source: Company data, Deutsche Bank estimates

UK – Speciality Finance

Investec plc

Business description: Investec was formed in 1974 and has grown rapidly, both organically and by acquisition. It is now a major independent financial services group, having established itself as a niche bank targeting high net-worth individuals and blue-chip corporate markets. Investec's key markets are South Africa and the UK. Having largest divested from the US in FY03 (with the remainder sold in FY05) and its low-ROE Israeli business in FY05, the only other market where it is building a significant presence is Australia, although it has smaller operations in Hong Kong, Canada, Channel Islands and Switzerland (among others). In July 2002, Investec implemented a dual-listed company (DLC) structure and listed the offshore businesses on the LSE. In terms of the DLC, Investec Ltd and Investec plc effectively form a single economic entity, in which the voting and economic rights of shareholders in both entities are equal. This was a positive long-term milestone for Investec in terms of capital-raising capability, staff retention and international profile.

Investec's UK presence was established through the acquisition of London-based Allied Trust Bank in 1992 (re-named Investec Bank UK). Other UK interests include Rensburg Sheppards, a UK private client stockbroker. In April 1998, Investec purchased Guinness Mahon plc, including its 44% interest in Guinness Flight Asset Management (GFAM). Subsequently, Investec purchased the non-banking operations of Hambros plc. As a result of the Hambros acquisition, Investec acquired a further 44% in GFAM and bought the remaining interest from management to give it a 100% share. GFAM has merged with Investec Asset Management. Included in the Hambros purchase were private equity, property investments and trading operations. In 2H05, Carr Sheppards Crosthwaite merged with listed Rensburg plc, leaving Investec with a 48% stake in the combined business. In May 2007, Investec further bolstered its UK operations by acquiring Kensington, a mortgage originator.

Having originally struggled to build a private banking presence in Australia organically, there has been considerably more impetus since it acquired Wentworth Associates, an independent advisory firm, and changed its investment banking licence to a full banking licence. Investec also acquired the Australian investment banking arm of NM Rothschild & Sons to further increase scale in the region.

Drivers: Investec is organised into six main business divisions: investment banking, capital markets, asset management, private client activities, property activities and group & other services. It is operating primarily in the UK (30%), Australia (5%) and South Africa (65%). Given its revenue diversity by product and geographic lines, the group faces numerous profit drivers. We believe the following are the most critical for the group over the medium term: the performance of global and local investment markets, growth in the domestic and UK economies, the ZAR/GBP exchange rate, and management's ability to increase the profitability and scale of the international businesses. Investec capitalised on the positive operating environment in 2004-2007 by growing assets aggressively in both its asset management and private banking operations, creating a better annuity earnings base for the group that should position it to weather a market downturn more comfortably than in the past. Investec's key areas of growth will be around continuing to develop many of its sub-scale operations in various geographies. We expect Investec will continue to make bolt-on acquisitions in areas where it believes it is sub-scale.

Outlook: Other than its ill-timed acquisition of Kensington, Investec has entered the challenging investment cycle in far better shape than it has in the past. Its business is more diversified and it is less reliant on poor-quality market-geared earnings than it used to be. As financial markets continue to recover, we think Investec remains well positioned with established platforms in UK, South Africa and Australia to show strong growth. **Buy**.

Valuation: We value Investec on a sum-of-the-parts basis by applying a combination of fair price-to-tangible NAV multiples to the banking operations in the various geographies and appropriate exit forward PEs to the various asset management operations, taking account of appropriate listed peers.

Risks: Investec's geographical spread (the earnings split is 65% South Africa, 35% UK, 5% Australia) introduces a higher level of sensitivity to currency movements. Additionally, the gearing of the earnings of many parts of the business to investment markets, either directly in the form of mark-to-market adjustments or more indirectly through asset management and performance fees, adds to forecast risk. Finally, its participation in individually significant "direct investment" transactions can be a source of material earnings surprises.

Model updated: 19 November 2009

Running the Numbers

Europe

UK

Banks

Investec Plc

Reuters: INVP.L Bloomberg: INVP LN

Buy

Price as of 29 January	GBp 426.30
Target price	GBp 500.00

Company website

http://www.investec.com

Company description

Investec plc is an international specialist banking group that provides a diverse range of financial products and services to a client base in two principal markets, the United Kingdom and South Africa. The company's four principal areas of business are Investment Banking, Treasury and Specialized Finance, Private Client Activities and Asset Management.

Research Team

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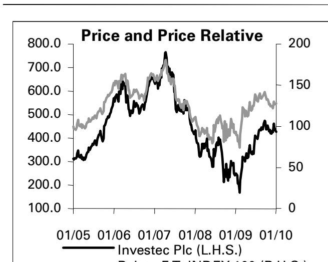
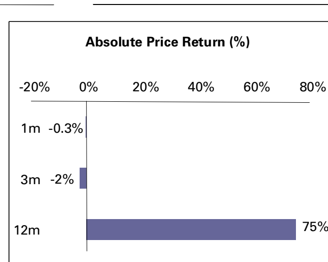
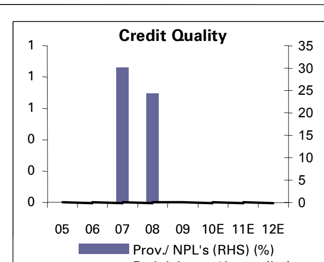
52-week Range:	GBp 168.75 - 482.00
Market Cap (m)	GBP 2,894
	USD 4,638

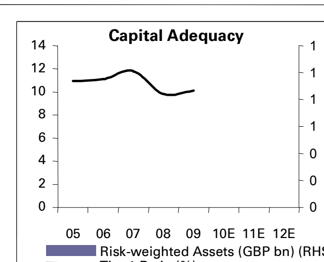
Company identifiers	
Cusip	
SEDOL	B17BBQ5

Year Ending 31 March	04/05	05/06	06/07	07/08	08/09	09/10E	10/11E	11/12E
DATA PER SHARE								
EPS (stated) (GBp)	26.92	41.91	53.34	56.86	62.35	64.45	74.69	90.72
EPS (DB) (GBp)	24.99	39.04	49.00	53.11	39.66	42.32	48.81	59.55
Growth Rate - EPS (DB) (%)	21.2	56.2	25.5	8.4	-25.3	6.7	15.3	22.0
DPS (GBp)	13.40	18.20	23.00	25.00	13.00	15.03	18.60	26.54
BVPS (stated) (GBp)	100.50	154.78	186.15	224.92	271.41	296.38	311.52	347.49
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (GBp)	63.29	119.50	151.41	180.06	271.41	296.38	311.52	347.49
Market Capitalisation Y/E (GBP m)	1,727	3,228	3,710	2,052	1,853	2,894	2,965	2,965
Shares in issue (m)	598	596	614	649	679	723	742	744
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	9.3	10.3	10.9	9.6	4.8	6.6	5.7	4.7
P/E (core DB)	10.1	11.1	11.9	10.3	7.6	10.1	8.7	7.2
P/B (stated)	3.1	3.8	3.5	1.5	1.1	1.4	1.4	1.2
P/Tangible equity (DB)	4.9	4.9	4.3	1.9	1.1	1.4	1.4	1.2
ROE (stated) (%)	nm	nm	nm	nm	nm	nm	nm	nm
RoTE (core tangible equity) (%)	53.4	46.2	39.8	35.4	19.1	16.4	17.3	19.3
ROIC (invested capital) (%)	29.4	33.1	31.7	28.6	17.4	16.4	17.3	19.3
Dividend yield (%)	5.3	4.2	4.0	4.6	4.3	3.5	4.4	6.2
Dividend cover (x)	2.0	2.3	2.3	2.3	4.8	4.3	4.0	3.4
Simple free cash flow yield (%)	nm	nm	nm	nm	nm	nm	nm	nm
PROFIT & LOSS (GBP m)								
Net interest revenue	171	259	344	583	428	445	533	637
Non-interest income	565	705	833	900	661	687	822	982
Commissions	0	0	0	0	0	0	0	0
Trading revenue	0	0	0	0	0	0	0	0
Other revenue	565	705	833	900	661	687	822	982
Total revenue	736	965	1,177	1,484	1,089	1,132	1,355	1,619
Total Operating Costs	496	567	694	832	414	403	477	564
Employee costs	496	567	694	832	414	403	477	564
Other costs	0	0	0	0	0	0	0	0
Pre-Provision profit / (loss)	240	398	483	652	675	729	878	1,055
Bad debt expense	16	9	17	114	148	178	214	257
Operating Profit	224	389	467	538	527	551	664	798
Pre-tax associates	0	0	0	0	0	0	0	0
Pre-tax profit	224	389	467	538	527	551	664	798
Tax	59	112	120	119	82	79	118	142
Minority shareholders	2	14	9	29	3	-12	-14	-18
Other post tax items	-13	-33	-37	-45	-46	-46	-41	-44
Stated net profit	**150**	**230**	**301**	**345**	**396**	**438**	**519**	**631**
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	0	3	0	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0	0	0
DB adj. core earnings	**150**	**233**	**301**	**345**	**269**	**306**	**362**	**443**
KEY BALANCE SHEET ITEMS (GBP m) & CAPITAL RATIOS								
Risk weighted assets	0	0	0	0	0	0	0	0
Interest-earnings assets	10,420	11,435	17,440	24,712	0	0	0	0
Total loans	7,493	9,646	832	6,083	0	0	0	0
Total deposits	0	0	0	0	0	0	0	0
Stated Shareholder Equity	558	850	1,050	1,363	1,722	2,012	2,167	2,417
Tangible shareholders equity	352	656	854	1,091	1,722	2,012	2,167	2,417
Tier 1 capital	0	0	0	0	0	0	0	0
Tier 1 ratio (%)	10.9	11.1	11.8	9.8	10.1	0.0	0.0	0.0
o/w core tier 1 capital ratio (%)	nm	nm	nm	nm	nm	nm	nm	nm
Tangible equity / total assets (%)	1.9	2.7	3.2	3.2	nm	nm	nm	nm
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	nm	nm	30	24	nm	nm	nm	nm
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	31	31	22	26	-27	4	20	19
Growth in costs (%)	22	14	22	20	-50	-3	18	18
Growth in bad debts (%)	-24	-42	80	591	30	20	20	20
Growth in RWA (%)	nm	nm	nm	nm	nm	nm	nm	nm
Growth in loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Growth in deposits (%)	nm	nm	nm	nm	nm	nm	nm	nm
Net int. margin (%)	1.65	2.37	2.38	2.77	nm	nm	nm	nm
Cost income ratio (%)	67.4	58.7	59.0	56.1	38.0	35.6	35.2	34.8
Total loans / Total deposits (%)	nm	nm	nm	nm	nm	nm	nm	nm









Source: Company data, Deutsche Bank estimates

South Africa – Banks

Nedbank Group Ltd

Business description: Nedbank is the smallest of the Big 4 South African banks (measured by domestic advances). Following a failed bid for Standard Bank in 1999, Nedbank embarked on a strategy of extracting efficiencies and forming strategic alliances and JVs intended to plug competitive weaknesses in the group. Some of the more significant ones were a 50% stake acquired in Imperial Bank (to boost asset-based finance and now 100% owned), JVs with Capital One and JD Group (intended to jump-start its presence in the mass market) and an alliance with Pick n Pay to establish Pick n Pay Go Banking (targeting middle market retail consumers).

Nedbank acquired BOE in a R7.5bn transaction in April 2002. This propelled Nedbank from being the smallest of the Big 4 South African banks to top spot, as measured by domestic assets, for a short period. The acquired assets were largely wholesale banking-related and are now housed in Nedbank Corporate. As part of the group reorganisation that followed, Nedbank bought out NIB minorities in 2H02 and de-listed NIB. Under new management since 2H03, Nedbank has embarked on a major overhaul of its investments, brands and strategy. It has disposed of many of its non-core assets, and terminated its JVs with Capital One and JD Group. Advances for the group are split 45/55% retail/corporate, while earnings are split c.28/72% retail/corporate in 1H09. The contribution from outside South Africa is not material.

Drivers: The stand-out drivers of strong earnings growth for Nedbank through its 2004-07 turnaround has been a restoration of margin, good cost management and, in the latter years, strong asset growth. Non-margin income has grown at a rather subdued rate, impacted by the disposal of non-core assets and price cuts in the retail space that were aimed at restoring price competitiveness and reversing to net outflow of clients. We believe Nedbank should manage low single digit asset growth in FY09 (similar to peers), while its net interest margin should be marginally down. As far as bad debts are concerned, its bias towards corporate lending should ensure that its charge remains at the lower end of the peer group range at 148bp for year end FY09 and improve to 125bp in FY10. Having managed costs so tightly through its turnaround, we believe there is less scope to maintain positive operational jaws if revenue disappoints. NIR has been a relatively weak area in Nedbank's income statement historically, and going forward is the area where we believe it will have to surprise positively if it is going to sustainably match its peers in terms of earnings growth. This should be closely linked to its progress on client acquisition.

Outlook: Nedbank is most exposed of all the banks to changes to the capital framework on account of its higher gearing levels and lower Tier 1 capital ratios. As a result, we believe that Nedbank still needs to de-gear from current levels which will dampen the recovery in ROEs. Furthermore, we remain concerned as to the corporate and commercial credit cycle which is a magnified issue in Nedbank due to its higher gearing and greater reliance on non-retail credit. We expect FDHEPS to fall 26% this year (to 1036cps) followed by an 8% increase in FY10 (to 1116cps) and 46% in FY11 (to 1633cps). **Hold**.

Valuation: We value Nedbank by calculating a fair price-to-book based on medium-term ROEs (17.8%) and our cost of equity of 14.1%. We continue to use a risk-free rate of 8.5% in our valuations, an equity risk premium of 4.5%, and a beta of 1.25x, giving it the highest beta of all the banks. We consider this reasonable on account of its higher financial leverage and greater degree of sensitivity to corporate and commercial defaults. This results in a 1.46x current fair price-to-book, which is then applied to current NAV to arrive at a fair value that is still below our normalised multiple (used as a reasonability check) of 1.69x (based on sustainable ROE of 19.3%).

Risks: The key risks both to the upside and downside are the broader economy ion South Africa and the impact this is going to have on credit growth going forward as well as the short-term cyclical improvement in impairments.

Model updated: 18 November 2009

Running the Numbers

Sth Africa

South Africa

Bank

Nedbank Group Ltd

Reuters: NEDJ.J Bloomberg: NED SJ

Hold

Price as of 29 January	ZAR 122.00
Target price	ZAR 117.00
Company website	
http://www.nedbank.co.za	

Company description

Nedbank is the smallest of the Big 4 South African banks (measured by domestic advances). Following a failed bid for Standard Bank in 1999, Nedbank embarked on a strategy of extracting efficiencies and forming strategic alliances and JVs intended to plug competitive weaknesses in the group. Some of the more significant ones were a 50% stake acquired in Imperial Bank (to boost asset-based finance), JVs with Capital One and JD Group (intended to jump-start its presence in the mass market) and an alliance with Pick 'n Pay to

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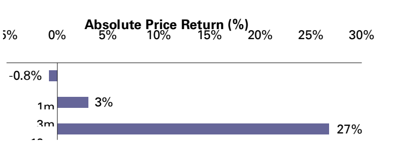
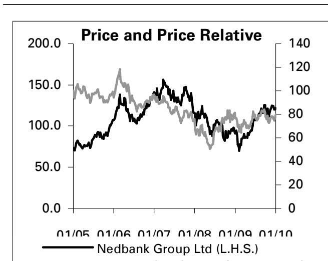
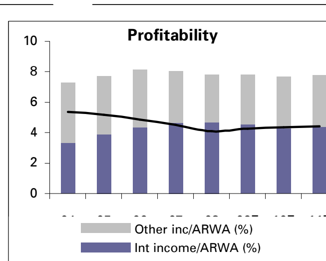


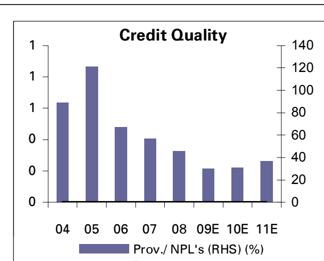
52-week Range:	ZAR 65.60 - 128.00
Market Cap (m)	ZAR 54,249
	USD 7,190

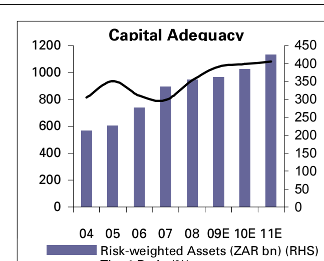
Company identifiers	
Cusip	
SEDOL	6628008

Year Ending 31 December	2004	2005	2006	2007	2008	2009E	2010E	2011E
DATA PER SHARE								
EPS (stated) (ZAR)	4.82	7.65	11.10	14.85	14.22	10.50	11.31	16.33
EPS (DB) (ZAR)	6.89	8.37	11.10	14.65	14.48	10.67	11.42	16.33
Growth Rate - EPS (DB) (%)	nm	21.5	32.6	31.9	-1.1	-26.3	7.0	42.9
DPS (ZAR)	1.20	2.90	4.93	6.60	6.20	4.20	4.29	6.05
BVPS (stated) (ZAR)	50.69	55.97	63.63	75.13	85.22	89.97	95.14	105.49
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	36.60	46.63	54.14	64.97	71.79	73.32	79.08	89.44
Market Capitalisation Y/E (ZAR m)	28,144	40,180	52,692	54,658	39,126	53,029	54,249	54,676
Shares in issue (m)	362	407	407	418	416	437	450	452
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	13.2	10.8	10.5	9.3	7.2	11.6	10.8	7.5
P/E (core DB)	9.2	9.8	10.5	9.5	7.1	11.4	10.7	7.5
P/B (stated)	1.5	1.8	2.1	1.8	1.1	1.4	1.3	1.2
P/Tangible equity (DB)	2.1	2.1	2.5	2.1	1.3	1.7	1.5	1.4
ROE (stated) (%)	11.6	14.8	18.6	21.4	17.7	12.0	12.2	16.3
RoTE (core tangible equity) (%)	18.8	21.0	22.8	25.6	21.5	14.9	15.2	19.6
ROIC (invested capital) (%)	25.7	21.5	22.8	25.6	21.5	14.9	15.2	19.6
Dividend yield (%)	1.9	3.5	4.2	4.8	6.0	3.4	3.5	5.0
Dividend cover (x)	4.0	2.6	2.3	2.2	2.3	2.5	2.6	2.7
Simple free cash flow yield (%)	-64.5	6.5	0.7	3.7	10.4	7.8	5.7	6.9
PROFIT & LOSS (ZAR m)								
Net interest revenue	7,145	8,529	10,963	14,146	16,170	16,259	15,951	17,744
Non-interest income	8,379	8,343	9,464	10,446	10,729	11,736	12,799	13,791
Commissions	5,548	5,878	6,544	7,556	7,919	8,380	8,924	9,593
Trading revenue	1,880	1,625	2,147	2,175	2,051	2,287	2,507	2,721
Other revenue	951	840	773	715	759	1,070	1,367	1,478
Total revenue	15,524	16,872	20,427	24,592	26,899	27,995	28,749	31,535
Total Operating Costs	11,409	11,380	12,231	13,794	14,115	15,308	16,261	17,803
Employee costs	5,176	5,312	6,082	7,079	7,040	7,814	8,205	8,944
Other costs	6,233	6,068	6,149	6,715	7,075	7,494	8,056	8,860
Pre-Provision profit / (loss)	4,115	5,492	8,196	10,798	12,784	12,687	12,488	13,732
Bad debt expense	1,217	1,189	1,483	2,164	4,822	6,568	5,710	4,026
Operating Profit	2,898	4,303	6,713	8,634	7,962	6,118	6,779	9,706
Pre-tax associates	147	167	153	239	154	85	95	103
Pre-tax profit	3,045	4,470	6,866	8,873	8,116	6,203	6,874	9,809
Tax	629	1,140	1,933	2,343	1,868	1,411	1,538	2,179
Minority shareholders	125	233	309	344	257	70	77	85
Other post tax items	-763	599	-91	-161	419	290	-285	-257
Stated net profit	**1,743**	**3,027**	**4,435**	**5,921**	**5,765**	**4,436**	**4,974**	**7,289**
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	749	324	142	148	194	136	119	95
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	**2,492**	**3,351**	**4,577**	**6,069**	**5,959**	**4,572**	**5,093**	**7,384**
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	212,459	225,756	276,914	334,877	355,235	361,220	384,459	424,309
Interest-earnings assets	273,592	304,969	375,821	439,730	479,306	522,443	569,463	620,715
Total loans	221,008	248,408	308,563	373,956	434,233	436,283	460,033	507,333
Total deposits	254,299	261,311	324,685	384,541	466,890	513,579	564,937	621,431
Stated Shareholder Equity	18,337	22,490	25,116	30,193	34,913	39,109	42,304	47,277
Tangible shareholders equity	13,242	18,735	21,368	26,112	29,412	31,871	35,165	40,083
Tier 1 capital	17,274	21,151	22,932	26,611	33,458	37,654	40,849	45,822
Tier 1 ratio (%)	813.1	936.9	828.1	794.7	941.9	1042.4	1062.5	1079.9
o/w core tier 1 capital ratio (%)	8.1	9.4	8.3	6.9	8.0	9.0	9.3	9.6
Tangible equity / total assets (%)	4.4	5.6	5.2	5.4	5.4	5.8	6.0	6.3
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	89	121	67	57	45	30	31	37
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	nm	9	21	20	9	4	3	10
Growth in costs (%)	nm	0	7	13	2	8	6	9
Growth in bad debts (%)	nm	-2	25	46	123	36	-13	-29
Growth in RWA (%)	nm	6	23	21	6	2	6	10
Growth in loans (%)	nm	9	19	23	18	8	3	8
Growth in deposits (%)	nm	3	24	18	21	10	10	10
Net int. margin (%)	2.71	2.95	3.22	3.47	3.52	3.25	2.92	2.98
Cost income ratio (%)	73.5	67.4	59.9	56.1	52.5	54.7	56.6	56.5
Total loans / Total deposits (%)	87	95	95	97	93	85	81	82









Source: Company data, Deutsche Bank estimates

South Africa – Banks

Standard Bank Group Ltd

Business description: Standard Bank Group's (SBG) domestic operations are significant across all areas of retail and corporate banking, while its African and international operations offer more restricted services. Standard Bank has representation in 17 African countries and 21 countries outside Africa (with an emerging market focus). Standard Bank owns 53.7% of Liberty (a listed insurance business) to strengthen their position in the wealth management and long-term savings markets.

Suggesting greater innovation domestically, in 2005, Standard Bank announced JVs with Edcon (card) and MTN (banking via mobile phone) and the acquisition of a stake in RCS (card). Offshore, it recently embarked on numerous acquisitions and expansion ventures with the most notably being the acquisition of Bank of America's BankBoston branch in Argentina, the merger with Troika in Russia and acquisition of IBTC Bank in Nigeria. Early last year, Standard Bank's capital position was augmented by ICBC who injected a further R16bn of capital into Standard Bank. Although a portion of the capital was used to fund organic growth and to buy a larger stake in its life insurance subsidiary, Liberty, Standard Bank has a war-chest of c.USD1bn for further acquisitions to bolster its international operations.

Drivers: SBG derives 43% of its total profit from retail banking and is, along with Absa, the dominant retail bank in South Africa. In addition, its corporate and investment bank makes up a further 51% of earnings, with the international CIB operations accounting for 16% of the 51%. Its life insurance and asset management operations, through its stake in Liberty, account for the remainder of the group earnings.

Regarding the retail operations, most attention will likely be focussed on asset growth, slowing bad debts and credit recoveries. While lower rates should ease the pressure, we expect a bad debt charge of 142bp for FY10 and reducing to 90bp in FY11. As yet there has been little sign of any credit improvement although we expect to see some pick-up in unsecured credit and vehicles early in 2010.

Standard Bank's Corporate and Investment Banking (CIB) operations remain focussed primarily on debt and commodities businesses. With domestic markets at a fairly mature stage, CIB is likely to be driven more by the international operations which, despite the global fall-out, management remain confident of. The success of Standard Bank over the next year will largely be driven by the better alignment of product lines and geographic markets to drive the international platform.

Outlook: Although Standard Bank's current multiple is not dramatically demanding in absolute terms, we remain unconvinced that it is deserving of the premium multiple in the sector. While we acknowledge the stronger medium-term ROEs, we note that its normalised ROEs are lower than FirstRand and only marginally ahead of Absa while we also highlight the greater risks associated with its EM exposure and quality of revenue (the mix of NIR is skewed away from vanilla transactional revenues in favour of trading income). **Hold**.

Valuation: We value Standard Bank on a sum-of-the-parts basis by applying a fair price-to-book multiple of 1.77x (ROE: 20%, COE: 13.9% % – risk-free: 8.5%, ERP:4.5%, beta 1.2x) on the banking operations and, for Liberty, adjusted appraisal value for the life operations and discounted earnings for the asset management operations. Note that the exit multiple used on the banking operations is below the normalised multiple of 2.16x (based on an ROE of 23%), suggesting upside risk to our valuation as the cycle unfolds and we approach a more normalised environment.

Risks: From a company-specific perspective, the key downside investment risks are possible execution risk surrounding recent acquisitions, as well as the impact of the current global financial market malaise on Standard Bank's international operations. On the positive side, we highlight the potential for Standard Bank to ramp up ROAs and asset growth in the international markets, particularly in Africa as it benefits from the ICBC partnership.

Model updated: 04 December 2009

Running the Numbers

Sth Africa

South Africa

Bank

Standard Bank

Reuters: SBKJ.J Bloomberg: SBK SJ

Hold

Price as of 29 January	ZAR 108.85
Target price	ZAR 100.00

Company website

http://www.standardbank.com

Company description

Standard Bank Group's (SBG) domestic operations are significant across all areas of retail and corporate banking, while its African and international operations offer more restricted services. Standard Bank has representation in roughly 40 countries outside SA (with an emerging market focus). In February 1999, Standard Bank currently controls a majority stake in Libhold, a listed South African Life Insurance operation.

Suggesting greater innovation domestically, in 2005, Standard Bank announced JVs with Edcon

Research Team

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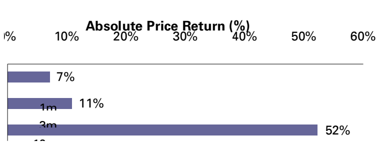
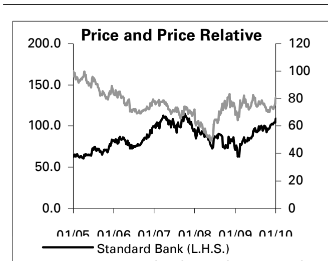
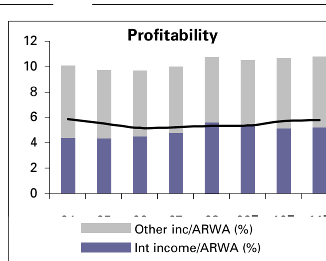


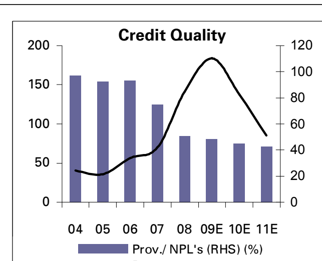
52-week Range:	ZAR 60.15 - 108.85
Market Cap (m)	ZAR 169,868
	USD 22,514

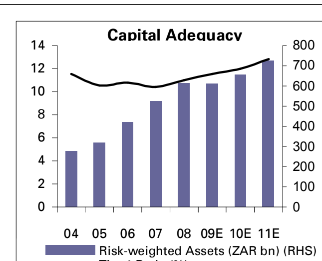
Company identifiers	
Cusip	
SEDOL	B030GJ7

Year Ending 31 December	2004	2005	2006	2007	2008	2009E	2010E	2011E
DATA PER SHARE								
EPS (stated) (ZAR)	5.54	6.15	7.94	9.73	9.68	7.40	9.24	12.58
EPS (DB) (ZAR)	5.52	6.54	7.84	9.47	9.36	7.51	9.27	12.53
Growth Rate - EPS (DB) (%)	18.8	18.5	19.7	20.9	-1.2	-19.7	23.3	35.3
DPS (ZAR)	2.32	2.67	3.20	3.86	3.86	3.03	3.69	5.03
BVPS (stated) (ZAR)	24.64	28.30	35.48	42.55	56.33	56.40	64.48	75.67
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	24.24	27.85	34.55	38.52	49.65	49.86	58.10	68.80
Market Capitalisation Y/E (ZAR m)	88,969	102,524	128,769	137,370	126,576	169,324	169,868	170,739
Shares in issue (m)	1,364	1,377	1,380	1,388	1,512	1,552	1,568	1,573
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	8.2	10.9	10.2	10.7	8.9	14.7	11.8	8.7
P/E (core DB)	8.2	10.2	10.4	11.0	9.2	14.5	11.7	8.7
P/B (stated)	2.7	2.7	2.7	2.4	1.5	1.9	1.7	1.4
P/Tangible equity (DB)	2.7	2.7	2.7	2.6	1.7	2.2	1.9	1.6
ROE (stated) (%)	24.3	23.6	23.5	23.8	19.4	12.9	15.1	17.7
RoTE (core tangible equity) (%)	24.6	25.6	25.5	26.3	22.0	15.2	17.3	19.9
ROIC (invested capital) (%)	24.6	25.6	25.5	26.3	22.0	15.2	17.3	19.9
Dividend yield (%)	5.1	4.0	3.9	3.7	4.5	2.8	3.4	4.6
Dividend cover (x)	2.4	2.3	2.5	2.5	2.5	2.4	2.5	2.5
Simple free cash flow yield (%)	7.2	5.6	1.0	2.4	4.0	7.2	5.9	6.5
PROFIT & LOSS (ZAR m)								
Net interest revenue	11,492	13,015	16,654	22,549	31,918	32,893	32,674	35,941
Non-interest income	15,040	15,966	19,201	24,747	29,448	31,603	34,794	38,575
Commissions	9,812	10,457	11,861	14,511	17,607	18,012	19,586	21,940
Trading revenue	3,788	3,721	4,852	7,216	9,463	11,325	12,136	13,107
Other revenue	1,440	1,788	2,488	3,020	2,378	2,267	3,072	3,527
Total revenue	26,532	28,981	35,855	47,296	61,366	64,496	67,468	74,516
Total Operating Costs	15,384	16,441	19,141	24,706	30,390	32,929	36,091	40,046
Employee costs	8,610	9,370	11,001	14,488	16,951	18,307	20,138	22,554
Other costs	6,774	7,071	8,140	10,218	13,439	14,622	15,954	17,492
Pre-Provision profit / (loss)	11,148	12,540	16,714	22,590	30,976	31,568	31,377	34,470
Bad debt expense	1,050	1,207	2,733	4,590	11,342	14,187	11,321	7,846
Operating Profit	10,098	11,333	13,981	18,000	19,634	17,381	20,056	26,624
Pre-tax associates	97	200	218	283	234	257	386	502
Pre-tax profit	10,195	11,533	14,199	18,283	19,868	17,638	20,442	27,126
Tax	2,873	3,098	3,980	5,081	5,229	4,723	5,485	7,231
Minority shareholders	124	51	81	346	861	878	966	1,063
Other post tax items	265	166	263	793	154	-814	215	611
Stated net profit	**7,534**	**8,464**	**10,188**	**12,721**	**14,017**	**11,223**	**14,206**	**19,443**
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	-27	549	630	432	138	441	327	268
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	**7,507**	**9,013**	**10,818**	**13,153**	**14,155**	**11,665**	**14,533**	**19,711**
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	277,329	318,279	421,187	524,443	614,960	611,846	653,594	726,393
Interest-earnings assets	293,861	401,796	507,883	658,220	805,308	773,347	823,581	922,529
Total loans	257,154	334,128	477,282	649,974	790,087	753,401	805,701	910,098
Total deposits	310,852	412,462	545,164	705,843	843,815	928,197	1,021,016	1,123,118
Stated Shareholder Equity	33,310	38,270	48,352	58,406	85,902	87,742	100,631	118,694
Tangible shareholders equity	32,770	37,660	47,082	52,877	75,722	77,562	90,676	107,914
Tier 1 capital	32,023	33,553	45,415	54,579	67,726	70,686	78,321	93,058
Tier 1 ratio (%)	11.5	10.5	10.8	10.4	11.0	11.6	12.0	12.8
o/w core tier 1 capital ratio (%)	10.5	9.6	9.5	9.4	10.1	10.7	11.1	12.1
Tangible equity / total assets (%)	8.6	7.6	7.0	6.2	7.4	7.8	8.6	8.9
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	1.50	1.24	1.12	1.48	3.44	5.04	4.50	2.80
Risk Provisions / NPLs (%)	97	92	93	75	51	48	45	43
Bad debt chg / Avg loans (%)	0.40	0.36	0.57	0.70	1.41	1.84	1.38	0.85
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	10	9	24	32	30	5	5	10
Growth in costs (%)	13	7	16	29	23	8	10	11
Growth in bad debts (%)	-43	15	126	68	147	25	-20	-31
Growth in RWA (%)	12	15	32	25	17	-1	7	11
Growth in loans (%)	20	24	37	39	28	7	1	10
Growth in deposits (%)	14	33	32	29	20	10	10	10
Net int. margin (%)	3.98	3.74	3.66	3.87	4.36	4.17	4.09	4.12
Cost income ratio (%)	58.0	56.7	53.4	52.2	49.5	51.1	53.5	53.7
Total loans / Total deposits (%)	83	81	88	92	94	81	79	81









Source: Company data, Deutsche Bank estimates

South Africa – Life Assurance

Discovery Holdings Ltd

Business description: Discovery is a South African based financial services group. The company was listed in South Africa in 1999 and is the market leader in health administration, while its life insurance operations have become increasingly prominent in recent years. A core underpin to Discovery's business strategy is "Vitality", a wellness programme that offers financial and lifestyle benefits to customers who manage their health in a positive manner, which enables the company to provide a differentiated product offering. The group's South African operations dominate its earnings and asset profiles, but Discovery is also active in the United Kingdom (in a venture with Prudential plc), and has announced plans to enter the Chinese market (in a venture with Ping An Health Insurance Company).

Drivers: We believe the health earnings will continue their steady growth. Furthermore, we believe Discovery has the ability to maintain its position as a leading product innovator in the risk insurance market mainly due to management constantly re-innovating products and finding new and better ways to lock in clients via the Vitality concept. Neither of the group's offshore ventures are expected to contribute significantly to earnings in the near term, but large losses are not expected either.

Outlook: We remain optimistic for the group's growth prospects in life insurance for the next two to three years, until competitors ramp up products to compete with Discovery's offerings and an increasingly large proportion of its Vitality customers subscribe to life insurance products. We believe that the immanent threat of national health insurance (NHI) is unlikely to substantially impact the group's health administration operations in the next three years. Discovery remains debt free and with substantial excess capital to fund future ventures.

Valuation: We value Discovery using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. The share remains attractive and trades on a PE of c.11x FY10e earnings. **Buy** on near- to medium term expectations on continued strong growth in Discovery's life operations.

Risks: Key sector risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Discovery is particularly exposed to increased lapse rates and related negative reserve write-offs (to earnings). The group is dependent on strong continued growth to maintain its historic earnings growth results.

Model updated: 03 September 2009

Running the Numbers

Sth Africa

South Africa

Life Assurance

Discovery

Reuters: DSYJ.J Bloomberg: DSY SJ

Buy

Price as of 29 January	ZAR 31.05
Target price	ZAR 37.50

Company website

http://www.discoveryworld.co.za

Company description

Discovery is a South African based financial services group. The company was listed in South Africa in 1999 and is the market leader in health administration, while its life insurance operations have become increasingly prominent in recent years. A core underpin to Discovery's business strategy is "Vitality", a wellness programme that offers financial and lifestyle benefits to customers who manage their health in a positive manner, which enables the company to provide a differentiated product offering. The group's South African operations dominate its earnings and asset profiles, but Discovery is also active in the United Kingdom (in a venture with Prudential plc), and has announced plans to enter the Chinese market (in a venture with Ping An Health Insurance Company).

Research Team

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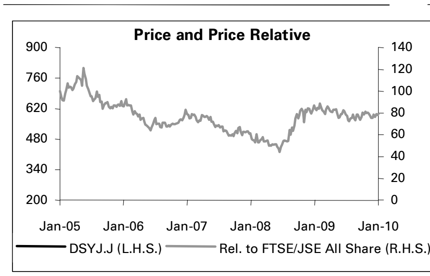
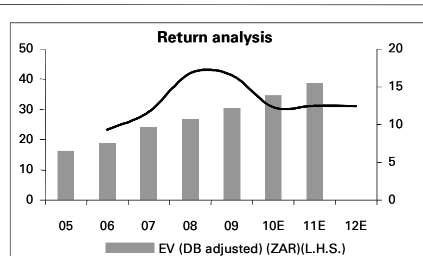
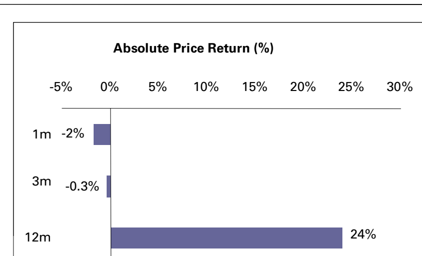
52-week Range:	ZAR 22.05 - 32.40
Market Cap (m)	ZAR 17,078
	USD 2,263
Company identifiers	
Cusip	
SEDOL	6177878

Year Ending 30 June	2005	2006	2007	2008	2009	2010E	2011E	2012E
DATA PER SHARE								
EPS (stated) (ZAR)	0.99	0.98	1.66	1.70	2.24	2.82	3.38	3.69
DB adjusted EPS (ZAR)	1.61	1.39	2.14	4.15	4.39	3.74	4.27	4.72
DPS (ZAR)		0.27	0.37	0.45	0.59	0.70	0.85	1.00
Growth rate - DB adjusted EPS		-13.8	53.7	94.5	5.6	-14.9	14.3	10.5
Growth rate - DPS	0.0	nm	37.0	20.3	31.5	19.7	21.4	17.6
EV (DB adjusted) (ZAR)	16.2	18.8	24.2	26.8	30.4	34.6	38.6	
Average Market Cap (ZAR)	9,249	11,919	14,319	14,042	13,115	17,078	17,078	17,078
Weighted average shares (m)	553	575	547	548	553	555	560	570
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated) (x)	18.1	23.0	16.0	15.2	10.7	11.0	9.2	8.4
P/E (DB adj) (x)	11.0	16.2	12.5	6.2	5.5	8.3	7.3	6.6
Price / EV (DB Adj, x)	1.08	1.19	1.06	0.96	0.78	0.89	0.79	
ROEV (DB adjusted) (%)		9.3	11.7	16.8	16.6	12.3	12.5	12.4
Dividend yield (%)	0.0	1.2	1.4	1.7	2.4	2.3	2.7	3.2
Dividend cover (x on DB adj earns)		5.1	5.8	9.3	7.5	5.3	5.0	4.7
PROFIT & LOSS (ZAR m)								
Pre-tax life	417	546	671	1,059	1,122	1,403	1,766	1,970
Pre-tax non-life	0	0	0	0	0	0	0	0
Pre-tax asset management	0	0	0	0	0	0	0	0
Pre-tax banking	331	390	436	612	769	966	1,066	1,175
Pre-tax other	-23	-146	46	68	31	-34	-18	-16
Pre-tax total	**725**	**790**	**1,153**	**1,739**	**1,922**	**2,334**	**2,814**	**3,130**
Goodwill	0	0	0	0	0	0	0	0
Tax	305	410	385	506	590	709	853	948
Minorities	0	0	0	0	0	0	0	0
Stated Net Income	**420**	**380**	**768**	**1,233**	**1,332**	**1,625**	**1,961**	**2,182**
Normalisation of capital gains	-28	-132	-78	293	304	0	0	0
Goodwill	0	0	0	0	0	0	0	0
Life EV uplift (DB adjusted)	500	549	477	749	789	448	431	510
P & C over cycle adjustment	0	0	0	0	0	0	0	0
Other	0	1	0	0	0	0	0	0
DB adjusted earnings	**892**	**799**	**1,167**	**2,275**	**2,425**	**2,073**	**2,392**	**2,691**
BALANCE SHEET (ZAR m)								
Shareholders Funds Stated								
Embedded value (DB adjusted)	8,575	10,011	13,541	14,646	16,851	19,185	21,628	
Total investments	2,160	2,675	4,056	5,070	6,338	7,922	9,902	12,378
Equities / Total investments (%)	58.3	59.8	53.1	53.1	53.1	53.1	53.1	53.1
Total assets	5,280	6,792	8,643	10,804	13,505	16,881	21,101	26,376
Debt	136	161	73					
Debt % of Adj EV+Debt	1.6	1.6	0.5					
DATA & RATIOS								
Life - Net earned premium	956	1,395	1,853	2,477	3,537	3,709	3,762	3,827
Life - Policyholder funds - General a/c	-1,881	-2,088	-2,833	-3,879	-5,000	-5,992	-6,938	-7,852
Life - Policyholder funds - Separate a/c	483	604	735	1,470	2,940	5,880	11,760	23,520
Life - New business volume (APE)	629	789	971	1,407	1,960	2,136	2,360	2,659
Life - EV new business margin (%)	82.5	64.6	63.4	57.4	41.1	49.5	43.6	36.1
Life - New business profit	519	510	616	808	806	1,057	1,030	959
Life - In force returns	979	891	1,036	780	866	1,104	1,370	1,593
Life - Variance and other	670	-152	85	-483	533	173	43	48
Life - EV profits (stated)	2,168	1,249	1,737	1,105	2,205	2,334	2,443	2,600
Life - DB adjustments to EV profits	-1,168	-127	-509	551	-750	-800	-713	-674
Life - EV profits (DB adjusted)	1,000	1,123	1,228	1,656	1,455	1,534	1,730	1,926
Non-Life - Combined ratio (%)								
Non-Life - Net earned premium								
Non-Life - Res. / prem. ratio (%)								
Asset Mgmt - Third party assets								
Asset Mgmt - Pretax profits % TPA								
Bank - Risk-weighted assets								
Bank - NII / RWAs (%)								
Bank - Other revenue / RWAs (%)								
Bank - Cost / income ratio (%)								
Bank - Bad debt charge / RWAs (%)								
GROWTH								
Non-life premiums (%)								
Life premiums (%)		45.9	32.8	33.7	42.8	4.9	1.4	1.7
Life - New business volume (APE) (%)		25.5	23.0	44.9	39.3	9.0	10.5	12.6
Life - New business profit (%)	nm	-1.7	20.8	31.2	-0.2	31.2	-2.6	-6.9
Third party assets (%)								
Banking RWAs (%)								
Life policyholder funds (%)	nm	-6.2	-41.4	-14.8	14.5	94.6	nm	224.9







Source: Company data, Deutsche Bank estimates

South Africa – Life Assurance

Liberty Holdings Ltd

Business description: Liberty is a financial services and wealth management group. The company is controlled by Standard Bank, a listed South African banking group. Liberty's South African life insurance operations are complimented by STANLIB, the third largest asset manager in the country, alongside several smaller ventures, notably in health administration and property management. The group has a presence in several African countries, and is aggressively expanding the activities of Liberty Health both in South Africa and elsewhere on the continent.

Drivers: Liberty suffered losses in 1H09 and enters 2010 in the process of revisiting strategic matters in the group, notably in addressing its historical challenges with respect to persistency (insurance contract lapses). We expect the group to emerge as a healthier market participant but it may take more than one year for earnings to recover to historical levels. Liberty's recently launched venture into health administration and insurance in the rest of Africa has shown impressive growth but is not yet substantial enough to contribute significantly to earnings.

Outlook: In 2010, earnings in the South African operations are expected to start recovering from the recessionary conditions of 2009. Earnings should benefit from stronger financial markets in 2H09 and the concurrent increase of funds under management and related fee income levels. We expect strong continued growth from its health operations in the rest of Africa. Liberty can access Standard Bank's established presence in Africa to facilitate low-risk entry and growth in the continent, but is yet to tap into this opportunity in a meaningful way. The group remains dependent on the performance of its core South African life and asset management operations in the near term.

Valuation: We value Liberty using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. Maintain **Hold** with a PE of 12.25x on FY10e earnings and our expectation that FY10 earnings will still be muted compared to levels in FY06 and FY07.

Risks: Key sector risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Liberty is particularly exposed to earnings volatility, a risk increased by its "90:10 book" (a participating product). Customer retention rates (persistency) also remain concerning. The company is negatively exposed to falling interest rates, especially if combined with weak markets, due to the guarantees provided on many of its in-force savings contracts (the implied value of the guarantees and related reserve requirements increase with falling interest rates and falling equity markets). Liberty is also exposed to currency risk, notably the US dollar. Upside risks to our valuation of Liberty include improved persistency and equity hedge performance, or a step change in growth outside of South Africa (both in life and health operations). Downside risks to our valuation of Liberty include continued problematic retention rates (persistency) and financial market performance (on falling interest rates, equity markets, and hedge performance). There is also a risk of lower-than-expected asset management earnings as a larger than expected shift from equity funds to money market funds would result in lower margins.

Model updated: 02 February 2010

Running the Numbers

Sth Africa

South Africa

Life Assurance

Liberty Holdings Ltd

Reuters: LBHJ.J Bloomberg: LBH SJ

Hold

Price as of 29 January	ZAR 67.00
Target price	ZAR 70.00

Company website

http://www.liberty.co.za

Company description

Liberty is a financial services and wealth management group. The company is controlled by Standard Bank, a listed South African banking group. Liberty's South African life insurance operations are complemented by STANLIB, the third largest asset manager in the country, alongside several smaller ventures, notably in health administration and property management. The group has a presence in several African countries, and is aggressively expanding the activities of Liberty Health both in South Africa and elsewhere on the continent.

Research Team

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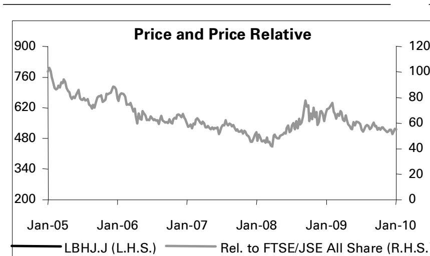
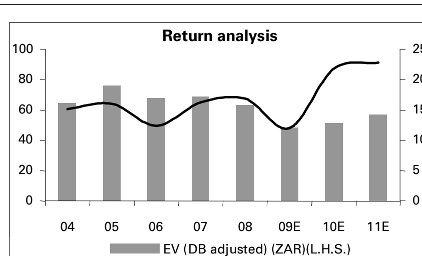
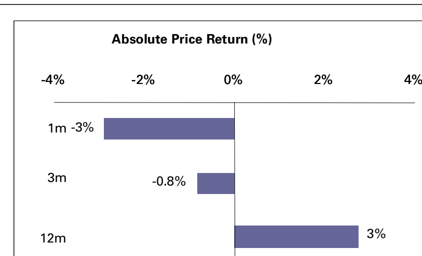
52-week Range:	ZAR 55.40 - 71.50
Market Cap (m)	ZAR 17,435
	USD 2,311

Company identifiers	
Cusip	
SEDOL	6515058

Year Ending 31 December	2004	2005	2006	2007	2008	2009E	2010E	2011E
DATA PER SHARE								
EPS (stated) (ZAR)	4.60	7.31	9.30	11.00	6.83	-0.67	4.94	6.84
DB adjusted EPS (ZAR)	8.77	10.26	9.42	10.61	11.73	7.60	10.56	11.73
DPS (ZAR)	3.15	3.50	3.70	4.10	4.55	4.55	5.00	5.44
Growth rate - DB adjusted EPS	24.7	17.1	-8.3	12.6	10.6	-35.2	39.0	11.1
Growth rate - DPS	13.3	11.1	5.7	10.8	11.0	0.0	9.9	8.8
EV (DB adjusted) (ZAR)	64.4	76.2	67.8	68.8	63.2	48.4	51.3	57.1
Average Market Cap (ZAR)	13,431	15,646	16,674	18,973	10,486	17,435	17,435	17,435
Weighted average shares (m)	276	280	263	271	163	266	270	272
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated) (x)	10.6	7.7	7.1	6.7	9.7	nm	13.6	9.8
P/E (DB adj) (x)	5.6	5.5	7.0	6.9	5.6	8.8	6.3	5.7
Price / EV (DB Adj, x)	0.75	0.74	0.88	0.95	0.58	1.26	1.19	1.07
ROEV (DB adjusted) (%)	15.2	16.0	12.4	16.2	16.9	12.0	21.8	22.8
Dividend yield (%)	6.5	6.2	5.6	5.6	6.9	6.8	7.5	8.1
Dividend cover (x on DB adj earns)	2.8	2.9	2.5	2.6	2.6	1.7	2.1	2.2
PROFIT & LOSS (ZAR m)								
Pre-tax life	1,164	1,271	3,375	3,577	1,851	-226	1,805	2,448
Pre-tax non-life	0	0	0	0	0	0	0	0
Pre-tax asset management	67	272	221	627	585	490	536	637
Pre-tax banking	0	0	0	0	0	0	0	0
Pre-tax other	1,046	840	1,817	1,250	-40	-43	409	747
Pre-tax total	**2,277**	**2,383**	**5,413**	**5,454**	**2,396**	**222**	**2,750**	**3,832**
Goodwill	0	397	0	0	0	0	0	0
Tax	439	544	2,249	2,049	607	200	748	1,042
Minorities	0	0	289	370	679	200	667	930
Stated Net Income	**1,838**	**1,442**	**2,875**	**3,035**	**1,110**	**-178**	**1,335**	**1,860**
Normalisation of capital gains	-288	-191	-812	-415	593	0	0	0
Goodwill	0	397	0	0	0	0	0	0
Life EV uplift (DB adjusted)	673	967	282	163	1,292	1,949	1,159	916
P & C over cycle adjustment	0	0	0	0	0	0	0	0
Other	202	239	282	282	359	402	525	579
DB adjusted earnings	**2,425**	**2,853**	**2,627**	**3,065**	**3,354**	**2,173**	**3,020**	**3,355**
BALANCE SHEET (ZAR m)								
Shareholders Funds Stated								
Embedded value (DB adjusted)	17,817	21,191	18,912	19,897	18,088	13,841	14,683	16,319
Total investments	104,666	151,415	162,539	176,860	168,017	184,819	203,301	223,631
Equities / Total investments (%)	63.3	60.4	49.3	47.5	47.5	47.5	47.5	47.5
Total assets	114,004	166,064	200,996	221,255	210,192	231,211	254,333	279,766
Debt	0	2,200	2,261	2,418	2,430	2,400	2,300	2,200
Debt % of Adj EV+Debt	0.0	9.4	10.7	10.8	11.8	14.8	13.5	11.9
DATA & RATIOS								
Life - Net earned premium	20,554	27,291	27,901	34,752	36,490	40,139	43,350	46,818
Life - Policyholder funds - General a/c	65,972	103,979	124,594	134,905	128,160	140,976	155,073	170,581
Life - Policyholder funds - Separate a/c	32,021	36,856	44,304	51,232	48,670	53,537	58,891	64,780
Life - New business volume (APE)	3,340	3,911	3,762	4,140	4,762	4,451	4,480	4,661
Life - EV new business margin (%)	24.4	19.9	16.1	16.9	15.2	7.3	8.4	9.8
Life - New business profit	815	777	607	700	724	323	374	457
Life - In force returns	723	938	1,466	1,718	2,065	2,027	2,188	2,027
Life - Variance and other	-505	-1,262	-521	-639	-985	-2,671	-954	207
Life - EV profits (stated)	1,033	453	1,552	1,779	1,804	-321	1,608	2,690
Life - DB adjustments to EV profits	505	1,619	984	1,047	1,094	3,061	1,185	77
Life - EV profits (DB adjusted)	1,538	2,072	2,536	2,826	2,898	2,740	2,793	2,767
Non-Life - Combined ratio (%)								
Non-Life - Net earned premium								
Non-Life - Res. / prem. ratio (%)	#DIV/0!							
Asset Mgmt - Third party assets	244,864	300,000	293,705	339,830	299,000	311,845	349,070	391,852
Asset Mgmt - Pretax profits % TPA	0.03	0.09	0.08	0.18	0.20	0.16	0.15	0.16
Bank - Risk-weighted assets								
Bank - NII / RWAs (%)								
Bank - Other revenue / RWAs (%)								
Bank - Cost / income ratio (%)								
Bank - Bad debt charge / RWAs (%)								
GROWTH								
Non-life premiums (%)								
Life premiums (%)	13.4	32.8	2.2	24.6	5.0	10.0	8.0	8.0
Life - New business volume (APE) (%)	9.1	17.1	-3.8	10.0	15.0	-6.5	0.7	4.0
Life - New business profit (%)	34.0	-4.6	-21.9	15.3	3.4	-55.4	15.9	22.0
Third party assets (%)	25.2	22.5	-2.1	15.7	-12.0	4.3	11.9	12.3
Banking RWAs (%)								
Life policyholder funds (%)	16.9	43.7	19.9	10.2	-5.0	10.0	10.0	10.0







Source: Company data, Deutsche Bank estimates

UK – Insurance

Old Mutual plc

Business description: Old Mutual is an international financial services and wealth management group. The company was established in South Africa in 1845 and is the country's largest life insurer. The South African operations further include Nedbank, one of the four largest banks, Mutual and Federal, a large property and casualty insurer, and OMIGSA, the largest asset manager in the country, alongside several smaller ventures. The European insurance and asset management operations are centred around the Skandia brand. The group's other major geographies include the United States, India (venture with Kotak Life Insurance) and China (venture in Skandia:BSAM).

Drivers: Old Mutual's strategy to become a diversified international business has resulted in earnings being generated across the globe. We believe performance of the South African operations will continue to be a reliable and the most significant contributor to earnings in the near term. Growth in Europe should be sustained by Skandia's leading position as an open architecture provider. The group has also established a presence in China and India, which provides further growth opportunities in the medium term.

Outlook: In 2010, earnings in the South African operations are expected to start recovering from the recessionary conditions of 2009. The group's US operations were scaled down significantly in 2009, with focus still on the recovery of the US bond portfolio following the sharp downturn in US bonds in the first quarter of 2009. We expect earnings in all regions to recover modestly but consistently as market environments stabilise from the volatility of 2009. The group has committed to streamlining its operations, but enters 2010 without having announced any major restructuring initiatives.

Valuation: We value Old Mutual using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. The share remains attractive on a PE of c.7.5x FY10e earnings. **Buy** on medium-to-long term expectations on recovery and growth.

Risks: Key sector risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Old Mutual is also exposed to foreign currency fluctuations (notably the volatile rand), while its US businesses are exposed to US credit markets (bond pricing, ratings, defaults) and variable annuity reserving issues.

Model updated: 02 February 2010

Running the Numbers

Europe

UK

Insurance

Old Mutual PLC

Reuters: OML.L Bloomberg: OML LN

Buy

Price as of 29 January	GBp 104.10
Target price	GBp 130.00

Company website

http://www.oldmutual.com

Company description

Old Mutual PLC is an international financial services group, whose activities are focused on asset gathering and asset management.

Research Team

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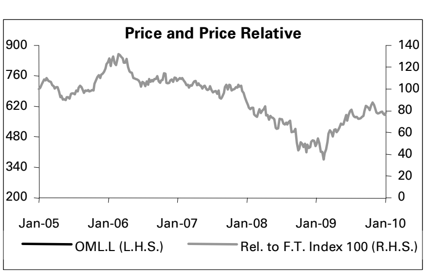
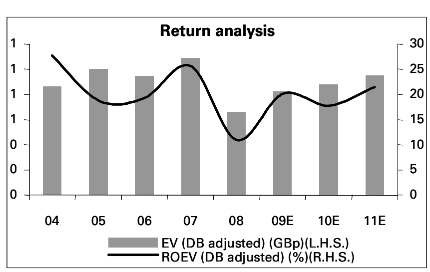
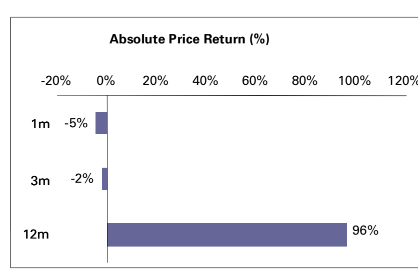
52-week Range:	GBp 30.80 - 121.30
Market Cap (m)	GBP 5,444
	USD 8,724

Company identifiers	
Cusip	
SEDOL	0738992

Year Ending 31 December	2004	2005	2006	2007	2008	2009E	2010E	2011E
DATA PER SHARE								
EPS (stated) (GBp)	0.14	0.18	0.15	0.23	0.12	0.13	0.15	0.19
DB adjusted EPS (GBp)	0.14	0.15	0.15	0.23	0.12	0.13	0.15	0.19
DPS (GBp)	0.05	0.06	0.06	0.07	0.02	0.02	0.06	0.06
Growth rate - DB adjusted EPS	48.3	5.4	-0.9	54.0	-47.4	8.7	9.3	30.0
Growth rate - DPS	9.4	4.8	13.6	9.6	-64.2	-18.4	175.0	6.4
EV (DB adjusted) (GBp)	0.9	1.0	0.9	1.1	0.7	0.8	0.9	1.0
Average Market Cap (GBp)	3,607	4,621	9,117	9,141	5,131	5,444	5,444	5,444
Weighted average shares (m)	3,738	3,840	5,501	5,405	5,275	5,275	5,275	5,275
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated) (x)	741.6	723.2	nm	724.9	800.5	781.5	715.0	549.9
P/E (DB adj) (x)	727.6	875.7	nm	724.9	800.5	781.5	715.0	549.9
Price / EV (DB Adj, x)	1.08	1.13	1.85	1.56	1.48	1.27	1.18	1.10
ROEV (DB adjusted) (%)	27.7	18.7	19.3	25.6	10.9	20.1	17.7	21.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Dividend cover (x on DB adj earns)	2.8	2.8	2.4	3.4	5.0	6.7	2.6	3.2
PROFIT & LOSS (GBP m)								
Pre-tax life	544	581	761	771	340	784	815	856
Pre-tax non-life	101	103	82	89	76	63	96	96
Pre-tax asset management	137	218	237	289	178	103	141	158
Pre-tax banking	225	421	542	636	575	476	532	744
Pre-tax other	-26	179	375	222	-170	-184	-220	-53
Pre-tax total	**981**	**1,501**	**1,997**	**2,007**	**999**	**1,243**	**1,364**	**1,802**
Goodwill	33	22	283	242	0	0	0	0
Tax	282	357	621	519	86	311	341	450
Minorities	133	255	257	274	272	235	262	361
Stated Net Income	**533**	**867**	**836**	**972**	**641**	**697**	**762**	**990**
Normalisation of capital gains	-197	-363	-273	-195				
Goodwill	25	22	283	242				
Life EV uplift (DB adjusted)	22	-67	110	88				
P & C over cycle adjustment	-19	-15	22	-7				
Other	195	181	12	-39				
DB adjusted earnings	**558**	**625**	**990**	**1,061**				
BALANCE SHEET (GBP m)								
Shareholders Funds Stated								
Embedded value (DB adjusted)	3,331	4,098	4,927	5,876	3,464	4,297	4,615	4,969
Total investments	38,810	48,490	84,633	90,220	99,242	109,166	120,083	132,091
Equities / Total investments (%)	31.5	28.2	15.0	15.0	15.0	15.0	15.0	15.0
Total assets	68,216	80,574	128,575	142,734	157,007	172,708	189,979	208,977
Debt	1,441	1,433	1,676	1,999	2,297	2,336	2,336	2,336
Debt % of Adj EV+Debt	30.2	25.9	25.4	25.4	39.9	35.2	33.6	32.0
DATA & RATIOS								
Life - Net earned premium	4,901	5,438	13,624	14,986	16,485	18,134	19,947	21,942
Life - Policyholder funds - General a/c	26,170	35,177	33,128	36,441	40,085	44,093	48,503	53,353
Life - Policyholder funds - Separate a/c	7,748	9,268	46,953	51,648	56,813	62,494	68,744	75,618
Life - New business volume (APE)	587	648	1,575	1,756	1,616	1,311	1,345	1,405
Life - EV new business margin (%)	18.4	17.4	16.1	13.2	6.4	10.2	11.0	11.9
Life - New business profit	108	113	253	231	104	133	149	168
Life - In force returns	311	325	466	487	555	230	212	210
Life - Variance and other	111	71	17	-123	-541	0	0	0
Life - EV profits (stated)	530	509	736	595	118	363	360	378
Life - DB adjustments to EV profits	-70	-78	-131	153	644	197	298	295
Life - EV profits (DB adjusted)	460	431	605	748	762	559	658	673
Non-Life - Combined ratio (%)	90.6	91.6	94.3	94.9	95.8	100.0	95.0	97.0
Non-Life - Net earned premium	571	594	598	566	479	440	468	491
Non-Life - Res. / prem. ratio (%)	34	38	46	65	67	78	77	78
Asset Mgmt - Third party assets	132,675	161,469	237,000	279,000	264,530	288,502	302,440	327,104
Asset Mgmt - Pretax profits % TPA	0.10	0.14	0.10	0.10	0.07	0.04	0.05	0.05
Bank - Risk-weighted assets	21,302	17,488	25,740	29,344	29,596	42,824	45,121	49,350
Bank - NII / RWAs (%)	2.76	4.21	3.75	3.87	4.03	3.15	2.92	2.86
Bank - Other revenue / RWAs (%)	3.25	4.06	3.32	2.91	2.87	2.23	2.26	2.12
Bank - Cost / income ratio (%)	-74.2	-63.8	-62.0	-58.6	-55.3	-55.3	-56.8	-56.2
Bank - Bad debt charge / RWAs (%)	-0.49	-0.59	-0.48	-0.54	-1.08	-1.23	-1.00	-0.62
GROWTH								
Non-life premiums (%)	24.1	4.1	0.6	-5.4	-15.4	-8.1	6.3	5.0
Life premiums (%)	8.1	11.0	150.5	10.0	10.0	10.0	10.0	10.0
Life - New business volume (APE) (%)	10.9	10.4	143.3	11.5	-8.0	-18.9	2.6	4.4
Life - New business profit (%)	2.9	4.3	124.7	-8.7	-55.0	28.0	11.6	12.9
Third party assets (%)	6.8	21.7	46.8	17.7	-5.2	9.1	4.8	8.2
Banking RWAs (%)	15.1	-17.9	47.2	14.0	0.9	44.7	5.4	9.4
Life policyholder funds (%)	28.4	31.0	80.2	10.0	10.0	10.0	10.0	10.0







Source: Company data, Deutsche Bank estimates

South Africa – Life Assurance

Sanlam Ltd

Business description: Sanlam is an international financial services and wealth management group. The company was established in South Africa in 1918 and is one of the most prominent participants in the South African life insurance industry, and the second largest listed life insurer by market capitalisation. The group's South African operations further include Santam, the largest property and casualty insurer, and Sanlam Investment Management, the second largest asset manager in the country, alongside several smaller ventures. The group has an established presence in several African countries (Botswana, Ghana, Kenya, Namibia, Nigeria, Tanzania and Zambia), India (venture with Shriram) as well as the United States, Europe and Australia.

Drivers: Sanlam shows promising growth in its unit "Sanlam Developing Markets", which focuses on the entry-level market in South Africa, operations in the rest of Africa and India. Sanlam Developing Markets is expected to continue its increasingly positive impact on the group's life insurance margins and earnings. Other South African businesses are expected to continue modest growth in a competitive and fairly saturated market.

Outlook: In 2010, earnings in the South African operations are expected to start recovering from the recessionary conditions of 2009. The group enters 2010 from a position of capital strength and strong excess capital. We expect strong continued growth from its operations in the rest of Africa and India.

Valuation: We value Sanlam using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. The share trades on a PE of c.9x FY10e earnings. With limited upside potential to the target price, we rate the share a **Hold**.

Risks: Key sector risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Sanlam's main risk is equity market direction, with a further risk of sub-optimal return on its excess capital. Sanlam earns a significant part of its revenues from asset-based fees and also invests substantial amounts of its own capital in the equity market. As a result, both earnings and NAV are exposed to equity market volatility. Sanlam is also exposed to country and political risk in the emerging markets it has chosen, specifically in Africa, where regional unrest may disrupt business, resulting in lower than expected income. The group is also exposed to currency risk in its various markets; this risk will become increasingly important as the relative contribution from other countries grows.

Model updated: 03 December 2009

Running the Numbers

Sth Africa

South Africa

Life Assurance

Sanlam

Reuters: SLMJ.J Bloomberg: SLM SJ

Hold

Price as of 29 January	ZAR 22.88
Target price	ZAR 23.00

Company website

http://www.sanlam.co.za

Company description

Sanlam is an international financial services and wealth management group. The company was established in South Africa in 1918 and is one of the most prominent participants in the South African life insurance industry, and the second largest listed life insurer by market capitalisation. The group's South African operations further include Santam, the largest property and casualty insurer, and Sanlam Investment Management, the second largest asset manager in the country, alongside several smaller ventures. The group has an established presence in several African countries (Botswana, Ghana, Kenya, Namibia, Nigeria, Tanzania and Zambia), India (venture with Shriram) as well as the United States, Europe and Australia.!

Research Team

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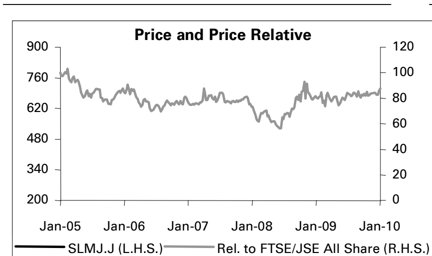
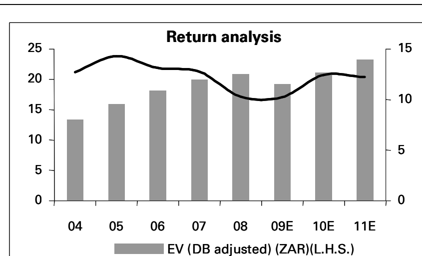
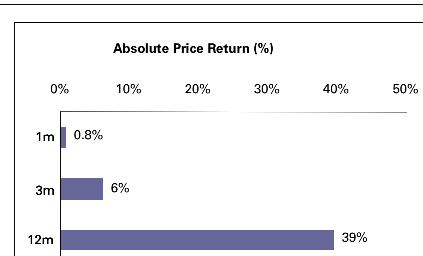
52-week Range:	ZAR 13.94 - 23.25
Market Cap (m)	ZAR 44,939
	USD 5,956

Company identifiers	
Cusip	
SEDOL	B0L6750

Year Ending 31 December	2004	2005	2006	2007	2008	2009E	2010E	2011E
DATA PER SHARE								
EPS (stated) (ZAR)	1.15	2.30	2.96	2.71	1.32	2.37	2.47	2.60
DB adjusted EPS (ZAR)	1.40	2.06	2.20	2.40	2.13	2.34	2.57	2.83
DPS (ZAR)	0.50	0.65	0.77	0.88	0.98	1.03	1.08	1.15
Growth rate - DB adjusted EPS	7.3	47.4	7.1	8.8	-11.3	10.0	10.0	10.0
Growth rate - DPS	25.0	30.0	18.5	14.3	11.4	5.1	4.9	6.5
EV (DB adjusted) (ZAR)	13.4	15.9	18.2	19.9	20.8	19.2	21.1	23.2
Average Market Cap (ZAR)	24,465	31,232	35,549	47,067	36,376	44,939	44,939	44,939
Weighted average shares (m)	2,571	2,529	2,243	2,210	2,098	2,049	2,058	2,063
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated) (x)	8.4	5.5	5.5	8.0	13.8	9.6	9.3	8.8
P/E (DB adj) (x)	6.9	6.1	7.3	9.1	8.6	9.8	8.9	8.1
Price / EV (DB Adj, x)	0.67	0.83	0.86	1.08	0.89	1.19	1.09	0.99
ROEV (DB adjusted) (%)	12.7	14.3	13.1	12.8	10.3	10.2	12.4	12.2
Dividend yield (%)	5.2	5.2	4.8	4.0	5.4	4.5	4.7	5.0
Dividend cover (x on DB adj earns)	2.8	3.2	2.9	2.7	2.2	2.3	2.4	2.5
PROFIT & LOSS (ZAR m)								
Pre-tax life	1,493	1,729	2,188	2,405	2,614	2,410	2,439	2,466
Pre-tax non-life	1,361	1,016	878	987	1,279	1,022	1,305	1,516
Pre-tax asset management	419	699	1,077	1,230	825	853	1,074	1,155
Pre-tax banking	86	151	141	94	-35	100	60	6
Pre-tax other	1,749	9,889	5,673	3,728	-224	1,940	1,912	2,075
Pre-tax total	**5,108**	**13,484**	**9,957**	**8,444**	**4,459**	**6,325**	**6,790**	**7,218**
Goodwill	263	3	30	7	-244	-120	0	0
Tax	1,113	1,586	1,482	1,649	1,824	1,060	1,045	1,089
Minorities	974	968	1,705	928	385	716	737	850
Stated Net Income	**2,758**	**10,927**	**6,740**	**5,860**	**2,494**	**4,668**	**5,007**	**5,279**
Normalisation of capital gains	791	-1,752	-2,086	-693	1,977	-878	-782	-879
Goodwill	263	3	30	7	-244	-120	0	0
Life EV uplift (DB adjusted)	200	585	351	180	336	542	568	827
P & C over cycle adjustment	-265	-113	-43	-147	-103	-28	-118	-173
Other	-158	-4,447	-48	92	0	0	0	0
DB adjusted earnings	**3,589**	**5,203**	**4,944**	**5,299**	**4,460**	**4,184**	**4,675**	**5,054**
BALANCE SHEET (ZAR m)								
Shareholders Funds Stated								
Embedded value (DB adjusted)	36,440	37,708	41,543	43,405	40,873	37,624	41,386	45,525
Total investments	187,606	232,851	280,627	290,101	290,573	313,138	337,635	364,241
Equities / Total investments (%)	49.7	52.3	50.4	51.4	48.7	49.7	50.7	51.7
Total assets	225,280	276,712	335,482	340,265	340,818	367,285	396,019	427,226
Debt			2,144	2,050	2,050	2,050	2,050	2,050
Debt % of Adj EV+Debt			4.9	4.5	4.8	5.2	4.7	4.3
DATA & RATIOS								
Life - Net earned premium	21,794	22,736	27,985	33,516	35,192	36,951	38,799	40,739
Life - Policyholder funds - General a/c	98,261	108,728	125,517	128,398	134,818	141,559	148,637	156,069
Life - Policyholder funds - Separate a/c	65,295	89,506	112,347	116,262	110,449	121,494	133,643	147,007
Life - New business volume (APE)	1,971	2,153	3,066	3,527	3,939	4,083	4,626	5,248
Life - EV new business margin (%)	16.5	13.5	14.2	16.1	17.7	17.5	17.7	17.9
Life - New business profit	326	291	434	567	698	716	819	940
Life - In force returns	1,148	1,193	1,256	1,556	1,838	1,622	1,863	2,005
Life - Variance and other	215	158	461	309	-6	276	365	350
Life - EV profits (stated)	1,689	1,642	2,151	2,432	2,530	2,613	3,047	3,295
Life - DB adjustments to EV profits	1,432	1,913	1,724	1,963	932	873	368	454
Life - EV profits (DB adjusted)	3,121	3,555	3,875	4,395	3,462	3,487	3,415	3,749
Non-Life - Combined ratio (%)	85.3	91.3	93.9	91.5	93.7	95.4	93.7	92.8
Non-Life - Net earned premium	7,645	8,871	10,203	11,538	11,716	12,364	13,146	14,066
Non-Life - Res. / prem. ratio (%)	42	49	55	49	51	50	50	49
Asset Mgmt - Third party assets	285,900	326,800	366,350	430,025	434,425	430,552	464,404	489,528
Asset Mgmt - Pretax profits % TPA	0.15	0.21	0.29	0.29	0.19	0.20	0.23	0.24
Bank - Risk-weighted assets								
Bank - NII / RWAs (%)								
Bank - Other revenue / RWAs (%)								
Bank - Cost / income ratio (%)								
Bank - Bad debt charge / RWAs (%)								
GROWTH								
Non-life premiums (%)	13.2	16.0	15.0	13.1	1.5	5.5	6.3	7.0
Life premiums (%)	8.0	4.3	23.1	19.8	5.0	5.0	5.0	5.0
Life - New business volume (APE) (%)	6.8	9.2	42.4	15.0	11.7	3.7	13.3	13.5
Life - New business profit (%)	40.5	-10.7	49.1	30.6	23.1	2.6	14.4	14.8
Third party assets (%)	25.8	14.3	12.1	17.4	1.0	-0.9	7.9	5.4
Banking RWAs (%)								
Life policyholder funds (%)	22.0	21.2	20.0	2.9	0.2	7.3	7.3	7.4







Source: Company data, Deutsche Bank estimates

South Africa – Real Estate

Growthpoint Properties Ltd

Business description: The portfolio geographically by GLA has 54% exposure in Greater Johannesburg, 9% in Pretoria, 18% in the Western Cape, 13% in KwaZulu-Natal and the remaining 6% in the Eastern Cape and other provinces. By net property income in the physical portfolio, 33% is generated from retail, 44% from office and 23% from industrial property. Growthpoint is one of the largest local property stocks with a market capitalisation of R21bn. The current value of the South African physical portfolio is c.R30bn. The strategy is to remain diversified and focus on the South African portfolio, while simultaneously pursuing opportunities overseas. A particular example of this is the recent acquisition of a controlling stake in Orchard Industrial Fund (now renamed Growthpoint Australia (GOZ)). We believe Growthpoint, in the medium term, remains a defensive play in a slowing economic environment given the defensive component in its retail exposure, the high quality office space in its portfolio and the industrial space with a focus on warehousing and distribution facilities. Constraining shorter term growth are the developments done in a weak letting environment in recent times and the higher interest cost on its debt. Growthpoint has indicated they intend to rapidly bring the Australian operations up to scale, but we believe that in the context of the South African physical portfolio it will not be a significant factor in the near term. The South African development pipeline has now tailed off, with our expectation for no significant developments to be undertaken until final confirmation of a turnaround in GDP and consumer spending becomes evident in South Africa.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect in-force escalations to remain in the 7-9% range with new and expiring leases negotiated at upwards reversions overall at over 8%. Vacancies are anticipated to increase materially in the community shopping centre and less defensive retail space, but to remain at similar or marginally weaker levels in the industrial and office arenas. We believe the next six months will remain tough for South African property operationally, but then expect an improvement to start materialising. Margins have benefited in the past few years from strong rental escalations with costs increasing at a lower growth rate. This scenario has reversed in 2009; with our anticipation for significant cost inflation pressure to now materialise on the electricity and municipal rates front.

Outlook: Growthpoint has a reasonably balanced exposure to industrial, office and retail space. In the shorter term, we believe the market is showing a preference for property companies where the underlying properties are clearly discernible. On this front, Growthpoint falls short with a portfolio of over 400 properties. Management's focus is on sustainable earnings, but is constrained in FY10 due to a large development pipeline that has now tailed off, but has not been fully let. This pipeline is responsible for a large percentage of the current vacancies. The current focus on Australia through Growthpoint Australia does represent an opportunity to improve growth prospects, given it was acquired at an attractive entry price. On Growhtpoint's physical portfolio, we anticipate property expenses to remain at 24% levels in the medium term. Market-related rentals are being achieved currently, and positive reversions are still anticipated. We expect the development pipeline that has been largely completed, but not fully let, to be more favourably viewed when GDP improves. Management's development focus in recent times and on using the current environment to refurbish and develop buildings should lead to more sustainable, longer-term escalations. We expect distribution growth to slow to 7% in FY10, before resuming a stronger upwards trend in 2011 on the back of an improvement in the South African property environment. **Hold**.

Valuation: We value the stock on a DCF basis and capitalise year six dividends at a terminal growth rate of 3.9%. The terminal growth rate we apply is based on long-term industrial, retail and office growth rates, and weighted by their contribution to rental income. We use a beta of 0.60 based on the risk profile we perceive in management's focus on sustainable, long-term distribution growth, the acquisition of the asset management business, the long-term fixed nature of debt and the diversified portfolio's size and quality. We also apply a risk-free rate of 8.5% based upon our long bond view and an equity risk premium of 4.5%, as used for all stocks. From the above, we derive an implied DCF target value/share in excess of our bond yield relative price target and that underpins our belief that our price target is backed up by sufficient cash flows. We temper the implied DCF price target to reflect our one year bond relative valuation and thus derive a price target of 1440c, implying an exit dividend yield of 9.46% and a 96bp discount to our forecast 8.5% long bond.

Risks: Risks specific to Growthpoint are the dilution of shareholder returns through further share issuance or a decline in GDP, industrial or manufacturing production below forecast. Upside risks would include a stronger GDP environment than we anticipate becoming evident and the letting of existing vacancies in excess of what we anticipate. Downside risks general to the sector are a slowdown in GDP growth, a lack of liquidity (Growthpoint is less impacted by this factor), interest rate hikes and a long bond yield of over 8.5%.

Model updated: 04 September 2009

Running the Numbers

S. Africa

South Africa

Property

Growthpoint

Reuters: GRTJ.J Bloomberg: GRT SJ

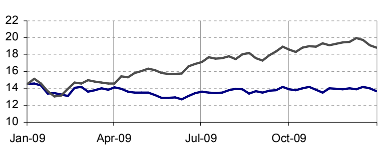
Hold

Price (29 Jan 10)	ZAR 13.69
Target price	ZAR 14.40
52-week Range	ZAR 12.67 – 14.58
Market Cap	ZAR 19,289m
	#VALUE!

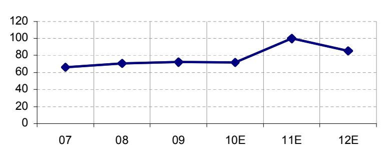
Company Profile

Growthpoint is property loan stock (PLS) with a balanced diversified portfolio spread across retail, office and industrial properties. The strategy is to remain diversified while maintaining its position as the biggest local property stock (market capitalisation of c.R18bn) with the highest liquidity. Rental contribution is 37% retail, 39% office and 24% industrial, with high quality portfolio evident.

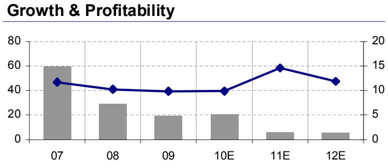
1yr Price Performance



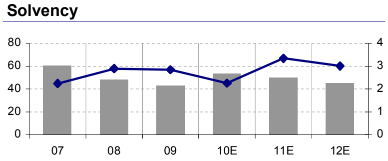
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	0.93	1.06	1.15	1.22	1.34	1.46
Reported EPS (ZAR)	1.18	1.34	1.40	1.47	2.35	2.08
DPS (ZAR)	0.93	1.06	1.15	1.22	1.34	1.46
BVPS (ZAR)	12.75	15.45	14.25	15.50	16.66	18.41
Weighted average shares (m)	1,074	1,281	1,409	1,409	1,409	1,409
Average market cap (ZARm)	14,029	18,722	19,269	19,289	19,289	19,289
Enterprise value (ZARm)	22,292	28,205	27,936	30,967	30,967	30,967
Valuation Metrics						
P/E (DB) (x)	14.0	13.7	11.9	11.2	10.3	9.4
P/E (Reported) (x)	11.1	10.9	9.8	9.3	5.8	6.6
P/BV (x)	1.16	0.72	0.91	0.88	0.82	0.74
FCF Yield (%)	0.7	2.1	nm	1.8	nm	nm
Dividend Yield (%)	7.1	7.3	8.4	8.9	9.8	10.7
EV/Sales (x)	11.48	11.26	9.34	8.58	8.09	7.65
EV/EBITDA (x)	17.4	16.0	12.9	12.0	8.1	9.0
EV/EBIT (x)	17.4	16.0	12.9	12.0	8.1	9.0
Income Statement (ZARm)						
Sales revenue	**1,942**	**2,504**	**2,992**	**3,611**	**3,829**	**4,046**
Gross profit	**1,403**	**1,829**	**2,233**	**2,677**	**3,829**	**3,499**
EBITDA	**1,283**	**1,767**	**2,158**	**2,591**	**3,829**	**3,449**
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	**1,283**	**1,767**	**2,158**	**2,591**	**3,829**	**3,449**
Net interest income(expense)	-571	-610	-759	-1,145	-1,145	-1,145
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	45	1	1	0	0	0
Profit before tax	**757**	**1,158**	**1,400**	**1,446**	**2,684**	**2,304**
Income tax expense	2	1	23	0	0	0
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**755**	**1,157**	**1,377**	**1,446**	**2,684**	**2,304**
DB adjustments (including dilution)	513	560	590	627	627	627
DB Net profit	**1,268**	**1,717**	**1,967**	**2,073**	**3,311**	**2,931**
Cash Flow (ZARm)						
Cash flow from operations	**99**	**384**	**0**	**0**	**0**	**0**
Net Capex	0	0	0	350	0	0
Free cash flow	**99**	**384**	**0**	**350**	**0**	**0**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	2,920	0	950	0	0
Other investing/financing cash flows	-96	-3,296	0	-1,300	0	0
Net cash flow	**3**	**8**	**0**	**0**	**0**	**0**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	19	27	497	775	775	775
Tangible fixed assets	22,173	27,245	28,637	34,058	35,781	38,329
Goodwill/intangible assets	108	2,591	1,899	1,899	1,899	1,899
Associates/investments	11	9	10	10	10	10
Other assets	646	785	1,322	726	726	726
Total assets	**22,957**	**30,657**	**32,365**	**37,468**	**39,191**	**41,739**
Interest bearing debt	8,293	9,519	9,174	12,463	12,463	12,463
Other liabilities	964	1,354	3,114	3,166	3,254	3,343
Total liabilities	**9,257**	**10,873**	**12,288**	**15,629**	**15,717**	**15,806**
Shareholders' equity	13,700	19,784	20,077	21,838	23,474	25,933
Minorities	0	0	0	0	0	0
Total shareholders' equity	**13,700**	**19,784**	**20,077**	**21,838**	**23,474**	**25,933**
Net debt	*8,274*	*9,492*	*8,677*	*11,688*	*11,688*	*11,688*
Key Company Metrics						
Sales growth (%)	59.6	28.9	19.5	20.7	6.0	5.7
DB EPS growth (%)	14.5	14.4	7.6	6.7	9.3	9.4
EBITDA Margin (%)	66.1	70.6	72.1	71.8	100.0	85.2
EBIT Margin (%)	66.1	70.6	72.1	71.8	100.0	85.2
Payout ratio (%)	132.4	117.9	117.2	119.0	70.1	89.3
ROE (%)	11.7	10.3	9.9	9.9	14.6	11.9
Capex/sales (%)	0.0	0.0	0.0	6.2	0.0	0.0
Capex/depreciation (x)	na	na	na	na	na	na
Net debt/equity (%)	60.4	48.0	43.2	53.5	49.8	45.1
Net interest cover (x)	2.2	2.9	2.8	2.3	3.3	3.0

Source: Company data, Deutsche Bank estimates

UK – Real Estate

Liberty International plc

Business description: Liberty International is a UK property group that is a constituent of the FTSE 100 and FTSE/JSE ALSI 40 indices. The 1H09 portfolio valuation was GBP6.1bn, with a predominantly retail focus (89% of portfolio). The recent turmoil in the UK property environment has resulted in Liberty International becoming increasingly internally focused, with the potential for acquisitive growth limited in the near term. The group is engaged in three principal activities:

- **Capital Shopping Centres** (CSC), a leading participant in the UK regional shopping centre industry with interests in 14 UK regional shopping centres and a market value of GBP4.4bn. Amongst its largest centres are Lakeside, Thurrock; MetroCentre, Gateshead; Braehead and Glasgow. Liberty International is also reaching the end of its current development programme, with committed expenditure of GBP225.2m, of which GBP172.4m relates to developments and GBP52.8m to China investments. At 1H09, amongst its committed development capex was GBP104m at St. David's 2, GBP22m at Eldon Square and GBP10m at MetroCentre. St. David's 2 opened in October 2009, with the remaining commitments anticipated to be fully completed in 2010.
- **Capital & Counties**, a retail and commercial property business, is increasingly concentrated in central London, southeast England and California, US. With assets comprising GBP1.7bn at 1H09, it comprised 30% of the Liberty's portfolio.
- **Investment activities** where Liberty International looks to use the capital resources at its disposal to access profitable real estate elated financial market opportunities. Currently, we believe this is the least active of their business activities and is likely to remain so in the near term.

Drivers: Results for 1H09 showed a continuation of negative fair value adjustments in investment properties, but clearly showing a slowing rate of descent. Recent market commentary and IPD indications suggest a stabilisation in values currently occurring, with our view that negative portfolio revaluations are now in the historic base. We expect cap rate expansion to cease post 2009. We expect share price performance will be driven by NAV growth, based on our assumptions for the current portfolio value to start reflecting a slowly improving capital and rental growth outlook, with marginal growth in rental and capital values. The refinancing of the Lakeside CMBS was completed in January 2010, but Liberty still has a high percentage of debt to be refinanced over the next five years with the average maturity of 5.5 years at June 2009. We believe management deserves credit for not making sizeable disposals at the bottom of the market, although this gives Liberty International the least capacity for acquisitions of the peer group with any purchases likely to be funded by disposals.

Outlook: Whilst Liberty International's portfolio includes nine of the top 30 malls, like-for-like rental income has declined with tenant defaults amongst the worst in the sector. Although significant effort has been directed at re-letting, the rents achieved have been on average below previous rents. This suggests growth prospects over the medium term are muted unless there is a major improvement in sales at Liberty International's malls to improve overall cost/sales ratios. Given the weaker outlook for rental growth and medium term refinancing risks, we see limited upside to the current share price which is at a modest premium to the current NAV of 452p, post the most recent share placing of 56.1m shares. Near term earnings growth from developments is most likely limited, with a risk that rental income on completion will be below the level of capitalised interest. We do not expect Liberty International to commence any new schemes in the next three years with Oxford reported to be under offer to the Crown Estate and a redevelopment of Earls Court unlikely before 2013. **Hold**.

Valuation: Our price target is based upon a c.15% discount to our two-year-forward NAV forecast and an implied initial yield of 5.5%. This is consistent with the methodology applied to the rest of our UK-REIT coverage universe, although we use a larger discount for Liberty International to reflect the low earnings yield and the risk of a further decline in like-for-like rents.

Risks: The main downside risk is that occupational markets and therefore rents are weaker than we are anticipating and/or interest rates rise sharply leading to a corresponding rise in property yields and a decline in values. Also if values were to decline significantly then Liberty International may be at risk of breaching loan covenants. Upside risks include stronger than expected rental and capital growth from a stronger economic recovery. For Liberty International in particular risks include developments at Newcastle being delayed with cost overruns and a rise in retailer insolvencies and vacant space which would negatively impact cash flows.

Model updated: 01 February 2010

Running the Numbers

Europe

UK

Real Estate

Liberty International Plc

Reuters: LII.L Bloomberg: LII LN

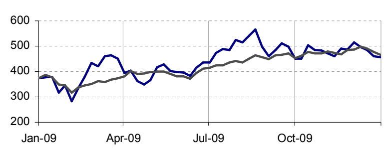
Hold

Price (29 Jan 10)	GBp 457.00
Target price	GBp 505.00
52-week Range	GBp 281.25 – 569.00
Market Cap	£ 2,274m
	US$ 3,644m

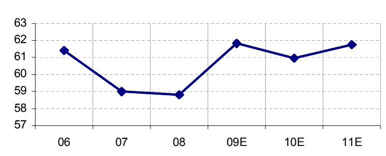
Company Profile

Liberty International plc operates a property group in the United Kingdom. The main subsidiaries are Capital Shopping Centres PLC, which develops, owns and manages regional shopping centers, and Capital & Counties plc, which both owns and provides management services for the Group's commercial and retail property portfolio. Liberty also owns land in two cities in California, USA.

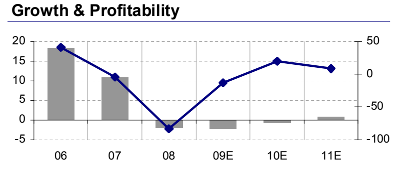
1yr Price Performance



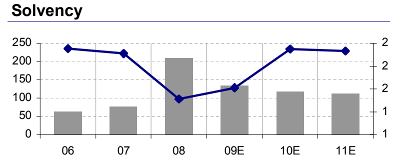
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (GBp)	33.92	35.18	28.99	21.92	20.09	20.24
Reported EPS (GBp)	443.96	-53.24	-717.71	-55.94	81.69	39.71
DPS (GBp)	31.00	34.10	16.50	16.50	16.50	17.16
BVPS (GBp)	1308.38	1246.75	538.36	386.67	443.13	462.70
Weighted average shares (m)	339	362	362	498	622	622
Average market cap (£m)	3,925	4,257	3,127	2,274	2,840	2,840
Enterprise value (£m)	6,935	8,019	7,196	5,587	6,203	6,203
Valuation Metrics						
P/E (DB) (x)	34.2	33.5	29.8	20.8	22.7	22.6
P/E (Reported) (x)	2.6	nm	nm	nm	5.6	11.5
P/BV (x)	1.07	0.86	0.89	1.18	1.03	0.99
FCF Yield (%)	nm	nm	nm	nm	2.9	4.0
Dividend Yield (%)	2.7	2.9	1.9	3.6	3.6	3.8
EV/Sales (x)	14.06	14.67	13.43	10.67	11.94	11.84
EV/EBITDA (x)	22.9	24.9	22.8	17.3	19.6	19.2
EV/EBIT (x)	22.9	24.9	22.8	17.3	19.6	19.2
Income Statement (£m)						
Sales revenue	**493**	**547**	**536**	**524**	**520**	**524**
Gross profit	**335**	**369**	**378**	**372**	**369**	**377**
EBITDA	**303**	**323**	**315**	**324**	**317**	**323**
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	**303**	**323**	**315**	**324**	**317**	**323**
Net interest income(expense)	-181	-195	-216	-215	-189	-194
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-2	-3	-34	0	0	0
Other pre-tax income/(expense)	783	-249	-2,727	-434	358	110
Profit before tax	**903**	**-125**	**-2,662**	**-325**	**486**	**239**
Income tax expense	-661	30	-86	4	3	3
Minorities	0	50	125	-42	-30	-10
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,564**	**-205**	**-2,702**	**-287**	**513**	**247**
DB adjustments (including dilution)	-1,444	338	2,811	399	-387	-121
DB Net profit	**120**	**132**	**109**	**112**	**127**	**126**
Cash Flow (£m)						
Cash flow from operations	**118**	**42**	**83**	**40**	**120**	**124**
Net Capex	-527	-244	-210	-57	-38	-9
Free cash flow	**-409**	**-203**	**-128**	**-17**	**82**	**115**
Equity raised/(bought back)	341	-3	-1	858	0	0
Dividends paid	-97	-122	-123	-41	-103	-105
Net inc/(dec) in borrowings	416	186	208	0	0	0
Other investing/financing cash flows	0	9	-78	19	-92	0
Net cash flow	**251**	**-133**	**-121**	**819**	**-113**	**10**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (£m)						
Cash and other liquid assets	0	0	0	0	0	0
Tangible fixed assets	8,232	8,667	7,108	6,797	7,199	7,319
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	51	129	110	110	110
Other assets	0	0	0	0	0	0
Total assets	**8,232**	**8,718**	**7,236**	**6,907**	**7,309**	**7,429**
Interest bearing debt	3,010	3,611	4,169	3,351	3,371	3,361
Other liabilities	490	398	1,081	1,081	1,081	1,081
Total liabilities	**3,500**	**4,009**	**5,251**	**4,432**	**4,452**	**4,442**
Shareholders' equity	4,732	4,507	1,958	2,403	2,754	2,876
Minorities	0	202	28	72	102	112
Total shareholders' equity	**4,732**	**4,709**	**1,986**	**2,475**	**2,856**	**2,987**
Net debt	*3,010*	*3,611*	*4,169*	*3,351*	*3,371*	*3,361*
Key Company Metrics						
Sales growth (%)	18.2	10.9	-2.0	-2.3	-0.8	0.8
DB EPS growth (%)	12.8	3.7	-17.6	-24.4	-8.4	0.7
EBITDA Margin (%)	61.4	59.0	58.8	61.8	61.0	61.8
EBIT Margin (%)	61.4	59.0	58.8	61.8	61.0	61.8
Payout ratio (%)	6.7	nm	nm	nm	20.0	43.2
ROE (%)	40.9	-4.3	-83.5	-13.1	20.0	8.8
Capex/sales (%)	132.6	119.9	58.2	43.0	7.3	1.7
Capex/depreciation (x)	na	na	na	na	na	na
Net debt/equity (%)	63.6	76.7	210.0	135.4	118.0	112.5
Net interest cover (x)	1.7	1.7	1.5	1.5	1.7	1.7

Source: Company data, Deutsche Bank estimates

South Africa – Real Estate

Redefine Income Fund Ltd

Business description: Redefine's acquisition of ApexHi, Madison and Ambit in 2009 has created one of the two largest property stocks on the JSE, at a market capitalisation of R19bn. The rental contribution is 43% retail, 45% office and 12% industrial. Redefine is a hybrid fund, with listed holdings in Hyprop, Sycom, Wichford plc and CIREF contributing 28% to FY09 gross revenue. The holding in Wichford plc has now been sold to CIREF, with CIREF potentially listing on the JSE in early 2010, potentially under the name Redefine International. CIREF will house Redefine's international interests, with Redefine holding c.61% in CIREF. The Redefine business is clearly still in the evolution phase, with management appearing simultaneously focused on international growth opportunities and the settling of the newly combined portfolio over the next 12 months. By rental contribution of the physical portfolio, 54% is generated from Gauteng, 17% from the Western Cape, 14% from KwaZulu-Natal and the balance spread amongst six other provinces. We would categorise Redefine as having high quality retail exposure through Hyprop and exposure to the UK and Continental Europe through its offshore holdings, with the physical portfolio largely retail and office exposure in South Africa and dominating the revenue line.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect escalations to remain in the 7-8% range with new and expiring leases negotiated at upward reversions overall at between 7%-15% in FY10. Redefine has large exposure to commuter based shopping centres (not significantly large retail centres by GLA) and office space largely below the A-grade component. Exposure to Government and Standard Bank as significant office tenants together with the exposure to largely the cash based consumer in the retail space does mitigate the risk posed in a weak retail and growth environment. We believe the next six months will remain tough for South African property operationally, but then expect an improvement to start materialising. Margins have benefited in past few years from strong rental escalations with costs increasing at a lower growth rate. This scenario has reversed in 2009; with our anticipation for significant cost inflation pressure to materialise on the electricity and municipal rates front. We expect that Redefine's international operations are unlikely to become too meaningful in the near term, given that over 80% of its listed security holdings relate to South African specific property companies. Property trading income will continue to contribute to 2010 distribution growth through reducing debt or funding capital expenditure. This trading income contributed 4% to gross revenue in FY09, with our view for declining importance from this item in future years.

Outlook: The portfolio currently consists of 403 properties, with 117 properties single-tenanted and 286 properties multi-tenanted. In the multi-tenanted properties, there are 4587 leases in place. Given these factors, we believe the outlook involves portfolio rationalisation in some form as we think the portfolio is currently too management intensive. Management has made it clear that it intends to aggressively pursue its offshore acquisition drive, with our expectation that this will introduce increased volatility into the existing portfolio and distribution growth. Given that the company has disappointed on its August 2009 distribution, we expect that it will try not to set too demanding a target in future years and further disappoint investors on distribution growth. The strong distribution growth expected to August 2010 of 20% is due to ApexHi being included for a full 12 months in FY10, whereas it only contributed to the last few months of the FY09 financial year. There is an element of property trading income and currency risk in the revenue component, which does increase the volatility of anticipated distribution growth for Redefine relative to its peer group. **Hold**.

Valuation: In our DCF assessment, we use the assumptions of a Rf of 8.5%, an ERP of 4.5% (as per all South African stocks) and a beta of 0.75x. Our terminal g of 3.29% is derived from the long term growth rates in rental contribution from the retail, office and industrial sectors. From these inputs, we derive a NPV of 885c for Redefine and an implied price target of 990c. This implies an exit yield of 7.50%, which we consider an extremely unlikely occurrence unless bond yields drop significantly. As such, we utilize our bond relative relationship in tempering the price target in terms of the bond yield relative at which we expect the stock to exit in 12 months. In determining our bond yield relative price target, we utilize an 8.5% forecast long bond yield and assume, in Redefine's instance, a 130bp exit yield for the stock. This implies the stock will exit at a 9.80% forward yield in 12 months, on an interpolated basis. As such, the price target derived is 755c. Hold.

Risks: The fund's hybrid structure raises the risk profile, with the potential for overpaying for growth a potential risk. This risk is lessened due to the economy of scale now reached and the increasing revenue contribution from the physical portfolio. Inclusion in the Top40 Index prior to expectations represents upside risk, while downside risk would involve a significant acquisition abroad that increases the risk profile or is not significantly distribution enhancing.

Model updated: 29 October 2009

Running the Numbers

S. Africa

South Africa

Property

Redefine Income Fund Ltd

Reuters: RDFJ.J Bloomberg: RDF SJ

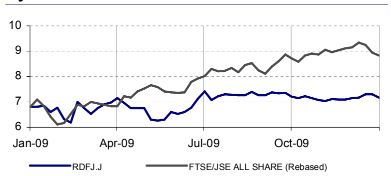
Hold

Price (29 Jan 10)	ZAR 7.16
Target price	ZAR 7.55
52-week Range	ZAR 6.15 – 7.41
Market Cap	ZAR 18,964m US$ 2,514m

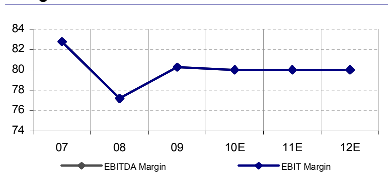
Company Profile

Redefine's acquisition of ApexHi, Madison and Ambit in 2009 will potentially create the second largest property stock on the JSE with a market capitalisation of over R17bn. The rental contribution is 37% retail, 49% office and 14% industrial. Redefine is a hybrid fund, with listed holdings in Hyprop, Sycom, Wichford plc and CIREF

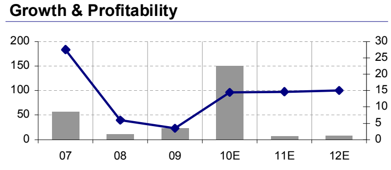
1yr Price Performance



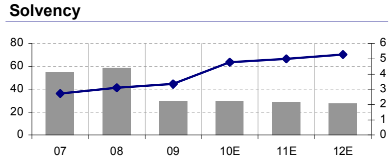
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Aug	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	0.51	0.57	0.57	0.68	0.71	0.78
Reported EPS (ZAR)	1.61	0.40	0.40	1.01	1.08	1.17
DPS (ZAR)	0.51	0.57	0.57	0.68	0.71	0.78
BVPS (ZAR)	6.85	6.72	6.78	7.17	7.58	8.01
Weighted average shares (m)	813	893	2,649	2,649	2,649	2,649
Average market cap (ZARm)	5,685	6,199	17,116	18,964	18,964	18,964
Enterprise value (ZARm)	4,318	5,602	19,479	21,561	21,514	21,459
Valuation Metrics						
P/E (DB) (x)	13.6	12.3	11.4	10.6	10.1	9.2
P/E (Reported) (x)	4.3	17.3	16.0	7.1	6.6	6.1
P/BV (x)	1.08	1.03	1.07	1.00	0.95	0.89
FCF Yield (%)	2.8	nm	nm	nm	nm	nm
Dividend Yield (%)	7.3	8.2	8.8	9.5	9.9	10.9
EV/Sales (x)	5.20	6.07	17.21	7.61	7.14	6.60
EV/EBITDA (x)	6.3	7.9	21.4	9.5	8.9	8.3
EV/EBIT (x)	6.3	7.9	21.4	9.5	8.9	8.3
Income Statement (ZARm)						
Sales revenue	**830**	**923**	**1,132**	**2,833**	**3,011**	**3,251**
Gross profit	**743**	**817**	**1,001**	**2,362**	**2,487**	**2,684**
EBITDA	**687**	**712**	**908**	**2,266**	**2,409**	**2,601**
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	**687**	**712**	**908**	**2,266**	**2,409**	**2,601**
Net interest income(expense)	-251	-229	-271	-474	-483	-492
Associates/affiliates	24	-7	-4	0	0	0
Exceptionals/extraordinaries	1,106	-177	-390	878	937	989
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,565**	**300**	**244**	**2,670**	**2,863**	**3,098**
Income tax expense	364	-43	-177	0	0	0
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,201**	**343**	**421**	**2,670**	**2,863**	**3,098**
DB adjustments (including dilution)	-416	-495	-711	1,792	1,926	2,109
DB Net profit	**785**	**-152**	**-291**	**4,462**	**4,789**	**5,207**
Cash Flow (ZARm)						
Cash flow from operations	**35**	**-78**	**-240**	**0**	**0**	**0**
Net Capex	126	-816	0	0	0	0
Free cash flow	**160**	**-894**	**-240**	**0**	**0**	**0**
Equity raised/(bought back)	218	547	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	-77	423	0	305	100	100
Other investing/financing cash flows	-170	-40	193	0	0	0
Net cash flow	**131**	**36**	**-47**	**305**	**100**	**100**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	129	158	111	111	111	111
Tangible fixed assets	5,050	5,975	18,235	19,418	20,454	21,543
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	4,429	4,123	3,009	3,081	3,228	3,383
Other assets	227	462	4,588	4,657	4,657	4,657
Total assets	**9,834**	**10,717**	**25,943**	**27,266**	**28,450**	**29,694**
Interest bearing debt	3,190	3,679	5,480	5,785	5,885	5,985
Other liabilities	1,072	1,027	2,495	2,495	2,495	2,495
Total liabilities	**4,263**	**4,705**	**7,975**	**8,280**	**8,380**	**8,480**
Shareholders' equity	5,572	6,006	17,965	18,983	20,067	21,211
Minorities	0	6	3	3	3	3
Total shareholders' equity	**5,572**	**6,012**	**17,968**	**18,986**	**20,070**	**21,214**
Net debt	*3,061*	*3,520*	*5,369*	*5,674*	*5,774*	*5,874*
Key Company Metrics						
Sales growth (%)	57.1	11.2	22.6	150.3	6.3	8.0
DB EPS growth (%)	20.1	10.5	-0.1	19.7	5.2	9.5
EBITDA Margin (%)	82.8	77.2	80.3	80.0	80.0	80.0
EBIT Margin (%)	82.8	77.2	80.3	80.0	80.0	80.0
Payout ratio (%)	34.7	147.5	356.1	67.1	65.9	66.6
ROE (%)	27.5	5.9	3.5	14.5	14.7	15.0
Capex/sales (%)	138.6	153.1	0.0	0.0	0.0	0.0
Capex/depreciation (x)	na	na	na	na	na	na
Net debt/equity (%)	54.9	58.6	29.9	29.9	28.8	27.7
Net interest cover (x)	2.7	3.1	3.4	4.8	5.0	5.3

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare

Adcock Ingram Holdings Ltd

Business description: Adcock Ingram is a South African company that manufactures and distributes a wide range of healthcare products including prescription and OTC pharmaceuticals and other hospital products. The Pharmaceuticals division provides an extensive portfolio of branded and generic medicines in the following health disciplines – cardiovascular; central nervous system; dermatology; diabetes; ear, nose and eye preparations and analgesics. The Hospital Products division is South Africa's largest supplier of hospital and critical-care products, blood systems and accessories as well as products used for renal dialysis and transplant medication.

Drivers:.

- **Pharmaceutical division** has two sub divisions; over-the-counter (OTC) and prescription. Pharmaceutical division contributed c.70% to revenue and c.80% to operating profit in FY09.
- **Hospital products division** has two sub divisions; Adcock Ingram Critical Care and The Scientific Group. Hospital products division contributed c.30% to the revenue and c.20% to the operating profit in FY09.

Despite the decrease in EBIT margins in FY09, HEPS improved by 16% to 450c, 6% above the expected DB estimates on the back of the group benefitting from a lower tax charge in the period. The group faced tough pricing pressure from the generics and the OTC drugs which impacted the EBIT margins. Key business drivers include increased healthcare spending and an ageing population.

Outlook: Adcock Ingram is one of the largest and the most diversified healthcare companies in South Africa boasting a brand name over 100 years old. The group operates with two divisions: Pharmaceuticals (Prescription and OTC) and Hospital Products – and enjoys strong market share in all its key categories. Adcock has suffered a difficult couple of years with increasing competition, government interference with prices, the price-fixing scandal and severe under-investment under Tiger Brands' stewardship. This has led to market share losses and declining margins. However, it is not all bad news. We think the group is well positioned to benefit from a number of macro trends that should underpin healthcare spend over the medium term including increased government spend on pharmaceuticals and hospitals, increasing private healthcare membership, an ageing population and rising per capita incomes. Adcock was awarded 21% of the second anti-retroviral (ARV) tender (next tender is expected to be announced in June 2010), which is an early success in the group's strong focus on its product pipeline. Despite a significant contraction in the operating margin, we expect a relatively muted near-term earnings profile (9% FY10E, 11% FY11E). However, the near-term visibility is low and there are a number of regulatory hurdles that still need to be cleared for the group (and industry). **Hold**.

Valuation: Our price target is based on a group DCF valuation. We use a WACC of 13.2% which includes a risk-free rate of 8.5%, equity risk premium of 4.5%, beta of 1.05x and a perpetuity growth rate of 4.5%. Our perpetuity growth rate is at the low end of the 4-6% range we apply for South African stocks due to the group's limited pricing power due to regulation. We apply a terminal operating margin of 24% which is a key value driver over the longer term.

Risks: The group is exposed to a number of risks – the most ominous of which is regulation. There is still significant uncertainty about the pricing environment in South Africa and the impact of International Benchmarking or some other unexpected government intervention. Despite falling margins, the group remains very profitable. This could attract new entrants into the market, which could compress margins below our current forecasts. The group also faces the risk of a weakening rand and rising raw material prices as a significant portion of cost of sales is imported. These increases may not be recovered through pricing due to the competitive and regulated pricing environment. On the upside, if the group is successful in its organic and acquisitive growth strategies, top-line growth could be above our expectations.

Model updated: 24 November 2009

Running the Numbers

S. Africa

South Africa

Healthcare

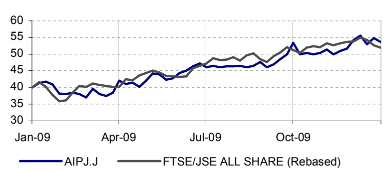
Adcock Ingram

Reuters: AIPJ.J	Bloomberg: AIP SJ
Hold	
Price (29 Jan 10)	ZAR 53.65
Target price	ZAR 50.00
52-week Range	ZAR 35.39 – 55.45
Market Cap	ZAR 9,249m US$ 1,226m

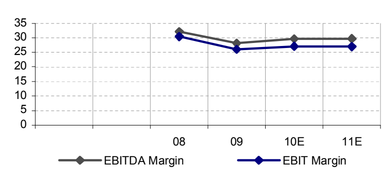
Company Profile

Adcock Ingram is a South African company that manufactures and distributes a wide range of healthcare products including prescription and OTC pharmaceuticals and other hospital products.

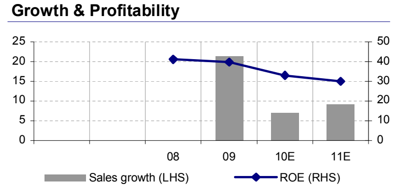
1yr Price Performance



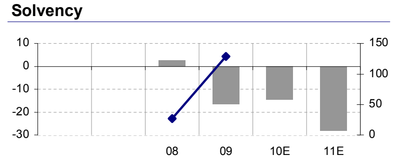
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2008	2009	2010E	2011E
Financial Summary				
DB EPS (ZAR)	3.88	4.52	4.94	5.48
Reported EPS (ZAR)	3.88	4.52	4.94	5.48
DPS (ZAR)	0.00	1.50	1.64	1.83
BVPS (ZAR)	9.45	13.34	16.65	20.39
Weighted average shares (m)	172	172	172	172
Average market cap (ZARm)	6,000	6,959	9,249	9,249
Enterprise value (ZARm)	5,896	6,453	8,708	8,146
Valuation Metrics				
P/E (DB) (x)	9.0	8.9	10.9	9.8
P/E (Reported) (x)	9.0	8.9	10.9	9.8
P/BV (x)	3.57	3.60	3.22	2.63
FCF Yield (%)	8.3	7.6	0.6	6.3
Dividend Yield (%)	0.0	3.7	3.1	3.4
EV/Sales (x)	1.79	1.61	2.03	1.74
EV/EBITDA (x)	5.6	5.7	6.8	5.9
EV/EBIT (x)	5.9	6.2	7.5	6.5
Income Statement (ZARm)				
Sales revenue	**3,301**	**4,005**	**4,286**	**4,675**
Gross profit	**1,760**	**2,037**	**2,263**	**2,459**
EBITDA	**1,062**	**1,128**	**1,272**	**1,390**
Depreciation	57	83	112	129
Amortisation	0	0	0	0
EBIT	**1,005**	**1,045**	**1,161**	**1,261**
Net interest income(expense)	-37	-8	25	48
Associates/affiliates	0	0	0	0
Exceptionals/extraordinaries	-61	0	0	0
Other pre-tax income/(expense)	0	0	0	0
Profit before tax	**907**	**1,037**	**1,186**	**1,309**
Income tax expense	244	247	326	341
Minorities	10	7	9	10
Other post-tax income/(expense)	0	0	0	0
Net profit	**653**	**782**	**851**	**958**
DB adjustments (including dilution)	16	-3	0	0
DB Net profit	**669**	**779**	**851**	**958**
Cash Flow (ZARm)				
Cash flow from operations	**653**	**754**	**611**	**693**
Net Capex	-153	-224	-555	-108
Free cash flow	**500**	**529**	**56**	**585**
Equity raised/(bought back)	0	0	0	0
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	120	-80	12	13
Net cash flow	**619**	**449**	**68**	**599**
Change in working capital	*-225*	*-46*	*-91*	*-102*
Balance Sheet (ZARm)				
Cash and other liquid assets	406	693	750	1,200
Tangible fixed assets	452	600	1,043	1,022
Goodwill/intangible assets	222	304	310	315
Associates/investments	170	150	150	150
Other assets	1,462	1,640	1,785	1,946
Total assets	**2,713**	**3,388**	**4,038**	**4,634**
Interest bearing debt	450	312	325	203
Other liabilities	612	750	810	872
Total liabilities	**1,062**	**1,062**	**1,135**	**1,075**
Shareholders' equity	1,628	2,301	2,870	3,515
Minorities	23	25	34	43
Total shareholders' equity	**1,651**	**2,326**	**2,903**	**3,559**
Net debt	*44*	*-381*	*-425*	*-997*
Key Company Metrics				
Sales growth (%)	na	21.3	7.0	9.1
DB EPS growth (%)	na	16.5	9.2	11.0
EBITDA Margin (%)	32.2	28.2	29.7	29.7
EBIT Margin (%)	30.4	26.1	27.1	27.0
Payout ratio (%)	0.0	33.0	33.2	32.9
ROE (%)	41.1	39.7	32.9	30.0
Capex/sales (%)	4.9	5.7	13.0	2.3
Capex/depreciation (x)	2.8	2.8	5.0	0.8
Net debt/equity (%)	2.6	-16.4	-14.6	-28.0
Net interest cover (x)	27.4	128.8	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Aveng Ltd

Business description: Aveng is a diversified engineering, construction, services and processing group operating in South Africa, Australasia, the Pacific region and the Middle East serving various sectors that include national and local government, state-owned entities, multi-national industrial companies, financial institutions and mining houses.

The group is structured along three business lines. In FY09, construction and engineering contributed 61% of operating earnings, while only 54% revenues were generated in South Africa.

Four key segments:

- Construction South Africa and Africa (24% operating profit).
- Construction Australasia and Pacific (37% operating profit).
- Manufacturing and processing (31% operating profit).
- Open cast mining (15%).

Drivers: The Aveng Group Ltd is involved in the building and infrastructure construction sectors as well as mining contracting in southern Africa. It also has operations in Australasia which undertake projects in the mechanical, civil engineering and marine infrastructure sectors in that region. The group owns a significant manufacturing and processing business, and one of the largest steel trading businesses in South Africa, Trident Steel.

Key drivers include:

Infrastructure spending: The group has seen a significant shift away from private sector led investment towards government infrastructure spend in its order book over the past two years.

Trends in commodity prices: This is particularly relevant for the open cast mining activities of Moolmans (coal, copper and nickel) as well as the deep level mining operations in Grinaker Construction (gold). Other businesses directly impacted by this include Duraset and Trident Steel, which both rely on trends in global steel prices.

Outlook: The group has recently emerged from a restructuring program across its construction businesses, during which it eliminated some unprofitable contracts, particularly on the African continent and in Australia. As a result, group profitability has begun to improve and the group looks well positioned to take advantage of the opportunities arising from the growing infrastructure investment sector in South Africa.

Over the past year, the group has been severely impacted by the substantial decline in steel prices and demand as global fixed asset demand slowed on the back of the credit crisis. The short term outlook remains stable: while we do not expect a substantial recovery in steel prices or demand, we note that steel prices have begun to recover in recent months domestically, which should allow the group to recover margins from these depressed levels. We also expect the strong order book in the contracting business to support the earnings base beyond the current year. On balance however, the implication of all the factors above is one of a flat earnings profile over the coming 24-36 months, as a result of which we rate the shares Hold.

Valuation: Under normal market conditions, we would assess the fundamental value of Aveng based on a DCF analysis, using an 11.7% WACC, a 15% net debt/market cap ratio and a 6% perpetual growth rate. We would then derive our 12-month target by rolling forward the fair valuation derived from this DCF calculation by the cost of equity less dividend yield.

However, considering the rising risk profile and deteriorating macro environment, we do not expect the stock to trade at its DCF valuation, and believe it should trade at a significant discount to both this valuation and the industrial sector. We therefore apply a bottom-of-the-rating-cycle exit multiple to our 3-year EPS forecast (end of high-growth period), and discount this valuation to today to derive the stock's fair valuation.

We then roll this forward one year to derive or target price. On this basis we derive a price target of 3250c. **Hold**.

Risks: Downside risks: – Further declines in domestic steel prices – Any significant project cancellations particularly government related – Negative outcome from ongoing labour related wage negotiations Upside risks largely related to a recovery in the broader commodities mining sector in southern Africa and Australia where the group operates.

Model updated: 08 July 2009

Running the Numbers

S. Africa

South Africa

Construction & Building Materials

Aveng

Reuters: AEGJ.J Bloomberg: AEG SJ

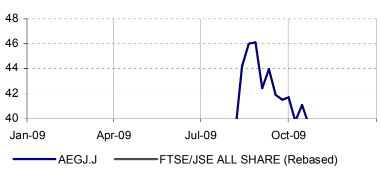
Hold

Price (29 Jan 10)	ZAR 35.50
Target price	ZAR 33.00
52-week Range	ZAR 23.65 – 47.00
Market Cap	ZAR 15,191m US$ 2,013m

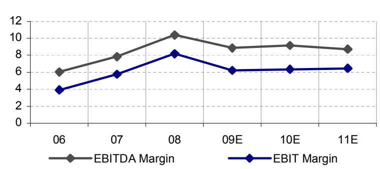
Company Profile

Aveng Limited operates in the construction, steel and allied industries. It offers a range of engineering and project management services to mining and energy sector clients. It also provides opencast mining services to mining groups across the African continent. During the fiscal year ended June 30, 2007, the Company disposed of 45.65% interest in Holcim SA.

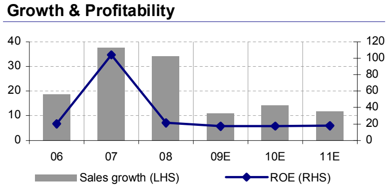
1yr Price Performance



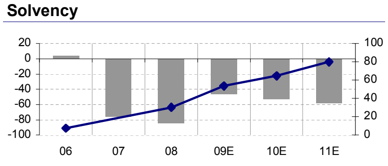
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (ZAR)	1.46	2.94	5.31	4.28	4.67	5.45
Reported EPS (ZAR)	1.43	15.67	5.33	4.30	4.69	5.46
DPS (ZAR)	0.38	0.85	1.45	1.16	1.26	1.47
BVPS (ZAR)	8.89	27.72	24.56	25.22	28.75	32.95
Weighted average shares (m)	389	389	428	428	428	428
Average market cap (ZARm)	7,390	13,901	24,607	15,191	15,191	15,191
Enterprise value (ZARm)	7,056	5,452	15,635	10,137	8,553	6,850
Valuation Metrics						
P/E (DB) (x)	13.0	12.2	10.8	8.3	7.6	6.5
P/E (Reported) (x)	13.3	2.3	10.8	8.3	7.6	6.5
P/BV (x)	2.41	1.80	2.36	1.41	1.23	1.08
FCF Yield (%)	9.0	108.4	14.1	nm	13.7	14.8
Dividend Yield (%)	2.0	2.4	2.5	3.3	3.6	4.2
EV/Sales (x)	0.44	0.25	0.53	0.31	0.23	0.16
EV/EBITDA (x)	7.3	3.1	5.1	3.5	2.5	1.9
EV/EBIT (x)	11.2	4.3	6.4	5.0	3.6	2.5
Income Statement (ZARm)						
Sales revenue	**16,054**	**22,093**	**29,622**	**32,832**	**37,459**	**41,885**
Gross profit	**4,361**	**6,791**	**5,120**	**5,417**	**6,368**	**6,702**
EBITDA	**966**	**1,731**	**3,078**	**2,907**	**3,431**	**3,653**
Depreciation	338	459	653	872	1,051	940
Amortisation	0	0	0	0	0	0
EBIT	**628**	**1,271**	**2,425**	**2,035**	**2,380**	**2,713**
Net interest income(expense)	-82	74	-80	-38	-37	-34
Associates/affiliates	249	426	19	20	21	22
Exceptionals/extraordinaries	-16	6,146	0	0	0	0
Other pre-tax income/(expense)	7	12	946	638	535	673
Profit before tax	**554**	**1,357**	**3,310**	**2,655**	**2,899**	**3,374**
Income tax expense	198	444	1,011	808	883	1,027
Minorities	2	2	8	8	8	9
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**588**	**7,483**	**2,291**	**1,838**	**2,008**	**2,338**
DB adjustments (including dilution)	75	-6,069	-15	-8	-8	-8
DB Net profit	**662**	**1,414**	**2,275**	**1,831**	**2,000**	**2,330**
Cash Flow (ZARm)						
Cash flow from operations	**1,208**	**8,998**	**4,969**	**-570**	**2,954**	**2,913**
Net Capex	-544	6,070	-1,496	-1,885	-875	-668
Free cash flow	**663**	**15,068**	**3,473**	**-2,455**	**2,079**	**2,244**
Equity raised/(bought back)	0	0	-3,611	-415	0	0
Dividends paid	-90	-148	-331	-1,138	-495	-541
Net inc/(dec) in borrowings	-304	-115	-67	-37	0	0
Other investing/financing cash flows	458	-6,504	84	-6	-21	-22
Net cash flow	**728**	**8,301**	**-451**	**-4,051**	**1,563**	**1,681**
Change in working capital	*379*	*1,026*	*1,619*	*-2,811*	*-122*	*-410*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,585	9,886	9,491	5,516	7,080	8,761
Tangible fixed assets	2,083	2,533	3,513	4,526	4,350	4,079
Goodwill/intangible assets	0	0	823	823	823	823
Associates/investments	471	173	97	116	137	159
Other assets	5,598	6,440	8,073	10,125	11,456	12,729
Total assets	**9,738**	**19,033**	**21,996**	**21,107**	**23,846**	**26,550**
Interest bearing debt	1,719	1,604	603	566	566	566
Other liabilities	4,494	6,440	10,876	9,660	10,899	11,820
Total liabilities	**6,213**	**8,044**	**11,479**	**10,226**	**11,464**	**12,386**
Shareholders' equity	3,521	10,983	10,517	10,791	12,303	14,100
Minorities	4	5	13	13	13	13
Total shareholders' equity	**3,525**	**10,989**	**10,530**	**10,804**	**12,316**	**14,113**
Net debt	*134*	*-8,282*	*-8,888*	*-4,951*	*-6,514*	*-8,195*
Key Company Metrics						
Sales growth (%)	18.6	37.6	34.1	10.8	14.1	11.8
DB EPS growth (%)	66.2	101.3	80.8	-19.5	9.3	16.5
EBITDA Margin (%)	6.0	7.8	10.4	8.9	9.2	8.7
EBIT Margin (%)	3.9	5.8	8.2	6.2	6.4	6.5
Payout ratio (%)	25.2	4.4	27.1	26.9	27.0	27.0
ROE (%)	20.1	103.9	21.2	17.3	17.4	17.7
Capex/sales (%)	4.7	4.5	6.0	5.7	2.3	1.6
Capex/depreciation (x)	2.3	2.2	2.7	2.2	0.8	0.7
Net debt/equity (%)	3.8	-75.4	-84.4	-45.8	-52.9	-58.1
Net interest cover (x)	7.7	nm	30.4	53.6	64.7	79.9

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial

Barloworld Ltd

Business description: Barloworld is a focused distribution company with an offering that includes integrated product support as well as rental and logistics solutions. The core divisions of the group comprise equipment (earthmoving and power systems), motor (car rental, fleet services and motor retail), materials handling (forklift truck distribution and fleet management) and logistics (logistics management and supply chain optimisation).

The businesses consist of several well-established companies that enjoy leading market share in their respective industries. These include capital equipment distribution (the exclusive Caterpillar (CAT) agency for South Africa, Spain, Portugal, Siberia and eight other southern African countries) and Hyster materials handling equipment in the UK and US. The group also has a strong position domestically in the transportation sector with motor vehicle retailing (c.8% market share), car rental (40% market share through Avis Southern Africa), and logistics. The group also owns a small motor vehicle dealership network in Australia.

Business model. The group generally operates as a franchisee of major brand owners, and only in its logistics business has it developed its own brand. These brand owners tend to be well established top tier businesses such as Avis, CAT and Hyster, who prefer to deal with a small number of independent, financial stable franchisees. These exclusive relationships confer significant barriers to entry for the group in its chosen markets, such as sub-Saharan Africa, (CAT, Avis), Spain (CAT) and Siberia (CAT).

Market positioning. Barloworld is focused on four distinct markets:

- **South African infrastructure and capital investment.** Capital equipment and materials handling on behalf of principals such as CAT and Hyster.
- **South African consumer.** Automobile retailing, car rental, and fleet leasing (under the Avis brand name).
- **European and US industrial production.** Materials handling in the UK, Belgium and the US, car rental in Scandinavia and capital equipment distribution in Spain and Portugal.
- **Australia.** Motor vehicle dealerships.

Drivers: In South Africa, the principle drivers of the business are GDP growth, consumer spending and gross fixed capital formation, as well as the fortunes of the mining, and civil engineering/construction sectors.

Recent results: Barloworld's results for FY09 showed fully diluted HEPS down 46% at 280.5c on a continuing basis, FD HEPS was down 42% at 348c, marginally better than our expected 326c. The group also declared a dividend of 110c, down from last year's 250c but ahead of our expected 93c. This dividend represented a cover of 3x headline earnings, in line with last year's cover ratio. The key driver of the decline in earnings was a combination of lower revenues from most of the businesses, higher interest costs, and adverse fair value adjustments on account of the currency volatility, which swung from a weaker bias over 1H09 to a stronger bias over 2H09.

Overall, while our view on the short term outlook for the stock remains negative, the medium term appears more promising. Interest rates in South Africa have fallen significantly while lending appetite by banks appears to be improving, and key commodity prices have recovered to levels that may begin justifying a return to mining activity.

Outlook: While we expect commodity prices and demand to continue to recover gradually recover over the next 12-18 months, we believe the combination of weak credit markets and excess equipment inventory in the industry points to a muted short term outlook for the group. Of its other businesses, only the motor division appears to have the potential for a medium term recovery. Management has undertaken significant cost cutting exercise and working capital realisation exercise which should, in our view reset the base and position the group for medium term recovery. **Hold**.

Valuation: We value Barloworld on a sum-of-the-parts valuation methodology. Our SOTP valuation is based on the 12-month forward EBIT forecasts of each division multiplied by our estimated appropriate EV/EBIT ratio for that business. We deduct the debt at centre to calculate the fair value, which we then roll forward at the cost of equity (13.4%) to calculate our 12-month target price.

Risks: Key upside risks: (1) earlier-than-expected recovery in underperforming businesses, (2) significant weakening in currency beyond our forecasts, (3) earlier-than-expected recovery in South African consumer confidence and spending on motor vehicles. Key downside risks: Sustained weakness in mining capex spending.

Model updated: 02 February 2010

Running the Numbers

S. Africa

South Africa

General Industrial

Barloworld

Reuters: BAWJ.J Bloomberg: BAW SJ

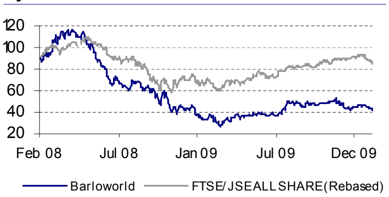
Hold

Price (29 Jan 10)	ZAR 45.20
Target price	ZAR 40.00
52-week Range	ZAR 26.50 – 53.80
Market Cap	ZAR 9,425m US$ 1,249m

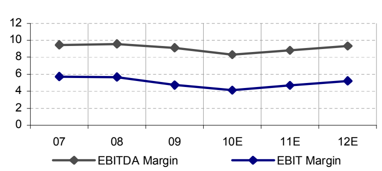
Company Profile

Barloworld is the parent company of a diverse group of businesses focused principally on branded management of industrial goods. These businesses operate mainly in southern Africa, the UK, Europe, the US and Australia. The businesses consists of a holding in a cement manufacturer, investment in capital equipment (Catapillar) distribution, motor retailing and financial services.

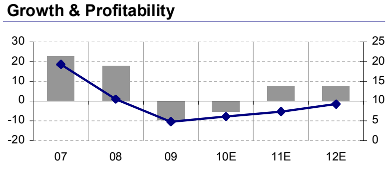
1yr Price Performance



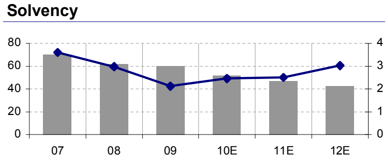
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	11.60	6.06	2.81	3.51	4.41	5.88
Reported EPS (ZAR)	11.60	6.06	2.81	3.51	4.41	5.88
DPS (ZAR)	3.75	2.50	1.10	1.17	1.47	1.96
BVPS (ZAR)	54.97	62.81	56.84	59.24	62.40	66.66
Weighted average shares (m)	203	205	209	209	209	209
Average market cap (ZARm)	18,774	19,250	8,708	9,425	9,425	9,425
Enterprise value (ZARm)	21,775	24,589	13,483	13,336	13,051	12,901
Valuation Metrics						
P/E (DB) (x)	8.0	15.5	14.9	12.9	10.3	7.7
P/E (Reported) (x)	8.0	15.5	14.9	12.9	10.3	7.7
P/BV (x)	2.13	1.03	0.86	0.76	0.72	0.68
FCF Yield (%)	22.4	6.1	24.4	10.7	6.1	5.4
Dividend Yield (%)	4.0	2.7	2.6	2.6	3.3	4.3
EV/Sales (x)	0.55	0.53	0.32	0.33	0.30	0.28
EV/EBITDA (x)	5.8	5.5	3.5	4.0	3.4	3.0
EV/EBIT (x)	9.6	9.3	6.8	8.1	6.5	5.3
Income Statement (ZARm)						
Sales revenue	**39,757**	**46,830**	**42,232**	**39,919**	**43,003**	**46,309**
Gross profit	**3,765**	**4,485**	**3,848**	**3,311**	**3,791**	**4,320**
EBITDA	**3,765**	**4,485**	**3,848**	**3,311**	**3,791**	**4,320**
Depreciation	1,488	1,834	1,854	1,669	1,782	1,900
Amortisation	0	0	0	0	0	0
EBIT	**2,277**	**2,651**	**1,994**	**1,642**	**2,009**	**2,420**
Net interest income(expense)	-631	-889	-938	-666	-800	-799
Associates/affiliates	53	72	43	51	60	74
Exceptionals/extraordinaries	1,222	-4	-142	0	0	0
Other pre-tax income/(expense)	459	115	-52	93	116	126
Profit before tax	**2,031**	**1,860**	**1,026**	**1,069**	**1,325**	**1,746**
Income tax expense	697	675	248	312	385	506
Minorities	289	14	68	71	75	79
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**2,394**	**1,256**	**589**	**737**	**926**	**1,235**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**2,394**	**1,256**	**589**	**737**	**926**	**1,235**
Cash Flow (ZARm)						
Cash flow from operations	**3,888**	**1,981**	**2,852**	**3,143**	**2,725**	**3,159**
Net Capex	320	-804	-730	-2,134	-2,154	-2,646
Free cash flow	**4,208**	**1,177**	**2,122**	**1,009**	**571**	**512**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-2,629	-622	-434	-236	-268	-346
Net inc/(dec) in borrowings	-1,831	2,013	51	-384	58	62
Other investing/financing cash flows	-681	-2,531	-1,350	339	-85	-92
Net cash flow	**-933**	**37**	**389**	**728**	**275**	**136**
Change in working capital	*-531*	*-1,547*	*882*	*666*	*-58*	*-56*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,201	1,238	1,627	2,355	2,630	2,767
Tangible fixed assets	6,847	8,056	7,854	8,319	8,691	9,437
Goodwill/intangible assets	2,320	2,626	2,599	2,563	2,563	2,563
Associates/investments	4,944	2,896	2,660	2,902	3,000	3,082
Other assets	15,343	19,141	15,355	13,932	14,449	15,048
Total assets	**30,655**	**33,957**	**30,095**	**30,071**	**31,333**	**32,897**
Interest bearing debt	9,066	9,288	8,845	8,880	8,893	8,883
Other liabilities	10,368	11,636	9,180	8,549	9,066	9,672
Total liabilities	**19,434**	**20,924**	**18,025**	**17,429**	**17,959**	**18,555**
Shareholders' equity	11,141	12,848	11,853	12,353	13,011	13,900
Minorities	80	185	217	288	363	442
Total shareholders' equity	**11,221**	**13,033**	**12,070**	**12,642**	**13,374**	**14,342**
Net debt	*7,865*	*8,050*	*7,218*	*6,525*	*6,262*	*6,116*
Key Company Metrics						
Sales growth (%)	22.5	17.8	-9.8	-5.5	7.7	7.7
DB EPS growth (%)	1.0	-47.7	-53.7	25.1	25.7	33.4
EBITDA Margin (%)	9.5	9.6	9.1	8.3	8.8	9.3
EBIT Margin (%)	5.7	5.7	4.7	4.1	4.7	5.2
Payout ratio (%)	31.7	40.7	38.9	33.1	33.1	33.1
ROE (%)	19.3	10.5	4.8	6.1	7.3	9.2
Capex/sales (%)	3.7	2.1	2.2	5.3	5.0	5.7
Capex/depreciation (x)	1.0	0.5	0.5	1.3	1.2	1.4
Net debt/equity (%)	70.1	61.8	59.8	51.6	46.8	42.6
Net interest cover (x)	3.6	3.0	2.1	2.5	2.5	3.0

Source: Company data, Deutsche Bank estimates

South Africa – Service

Bidvest Group Ltd

Business description: Bidvest comprises a group of highly diverse businesses run on a decentralised basis focusing on trading services and distribution, as well as some light manufacturing. The group has operations in South Africa, the UK, the Benelux countries, Hong Kong, Singapore, China and Australasia.

Bidvest has a dual view of the world – in South Africa, it remains acquisitive across a broad range of industries, however, restricting itself to low capital intensity businesses with strong management. Outside South Africa, the group will only make acquisitions in food service distribution, and in so doing, has developed its international business into the largest foodservices group outside the US.

Drivers: Bidvest reports through eight divisions:

- **Bidfreight (15.0% of trading profit).** This represents the group's interest in a group of companies in freight forwarding port management and related industries.
- **Bidserv (18.1% of trading profit)** offers hygiene services, textile rental and industrial workwear, security and laundry services, as well as contract cleaning services. This division also carries Bidvest's interest in Bidvest Bank, which provides a range of financial, foreign exchange and travel services.
- **Bidvest Europe and Asia Pacific (26.8%)** is 100% owned by Bidvest, with operations in Australia, New Zealand, the UK, Netherlands and Belgium. Bidvest entered the Australasian market in 1995. The largest contributor to Bidvest plc, UK-based 3663 First for Food Service, was acquired by Bidvest plc in May 1999. The most recent acquisition was the Nowaco and Farutex group, a food services company with operations in Czech, Slovakia and Poland.
- **Bidfood (7.5%)** is the group's interest in the South African food service and equipment distribution industry, including Caterplus, Crown National and Bidbake. It primarily caters to hospitality, leisure, catering, bakery, poultry, meat and food processing industries.
- **Bid Industrial and Commercial Products (11.5%)** deals in manufacture and distribution of electrical products, appliances and cabling services, stationery and furniture to the southern Africa and the UK regions.
- **Bidpaper plus (4.3%)** deals with all paper and paper related manufacturing businesses such as Lithotech, and Silveray Statmark.
- **Bid Auto (9.8%).** McCarthy Holdings is active in motor retailing, car rental, car auctions, financing and vehicle insurance brokering. It has about 11% of the motor dealership market by volume and is the market leader for sales of Toyota passenger vehicles.
- **Bidvest Namibia (5.7%). I**ncludes a combination of Bidvest's businesses in Namibia offering fishing interests to freight and logistics, office consumables products, stationeries and travel solutions.

During FY09, although there were no acquisitions, the group acquired a foodservice company, Nowaco and Farutex, for EUR250m after the year-end. This acquisition gives the group the opportunity to enter the growing Central and Eastern Europe market though a vehicle with sufficient scale to provide potential customer and purchasing synergies.

Outlook: Over the next 12 months we expect earnings growth domestically to be negatively impacted by high and rising interest rates, as well as the stronger currency domestically. The combination however of rising inflation, growing infrastructure investment in South Africa, as well as growing contribution from international earnings should counterbalance these negative macro influences, resulting in 12% CAGR over the next three years. As such, we rate the shares **Buy**.

Valuation: We value Bidvest on a sum-of-the-parts valuation methodology. Our SOTP valuation is based on the 12-month forward EBIT forecasts of each division multiplied by our estimated (using peer averages) appropriate EV/EBIT ratio for that business. We deduct the net debt at centre to calculate the fair value, which we then roll forward at the cost of equity-13.4%-(less dividend yield) to calculate our 12-month target price.

Risks: Macro risks: Exchange rate risk: risk of a significant appreciation the currency beyond current levels. Domestic interest rate risk: the risk of a sudden unexpected rise in interest rates beyond our forecasts. Operational risks Foreign competition risk: the risk of growing importation by competitors of cheaper goods from China and South East Asia. People risk: the long-term effect of skills shortages in South Africa (Bidvest employs 60,000 people).

Model updated: 25 November 2009

Running the Numbers

S. Africa

South Africa

Service

Bidvest

Reuters: BVTJ.J Bloomberg: BVT SJ

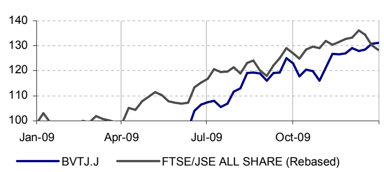
Buy

Price (29 Jan 10)	ZAR 131.17
Target price	ZAR 125.00
52-week Range	ZAR 76.73 – 133.99
Market Cap	ZAR 40,269m US$ 5,337m

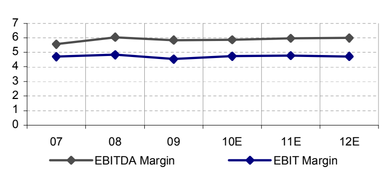
Company Profile

Bidvest is an International services, trading and distribution company with operations in SA, UK, Australia and New Zealand. Its subsidiaries are involved in the provision of Food distribution services, light manufacturing, as well as automotive distribution.

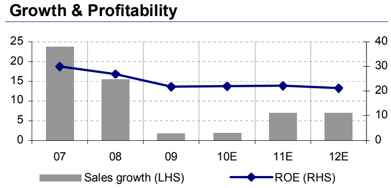
1yr Price Performance



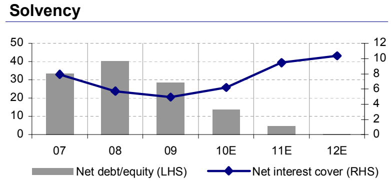
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	9.64	10.51	9.81	10.75	12.40	13.52
Reported EPS (ZAR)	9.47	10.51	9.81	10.75	12.40	13.52
DPS (ZAR)	4.46	4.96	3.80	4.42	5.09	5.56
BVPS (ZAR)	34.61	43.87	45.37	51.97	59.57	67.71
Weighted average shares (m)	307	307	307	307	307	307
Average market cap (ZARm)	36,451	36,267	29,398	40,269	40,269	40,269
Enterprise value (ZARm)	39,382	40,101	29,398	40,269	40,269	40,269
Valuation Metrics						
P/E (DB) (x)	12.3	11.2	9.8	12.2	10.6	9.7
P/E (Reported) (x)	12.5	11.2	9.8	12.2	10.6	9.7
P/BV (x)	3.94	2.16	2.13	2.52	2.20	1.94
FCF Yield (%)	4.8	4.4	7.7	5.5	7.4	8.2
Dividend Yield (%)	3.8	4.2	4.0	3.4	3.9	4.2
EV/Sales (x)	0.41	0.36	0.26	0.35	0.33	0.31
EV/EBITDA (x)	7.4	6.0	4.5	6.0	5.5	5.1
EV/EBIT (x)	8.8	7.5	5.8	7.4	6.9	6.5
Income Statement (ZARm)						
Sales revenue	**95,656**	**110,478**	**112,428**	**114,626**	**122,581**	**130,998**
Gross profit	**20,088**	**23,753**	**21,923**	**22,352**	**23,903**	**25,545**
EBITDA	**5,317**	**6,682**	**6,579**	**6,720**	**7,312**	**7,845**
Depreciation	959	1,282	1,476	1,289	1,453	1,656
Amortisation	-140	65	0	0	0	0
EBIT	**4,498**	**5,335**	**5,103**	**5,430**	**5,859**	**6,189**
Net interest income(expense)	-566	-931	-1,029	-872	-619	-597
Associates/affiliates	68	122	49	53	56	62
Exceptionals/extraordinaries	-178	0	0	0	0	0
Other pre-tax income/(expense)	0	9	0	0	0	0
Profit before tax	**3,822**	**4,535**	**4,123**	**4,611**	**5,296**	**5,654**
Income tax expense	1,033	1,200	1,046	1,220	1,401	1,414
Minorities	87	82	106	111	113	116
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**2,701**	**3,253**	**2,971**	**3,280**	**3,782**	**4,125**
DB adjustments (including dilution)	261	-15	0	0	0	0
DB Net profit	**2,962**	**3,238**	**2,971**	**3,280**	**3,782**	**4,125**
Cash Flow (ZARm)						
Cash flow from operations	**3,717**	**4,551**	**4,504**	**4,628**	**5,292**	**5,834**
Net Capex	-1,982	-2,960	-2,241	-2,393	-2,302	-2,552
Free cash flow	**1,735**	**1,591**	**2,262**	**2,234**	**2,990**	**3,282**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,233	-784	-1,178	-1,253	-1,451	-1,624
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-14	0	0	0	0	0
Net cash flow	**487**	**806**	**1,084**	**981**	**1,539**	**1,658**
Change in working capital	*-1,303*	*-730*	*-131*	*200*	*-196*	*-925*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,374	3,039	3,212	7,514	8,948	9,686
Tangible fixed assets	6,733	9,557	9,410	10,513	11,362	12,259
Goodwill/intangible assets	4,160	5,043	4,479	4,479	4,479	4,479
Associates/investments	886	2,024	828	882	938	1,000
Other assets	17,978	21,834	19,469	20,438	21,767	23,174
Total assets	**32,132**	**41,496**	**37,399**	**43,826**	**47,495**	**50,598**
Interest bearing debt	5,993	8,585	7,285	9,793	9,793	9,793
Other liabilities	15,192	19,136	16,295	18,403	19,627	20,114
Total liabilities	**21,185**	**27,721**	**23,580**	**28,196**	**29,420**	**29,907**
Shareholders' equity	10,627	13,468	13,929	15,956	18,287	20,788
Minorities	198	310	368	480	593	709
Total shareholders' equity	**10,825**	**13,778**	**14,298**	**16,436**	**18,880**	**21,496**
Net debt	*3,619*	*5,547*	*4,072*	*2,279*	*846*	*107*
Key Company Metrics						
Sales growth (%)	23.8	15.5	1.8	2.0	6.9	6.9
DB EPS growth (%)	29.1	9.1	-6.7	9.7	15.3	9.1
EBITDA Margin (%)	5.6	6.0	5.9	5.9	6.0	6.0
EBIT Margin (%)	4.7	4.8	4.5	4.7	4.8	4.7
Payout ratio (%)	50.7	46.8	39.3	41.4	41.4	41.4
ROE (%)	29.9	26.9	21.7	22.0	22.1	21.1
Capex/sales (%)	2.1	2.7	2.0	2.1	1.9	1.9
Capex/depreciation (x)	2.6	2.3	1.5	1.9	1.6	1.5
Net debt/equity (%)	33.4	40.3	28.5	13.9	4.5	0.5
Net interest cover (x)	7.9	5.7	5.0	6.2	9.5	10.4

Source: Company data, Deutsche Bank estimates

United Kingdom – Food Beverage & Tobacco

British American Tobacco plc

Business description: British American Tobacco is one of the world's largest tobacco companies, selling cigarettes and other tobacco products in over 180 countries. The company sells over 300 cigarette brands, but its key international drive brands are Dunhill, Kent, Lucky Strike and Pall Mall. BAT owns a 42% stake in Reynolds American, the US tobacco company, and 32% of ITC, India's leading cigarette manufacturer.

Drivers: The group operates through mainly five regions:

- **Western Europe:** In Western Europe profits leaped by 52% in 1H09 on the back of the contribution from the ST business (acquired in 2008) as well as pricing and favourable foreign exchange. The acquisition of ST led to rise in regional volumes by 18% in 1H09, despite the volume decline in regions of Italy, Spain and the Netherlands.
- **Eastern Europe:** Eastern Europe comprising of Russia, Romania, Ukraine and Uzbekistan; has seen decline in profits due to lower volumes and unfavourable transactional impact of exchange rates.
- **Asia Pacific:** Favourable exchange rates and stable performance in Australia, Pakistan, Bangladesh and Vietnam resulted in operating profit growth of 22% in 1H09. Despite increased volumes in Bangladesh, Pakistan and South Korea; the overall volume declined by 2% due to poor volumes in Malaysia and Japan.
- **Americas:** Profits rose by 12% driven by pricing and favourable exchange. While overall volumes declined in the region in 1H09, Brazil achieved a significant increase in profit primarily as a result of a recent price increase in anticipation of an excise increase as well as favourable mix
- **Africa and Middle East:** Profits grew by 34% in 1H09 on the back of the acquisition of Tekel in 2008 and contributions from the regions of Nigeria and GCC. Volumes were up by 37% due to increased volumes in Turkey, GCC, Nigeria and Egypt; despite a decline in South African volumes.

Outlook: BAT is a very high quality business with a strong earnings growth story, driven by both top-line growth and cost-cutting programmes which are allowing substantial reinvestment in the business. BAT generates around 50% of its income from emerging markets but has very diverse geographical exposure, and so is relatively immune from shocks in individual markets. We think that the company is very capable of meeting its target of high single-figure EPS growth over the medium term, a target it has been hitting ever since its demerger from the insurance business in 1998. We think cash flow growth should also accelerate in the next few years. In a difficult market environment the steady, almost predictable growth BAT generates looks very desirable, in our view, hence our **Buy** recommendation.

Valuation: Our primary valuation method uses a DCF model, though we also back that up with benchmarking of PEs and FCF yields. Our DCF assumes medium-term free cash flow growth of 5%, perpetuity growth of -1%, and a WACC of 8.7% (incorporating a 6.0% risk-free rate, 7.5% cost of debt, 4.3% equity risk premium and a levered beta of 0.8). We use a 1% terminal decline rate in our valuations – rather than the +1 to +2% terminal growth rates we use for European Food, Beverage and HPC stocks – because of the regulatory and social pressures on tobacco consumption. We think this underlines the relatively conservative basis of our valuation.

Risks: Investing in tobacco carries sector-specific risks (regulation, duty increases, volume declines in high margin markets etc). In addition to these, BAT is potentially exposed to adverse currency movements (US$ and Canadian dollars, plus emerging markets), unexpected adverse US litigation developments (though most of its exposure is now through its associate, Reynolds American), Canadian litigation, and possible overpayment for an acquisition target.

Model updated: 28 October 2009

Running the Numbers

S. Africa

South Africa

Tobacco

British American Tobacco

Reuters: BTIJ.J Bloomberg: BTI SJ

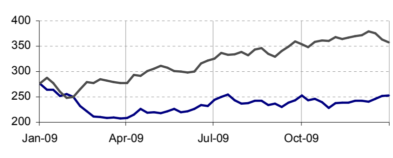
Buy

Price (29 Jan 10)	ZAR 252.50
Target price	ZAR 280.00
52-week Range	ZAR 198.75 – 276.27
Market Cap	ZAR 500,438m US$ 66,327m

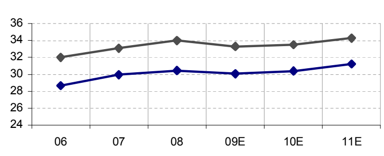
Company Profile

British American Tobacco is one of the world's largest tobacco companies, selling cigarettes and other tobacco products in over 180 countries. The company sells over 300 cigarette brands, but its key international drive brands are Dunhill, Kent, Lucky Strike and Pall Mall. BAT owns a 42% stake in Reynolds American, the US tobacco company, and 32% of ITC, India's leading cigarette manufacturer.

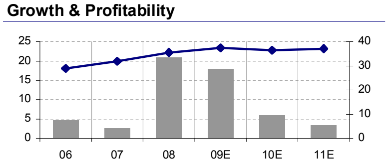
1yr Price Performance



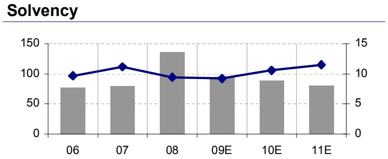
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (GBp)	98.12	108.53	128.78	150.91	163.64	177.92
Reported EPS (GBp)	91.33	104.46	122.54	145.39	161.62	175.86
DPS (GBp)	55.90	66.20	83.70	98.10	106.40	115.60
BVPS (GBp)	316.31	342.93	350.36	432.14	459.81	494.75
Weighted average shares (m)	2,059	2,025	1,993	1,982	1,964	1,929
Average market cap (£m)	na	na	33,902	41,392	41,014	40,289
Enterprise value (£m)	na	na	40,329	46,868	46,289	45,312
Valuation Metrics						
P/E (DB) (x)	na	na	13.2	13.8	12.8	11.7
P/E (Reported) (x)	na	na	13.9	14.4	12.9	11.9
P/BV (x)	na	na	5.27	4.83	4.54	4.22
FCF Yield (%)	na	na	7.3	6.7	7.3	7.7
Dividend Yield (%)	na	na	4.9	4.7	5.1	5.5
EV/Sales (x)	na	na	3.33	3.28	3.06	2.89
EV/EBITDA (x)	na	na	9.8	9.8	9.1	8.4
EV/EBIT (x)	na	na	10.9	10.9	10.1	9.3
Income Statement (£m)						
Sales revenue	**9,762**	**10,018**	**12,122**	**14,298**	**15,141**	**15,668**
Gross profit	**5,436**	**5,743**	**7,059**	**9,139**	**9,940**	**10,407**
EBITDA	**3,124**	**3,316**	**4,123**	**4,761**	**5,075**	**5,373**
Depreciation	327	314	406	411	419	428
Amortisation	0	0	24	52	52	52
EBIT	**2,797**	**3,002**	**3,693**	**4,298**	**4,603**	**4,893**
Net interest income(expense)	-289	-269	-391	-466	-435	-425
Associates/affiliates	431	442	503	475	533	562
Exceptionals/extraordinaries	-216	-173	-262	-29	0	0
Other pre-tax income/(expense)	41	75	141	2	0	0
Profit before tax	**2,333**	**2,635**	**3,181**	**3,805**	**4,168**	**4,468**
Income tax expense	716	790	1,025	1,119	1,224	1,311
Minorities	152	157	202	255	276	296
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,896**	**2,130**	**2,457**	**2,906**	**3,201**	**3,422**
DB adjustments (including dilution)	141	83	125	110	40	40
DB Net profit	**2,037**	**2,213**	**2,582**	**3,017**	**3,241**	**3,462**
Cash Flow (£m)						
Cash flow from operations	**1,884**	**2,121**	**2,954**	**3,342**	**3,541**	**3,688**
Net Capex	-359	-420	-465	-551	-562	-572
Free cash flow	**1,525**	**1,701**	**2,489**	**2,791**	**2,979**	**3,115**
Equity raised/(bought back)	-500	-750	-400	0	-750	-750
Dividends paid	-1,008	-1,198	-1,393	-1,774	-2,028	-2,113
Net inc/(dec) in borrowings	-374	11	2,787	-994	-201	-252
Other investing/financing cash flows	-31	140	-2,443	-23	0	0
Net cash flow	**-388**	**-96**	**1,040**	**0**	**0**	**0**
Change in working capital	*-27*	*148*	*398*	*184*	*98*	*25*
Balance Sheet (£m)						
Cash and other liquid assets	1,456	1,258	2,309	2,309	2,309	2,309
Tangible fixed assets	2,207	2,378	3,076	3,139	3,205	3,272
Goodwill/intangible assets	7,476	8,105	12,318	12,270	12,221	12,169
Associates/investments	2,460	2,684	3,479	3,646	3,834	4,031
Other assets	4,177	4,339	6,369	6,731	6,954	7,129
Total assets	**17,776**	**18,764**	**27,551**	**28,096**	**28,522**	**28,910**
Interest bearing debt	6,626	6,923	12,161	10,639	10,437	10,185
Other liabilities	4,462	4,752	8,175	8,646	8,892	9,017
Total liabilities	**11,088**	**11,675**	**20,336**	**19,285**	**19,329**	**19,202**
Shareholders' equity	6,461	6,871	6,944	8,565	8,947	9,462
Minorities	227	218	271	271	271	271
Total shareholders' equity	**6,688**	**7,089**	**7,215**	**8,836**	**9,218**	**9,733**
Net debt	*5,170*	*5,665*	*9,852*	*8,330*	*8,128*	*7,876*
Key Company Metrics						
Sales growth (%)	4.7	2.6	21.0	18.0	5.9	3.5
DB EPS growth (%)	9.8	10.6	18.7	17.2	8.4	8.7
EBITDA Margin (%)	32.0	33.1	34.0	33.3	33.5	34.3
EBIT Margin (%)	28.7	30.0	30.5	30.1	30.4	31.2
Payout ratio (%)	60.7	62.9	67.9	66.9	65.3	65.2
ROE (%)	29.0	32.0	35.6	37.5	36.6	37.2
Capex/sales (%)	4.9	4.8	4.5	4.2	4.0	4.0
Capex/depreciation (x)	1.5	1.5	1.3	1.5	1.5	1.5
Net debt/equity (%)	77.3	79.9	136.5	94.3	88.2	80.9
Net interest cover (x)	9.7	11.2	9.4	9.2	10.6	11.5

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Foschini Ltd

Business description: The Foschini group owns a range of outlets retailing clothing, footwear, jewellery and home accessories on credit mainly to the mass-middle consumer market. Foschini's core apparel division consists of the primary Foschini division (including a number of growing in-house launched brands), Markhams (specialist menswear) and Exact (broad accessible affordable range). The jewellery division consists of the American Swiss, Matrix and previously acquired Sterns brands. The sports apparel division trades under the Totalsports (struggling format that was acquired and turned around), Sportscene and Duesouth (both developed in-house) brands. Another internal project, the @home brand launched in 2001, formed Foschini's beachhead into the domestic home accessories market. RCS (55% owned with the remainder owned by Standard Bank) is a consumer finance company offering RCS-branded and other private label cards in addition to personal and home loans.

The group's operations are based in South Africa, comprise of 1,539 stores and produces annual sales of over R8.1bn.

Drivers: The key drivers of future profit growth include: an action plan and success criteria built on people, fashion, value, stores, service and profit.

- **Positioning** Foschini and Markham brands
- **Significant planned space expansion** of in-house developed bands.
- **RCS and FG financial services** driving enhanced profitability and returns.
- **Rolling over of bad debts:** A recovery from the aggressive blow out evidenced in the RCS business.

We expect cost-push inflation from continued space growth to place pressure on operating margins in the near term with continued weak top line growth. We expect GP margins to remain stable at best over the next two years; however, we do not expect a significant further blow out on bad debts in Foschini financial services. We believe a recovery in the RCS bad debts ratio could lead to a significant boost to profitability two years hence.

Outlook: We expect weak like-for-likes to persist for the next two years as consumers pull back on discretionary categories and become selective with their budgets. Despite a more conservative approach to merchandising in a tough trading environment, markdown risk remains and we expect GP margins to remain stable at best over the next two years. We expect a reasonable 3-year CAGR in earnings of 11.6%, but believe that the stock is fully priced at current levels. Our low total return over 12-month supports our neutral **Hold** recommendation.

Valuation: We value Foschini using a PE-relative methodology employing a normalised two-year forward PE of 8.5x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 6000cps.

Risks: Key upside risks include: 1) More aggressive rate cuts causing consumer confidence and stronger consumption to return earlier than we expect; 2) Quicker reversion in food and oil inflation than expected creating significant additional discretionary spending capacity; and 3) Well-executed repositioning of the main Foschini brand resulting in an earlier-than-anticipated recovery in volumes. Key downside risks include: 1) unemployment having a worse-than-expected impact on volume growth, and 2) Slower recovery in consumer credit market resulting in lower book growth than expected and higher-than-expected bad debts from RCS for longer.

Model updated: 04 December 2009

Running the Numbers

S. Africa

South Africa

General Retailers

Foschini

Reuters: FOSJ.J Bloomberg: FOS SJ

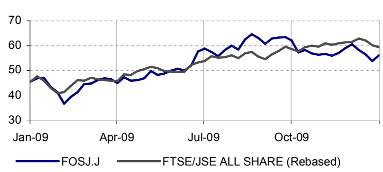
Hold

Price (29 Jan 10)	ZAR 56.17
Target price	ZAR 60.00
52-week Range	ZAR 35.12 – 64.95
Market Cap	ZAR 11,603m US$ 1,538m

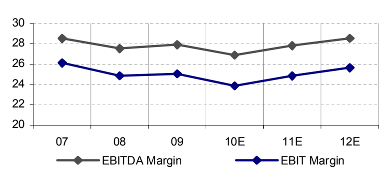
Company Profile

The Foschini group owns a range of retail outlets that retails clothing, footwear, jewellery and home accessories on credit mainly to the mass-middle consumer market.

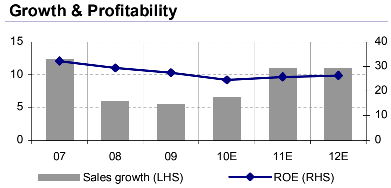
1yr Price Performance



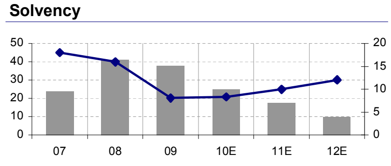
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Financial Summary						
DB EPS (ZAR)	5.15	5.38	5.53	5.64	6.66	7.68
Reported EPS (ZAR)	5.15	5.38	5.53	5.64	6.66	7.68
DPS (ZAR)	2.70	2.88	2.88	2.94	3.47	4.00
BVPS (ZAR)	17.52	18.14	21.87	24.49	27.58	31.29
Weighted average shares (m)	224	212	206	207	208	208
Average market cap (ZARm)	12,156	11,619	8,121	11,603	11,659	11,659
Enterprise value (ZARm)	12,977	13,304	10,012	13,097	13,011	12,797
Valuation Metrics						
P/E (DB) (x)	10.5	10.2	7.1	10.0	8.4	7.3
P/E (Reported) (x)	10.5	10.2	7.1	10.0	8.4	7.3
P/BV (x)	3.95	2.12	2.01	2.29	2.04	1.79
FCF Yield (%)	6.9	4.9	12.9	8.3	9.2	10.9
Dividend Yield (%)	5.0	5.3	7.3	5.2	6.2	7.1
EV/Sales (x)	1.79	1.73	1.24	1.52	1.36	1.20
EV/EBITDA (x)	6.3	6.3	4.4	5.6	4.9	4.2
EV/EBIT (x)	6.9	7.0	4.9	6.4	5.5	4.7
Income Statement (ZARm)						
Sales revenue	**7,230**	**7,669**	**8,090**	**8,627**	**9,573**	**10,623**
Gross profit	**3,502**	**3,667**	**3,937**	**4,134**	**4,622**	**5,148**
EBITDA	**2,061**	**2,110**	**2,257**	**2,318**	**2,662**	**3,030**
Depreciation	174	205	231	259	285	307
Amortisation	0	0	0	0	0	0
EBIT	**1,887**	**1,906**	**2,025**	**2,059**	**2,377**	**2,723**
Net interest income(expense)	-105	-119	-250	-247	-238	-226
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,782**	**1,786**	**1,776**	**1,812**	**2,139**	**2,497**
Income tax expense	590	580	564	571	620	724
Minorities	73	78	66	69	129	163
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,119**	**1,128**	**1,146**	**1,172**	**1,390**	**1,610**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**1,119**	**1,128**	**1,146**	**1,172**	**1,390**	**1,610**
Cash Flow (ZARm)						
Cash flow from operations	**1,148**	**843**	**1,408**	**1,300**	**1,450**	**1,689**
Net Capex	-304	-274	-361	-340	-377	-419
Free cash flow	**844**	**568**	**1,047**	**960**	**1,073**	**1,270**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-529	-660	-571	-611	-724	-838
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-531	-655	-604	117	-78	-55
Net cash flow	**-217**	**-748**	**-128**	**467**	**271**	**377**
Change in working capital	*-218*	*-568*	*-34*	*-200*	*-353*	*-392*
Balance Sheet (ZARm)						
Cash and other liquid assets	69	63	296	763	1,034	1,411
Tangible fixed assets	782	847	981	1,062	1,155	1,266
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	311	306	295	295	295	295
Other assets	5,442	5,684	6,931	7,313	7,915	8,576
Total assets	**6,604**	**6,900**	**8,504**	**9,433**	**10,399**	**11,548**
Interest bearing debt	1,021	1,762	2,123	2,123	2,123	2,123
Other liabilities	1,579	1,002	1,525	1,823	1,994	2,209
Total liabilities	**2,599**	**2,764**	**3,648**	**3,946**	**4,117**	**4,332**
Shareholders' equity	3,824	3,845	4,496	5,058	5,724	6,495
Minorities	181	291	359	428	558	721
Total shareholders' equity	**4,005**	**4,136**	**4,856**	**5,487**	**6,282**	**7,216**
Net debt	*951*	*1,699*	*1,827*	*1,360*	*1,089*	*712*
Key Company Metrics						
Sales growth (%)	12.4	6.1	5.5	6.6	11.0	11.0
DB EPS growth (%)	14.5	4.5	2.8	2.1	18.0	15.3
EBITDA Margin (%)	28.5	27.5	27.9	26.9	27.8	28.5
EBIT Margin (%)	26.1	24.8	25.0	23.9	24.8	25.6
Payout ratio (%)	54.0	54.1	51.7	51.8	51.8	51.6
ROE (%)	32.2	29.4	27.5	24.5	25.8	26.3
Capex/sales (%)	4.2	3.6	4.5	3.9	3.9	3.9
Capex/depreciation (x)	1.7	1.3	1.6	1.3	1.3	1.4
Net debt/equity (%)	23.8	41.1	37.6	24.8	17.3	9.9
Net interest cover (x)	18.0	16.0	8.1	8.3	10.0	12.1

Source: Company data, Deutsche Bank estimates

South Africa – Transport

Imperial Holdings Ltd

Business description: Imperial is a diversified industrial and financial services company focusing on the broader transportation and related financial services sector.

Its strategy is for the different businesses to leverage off each other and to develop new areas of opportunity within the transportation and mobility industry. By increasing the scale of its individual businesses and developing intra-group synergies, the group hopes to create barriers to entry and in so doing enhance margins and profitability.

Drivers: The primary divisions are:

- **Car rental and tourism (14% of operating profit).** With an average fleet of 15608 vehicles, the group has a c.38% market share of the car rental industry. It trades under the Europcar, and Tempest brands in the car rental industry while in tourism, Eastgate, Grosvenor, Holiday Autos, Maui and Springbok brands are relevant.
- **Motor retailing and distributorships (31% of group operating profit).** Imperial has a c.20% market share of the car retail market in South Africa. This business imports and distributes Renault, Daihatsu, MG, Citroen, SsangYong, Rover and Kia vehicles. It also distributes and services International, Peterbilt and DAF trucks.
- **Logistics (29% of operating profit).** This business comprises dedicated contracting, long-distance haulage of liquids and dry bulk products and truck hire.
- **Insurance (20% of group operating profit).** The division underwrites motor vehicle insurance and provides general insurance underwriting and services to the Imperial group and its clients. Life insurance comprises the underwriting of credit life products through the motor dealerships.

Recent results. Imperial's FY09 results showed FD HEPS from continuing operations up 12% to 660c. Including both continuing and discontinued operations, FD HEPS declined marginally by less than 1% to 675c. The group declared a 200c dividend, representing a 3.3x cover, a level the group intends to maintain over time. A significant driver of the growth in earnings was the foreign exchange gain realised on repatriating some of the capital from the European operations of 212c per share.

From a trading perspective, we found that the operating earnings for non-motor retail businesses, logistics and car rental together declined by 8% in FY09. The motor retail related businesses (dealerships, distributorships and insurance) were also down 25% in aggregate Imperial's results reflected the twin impact of the significant change in its macro-environment as a result of the global credit crisis, and the tail end of its restructuring and asset disposal process.

Outlook: Imperial Holdings Group Ltd has struggled over the recent past on account of a substantial decline in demand for new and used vehicles as well as the declining inbound and domestic leisure travel due to the impact of sustained high interest rates on highly leveraged consumers in South Africa.

Interest rates have now been cut aggressively to counter the impact of the global crisis on the country, and are now 500bp off the peak rates attained in the previous cycle. Despite this, demand is yet to show signs of recovery: We believe this could be attributed to the slow rate of household de-leveraging in the face of rising unemployment and falling real income growth.

Declining risk appetite from the banks is also not helping. While we expect the lower interest rates to prove positive for consumer confidence, and ultimately feed into new and used vehicle sales volumes, we believe the turnaround is more likely to happen in the medium term rather than the short term, as household leverage remains close to all time highs, vehicle prices continue to increase, and unemployment remains on the rise. We, therefore, recommend a **Hold** on the stock.

Valuation: We value Imperial on a sum of the parts DCF valuation, valuing each division on a DCF basis using its embedded debt to equity ratio, a beta of 1.1 (the long run Imperial beta relative to the All Share Index (J203)) an equity risk premium of 4.5% (South African market standard) and a long term risk free rate of 8.5% (in line with our house long bond forecast).

Risks: **Significant currency volatility:** This impacts the pricing of new vehicles, and negatively impacts inbound tourist volumes. **Sustained risk aversion by the banks:** Most vehicles in South Africa are purchased using finance agreements. Banks have recently reduced the approval rate for vehicle finance applications. **Upside risks:** Substantial currency strength beyond current levels (we currently forecast currency weakness). Interest rates continuing to fall below current levels (we believe the interest rate cycle has reached its bottom at present). Equity market returns increasing significantly beyond our expectations (strong impact on insurance company equity portfolios).

Model updated: 27 August 2009

Running the Numbers

S. Africa

South Africa

Industrial Transportation

Imperial Holdings Ltd

Reuters: IPLJ.J Bloomberg: IPL SJ

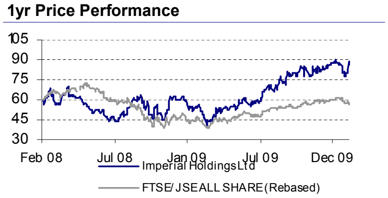
Hold

Price (29 Jan 10)	ZAR 80.14
Target price	ZAR 65.00
52-week Range	ZAR 40.10 – 90.45
Market Cap	ZAR 15,026m US$ 1,992m

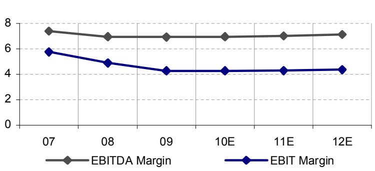
Company Profile

Imperial is a diversified industrial and financial services company focusing on the transport sector. The major line of divisions are: car rental & tourism; motor retailng and distributorships.

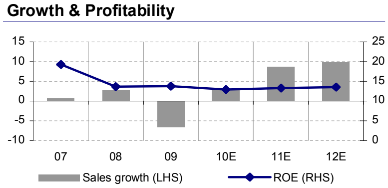
1yr Price Performance



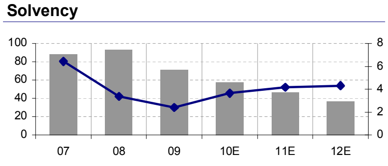
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	10.55	7.29	6.40	6.37	7.25	8.21
Reported EPS (ZAR)	10.55	7.29	6.40	6.37	7.25	8.21
DPS (ZAR)	2.80	2.45	2.00	2.42	2.42	3.42
BVPS (ZAR)	51.44	39.46	40.15	44.36	49.34	54.67
Weighted average shares (m)	188	188	188	188	188	188
Average market cap (ZARm)	21,796	15,371	9,959	15,026	15,026	15,026
Enterprise value (ZARm)	33,767	27,304	22,863	27,998	15,026	15,026
Valuation Metrics						
P/E (DB) (x)	11.0	11.2	8.3	12.6	11.0	9.8
P/E (Reported) (x)	11.0	11.2	8.3	12.6	11.0	9.8
P/BV (x)	2.24	1.34	1.45	1.81	1.62	1.47
FCF Yield (%)	6.5	6.1	7.0	8.6	16.4	18.6
Dividend Yield (%)	2.4	3.0	3.8	3.0	3.0	4.3
EV/Sales (x)	0.62	0.49	0.44	0.52	0.26	0.23
EV/EBITDA (x)	8.4	7.0	6.3	7.5	3.7	3.3
EV/EBIT (x)	10.8	10.0	10.3	12.2	6.0	5.4
Income Statement (ZARm)						
Sales revenue	**54,461**	**55,927**	**52,219**	**53,687**	**58,283**	**64,007**
Gross profit	**12,155**	**12,482**	**11,654**	**11,982**	**13,008**	**14,285**
EBITDA	**4,021**	**3,887**	**3,613**	**3,731**	**4,080**	**4,556**
Depreciation	889	1,155	1,386	1,440	1,587	1,764
Amortisation	0	0	0	0	0	0
EBIT	**3,132**	**2,732**	**2,227**	**2,291**	**2,493**	**2,792**
Net interest income(expense)	-487	-807	-923	-624	-595	-644
Associates/affiliates	236	278	107	123	142	163
Exceptionals/extraordinaries	15	1	-431	0	0	0
Other pre-tax income/(expense)	167	8	619	285	303	332
Profit before tax	**3,063**	**2,212**	**1,599**	**2,075**	**2,342**	**2,642**
Income tax expense	1,008	707	502	581	656	740
Minorities	381	357	161	169	178	195
Other post-tax income/(expense)	597	-1,920	508	0	0	0
Net profit	**2,271**	**-772**	**1,444**	**1,325**	**1,509**	**1,707**
DB adjustments (including dilution)	-172	2,281	-113	0	0	0
DB Net profit	**2,099**	**1,509**	**1,331**	**1,325**	**1,509**	**1,707**
Cash Flow (ZARm)						
Cash flow from operations	**4,571**	**5,430**	**5,864**	**7,111**	**4,309**	**4,960**
Net Capex	-3,162	-4,497	-5,166	-5,822	-1,841	-2,162
Free cash flow	**1,409**	**933**	**698**	**1,289**	**2,468**	**2,797**
Equity raised/(bought back)	-298	0	0	0	0	0
Dividends paid	-429	-1,165	-1,278	-1,449	-472	-607
Net inc/(dec) in borrowings	1,946	2,537	754	1,583	0	0
Other investing/financing cash flows	-2,482	0	0	0	0	0
Net cash flow	**146**	**2,305**	**174**	**1,423**	**1,996**	**2,190**
Change in working capital	*-775*	*-430*	*-754*	*-541*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,388	1,887	2,410	1,998	2,781	3,628
Tangible fixed assets	8,716	10,769	11,112	10,943	11,109	11,408
Goodwill/intangible assets	687	897	901	904	904	904
Associates/investments	21,893	10,038	4,165	5,376	5,761	6,197
Other assets	13,548	14,341	12,227	12,790	13,744	14,780
Total assets	**46,232**	**37,932**	**30,815**	**32,010**	**34,299**	**36,917**
Interest bearing debt	13,260	11,599	9,788	8,539	8,628	8,722
Other liabilities	20,044	15,917	12,701	12,087	13,072	14,301
Total liabilities	**33,304**	**27,516**	**22,489**	**20,626**	**21,701**	**23,023**
Shareholders' equity	12,521	9,605	9,774	10,797	12,011	13,307
Minorities	946	811	587	587	587	587
Total shareholders' equity	**13,467**	**10,416**	**10,361**	**11,384**	**12,598**	**13,894**
Net debt	*11,872*	*9,712*	*7,378*	*6,541*	*5,848*	*5,094*
Key Company Metrics						
Sales growth (%)	0.7	2.7	-6.6	2.8	8.6	9.8
DB EPS growth (%)	-3.7	-30.9	-12.3	-0.5	13.9	13.2
EBITDA Margin (%)	7.4	7.0	6.9	6.9	7.0	7.1
EBIT Margin (%)	5.8	4.9	4.3	4.3	4.3	4.4
Payout ratio (%)	23.1	nm	26.0	34.2	30.0	37.6
ROE (%)	19.2	13.6	13.7	12.9	13.2	13.5
Capex/sales (%)	7.9	8.0	9.9	10.8	3.2	3.4
Capex/depreciation (x)	4.8	3.9	3.7	4.0	1.2	1.2
Net debt/equity (%)	88.2	93.2	71.2	57.5	46.4	36.7
Net interest cover (x)	6.4	3.4	2.4	3.7	4.2	4.3

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

JD Group Ltd

Business description: JD Group originally started with two Price 'n Pride branded stores. It pursued an aggressive acquisitive growth path – the most significant acquisitions including Rusfurn Group (1993), an attempted merger with Ellerines that was denied by the Competition Commission (2000), Profurn Group (2003) Connection Group (2005: including Hi-Fi Corporation and Incredible Connection cash chains). And more recently, acquired Absa Group Ltd's shareholding in Maravedi (increased stake from 42.7% to 90.5% in 2008)

JD Group reports its business units to show traditional credit retail, cash retail, financial services international (small Polish-based chain) and New Business Development (Blake and Maravedi call centres and incubator platforms for the launch of new financial services products) separately.

JD Group focuses on differentiating its multiple brands in specific consumer segments, but overwhelmingly in the mass middle market (LSM 4-7). It plans to extend its financial services offering and follow an almost completely centralised collections process (similar to ABIL).

Drivers: Primary earnings drivers in the business include: Turnaround in Hi-Fi Corporation, bad debt roll-over, store expansion, new product and market development, product and services differentiation and the optimisation of retail efficiency metrics.

- Turnaround in Hi-Fi Corporation: Hi-Fi Corporation makes up c.50% of the top line of the cash division (but almost zero to divisional EBIT) and has underperformed significantly to date plagued by issues around quality of merchandise (grey imports), and managing significant volumes in the supply chain. With a change in formats, management and product offering, we believe a substantially better performance will be recorded
- Bad debt turnaround: JD Group wrote off another R1.1bn of its debtor's book in FY09 and has guided to a significantly reduced number in FY10 (DB expects R850m to R900m total debtor's costs in FY10).
- **Continued focus on the high margin insurance business** and ancillary financial services products that, in our view, should continue to yield good returns in the near term (particularly micro-insurance products supported by high acceptance rates and a low claims rate historically). While there has been recent pressure experienced on these yields (reduction of 25% in insurance pricing in the last 12 months), the shortfall has been made up in an uplift to other NCA-related fees.
- **The rationalisation of IT platforms across the business** including the full centralisation of the collections process expected to result in c.R40m pa sustainable cost savings over 2009 and 2010. In addition, having centralised collections will provide management with the ability to close down marginal stores (from a profitability perspective) and still collect on the outstanding debtors' book. Management has indicated that the new call centre has settled and collections rates have started to improve.

We expect the group to benefit from the operational strategies initiated in 2008/2009. In addition, strong fundamentals of the group and global recession coming to an end can fuel future success.

Outlook: After a significant reduction in the earnings base in the stock (from R8 to c.R3 (normalised) in three years), we expect a bounce in earnings off a low base assisted by bad debts rolling over and an imminent consumer credit recovery. In addition, we expect a stronger rebound in top line growth off a soft base after a sharp pullback in furniture spend in the last two years. A solid c.5% forward dividend yield and >35% total return supports our **Buy** recommendation.

Valuation: We value JD Group using a PE-relative methodology employing a normalised two-year forward PE of 7.5x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 6000cps.

Risks: Key downside risks include 1) A slower-than-expected recovery in consumer credit appetite resulting in weaker growth in the mass middle-market-focused credit chains (c.70% of group credit sales) having a geared negative impact on earnings, 2) greater-than-expected negative impact on volumes from broad-based unemployment, 3) slower collections and operating cost pressure from the restructuring of the financial services division involving centralising collections and 4) competitive pressures driving worse-than-expected yields on the book.

Model updated: 31 January 2010

Running the Numbers

S. Africa

South Africa

General Retailers

JD Group Ltd

Reuters: JDGJ.J Bloomberg: JDG SJ

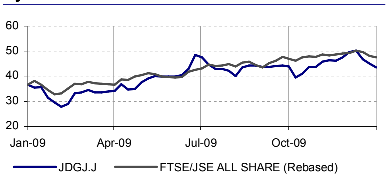
Buy

Price (29 Jan 10)	ZAR 43.60
Target price	ZAR 60.00
52-week Range	ZAR 27.32 – 51.90
Market Cap	ZAR 7,177m US$ 951m

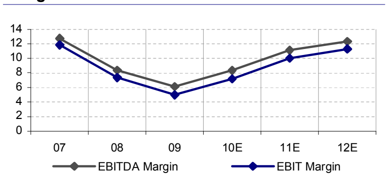
Company Profile

JD Group Limited is a SA furniture retailer that sells furniture, appliances and home entertainment products through nine retail chains. One of the chains, ABRA, operates out of Poland.

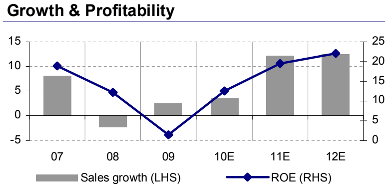
1yr Price Performance



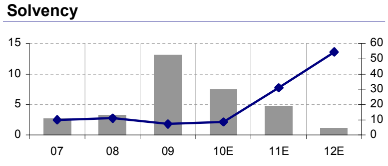
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Aug	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	5.90	3.76	0.42	3.82	6.50	8.30
Reported EPS (ZAR)	5.94	3.77	0.42	3.82	6.50	8.30
DPS (ZAR)	3.02	1.52	0.41	1.54	2.62	3.34
BVPS (ZAR)	31.98	28.09	29.44	31.64	35.37	40.18
Weighted average shares (m)	181	171	164	165	166	167
Average market cap (ZARm)	14,316	7,353	5,698	7,177	7,221	7,264
Enterprise value (ZARm)	14,333	7,402	6,271	7,503	7,442	7,286
Valuation Metrics						
P/E (DB) (x)	13.4	11.4	82.2	11.4	6.7	5.3
P/E (Reported) (x)	13.3	11.4	82.2	11.4	6.7	5.3
P/BV (x)	2.18	1.07	1.44	1.38	1.23	1.09
FCF Yield (%)	3.8	12.2	nm	5.4	6.2	9.5
Dividend Yield (%)	3.8	3.5	1.2	3.5	6.0	7.7
EV/Sales (x)	1.11	0.59	0.49	0.56	0.50	0.43
EV/EBITDA (x)	8.7	7.0	7.9	6.7	4.5	3.5
EV/EBIT (x)	9.4	8.0	9.8	7.8	4.9	3.8
Income Statement (ZARm)						
Sales revenue	**12,907**	**12,610**	**12,922**	**13,388**	**15,010**	**16,883**
Gross profit	**3,958**	**3,600**	**3,589**	**4,195**	**5,053**	**5,803**
EBITDA	**1,646**	**1,057**	**792**	**1,118**	**1,669**	**2,080**
Depreciation	117	128	149	157	165	174
Amortisation	0	0	0	0	0	0
EBIT	**1,529**	**929**	**643**	**961**	**1,504**	**1,907**
Net interest income(expense)	-151	-84	-88	-112	-49	-35
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	11	1	-3	0	0	0
Other pre-tax income/(expense)	71	16	-3	15	25	33
Profit before tax	**1,460**	**865**	**552**	**864**	**1,480**	**1,905**
Income tax expense	383	215	475	234	400	515
Minorities	0	0	5	2	4	6
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,077**	**647**	**69**	**628**	**1,076**	**1,384**
DB adjustments (including dilution)	-8	-3	0	0	0	0
DB Net profit	**1,069**	**644**	**69**	**628**	**1,076**	**1,384**
Cash Flow (ZARm)						
Cash flow from operations	**741**	**1,095**	**-320**	**617**	**686**	**936**
Net Capex	-193	-199	-197	-228	-238	-248
Free cash flow	**548**	**896**	**-517**	**389**	**448**	**688**
Equity raised/(bought back)	-176	-523	18	0	0	0
Dividends paid	-762	-284	-68	-251	-427	-546
Net inc/(dec) in borrowings	-170	350	167	0	0	0
Other investing/financing cash flows	-82	-593	-114	109	83	57
Net cash flow	**-642**	**-154**	**-514**	**247**	**104**	**200**
Change in working capital	*-169*	*301*	*-325*	*-168*	*-556*	*-621*
Balance Sheet (ZARm)						
Cash and other liquid assets	975	1,135	725	941	1,348	1,554
Tangible fixed assets	578	653	756	827	900	974
Goodwill/intangible assets	641	603	711	711	711	711
Associates/investments	138	109	97	97	97	97
Other assets	7,343	5,951	6,443	6,688	7,512	8,444
Total assets	**9,675**	**8,451**	**8,732**	**9,264**	**10,568**	**11,780**
Interest bearing debt	1,130	1,293	1,364	1,330	1,630	1,630
Other liabilities	2,747	2,345	2,506	2,692	3,044	3,412
Total liabilities	**3,877**	**3,638**	**3,870**	**4,022**	**4,674**	**5,042**
Shareholders' equity	5,798	4,813	4,831	5,208	5,857	6,695
Minorities	0	0	31	33	37	43
Total shareholders' equity	**5,798**	**4,813**	**4,862**	**5,242**	**5,894**	**6,739**
Net debt	*155*	*158*	*639*	*389*	*282*	*76*
Key Company Metrics						
Sales growth (%)	8.1	-2.3	2.5	3.6	12.1	12.5
DB EPS growth (%)	-26.5	-36.3	-88.8	803.7	70.3	27.8
EBITDA Margin (%)	12.8	8.4	6.1	8.4	11.1	12.3
EBIT Margin (%)	11.8	7.4	5.0	7.2	10.0	11.3
Payout ratio (%)	50.9	40.3	97.1	40.3	40.3	40.3
ROE (%)	18.9	12.2	1.4	12.5	19.5	22.0
Capex/sales (%)	1.6	1.7	1.7	1.7	1.6	1.5
Capex/depreciation (x)	1.8	1.6	1.5	1.5	1.4	1.4
Net debt/equity (%)	2.7	3.3	13.1	7.4	4.8	1.1
Net interest cover (x)	10.1	11.1	7.3	8.6	31.0	54.5

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Lewis Group Ltd

Business description: Lewis was founded in 1934 and has since become a significant player in the domestic furniture retail space, commanding an estimated c.12% market share (based on the size of the debtors' book). It operates through its three branded formats – Lewis (c.82% of sales), Best Electric (focussed on white and brown goods comprising c.12% of group sales) and Lifestyle Living (top-end consumer focus comprising the balance of group sales). Lewis, previously a wholly-owned subsidiary of GUS Holdings, was unbundled and listed on the JSE in October 2004.

Drivers: Lewis' strategy is focused on 're-serving' existing customers and decentralised collections. Through regular contact with its customers through a 're-serve' system (generating repeat sales from existing customers accounting for c.55% of all sales) and a de-centralised collections system requiring customers to turn to the point-of-sale to make monthly payments, Lewis builds loyal relationships. In this way, salespeople are also provided with additional selling opportunities as customers return to make account payments. The provision of micro finance and ancillary financial services products (such as bundled asset and credit life insurance) is integral to the core merchandise offering.

Lewis' customer focus differentiates it from its peers. While its primary market is still the middle market (LSM 4-7), it also has a significantly higher low-end focus (LSM 1-4) than competitors. Together with its decentralised collections process, this results in less interest rate sensitivity and different primary drivers for earnings (namely food and transport cost inflation together with a higher gearing to employment levels). Interestingly, to date with the high number of job losses, only a static 3% of Lewis' customer base has been impacted by unemployment per management guidance. This remains a key risk.

Primary drivers for the stock include:

- **Continued top-line growth despite the weaker consumer** secured by focusing on less competitive and lowly-geared LSM 1-4 consumers, maintaining 're-serve' levels to existing customers, a significant reversion in food and fuel (transport) inflation and a view of employment levels starting to stabilize from 1Q10.
- **Continued growth in financial services income** through the extension of credit, and boosted by new fees allowable under the NCA and high acceptance rates of ancillary insurance products with high estimated economic margins (we estimate >c.37% economic margins in micro insurance driven by low claims rate and high acceptance rates).
- **Low other cost overheads:** Tight control of operating costs ex-debtors should assist in defending margins in a lower top line environment.
- **Improving GP margin outlook:** A more stable rand and trading environment has resulted in an improving gross margin outlook post an aggressive period of discounting amongst competitors.

Outlook: We expect positive volume surprises (off a soft furniture sales base in the market) assisted by market share gains through Ellerines (major competitor) rationalising its store base to drive higher-than-expected top-line growth. Our view on an imminent consumer credit recovery would also be supportive of volumes. Lewis has not experienced the same drop off in volumes and sharp increase in bad debts as middle-market peers and is thus not as geared to a recovery arising from the rate-cutting cycle. We rate the shares Buy on what we see as attractive 12-month total return potential.

Valuation: We value Lewis using a PE-relative methodology employing a normalised two-year forward PE of 7.3x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 6400cps. **Buy**.

Risks: Key downside risks to our recommendation include: 1) A longer recovery from the credit cycle and possible cash squeeze from more aggressive stance than peers on writing extended term credit, 2) Greater spike in unemployment than anticipated driven by corporate cost-cutting and corporate failures in a tough inflationary environment and the knock-on effect on bad debts, 3) Competitive pressures driving lower margins in financial services and insurance businesses, which comprise a material contribution to group EBIT and 4) Slower recovery in the consumer credit appetite than expected.

Model updated: 04 December 2009

Running the Numbers

S. Africa

South Africa

Furniture & Appliances

Lewis Group Ltd

Reuters: LEWJ.J Bloomberg: LEW SJ

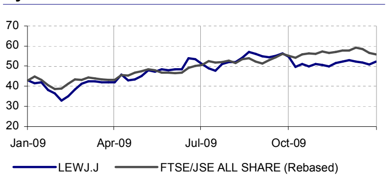
Buy

Price (29 Jan 10)	ZAR 52.25
Target price	ZAR 64.00
52-week Range	ZAR 33.00 – 57.20
Market Cap	ZAR 5,225m US$ 693m

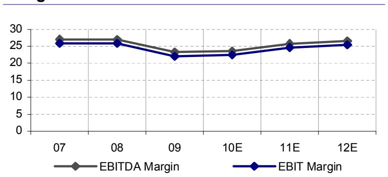
Company Profile

Lewis Group retails furniture, household and electrical goods mainly on credit.

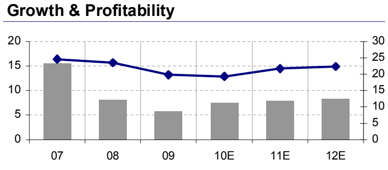
1yr Price Performance



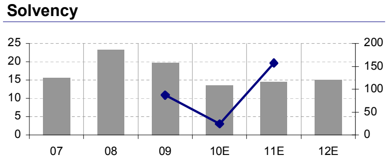
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	6.43	6.88	6.34	6.77	8.35	9.52
Reported EPS (ZAR)	6.43	6.88	6.34	6.77	8.35	9.52
DPS (ZAR)	2.66	3.23	3.23	3.18	3.92	4.47
BVPS (ZAR)	25.27	27.30	29.40	32.23	35.70	39.65
Weighted average shares (m)	100	100	100	100	100	100
Average market cap (ZARm)	5,678	5,571	3,858	5,225	5,225	5,225
Enterprise value (ZARm)	5,612	5,702	3,905	5,104	5,146	5,179
Valuation Metrics						
P/E (DB) (x)	8.8	8.1	6.1	7.7	6.3	5.5
P/E (Reported) (x)	8.8	8.1	6.1	7.7	6.3	5.5
P/BV (x)	2.71	1.53	1.45	1.62	1.46	1.32
FCF Yield (%)	4.5	1.8	0.3	4.1	5.9	6.9
Dividend Yield (%)	4.7	5.8	8.4	6.1	7.5	8.5
EV/Sales (x)	1.69	1.59	1.03	1.25	1.17	1.08
EV/EBITDA (x)	6.2	5.9	4.4	5.3	4.5	4.1
EV/EBIT (x)	6.5	6.1	4.6	5.6	4.7	4.3
Income Statement (ZARm)						
Sales revenue	**3,324**	**3,596**	**3,807**	**4,090**	**4,413**	**4,781**
Gross profit	**1,475**	**1,605**	**1,583**	**1,730**	**1,980**	**2,195**
EBITDA	**899**	**971**	**886**	**964**	**1,137**	**1,268**
Depreciation	39	41	46	45	49	52
Amortisation	0	0	0	0	0	0
EBIT	**860**	**930**	**840**	**918**	**1,088**	**1,216**
Net interest income(expense)	30	15	-10	-37	-7	4
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-4	-24	-5	-6	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**890**	**945**	**831**	**881**	**1,082**	**1,220**
Income tax expense	292	303	264	280	343	378
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**594**	**618**	**562**	**596**	**738**	**842**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**594**	**618**	**562**	**596**	**738**	**842**
Cash Flow (ZARm)						
Cash flow from operations	**317**	**243**	**226**	**441**	**553**	**626**
Net Capex	-61	-142	-213	-229	-247	-267
Free cash flow	**257**	**102**	**13**	**212**	**306**	**359**
Equity raised/(bought back)	-208	0	0	0	0	0
Dividends paid	-232	-263	-284	-314	-387	-441
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-309	-57	330	298	-4	0
Net cash flow	**-492**	**-218**	**59**	**197**	**-85**	**-82**
Change in working capital	*-320*	*-440*	*-387*	*-206*	*-234*	*-268*
Balance Sheet (ZARm)						
Cash and other liquid assets	36	67	55	199	117	38
Tangible fixed assets	183	201	230	413	611	826
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	461	505	535	558	599	645
Other assets	2,617	3,006	3,371	3,607	3,876	4,182
Total assets	**3,297**	**3,778**	**4,190**	**4,777**	**5,202**	**5,691**
Interest bearing debt	430	703	637	637	637	637
Other liabilities	340	345	514	817	895	989
Total liabilities	**770**	**1,048**	**1,151**	**1,454**	**1,532**	**1,626**
Shareholders' equity	2,527	2,730	2,940	3,223	3,570	3,965
Minorities	0	0	0	0	0	0
Total shareholders' equity	**2,527**	**2,730**	**2,940**	**3,223**	**3,570**	**3,965**
Net debt	*395*	*637*	*582*	*438*	*520*	*599*
Key Company Metrics						
Sales growth (%)	15.6	8.2	5.9	7.4	7.9	8.3
DB EPS growth (%)	22.8	7.1	-7.8	6.8	23.2	14.0
EBITDA Margin (%)	27.0	27.0	23.3	23.6	25.8	26.5
EBIT Margin (%)	25.9	25.9	22.1	22.5	24.7	25.4
Payout ratio (%)	44.8	52.3	57.5	53.4	53.1	53.1
ROE (%)	24.6	23.5	19.8	19.3	21.7	22.3
Capex/sales (%)	1.8	3.9	5.6	5.6	5.6	5.6
Capex/depreciation (x)	1.6	3.5	4.6	5.1	5.1	5.1
Net debt/equity (%)	15.6	23.3	19.8	13.6	14.6	15.1
Net interest cover (x)	nm	nm	87.5	24.9	157.5	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Massmart Holdings Ltd

Business description: Massmart is a South African-based management company holding a portfolio of wholesale and retail investments in South Africa, surrounding countries, Uganda, Nigeria and Mauritius (<10% estimated EBIT contribution from outside South Africa). It has four main operating divisions and nine branded store formats that span the wholesale food, general merchandise and DIY markets. We estimate Massmart has the largest single market share in each of these core product categories domestically. Massmart sells primarily branded goods for cash through large box format stores. The free float is c.100%.

Drivers: Massmart has four operating divisions: 1) Masswarehouse (wholesale food, liquor and general merchandise), 2) Massdiscounters (smaller format general merchandise, white and brown goods stores), 3) Masscash (wholesale food business and buying organisation), and 4) Massbuild (DIY and building materials) – under nine different branded formats. While the wholesale food division caters to the low-end LSM 1-4 consumer, the remaining divisions target the middle and upper consumer categories (LSM 5-10). We estimate wholesale food's contribution to EBIT at c.30%, with DIY and building materials constituting c.22%, and the remainder relating to general merchandise through their flagship big-box Makro brand. Within the Masscash division, the group also runs a buying organisation called Shield. This involves the agency sale of wholesale food to member companies for a small margin to benefit through economies of scale.

Key future profit drivers are as follows:

- **Continued organic expansion of Makro warehouses** (flagship general merchandise and wholesale food format) domestically. Previously it was felt the national footprint was saturated before new management assisted in enhancing margins in the format and increasing the feasibility of further expansion.
- **Improved cost efficiency through scale** achieved by the planned organic expansion of general merchandise and DIY store formats.
- **Continued bolt-on acquisitions in Masscash** (wholesale food division) and rollout of a retail hybrid (higher margin than traditional wholesale) format resulting in enhanced margins in the division.
- **Recovery in the domestic DIY market,** the division with the highest targeted operating margin (c.7-8%), highlighting substantial potential for improvement from the current c.3% levels.

Outlook: The cash nature of the business has provided it with a degree of defence against a slowdown in credit extension, rising bad debts during the recent cycle. However, near-term earnings face headwinds in the form of a slowing top line in general merchandise before the impact of interest rate cuts is felt and continued margin pressure in the cyclical DIY business. We believe the market will want clarity on FY10 earnings and wait for a better entry point resulting in the stock treading water. A muted 12-month total return expectation supports our **Hold** recommendation.

Valuation: We value Massmart using a PE-relative methodology employing a normalised two-year forward PE of 10.3x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 9300cps.

Risks: Key downside risks include 1) a more severe and sustained downturn in the DIY market, which has proven to be highly cyclical by nature; 2) inflationary pressure on operating costs resulting in pressure on group operating margins; 3) food inflation dropping below cost growth, causing margin pressure in wholesale food businesses; 4) higher-than-anticipated unemployment causing weakness at the low-end consumer; and 5) slowdown in core general merchandise offering before the impact of rate cuts is felt driving near-term earnings disappointment. Key upside risks include 1) stronger-than-expected consumer spend as a result of substantial rate cuts experienced to date; 2) credit impulse (stronger boost to sales than expected as banks and other credit providers loosen the reigns) driving higher-than-expected top-line growth; and 3) broad-based re-rating of equity markets as investors look through interim earnings volatility and 're-risk' investment portfolios in anticipation of a global economic recovery.

Model updated: 04 December 2009

Running the Numbers

S. Africa

South Africa

General Retailers

Massmart

Reuters: MSMJ.J Bloomberg: MSM SJ

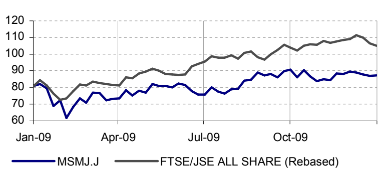
Hold

Price (29 Jan 10)	ZAR 87.15
Target price	ZAR 93.00
52-week Range	ZAR 61.80 – 92.57
Market Cap	ZAR 17,883m US$ 2,370m

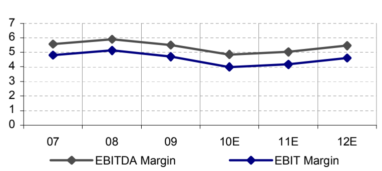
Company Profile

Massmart is an SA-based management company holding a portfolio of wholesale and retail investments in SA, surrounding countries, Uganda, Nigeria and Mauritius. It has four main operating divisions and nine branded store formats that span the wholesale food, general merchandise and DIY markets. Massmart sells primarily branded goods for cash.

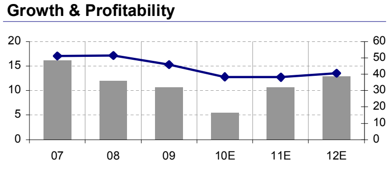
1yr Price Performance



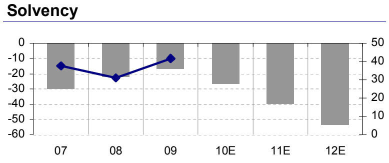
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	5.35	6.30	6.10	6.15	7.09	8.81
Reported EPS (ZAR)	5.19	6.27	6.51	6.15	7.09	8.81
DPS (ZAR)	3.20	3.86	3.86	3.86	4.17	5.19
BVPS (ZAR)	11.14	13.61	15.31	17.67	20.68	24.45
Weighted average shares (m)	204	204	204	205	206	207
Average market cap (ZARm)	14,309	15,459	15,656	17,883	17,970	18,057
Enterprise value (ZARm)	13,246	14,176	14,646	16,462	15,871	14,988
Valuation Metrics						
P/E (DB) (x)	13.1	12.0	12.6	14.2	12.3	9.9
P/E (Reported) (x)	13.5	12.1	11.8	14.2	12.3	9.9
P/BV (x)	7.75	4.53	5.23	4.93	4.21	3.56
FCF Yield (%)	6.2	6.2	6.4	6.3	8.5	11.2
Dividend Yield (%)	4.6	5.1	5.0	4.4	4.8	5.9
EV/Sales (x)	0.38	0.36	0.34	0.36	0.32	0.26
EV/EBITDA (x)	6.8	6.2	6.2	7.5	6.3	4.8
EV/EBIT (x)	7.9	7.1	7.2	9.0	7.5	5.7
Income Statement (ZARm)						
Sales revenue	**34,807**	**38,958**	**43,129**	**45,475**	**50,360**	**56,833**
Gross profit	**5,018**	**5,730**	**6,142**	**6,349**	**7,083**	**8,107**
EBITDA	**1,941**	**2,302**	**2,374**	**2,208**	**2,532**	**3,106**
Depreciation	267	303	345	386	428	482
Amortisation	0	0	0	0	0	0
EBIT	**1,673**	**1,999**	**2,029**	**1,822**	**2,105**	**2,623**
Net interest income(expense)	-44	-64	-49	0	4	13
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,629**	**1,935**	**1,980**	**1,823**	**2,109**	**2,636**
Income tax expense	555	635	620	529	611	764
Minorities	15	22	33	31	36	45
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,059**	**1,279**	**1,327**	**1,263**	**1,461**	**1,826**
DB adjustments (including dilution)	33	5	-82	0	0	0
DB Net profit	**1,092**	**1,284**	**1,245**	**1,263**	**1,461**	**1,826**
Cash Flow (ZARm)						
Cash flow from operations	**1,346**	**1,535**	**1,686**	**1,732**	**2,032**	**2,496**
Net Capex	-460	-573	-686	-600	-500	-482
Free cash flow	**886**	**962**	**1,001**	**1,132**	**1,532**	**2,014**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-563	-708	-854	-792	-859	-1,074
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-330	-321	-238	103	41	76
Net cash flow	**-7**	**-66**	**-91**	**443**	**714**	**1,016**
Change in working capital	*-29*	*-73*	*64*	*52*	*107*	*142*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,246	1,060	1,056	1,499	2,213	3,228
Tangible fixed assets	1,124	1,393	1,697	1,911	1,983	1,983
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	415	706	534	534	534	534
Other assets	7,381	8,017	8,492	8,859	9,622	10,635
Total assets	**10,165**	**11,175**	**11,778**	**12,802**	**14,352**	**16,380**
Interest bearing debt	571	452	539	539	539	539
Other liabilities	7,329	7,957	8,143	8,665	9,578	10,809
Total liabilities	**7,900**	**8,409**	**8,682**	**9,203**	**10,116**	**11,347**
Shareholders' equity	2,239	2,736	3,055	3,526	4,127	4,879
Minorities	26	31	42	73	109	154
Total shareholders' equity	**2,265**	**2,767**	**3,097**	**3,599**	**4,236**	**5,033**
Net debt	*-674*	*-608*	*-517*	*-960*	*-1,674*	*-2,690*
Key Company Metrics						
Sales growth (%)	16.2	11.9	10.7	5.4	10.7	12.9
DB EPS growth (%)	31.1	17.7	-3.1	0.8	15.1	24.4
EBITDA Margin (%)	5.6	5.9	5.5	4.9	5.0	5.5
EBIT Margin (%)	4.8	5.1	4.7	4.0	4.2	4.6
Payout ratio (%)	61.7	61.5	59.3	62.7	58.8	58.8
ROE (%)	51.1	51.4	45.8	38.4	38.2	40.6
Capex/sales (%)	1.3	1.5	1.6	1.3	1.0	0.8
Capex/depreciation (x)	1.7	1.9	2.0	1.6	1.2	1.0
Net debt/equity (%)	-29.8	-22.0	-16.7	-26.7	-39.5	-53.4
Net interest cover (x)	37.7	31.2	41.7	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications

MTN Group Ltd

Business description: MTN is one of the largest MENA mobile operators with more than 110m subscribers across 21 African and the Middle East countries. The company offers some of the best growth prospects in the MENA region with weighted mobile penetration at approximately 50%.

We expect Nigeria, Iran, South Africa, Ghana and Uganda all to have in excess of 5.0m subscribers by December 2009. MTN Nigeria and MTN South Africa together account for 65% of MTN group EBITDA and both operations remain strongly free cash flow positive. MTN has more recently started to focus on growing its data business across its operations which has seen the group invest in both fibre networks and internet service providers (ISPs) in a number of countries. We expect this to be an important driver as voice traffic growth slows in the medium term.

Drivers:

- **South Africa.** The South African business has disappointed the market over the past six months as MTN has lost both revenue and subscriber market share. The business is also faced with regulatory pressure in the form of reduction in mobile termination rates (MTR) and subscriber registration (RICA). We expect South Africa to remain under pressure in the short term and are only expecting a turnaround in 2H10. The turnaround we are expecting in the second half of 2010 will be a key sentiment drive for the business.
- **Nigeria.** MTN Nigeria launched operations in August 2001, and we expect the business to have in excess of 35.0m subscribers by December 2010. MTN has invested significantly ahead of its competitors over the past 18 months. We believe MTN will continue to gain revenue share from its competitors over the coming 12 months. We also expect to see a marked reduction in capex and this together with continued growth in EBITDA should see a marked increase in free cash flow for the business which would be very positive for sentiment.

Outlook: MTN operates in 21 countries across Africa and the Middle East which include a diverse range of operations from Guinea and Liberia in Africa to Afghanistan and Sudan in the Middle East region. However the key four regions of Nigeria, South Africa, Iran and Ghana contribute in excess of 75% of MTN group EBITDA and remain key drivers of growth for the combined business. We believe the medium term growth prospects for the MTN group remain very strong. Furthermore the groups leading or strong position across most of its markets should ensure that the group maintains strong EBITDA margins despite the trend of increasing competition. Given its low levels of gearing the business also remains well positioned to take advantage of appropriate single country acquisitions across its region. Notwithstanding the recent departure of the group CFO, we believe the group management structure with its regional VP's and experienced country heads allows for a depth of management to drive the group over the medium term.

Valuation: Our target price for MTN is 16500cps, based on an exit EV/EBITDA multiple of 7.0x to December 2010, in line with the group's longer term trading range. This implies upside of c.30% and a **Buy** recommendation.

Risks: MTN operates in 21 countries across Africa and the Middle East. The political situation in a number of these regions is volatile and should there be any significant worsening of the current political situation this could negatively impact the business. Another risk to the group's performance is currency risk. Again given the diverse regions in which the group operates a significant deterioration of select currencies would place pressure on the group's profitability. Should the group embark upon further corporate action that, as with the Bharti transaction, is negative to group earnings our expected rerating of the group could lag until any corporate action is resolved.

Model updated: 07 January 2010

Running the Numbers

S. Africa

South Africa

Telecommunications

MTN

Reuters: MTNJ.J Bloomberg: MTN SJ

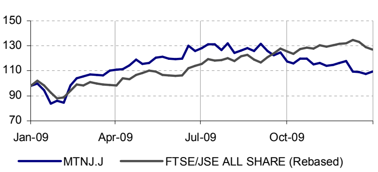
Buy

Price (29 Jan 10)	ZAR 109.45
Target price	ZAR 165.00
52-week Range	ZAR 83.90 – 132.00
Market Cap	ZAR 204,672m US$ 27,127m

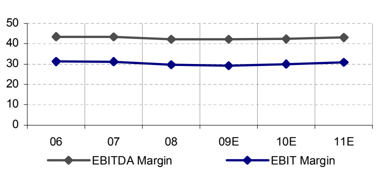
Company Profile

MTN is one of the largest EMEA GSM operators with 51m subscribers operating throughout 21 countries in Africa and the Middle East. Key operating regions include South Africa, Nigeria, Ghana, Sudan and Iran.

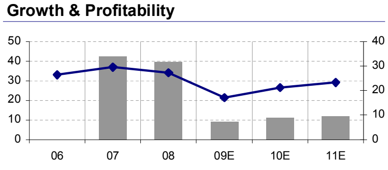
1yr Price Performance



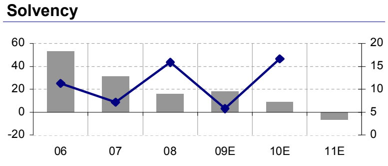
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (ZAR)	5.84	6.82	9.04	7.52	10.85	14.15
Reported EPS (ZAR)	5.84	6.82	9.04	7.52	10.85	14.15
DPS (ZAR)	0.80	0.90	1.36	1.81	2.35	3.00
BVPS (ZAR)	22.08	25.42	40.95	46.97	55.26	66.33
Weighted average shares (m)	1,752	1,861	1,865	1,870	1,875	1,875
Average market cap (ZARm)	108,254	192,605	224,863	204,672	205,219	205,219
Enterprise value (ZARm)	135,102	212,782	241,810	225,947	220,017	203,248
Valuation Metrics						
P/E (DB) (x)	10.6	15.2	13.3	14.6	10.1	7.7
P/E (Reported) (x)	10.6	15.2	13.3	14.6	10.1	7.7
P/BV (x)	3.86	5.04	2.65	2.33	1.98	1.65
FCF Yield (%)	7.6	5.4	1.5	0.8	6.7	12.3
Dividend Yield (%)	1.3	0.9	1.1	1.7	2.1	2.7
EV/Sales (x)	2.62	2.90	2.36	2.02	1.76	1.46
EV/EBITDA (x)	6.0	6.7	5.6	4.8	4.2	3.4
EV/EBIT (x)	8.4	9.3	8.0	6.9	5.9	4.7
Income Statement (ZARm)						
Sales revenue	**51,595**	**73,417**	**102,526**	**112,099**	**124,684**	**139,394**
Gross profit	**22,413**	**31,845**	**43,166**	**47,252**	**52,744**	**59,914**
EBITDA	**22,413**	**31,845**	**43,166**	**47,252**	**52,744**	**59,914**
Depreciation	5,030	6,776	9,939	11,881	12,586	14,159
Amortisation	1,289	2,199	2,820	2,664	2,749	2,803
EBIT	**16,094**	**22,870**	**30,407**	**32,706**	**37,409**	**42,952**
Net interest income(expense)	-1,427	-3,173	-1,917	-5,630	-2,250	500
Associates/affiliates	23	8	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**14,690**	**19,705**	**28,490**	**27,076**	**35,159**	**43,452**
Income tax expense	3,413	7,789	11,355	9,245	11,361	13,299
Minorities	1,489	1,305	1,765	3,016	3,613	3,771
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**9,788**	**10,611**	**15,370**	**14,815**	**20,185**	**26,382**
DB adjustments (including dilution)	439	2,085	1,500	-754	150	150
DB Net profit	**10,227**	**12,696**	**16,870**	**14,061**	**20,335**	**26,532**
Cash Flow (ZARm)						
Cash flow from operations	**17,622**	**25,850**	**31,564**	**32,627**	**39,383**	**47,365**
Net Capex	-9,379	-15,355	-28,263	-31,005	-25,560	-22,104
Free cash flow	**8,243**	**10,495**	**3,301**	**1,621**	**13,823**	**25,261**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,402	-1,675	-2,537	-3,385	-4,406	-5,625
Net inc/(dec) in borrowings	21,082	-5,580	6,093	-24,100	-5,000	0
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	**27,923**	**3,240**	**6,857**	**-25,863**	**4,417**	**19,636**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	10,091	17,607	28,739	-7,562	-5,374	12,213
Tangible fixed assets	30,647	39,463	64,193	83,317	96,290	104,235
Goodwill/intangible assets	40,105	38,797	45,786	43,122	40,373	37,570
Associates/investments	73	60	60	66	73	80
Other assets	16,001	19,659	31,328	35,433	39,798	44,450
Total assets	**96,917**	**115,586**	**170,106**	**154,375**	**171,160**	**198,547**
Interest bearing debt	32,979	33,657	41,590	9,000	4,000	4,001
Other liabilities	21,209	30,427	47,974	52,771	58,049	63,853
Total liabilities	**54,188**	**64,084**	**89,564**	**61,771**	**62,049**	**67,854**
Shareholders' equity	38,696	47,315	76,386	87,825	103,615	124,372
Minorities	4,033	4,187	4,156	4,779	5,496	6,321
Total shareholders' equity	**42,729**	**51,502**	**80,542**	**92,604**	**109,111**	**130,693**
Net debt	*22,888*	*16,050*	*12,851*	*16,562*	*9,374*	*-8,212*
Key Company Metrics						
Sales growth (%)	na	42.3	39.6	9.3	11.2	11.8
DB EPS growth (%)	na	16.9	32.6	-16.9	44.2	30.5
EBITDA Margin (%)	43.4	43.4	42.1	42.2	42.3	43.0
EBIT Margin (%)	31.2	31.2	29.7	29.2	30.0	30.8
Payout ratio (%)	14.3	15.8	16.5	22.8	21.8	21.3
ROE (%)	26.4	29.5	27.3	17.1	21.2	23.3
Capex/sales (%)	18.2	20.9	27.6	27.7	20.5	15.9
Capex/depreciation (x)	1.5	1.7	2.2	2.1	1.7	1.3
Net debt/equity (%)	53.6	31.2	16.0	17.9	8.6	-6.3
Net interest cover (x)	11.3	7.2	15.9	5.8	16.6	nm

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Murray and Roberts Holdings Ltd

Business description: Murray and Roberts is an engineering, contracting and construction services company that caters to various sectors – industrials, mining, oil & gas and power & energy; by offering civil, mechanical, electrical, mining and process engineering, general building and construction, materials supply and services to the construction industry and management of concessions.

Although the primary focus of work lies in the South Africa region (revenue contribution – 62%), the group is well diversified with 38% of revenues being generated from regions outside South Africa, which include the Middle East, South East Asia, Australasia and the Americas.

The group's operations are classified into six business clusters of which construction and engineering together contributed 33% to group operating earnings in FY09. For the same period, construction products contributed 21% and cementation group contributed 15% to the group operating revenues.

Drivers: The group is wholly focused on the broader construction, mining and engineering sectors with two key growth drivers: infrastructural growth associated with the expansion in South Africa gross fixed capital formation, and growth associated with the investment required to support the growing global demand for natural resources. Over time Murray and Roberts intends to maintain at least two-thirds of group activity in South Africa with the balance coming from a combination of other Africa, Canada, Australia and the Middle East.

The mining industry: Murray and Roberts is involved in mining construction in southern Africa, North America and Australia. In southern Africa, its key minerals include diamonds, copper, gold and nickel and platinum. African activities are evenly split between contract mining and mine development, while North America and Australia are primarily diamond and nickel markets for the group. Commodity prices also impact the performance of this industry.

Government investment: The group has a significant participation in large infrastructure projects, in South Africa, the Middle East and Australia. Examples of these projects include the Gautrain rapid rail link, FIFA 2010 Soccer world cup stadiums, and the South African power station build programme.

Outlook: The Murray and Roberts Group has maintained the momentum created since completing its five-year restructuring process in 2004. It is now a more focused construction mining and engineering business, and has established a strong earnings growth track record, while improving its financial characteristics over time.

While the group benefited tremendously over the past three years from the combination of rising mining and construction investment, the outlook for the short to medium term looks decidedly less favourable as credit constraints and low corporate confidence appear to be reducing the number of projects available. Earnings from government projects are also taking longer to realise in the face of late payment cycles, costly scope changes and disputes, as well as rising competition.

In addition the Competition Authorities have stepped up their efforts to investigate the industry, in so doing raising its risk profile. While the order book remains at healthy levels, we expect the impact of the above obstacles to result in muted earnings growth over the short to medium term. **Hold**.

Valuation: We assess the fundamental value of Murray and Roberts based on a DCF analysis, using a 13.5% WACC, a 5% perpetuity margin and a 6% perpetual growth rate (South African house rules). We then derive a 12-month target by rolling the fair valuation so derived forward by the cost of equity less dividend yield.

Risks: Downside risks Sustained currency strength ahead of our forecasts (35% operating earnings earned outside of South Africa). Further project cancellations from the group's order book. Fresh unfavourable findings in the competition commission's investigation into the construction sector. Upside risks Interest rates falling substantially below current levels. Resolution of contract disputes currently underway in certain large contracts such as Gautrain.

Model updated: 22 October 2009

Running the Numbers

S. Africa

South Africa

Construction & Building Materials

M&R Holdings Ltd

Reuters: MURJ.J Bloomberg: MUR SJ

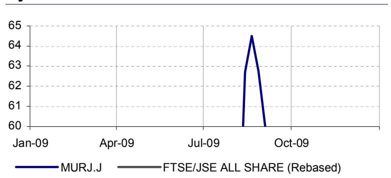
Hold

Price (29 Jan 10)	ZAR 39.52
Target price	ZAR 55.00
52-week Range	ZAR 34.98 – 66.00
Market Cap	ZAR 13,116m US$ 1,738m

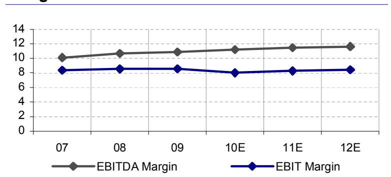
Company Profile

Murray & Roberts Holdings Limited is a South Africa-based construction and engineering company focused on selected regional economies and specialist global markets. The Company operates through four segments: construction and engineering, construction materials and services, fabrication and manufacture, and corporate.

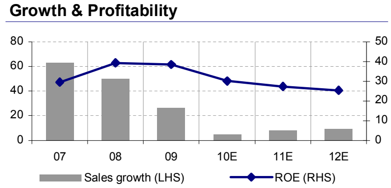
1yr Price Performance



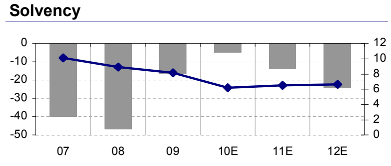
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	2.53	5.36	6.51	6.27	6.95	7.84
Reported EPS (ZAR)	3.33	5.50	6.75	6.27	6.95	7.84
DPS (ZAR)	1.16	1.96	2.18	1.79	1.99	2.80
BVPS (ZAR)	10.96	14.66	16.81	20.48	25.11	30.36
Weighted average shares (m)	332	332	332	332	332	332
Average market cap (ZARm)	14,943	29,382	19,906	13,116	13,116	13,116
Enterprise value (ZARm)	12,281	27,077	19,351	13,490	12,775	11,539
Valuation Metrics						
P/E (DB) (x)	17.8	16.5	9.2	6.3	5.7	5.0
P/E (Reported) (x)	13.5	16.1	8.9	6.3	5.7	5.0
P/BV (x)	5.84	5.93	2.97	1.93	1.57	1.30
FCF Yield (%)	6.5	4.9	nm	nm	11.5	16.1
Dividend Yield (%)	2.6	2.2	3.6	4.5	5.0	7.1
EV/Sales (x)	0.69	1.02	0.57	0.38	0.33	0.28
EV/EBITDA (x)	6.8	9.5	5.3	3.4	2.9	2.4
EV/EBIT (x)	8.2	11.9	6.7	4.7	4.0	3.3
Income Statement (ZARm)						
Sales revenue	**17,815**	**26,666**	**33,762**	**35,425**	**38,311**	**41,897**
Gross profit	**1,802**	**2,850**	**3,674**	**3,970**	**4,400**	**4,879**
EBITDA	**1,802**	**2,850**	**3,674**	**3,970**	**4,400**	**4,879**
Depreciation	287	530	741	1,093	1,187	1,292
Amortisation	23	39	35	37	39	43
EBIT	**1,492**	**2,281**	**2,898**	**2,841**	**3,174**	**3,544**
Net interest income(expense)	-148	-256	-355	-456	-486	-534
Associates/affiliates	-107	9	2	0	0	0
Exceptionals/extraordinaries	69	188	78	0	0	0
Other pre-tax income/(expense)	132	285	318	280	268	326
Profit before tax	**1,308**	**2,455**	**2,869**	**2,665**	**2,955**	**3,336**
Income tax expense	352	490	612	569	631	712
Minorities	94	350	320	231	256	289
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**992**	**1,669**	**2,009**	**1,865**	**2,069**	**2,335**
DB adjustments (including dilution)	-237	-43	-71	0	0	0
DB Net profit	**755**	**1,626**	**1,938**	**1,865**	**2,069**	**2,335**
Cash Flow (ZARm)						
Cash flow from operations	**1,935**	**3,116**	**1,560**	**1,454**	**3,126**	**3,887**
Net Capex	-968	-1,666	-2,248	-1,503	-1,622	-1,771
Free cash flow	**967**	**1,449**	**-689**	**-49**	**1,504**	**2,116**
Equity raised/(bought back)	22	41	-250	0	0	0
Dividends paid	-280	-525	-697	-649	-533	-591
Net inc/(dec) in borrowings	159	-253	688	500	0	800
Other investing/financing cash flows	118	938	-453	0	0	0
Net cash flow	**986**	**1,650**	**-1,401**	**-198**	**971**	**2,325**
Change in working capital	*637*	*445*	*-1,290*	*-1,771*	*-425*	*-72*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,809	4,688	4,663	4,466	5,436	7,761
Tangible fixed assets	2,011	3,694	4,280	4,658	5,061	5,508
Goodwill/intangible assets	280	578	549	544	537	526
Associates/investments	1,325	549	512	512	512	512
Other assets	6,585	12,140	13,489	16,335	17,441	18,702
Total assets	**13,011**	**21,649**	**23,494**	**26,515**	**28,988**	**33,010**
Interest bearing debt	1,294	1,972	3,568	4,068	4,068	4,868
Other liabilities	7,902	13,852	13,292	14,367	15,048	16,237
Total liabilities	**9,196**	**15,824**	**16,860**	**18,435**	**19,116**	**21,105**
Shareholders' equity	3,637	4,865	5,581	6,797	8,333	10,077
Minorities	178	960	1,053	1,284	1,539	1,828
Total shareholders' equity	**3,815**	**5,825**	**6,634**	**8,080**	**9,872**	**11,905**
Net debt	*-1,515*	*-2,716*	*-1,095*	*-397*	*-1,368*	*-2,893*
Key Company Metrics						
Sales growth (%)	63.2	49.7	26.6	4.9	8.1	9.4
DB EPS growth (%)	51.8	111.6	21.5	-3.8	10.9	12.9
EBITDA Margin (%)	10.1	10.7	10.9	11.2	11.5	11.6
EBIT Margin (%)	8.4	8.6	8.6	8.0	8.3	8.5
Payout ratio (%)	38.8	39.0	36.0	31.9	31.9	39.8
ROE (%)	29.5	39.3	38.5	30.1	27.3	25.4
Capex/sales (%)	5.8	6.7	7.0	4.2	4.2	4.2
Capex/depreciation (x)	3.4	3.2	3.1	1.3	1.3	1.3
Net debt/equity (%)	-39.7	-46.6	-16.5	-4.9	-13.9	-24.3
Net interest cover (x)	10.1	8.9	8.2	6.2	6.5	6.6

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial

Nampak Ltd

Business description: Nampak is South Africa's largest and most diversified packaging and paper group. The group controls over 50% of the South African packaging market. Nampak covers most segments of the packaging sector and is able to offer total solutions, spanning paper and board, metal, plastic and glass, as well as a range of composite containers. The group operates in South Africa, and 11 other African countries, as well as eight countries in Europe. The group is the leading supplier of plastic bottles to the dairy industry in the UK and a leading manufacturer of folding cartons in Europe.

Nampak believes in maintaining its diverse presence across all packaging media in South Africa, as well as gradually growing its exposure outside the country, particularly in the rest of Africa. Due to its size and dominance in the local packaging market, we believe the potential for additional local acquisitions is low.

It is cautiously exploring acquisition opportunities in Europe, but opportunities are limited due to market consolidation in the region. In the medium term, management has suggested it could target small healthcare carton companies, and in the longer term, it may consider an acquisition to add onto its much larger folding container business. However, a disposal of one or more of these operations is probably just as possible should it continue to underperform.

From the macroeconomic perspective however, the outlook remains negative: we expect the currency to remain strong over the medium term, consumer spending to remain depressed, and commodity prices to firm over the medium term. Despite the negative volumes, higher interest costs and substantial losses incurred in the corrugated business; the management team's focus on improving returns through elimination of underperformers gives the group a new opportunity to change direction.

Drivers: Operations comprise three segments:

- **Metals and glass.** Nampak is the sole beverage can manufacturer in sub-Saharan Africa. The company also manufactures metal ends, crowns and closures. The group also has a 50% stake in Nampak Wiegand Glass, which manufactures a range of clear and coloured glass bottles.
- **Paper (Africa and Europe).** The group manufactures paper-based carton packaging – folding cartons, corrugated cartons, liquid cartons and display cartons among others.
- **Plastics (Africa and Europe).** The group manufactures both rigid plastics (PET and HDPE bottles) and flexible plastics (reels, pouches and bags in film, paper or foil).

Outlook: Nampak's diversified nature makes it difficult for the stock to compete with more nimble niche players but it is able to offer customers complete solutions. Nampak has a number of large blue-chip customers but these customers are able to exert significant pressure on Nampak to ensure the best possible prices. In the medium-term, however we expect Nampak to be hurt by low volume growth, weak pricing power, and rising debt levels. We rate the stock as **Sell** given our concerns over near-term prospects.

Valuation: We value Nampak using a DCF methodology due to the slow growth, mature nature of this business and its industry. We use an 11.8% WACC based on an 8.5% risk free rate, and Nampak's embedded debt to market cap ratio of 20% and a perpetuity growth rate of 4% (projected South African packaging industry growth predicated on South African GDP growth of 4%).

Risks: Upside risks: A weaker than expected currency benefiting both translation of foreign earnings and increased export demand: up to 38% of group operating earnings are generated in currencies other than rand, while c.60% of beverage can volumes are exported, hence benefit from weaker currency. Sooner than expected recovery in non durable consumer spending: the group is South Africa's biggest producer of packaging, the vast majority of which is used in the non durable spending related sectors, such as fast food, wines, and tissue paper.

Model updated: 25 November 2009

Running the Numbers

S. Africa

South Africa

General Industrial

Nampak Ltd

Reuters: NPKJ.J Bloomberg: NPK SJ

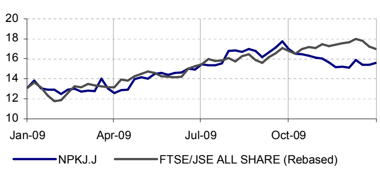
Sell

Price (29 Jan 10)	ZAR 15.60
Target price	ZAR 12.20
52-week Range	ZAR 12.34 – 17.85
Market Cap	ZAR 9,087m US$ 1,204m

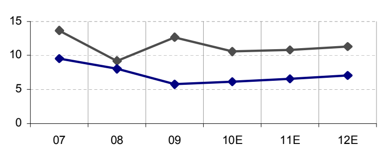
Company Profile

Nampak is Africa's largest and most diversified packaging manufacturer. It has operations in several countries in Europe.

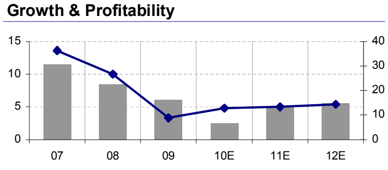
1yr Price Performance



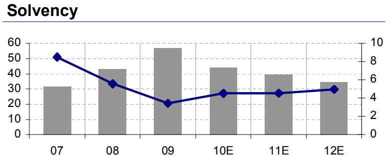
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	1.77	2.62	0.81	1.13	1.27	1.47
Reported EPS (ZAR)	1.76	2.62	0.81	1.13	1.27	1.47
DPS (ZAR)	1.15	1.00	0.41	0.57	0.64	0.74
BVPS (ZAR)	8.73	8.66	7.42	8.04	8.63	9.32
Weighted average shares (m)	583	583	583	583	583	583
Average market cap (ZARm)	12,358	10,109	8,077	9,087	9,087	9,087
Enterprise value (ZARm)	12,874	12,428	10,613	11,162	11,073	10,635
Valuation Metrics						
P/E (DB) (x)	12.0	6.6	17.0	13.8	12.3	10.6
P/E (Reported) (x)	12.1	6.6	17.0	13.8	12.3	10.6
P/BV (x)	2.48	1.62	2.29	1.94	1.81	1.67
FCF Yield (%)	0.9	4.0	11.1	8.4	16.1	nm
Dividend Yield (%)	5.4	5.8	2.9	3.6	4.1	4.7
EV/Sales (x)	0.76	0.67	0.54	0.56	0.53	0.48
EV/EBITDA (x)	5.5	7.3	4.3	5.3	4.9	4.2
EV/EBIT (x)	7.9	8.4	9.4	9.1	8.0	6.8
Income Statement (ZARm)						
Sales revenue	**17,014**	**18,458**	**19,585**	**20,078**	**21,087**	**22,256**
Gross profit	**8,523**	**7,900**	**9,156**	**9,242**	**9,622**	**10,155**
EBITDA	**2,323**	**1,700**	**2,482**	**2,123**	**2,279**	**2,517**
Depreciation	702	751	875	891	895	949
Amortisation	7	0	0	0	0	0
EBIT	**1,621**	**1,481**	**1,128**	**1,232**	**1,384**	**1,569**
Net interest income(expense)	-191	-265	-328	-272	-304	-316
Associates/affiliates	9	9	0	0	0	0
Exceptionals/extraordinaries	14	-69	-532	0	0	0
Other pre-tax income/(expense)	7	5	6	6	7	7
Profit before tax	**1,442**	**1,229**	**274**	**966**	**1,087**	**1,260**
Income tax expense	386	202	70	294	330	383
Minorities	2	-21	-3	-9	-9	-9
Other post-tax income/(expense)	0	591	0	0	0	0
Net profit	**1,066**	**1,569**	**206**	**681**	**765**	**886**
DB adjustments (including dilution)	31	24	284	0	0	0
DB Net profit	**1,097**	**1,593**	**490**	**681**	**765**	**886**
Cash Flow (ZARm)						
Cash flow from operations	**0**	**1,983**	**2,021**	**1,857**	**2,626**	**0**
Net Capex	108	-1,576	-1,122	-1,094	-1,160	0
Free cash flow	**108**	**407**	**899**	**764**	**1,466**	**0**
Equity raised/(bought back)	-552	0	0	0	0	0
Dividends paid	0	-647	-542	-246	-581	0
Net inc/(dec) in borrowings	528	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	**84**	**-240**	**357**	**518**	**884**	**0**
Change in working capital	*0*	*-160*	*198*	*98*	*86*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	604	1,728	1,016	1,477	1,566	1,706
Tangible fixed assets	5,667	6,747	6,393	6,595	6,818	7,052
Goodwill/intangible assets	1,079	473	389	389	389	389
Associates/investments	1,458	299	399	399	399	698
Other assets	5,386	6,205	5,519	5,878	6,262	6,492
Total assets	**14,194**	**15,451**	**13,717**	**14,739**	**15,434**	**16,337**
Interest bearing debt	2,528	4,311	3,927	3,927	3,927	3,927
Other liabilities	4,265	5,212	4,956	5,256	5,449	5,678
Total liabilities	**6,794**	**9,523**	**8,883**	**9,183**	**9,376**	**9,605**
Shareholders' equity	6,002	5,958	5,105	5,532	5,934	6,409
Minorities	49	33	25	25	25	25
Total shareholders' equity	**6,051**	**5,992**	**5,130**	**5,556**	**5,958**	**6,433**
Net debt	*1,925*	*2,584*	*2,911*	*2,450*	*2,361*	*2,221*
Key Company Metrics						
Sales growth (%)	11.5	8.5	6.1	2.5	5.0	5.5
DB EPS growth (%)	-74.5	48.3	-69.0	39.0	12.3	15.8
EBITDA Margin (%)	13.7	9.2	12.7	10.6	10.8	11.3
EBIT Margin (%)	9.5	8.0	5.8	6.1	6.6	7.0
Payout ratio (%)	63.0	37.1	115.1	48.4	48.4	48.4
ROE (%)	36.3	26.6	8.9	12.8	13.4	14.4
Capex/sales (%)	0.0	8.5	5.7	5.4	5.5	0.0
Capex/depreciation (x)	0.0	2.1	1.3	1.2	1.3	0.0
Net debt/equity (%)	31.8	43.1	56.7	44.1	39.6	34.5
Net interest cover (x)	8.5	5.6	3.4	4.5	4.6	5.0

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Pick n Pay Stores Ltd

Business description: Pick n Pay is a holding company with subsidiaries in South Africa, Australia and Zimbabwe. 52% of the shares in the holding company are held by the founding members' family trust. It is predominantly engaged in the mass retailing of food (biggest player domestically with c.33% market share), and also retails clothing, liquor and general merchandise. The group has three main divisions – retail, group enterprises and Franklins Australia.

Drivers: The retail division concentrates on the group's core business of hypermarkets, supermarkets, family and mini market franchise stores and home shopping. Group enterprises manage Score supermarkets, Boxer superstores, TM supermarkets (investment in Zimbabwean associate subsequently written off), and financial services. The group acquired Franklins, a 77-store chain in Australia for R568m in 2002. We estimate the total investment in Australia to date including losses to date at c.R1.5bn Franklins has moved to profitable territory from FY08 (produced R52m trading profit). In addition the lower-end focussed Score format has been discontinued with stores being closed, sold or converted to higher equity brand formats resulting in a substantial reduction in the number of stores.

The group consists of 498 corporate-owned and 284 franchise stores. The 20 hypermarkets generate a substantial portion of group turnover (>20%). The balance of turnover is from 253 supermarkets, 277 domestic franchise stores, 67 Score supermarkets, 83 Boxer superstores, and 82 Franklins supermarkets in Australia. Excluding Score supermarkets and Boxer superstores, which target lower-end customers, most formats target middle to upper income customers.

The primary expansion plans/growth prospects are:

- **Growing the higher-margin franchise model** domestically, including conversion of the underperforming Score stores in to Pick n Pay Family franchise stores.
- **Improving Franklins' profitability in Australia** through expansion of franchise and corporate stores, changing the product mix favouring higher margin categories and rolling out substantial store refurbishments.
- **Domestic expansion of its hypermarket** format (before 2006; the last time the format was expanded was 1991).
- **Recovery from high cost base:** The various significant investments in space, centralised distribution and IT systems resulted in significant additional costs being incurred (consulting fees etc). Off a high base, the y-o-y growth in operating costs should start to abate assisting to defend margins in a lower top line environment.

Outlook: The market has focussed on a number of historical strategic concerns resulting in the stock underperforming peers over the last few years. The biggest stumbling blocks to unlocking value in the stock have been the loss-making Franklins (Australia) operations and domestic Score operations. Franklins has turned profitable due to what we believe are sound operational reasons in the last year resulting in our expectation of continued profitability in the format. In addition, the conversion of Score stores to higher-equity Pick n Pay-branded formats, (which we believe will boost volume growth) is on schedule. Despite the headwinds facing the sector (slowing food inflation, cost inflationary pressures and competition commission investigations) we believe solid earnings growth will be delivered off a lower base. We anticipate mid-teen total return supporting our **Buy** recommendation.

Valuation: We value Pick n Pay using a PE-relative methodology employing a normalised two-year forward PE of 12.9x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 4400cps.

Risks: Key downside risks to our recommendation include: 1) lower food inflation than anticipated, 2) higher capex requirements constraining cash generation, 3) declining cost efficiency as cost inflationary pressures remain and top line inflation slows and 4) possible adverse repercussions from competition commission investigations.

Model updated: 04 December 2009

Running the Numbers

S. Africa

South Africa

General Retailers

Pick'n Pay Stores

Reuters: PIKJ.J	Bloomberg: PIK SJ

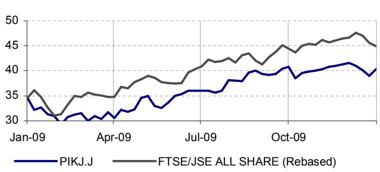
Buy

Price (29 Jan 10)	ZAR 40.30
Target price	ZAR 44.00
52-week Range	ZAR 28.12 – 41.60
Market Cap	ZAR 18,906m US$ 2,506m

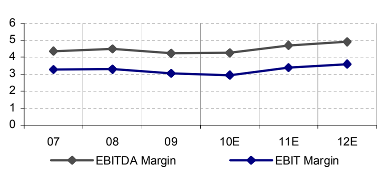
Company Profile

Pick'n Pay is a holding company with subsidiaries in South Africa and Australia. The group is predominantly engaged in the mass retailing of food, but also retails clothing and general merchandise.

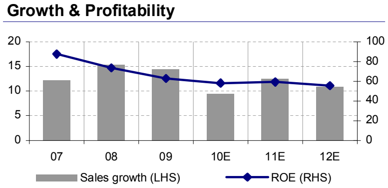
1yr Price Performance



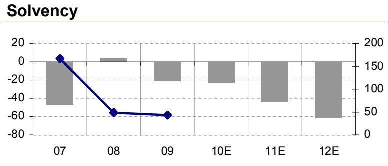
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 28-Feb	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	1.70	1.89	2.07	2.29	2.94	3.50
Reported EPS (ZAR)	1.70	1.89	2.07	2.29	2.94	3.50
DPS (ZAR)	1.35	1.49	1.70	1.88	2.21	2.63
BVPS (ZAR)	2.09	3.00	3.57	4.37	5.58	7.01
Weighted average shares (m)	456	456	469	469	469	469
Average market cap (ZARm)	14,110	15,935	14,223	18,906	18,906	18,906
Enterprise value (ZARm)	13,625	15,989	13,866	18,427	17,728	16,828
Valuation Metrics						
P/E (DB) (x)	18.2	18.5	14.7	17.6	13.7	11.5
P/E (Reported) (x)	18.2	18.5	14.7	17.6	13.7	11.5
P/BV (x)	15.69	10.29	8.69	9.22	7.23	5.75
FCF Yield (%)	2.6	0.4	5.7	2.3	7.2	9.3
Dividend Yield (%)	4.3	4.3	5.6	4.7	5.5	6.5
EV/Sales (x)	0.35	0.35	0.27	0.32	0.28	0.24
EV/EBITDA (x)	7.9	7.8	6.3	7.6	5.9	4.8
EV/EBIT (x)	10.6	10.7	8.8	11.0	8.2	6.6
Income Statement (ZARm)						
Sales revenue	**39,337**	**45,381**	**51,933**	**56,832**	**63,935**	**70,918**
Gross profit	**6,894**	**7,969**	**9,849**	**10,699**	**12,013**	**13,322**
EBITDA	**1,715**	**2,041**	**2,198**	**2,420**	**3,004**	**3,479**
Depreciation	426	548	616	745	838	929
Amortisation	0	0	0	0	0	0
EBIT	**1,288**	**1,493**	**1,582**	**1,675**	**2,166**	**2,550**
Net interest income(expense)	-8	-30	-36	6	14	30
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	46	-5	4	7	0	0
Other pre-tax income/(expense)	26	0	0	0	0	0
Profit before tax	**1,307**	**1,462**	**1,546**	**1,680**	**2,180**	**2,581**
Income tax expense	530	558	568	587	765	896
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**823**	**900**	**982**	**1,101**	**1,415**	**1,684**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**823**	**900**	**982**	**1,101**	**1,415**	**1,684**
Cash Flow (ZARm)						
Cash flow from operations	**1,499**	**926**	**1,815**	**1,888**	**2,358**	**2,872**
Net Capex	-1,129	-861	-1,003	-1,450	-1,000	-1,109
Free cash flow	**370**	**65**	**812**	**438**	**1,358**	**1,762**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-524	-615	-718	-880	-830	-986
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-115	24	312	558	170	125
Net cash flow	**-269**	**-526**	**407**	**116**	**698**	**901**
Change in working capital	*296*	*-527*	*221*	*49*	*106*	*258*
Balance Sheet (ZARm)						
Cash and other liquid assets	709	663	1,073	1,331	2,030	2,930
Tangible fixed assets	2,525	2,771	2,937	3,642	3,804	3,985
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	9	0	0	0	0	0
Other assets	4,398	5,726	6,466	6,947	7,646	8,332
Total assets	**7,642**	**9,160**	**10,476**	**11,921**	**13,480**	**15,247**
Interest bearing debt	233	718	716	852	852	852
Other liabilities	6,393	7,009	8,064	8,971	9,946	11,015
Total liabilities	**6,626**	**7,727**	**8,781**	**9,823**	**10,798**	**11,867**
Shareholders' equity	1,015	1,434	1,696	2,098	2,682	3,380
Minorities	0	0	0	0	0	0
Total shareholders' equity	**1,015**	**1,434**	**1,696**	**2,098**	**2,682**	**3,380**
Net debt	*-476*	*55*	*-356*	*-479*	*-1,178*	*-2,078*
Key Company Metrics						
Sales growth (%)	12.1	15.4	14.4	9.4	12.5	10.9
DB EPS growth (%)	16.8	11.0	9.6	11.1	28.2	18.8
EBITDA Margin (%)	4.4	4.5	4.2	4.3	4.7	4.9
EBIT Margin (%)	3.3	3.3	3.0	2.9	3.4	3.6
Payout ratio (%)	74.5	75.6	81.2	79.9	73.3	73.2
ROE (%)	87.6	73.5	62.8	58.1	59.2	55.6
Capex/sales (%)	2.9	1.9	1.9	2.6	1.6	1.6
Capex/depreciation (x)	2.6	1.6	1.6	1.9	1.2	1.2
Net debt/equity (%)	-46.8	3.8	-21.0	-22.8	-43.9	-61.5
Net interest cover (x)	167.3	49.3	43.7	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Construction & Building Materials

Pretoria Portland Cement Company Ltd

Business description: PPC is the leading producer of cement and related products in southern Africa, producing principally cement lime and aggregates for sale in the southern Africa region. PPC's non-cement businesses include PPC Lime, which supplies c.60% of South Africa's lime needs from one of the largest lime plants in the world, near Kimberley. Lime is mainly used as an additive in the production of steel. The group also owns a quarry that produces aggregates, a by-product used in the building industry.

The group is focused on delivering product to its southern African markets and exports very little product. While capacity utilisation at present is providing a bottleneck to growth, the group has been implementing a substantial capacity expansion plan with a new clinker production line of 1m tonne per annum commissioned at the end of September 2008 in Batsweledi Dwaalboom. PPC has also installed a new clinker grinding facility at PPC Hercules works in Pretoria to expand its cement milling capacity.

Drivers: The key driver of earnings growth is the residential building and construction industry, which consumes up to 60% of all cement produced in South Africa. Demand growth is therefore closely related to the interest rate cycle and to growth in household incomes. Lime and aggregates division is impacted by the steel and alloy industry performance.

PPC announced results for FY09 showing fully diluted HEPS down 40% to 170c largely on account of the once-off IFRS2 charge incurred on the implementation of the BEE deal over 1H09. The total dividend declared for the year declined by 11% to 200c.

We found the key drivers of the decline in earnings was the combination of lower industry cement volumes and, increased finance costs on the back of the increased debt burden due to the BEE deal. EBITDA margins were maintained in the core cement business; however, both the lime and aggregates businesses suffered from lower demand and increased competition respectively.

Outlook: Our outlook for PPC over the short to medium term future remains bleak: we fail to see a short term catalyst for cement volume growth recovery while the admission of guilt plea recently made to the competition commission placed the group under a significant cloud, which could lead to difficulties in implementing appropriate price increases in the short term, and increase competition in previously exclusively held markets. We also question how sustainable price increases can be in a declining demand environment such as the one the industry now faces. **Hold**.

Valuation: We value PPC on a DCF basis with a 15% WACC, a 15% debt/capital ratio, long run operating margin of 25%. The WACC is based on a fair cost of debt of 8.0%, a calculated beta of 1.1 and a market risk premium of 4.5% in line with our house view.

Risks: Upside risks: Better than forecast price realisations in the regional cement markets; interest rates falling further than current levels: this would be positive for residential construction, which consumes a significant proportion of all cement manufactured in South Africa. Downside risks: Further adverse findings by the competition commission; faster than expected entry of new competitors into the market.

Model updated: 12 November 2009

Running the Numbers

S. Africa

South Africa

Construction & Building Materials

PPC Ltd

Reuters: PPCJ.J Bloomberg: PPC SJ

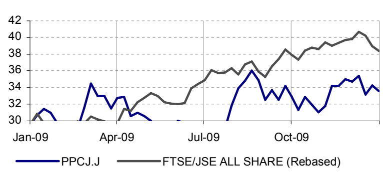
Hold

Price (29 Jan 10)	ZAR 33.55
Target price	ZAR 31.00
52-week Range	ZAR 26.09 – 36.00
Market Cap	ZAR 16,427m
	US$ 2,177m

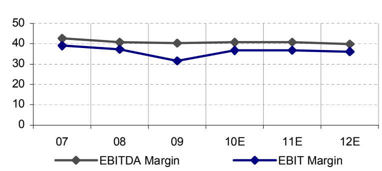
Company Profile

PPC is the largest cement and lime producer in SA. It also has operations in Zimbabwe and Botswana

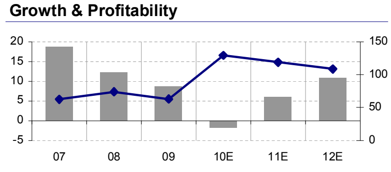
1yr Price Performance



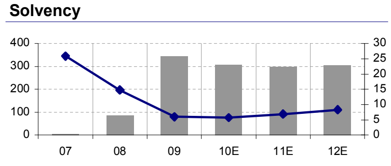
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	2.65	2.84	1.69	2.66	2.93	3.29
Reported EPS (ZAR)	2.65	2.84	1.69	2.66	2.93	3.29
DPS (ZAR)	2.66	2.25	2.00	2.22	2.44	2.08
BVPS (ZAR)	4365427.51	3184014.87	1700743.49	2043050.79	2435837.77	na
Weighted average shares (m)	538	530	490	490	490	490
Average market cap (ZARm)	23,375	20,438	14,733	16,427	16,427	16,427
Enterprise value (ZARm)	23,236	21,614	17,811	19,723	20,254	21,387
Valuation Metrics						
P/E (DB) (x)	16.4	13.6	17.8	12.6	11.5	10.2
P/E (Reported) (x)	16.4	13.6	17.8	12.6	11.5	10.2
P/BV (x)	0.00	0.00	0.00	0.00	0.00	na
FCF Yield (%)	2.9	4.2	4.0	4.5	4.4	1.3
Dividend Yield (%)	6.1	5.8	6.6	6.6	7.3	6.2
EV/Sales (x)	4.17	3.46	2.63	2.96	2.87	2.74
EV/EBITDA (x)	9.8	8.5	6.5	7.3	7.0	6.9
EV/EBIT (x)	10.7	9.3	8.3	8.1	7.8	7.6
Income Statement (ZARm)						
Sales revenue	**5,566**	**6,248**	**6,783**	**6,660**	**7,053**	**7,813**
Gross profit	**2,497**	**2,701**	**2,886**	**2,797**	**2,962**	**3,391**
EBITDA	**2,366**	**2,541**	**2,733**	**2,710**	**2,875**	**3,111**
Depreciation	192	214	309	272	288	285
Amortisation	0	0	285	0	0	0
EBIT	**2,174**	**2,327**	**2,139**	**2,438**	**2,587**	**2,826**
Net interest income(expense)	-84	-157	-357	-424	-373	-339
Associates/affiliates	1	10	7	8	8	0
Exceptionals/extraordinaries	14	6	0	0	0	0
Other pre-tax income/(expense)	82	84	61	70	76	82
Profit before tax	**2,187**	**2,270**	**1,850**	**2,091**	**2,298**	**2,569**
Income tax expense	765	767	722	788	865	958
Minorities	0	0	104	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,422**	**1,503**	**1,024**	**1,303**	**1,433**	**1,611**
DB adjustments (including dilution)	0	0	-196	0	0	0
DB Net profit	**1,422**	**1,503**	**828**	**1,303**	**1,433**	**1,611**
Cash Flow (ZARm)						
Cash flow from operations	**1,634**	**1,661**	**1,507**	**1,699**	**1,740**	**1,931**
Net Capex	-954	-794	-921	-963	-1,022	-1,713
Free cash flow	**680**	**867**	**586**	**736**	**718**	**218**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,237	-1,399	-1,195	-1,120	-1,221	-1,265
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	**-557**	**-532**	**-609**	**-384**	**-503**	**-1,046**
Change in working capital	*-35*	*-103*	*-210*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,301	224	248	30	-500	-1,634
Tangible fixed assets	2,178	2,813	3,941	4,632	5,365	6,793
Goodwill/intangible assets	20	19	53	53	53	53
Associates/investments	272	274	66	66	66	66
Other assets	1,111	1,218	1,511	1,478	1,554	1,699
Total assets	**4,882**	**4,548**	**5,819**	**6,259**	**6,538**	**6,978**
Interest bearing debt	1,434	1,674	3,392	3,392	3,392	3,392
Other liabilities	1,087	1,146	1,511	1,700	1,768	1,862
Total liabilities	**2,521**	**2,820**	**4,903**	**5,092**	**5,160**	**5,254**
Shareholders' equity	2,349	1,713	915	1,099	1,310	1,656
Minorities	0	0	0	0	0	0
Total shareholders' equity	**2,349**	**1,713**	**915**	**1,099**	**1,310**	**1,656**
Net debt	*133*	*1,450*	*3,144*	*3,362*	*3,892*	*5,026*
Key Company Metrics						
Sales growth (%)	18.8	12.3	8.6	-1.8	5.9	10.8
DB EPS growth (%)	17.3	7.2	-40.4	57.4	9.9	12.4
EBITDA Margin (%)	42.5	40.7	40.3	40.7	40.8	39.8
EBIT Margin (%)	39.1	37.2	31.5	36.6	36.7	36.2
Payout ratio (%)	100.4	79.3	95.6	83.4	83.3	63.3
ROE (%)	62.5	74.0	63.0	129.4	118.9	108.6
Capex/sales (%)	17.1	12.7	13.6	14.5	14.5	21.9
Capex/depreciation (x)	5.0	3.7	1.6	3.5	3.5	6.0
Net debt/equity (%)	5.7	84.6	343.6	305.9	297.0	303.4
Net interest cover (x)	25.9	14.8	6.0	5.7	6.9	8.3

Source: Company data, Deutsche Bank estimates

Switzerland – Luxury Goods

Richemont

Business description: Richemont is a Switzerland-based luxury goods company. Late last year the group disposed of its significant investment in the London-listed British American Tobacco (BAT) leaving the group as pure luxury play with some of the most enviable luxury goods brands in the world, including Cartier, Van Cleef & Arpels, Vacheron Constantin, IWC, Piaget, Montblanc, Chloe, Lancel, Dunhill, among others.

Drivers: Richemont is one of the world's premier luxury goods groups. It controls companies that manufacture, distribute and retail a range of luxury products including jewellery, watches, writing instruments, leather goods, apparel and accessories. Cartier, Richemont's primary brand, is a global leader in high-end jewellery and a significant player in watches. Richemont is also a global leader in luxury watches. In jewellery, Richemont is predominantly a retailer with the majority of its jewellery sold through its own, single-brand boutiques. In watches, Richemont is mainly a wholesaler.

Jewellery maisons includes Cartier and Van Cleef & Arpels (VCA). VCA is not as established as Cartier but is rapidly growing its presence in the market. Specialist watchmakers include the watch focused brands like IWC, Panerai and Jaeger-LeCoultre. Writing instruments is predominantly Montblanc despite Montblanc sales being significantly less reliant on pen sales than it was a number of years ago. The leather and accessories segment includes Dunhill and Lancel – soft luxury brands that have struggled in recent years to retain the strong position they once enjoyed. Finally, the other segment includes a number of smaller brands, the most important of which is the fashion brand Chloe.

Outlook: Hard luxury has been hit particularly hard during the current economic and financial crises. The strength of Richemont's business model – with its unique portfolio of brands, strong balance sheet with over EUR800m of net cash, attractive EM exposure (>35% of sales) and strong focus on Chinese consumers (c.20% of sales), and tight control of operations – should help ensure that the group exits the crisis in a stronger competitive position. We believe Richemont remains one of the best recovery plays in luxury due to the high level of operational leverage. This, coupled with the cost and capital employed control measures enacted at the inception of the crises should translate into a material earnings rebound as soon as the top line outlook improves. Hence there could be a cycle of earnings upgrades, and this has started post well received 1H results. Next inflection point must come from an improvement of the top line and the January trading update could be an important catalyst in this respect. **Buy**.

Valuation: We value Richemont using a DCF valuation (WACC: 9.5%, risk free rate: 4.5%, equity risk premium: 4.5%, sustainable margin: 19%, perpetuity growth: 2.5%). The WACC reflects the cost of equity of the business as it is currently debt free and uses a beta of 1.1x to reflect the high-beta nature of the luxury industry. We use a perpetuity growth rate of 2.5% to reflect the above-average growth prospects in the sector.

Risks: The luxury sector is driven by momentum. Clearly a slowdown in global demand or a marked change in consumer confidence would see the momentum slow and are key downside risks. The company is exposed to sharp moves in the euro relative to the yen or dollar. A 10% move in dollar/euro for example could affect luxury EBIT by 10% either positively or negatively depending on the direction of the move. Furthermore, on the downside, significant cost inflation could erode the benefit of improved sales or the company could use its cash pile to overpay for an acquisition.

Model updated: 19 January 2010

Running the Numbers

Europe

Switzerland

Luxury Goods

Richemont

Reuters: CFR.VX Bloomberg: CFR VX

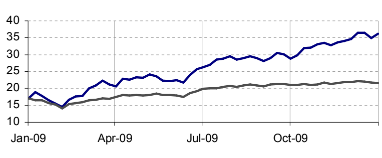
Buy

Price (29 Jan 10)	CHF 36.20
Target price	CHF 41.00
52-week Range	CHF 14.23 – 37.94
Market Cap	CHF 20,323m US$ 19,280m

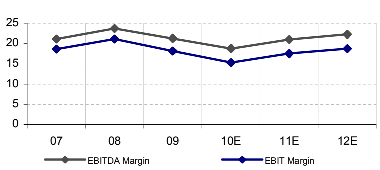
Company Profile

Compagnie Financiere Richemont AG is a holding company. The company provides financial and operational control over companies manufacturing luxury goods such as jewellery, watches, leather goods, writing instruments, and mens' and womens' wear. Richemont also holds a significant investment in tobacco.

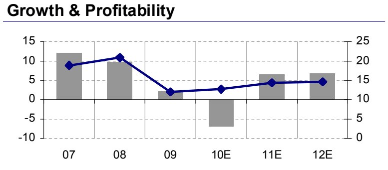
1yr Price Performance



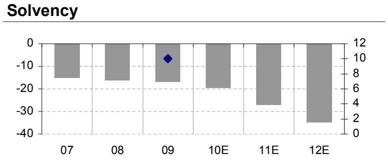
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (€)	1.35	1.69	1.33	1.14	1.41	1.60
Reported EPS (€)	2.37	2.79	1.33	1.14	1.41	1.60
DPS (€)	1.25	0.78	0.44	0.44	0.44	0.44
BVPS (€)	13.38	13.62	8.69	9.35	10.41	11.65
Weighted average shares (m)	561	561	561	561	561	561
Average market cap (€m)	11,662	12,986	9,320	13,871	13,871	13,871
Enterprise value (€m)	2,320	2,174	8,291	12,948	12,571	11,947
Valuation Metrics						
P/E (DB) (x)	4.3	3.5	12.4	21.5	17.4	15.3
P/E (Reported) (x)	8.8	8.3	12.5	21.7	17.5	15.5
P/BV (x)	1.65	1.38	1.35	2.64	2.37	2.12
FCF Yield (%)	10.2	9.8	2.9	3.5	5.4	6.5
Dividend Yield (%)	6.0	3.4	2.7	1.8	1.8	1.8
EV/Sales (x)	0.48	0.41	1.53	2.57	2.34	2.08
EV/EBITDA (x)	2.3	1.7	7.2	13.7	11.1	9.3
EV/EBIT (x)	2.6	1.9	8.4	16.7	13.3	11.1
Income Statement (€m)						
Sales revenue	**4,827**	**5,302**	**5,418**	**5,046**	**5,382**	**5,752**
Gross profit	**4,827**	**5,302**	**5,418**	**5,046**	**5,382**	**5,752**
EBITDA	**1,021**	**1,259**	**1,152**	**948**	**1,130**	**1,281**
Depreciation	121	139	170	173	187	202
Amortisation	0	0	0	0	0	0
EBIT	**900**	**1,120**	**982**	**775**	**943**	**1,079**
Net interest income(expense)	31	37	-98	5	32	32
Associates/affiliates	578	622	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**931**	**1,157**	**884**	**780**	**974**	**1,110**
Income tax expense	158	194	133	134	175	205
Minorities	1	0	-1	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,350**	**1,585**	**752**	**646**	**799**	**905**
DB adjustments (including dilution)	-578	-622	0	0	0	0
DB Net profit	**772**	**963**	**752**	**646**	**799**	**905**
Cash Flow (€m)						
Cash flow from operations	**1,351**	**1,450**	**560**	**652**	**927**	**1,088**
Net Capex	-162	-177	-293	-165	-185	-185
Free cash flow	**1,189**	**1,273**	**267**	**487**	**742**	**903**
Equity raised/(bought back)	63	-37	-84	-100	0	0
Dividends paid	-612	-701	-438	-249	-249	-249
Net inc/(dec) in borrowings	208	96	186	0	0	0
Other investing/financing cash flows	132	143	489	0	0	0
Net cash flow	**980**	**774**	**420**	**138**	**494**	**654**
Change in working capital	*-121*	*-274*	*-361*	*-167*	*-59*	*-19*
Balance Sheet (€m)						
Cash and other liquid assets	1,881	2,082	1,844	2,054	2,598	3,302
Tangible fixed assets	808	975	1,148	1,140	1,137	1,120
Goodwill/intangible assets	114	232	386	386	386	386
Associates/investments	3,784	3,250	337	337	337	337
Other assets	2,526	2,936	3,203	3,315	3,448	3,563
Total assets	**9,113**	**9,475**	**6,918**	**7,232**	**7,906**	**8,708**
Interest bearing debt	740	836	1,022	1,022	1,022	1,022
Other liabilities	860	987	1,013	962	1,043	1,148
Total liabilities	**1,600**	**1,823**	**2,035**	**1,984**	**2,065**	**2,170**
Shareholders' equity	7,511	7,648	4,880	5,248	5,843	6,542
Minorities	2	4	3	3	3	3
Total shareholders' equity	**7,513**	**7,652**	**4,883**	**5,251**	**5,846**	**6,545**
Net debt	*-1,141*	*-1,246*	*-822*	*-1,032*	*-1,576*	*-2,280*
Key Company Metrics						
Sales growth (%)	12.0	9.8	2.2	-6.9	6.7	6.9
DB EPS growth (%)	29.7	25.0	-21.6	-14.1	23.7	13.2
EBITDA Margin (%)	21.1	23.7	21.3	18.8	21.0	22.3
EBIT Margin (%)	18.6	21.1	18.1	15.3	17.5	18.8
Payout ratio (%)	52.0	27.6	33.0	38.4	31.1	27.4
ROE (%)	18.9	20.9	12.0	12.8	14.4	14.6
Capex/sales (%)	4.2	5.0	5.4	3.3	3.4	3.2
Capex/depreciation (x)	1.7	1.9	1.7	1.0	1.0	0.9
Net debt/equity (%)	-15.2	-16.3	-16.8	-19.7	-27.0	-34.8
Net interest cover (x)	nm	nm	10.0	nm	nm	nm

Source: Company data, Deutsche Bank estimates

UK – Beverage

SABMiller plc

Business description: After an aggressive acquisition trail, SABMiller (SABM) has become a truly global brewing company, as well as one of the largest Coca-Cola bottlers in the world. The group is primarily involved in manufacture, distribution and sale of beverages with the help of their wide portfolio of brands. The first transformational deal for the group was when SA Breweries plc acquired Miller Brewing Co for USD5.6bn in July 2002. The tie-up with MolsonCoors, SABMiller has 58% stake in the MillerCoors JV, has delivered strong earnings growth as the group has successfully executed on its target to deliver USD500m of synergies by year three (an 'extra' USD200m synergy target was recently announced for 2011/2012). The acquisition of Colombian listed Bavaria in late October 2005 was followed up with the acquisition of the iconic Dutch brand Grolsch early in 2008.

Drivers: Latin America is now the biggest country contributor to profits as a region. SABMiller has a c.90% share of the beer market in South Africa. In FY09, the South African beer business contributed about 21% of group EBITA. The adverse economic conditions have resulted in a decline in volumes. Latin America now comprises 28% of the group EBITA and we expect the relative contribution from this business to increase over time.

SABMiller in Europe (FY09 EBITA: 22%) operates in the Czech Republic, Poland, Romania, Hungary, Slovakia, Russia, Canaries, Italy and now Holland following the acquisition of Grolsch. This region is facing a reduced consumer spending due to tough economic conditions. In Africa and Asia (15% of group EBITA), the group operates in over 30 African countries, China, India and recently Australia and Vietnam. The African operations, however, still account for the bulk of EBITA.

Outlook: SABMiller remains an emerging market play with around 80% of its operating profit coming from these regions. This exposure is helping SABMiller to produce better volume growth than its peers, but we remain cautious on the nearer term volume outlook. For now the stock is trading close to our DCF value so we maintain our **Hold** stance.

Valuation: Although we think SAB'Millers risk profile is a little higher than its European peers', the divergence in trading trends between the developed and emerging markets should result in it also enjoying a superior organic growth outlook. For this reason we believe it warrants a sector multiple. Our DCF-based valuation (WACC: 9.6%, risk-free rate 6.5%, beta 0.9, ERP: 4.3% net debt / EV 20% and perpetuity growth rate: 1.5%) incorporates the current capital structure of the group. The perpetuity growth rate is in line with the sector and reflects the longer-term growth rates in the beverage universe. We inflate our risk free rate by blending the sovereign credit spreads for the markets to which SABMiller is exposed to reflect the risk in emerging markets. We think that a DCF valuation is the most appropriate valuation methodology due to typically high cash generation in the sector.

Risks: SABMiller's heavy emerging market bias presents obvious risks in terms of economic and currency related instability within these territories. The volatility of some of the key emerging market currencies (particularly the South African rand, Colombian peso and Polish zloty against the US dollar) provides an illustration of these risks. Other key risks on the downside are potential overpayment for an acquisition target, and a more prolonged or severe slowdown in emerging markets. Upside risks include is a quicker improvement in the economic conditions in the key markets, and an improved margin performance from cost-control initiatives and reducing input cost inflation.

Model updated: 19 January 2010

Running the Numbers

Europe

UK

Beverage

SABMiller

Reuters: SAB.L Bloomberg: SAB LN

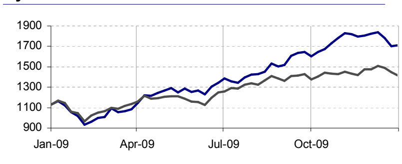
Hold

Price (29 Jan 10)	GBp 1711.00
Target price	GBp 1700.00
52-week Range	GBp 921.00 – 1852.00
Market Cap	£ 26,588m US$ 42,604m

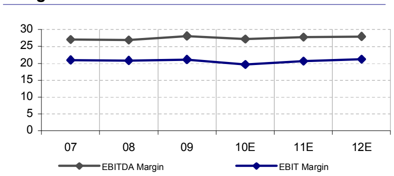
Company Profile

South African Breweries plc is an international beer company, which also operates within the consumer markets of South Africa. The Group manufactures and distributes beer through over 75 breweries in some 21 countries. They also own hotels throughout Africa, offer gaming services across South Africa, and bottle and distribute a number of soft drinks, including Coca-Cola and Schweppes.

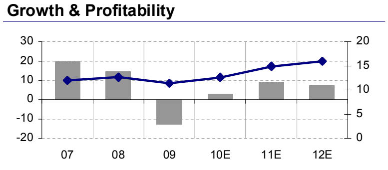
1yr Price Performance



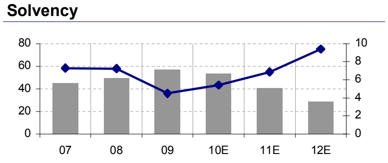
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS ($)	1.19	1.42	1.37	1.62	1.86	2.10
Reported EPS ($)	1.10	1.34	1.25	1.29	1.64	1.92
DPS ($)	0.50	0.58	0.58	0.65	0.74	0.84
BVPS ($)	9.62	11.69	10.23	10.57	11.52	12.67
Weighted average shares (m)	1,496	1,500	1,502	1,554	1,565	1,567
Average market cap (US$m)	30,394	37,854	27,791	42,604	42,915	42,969
Enterprise value (US$m)	38,289	47,411	34,063	39,051	37,813	36,103
Valuation Metrics						
P/E (DB) (x)	17.0	17.7	13.5	16.9	14.7	13.0
P/E (Reported) (x)	18.5	18.8	14.8	21.2	16.7	14.2
P/BV (x)	2.27	1.88	1.45	2.59	2.38	2.16
FCF Yield (%)	4.3	2.0	5.6	4.7	6.1	6.9
Dividend Yield (%)	2.5	2.3	3.1	2.4	2.7	3.1
EV/Sales (x)	2.58	2.78	2.29	2.54	2.25	2.00
EV/EBITDA (x)	9.5	10.3	8.2	9.4	8.1	7.1
EV/EBIT (x)	12.3	13.3	10.8	12.9	10.9	9.4
Income Statement (US$m)						
Sales revenue	**14,862**	**17,057**	**14,883**	**15,355**	**16,791**	**18,062**
Gross profit	**8,575**	**9,665**	**8,402**	**8,318**	**9,312**	**10,130**
EBITDA	**4,019**	**4,598**	**4,179**	**4,176**	**4,660**	**5,050**
Depreciation	737	848	829	953	982	1,011
Amortisation	162	190	204	206	208	205
EBIT	**3,120**	**3,560**	**3,146**	**3,017**	**3,471**	**3,834**
Net interest income(expense)	-428	-491	-699	-556	-505	-408
Associates/affiliates	205	272	516	941	1,138	1,259
Exceptionals/extraordinaries	-93	-77	-5	-421	-222	-133
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**2,599**	**2,992**	**2,442**	**2,040**	**2,744**	**3,293**
Income tax expense	921	976	801	772	1,018	1,209
Minorities	234	265	276	191	283	313
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,649**	**2,023**	**1,881**	**2,018**	**2,580**	**3,029**
DB adjustments (including dilution)	147	124	184	518	346	284
DB Net profit	**1,796**	**2,147**	**2,065**	**2,536**	**2,926**	**3,313**
Cash Flow (US$m)						
Cash flow from operations	**2,670**	**2,699**	**3,623**	**3,394**	**3,805**	**4,286**
Net Capex	-1,351	-1,927	-2,072	-1,400	-1,198	-1,316
Free cash flow	**1,319**	**772**	**1,551**	**1,994**	**2,607**	**2,971**
Equity raised/(bought back)	8	6	-14	1,110	0	0
Dividends paid	-681	-769	-877	-901	-1,059	-1,206
Net inc/(dec) in borrowings	-537	1,454	864	0	0	0
Other investing/financing cash flows	-213	-1,569	-551	-1,110	0	0
Net cash flow	**-104**	**-106**	**973**	**1,093**	**1,548**	**1,765**
Change in working capital	*-48*	*-215*	*-497*	*351*	*158*	*173*
Balance Sheet (US$m)						
Cash and other liquid assets	481	673	409	1,502	3,051	4,816
Tangible fixed assets	6,750	9,113	7,404	7,746	7,853	8,044
Goodwill/intangible assets	17,151	20,169	12,463	13,207	13,041	12,880
Associates/investments	1,473	1,924	7,376	7,564	7,792	8,044
Other assets	2,881	4,203	3,967	3,864	3,897	3,971
Total assets	**28,736**	**36,082**	**31,619**	**33,884**	**35,634**	**37,755**
Interest bearing debt	7,231	9,658	9,618	10,692	10,692	10,692
Other liabilities	6,504	8,180	5,888	6,061	6,177	6,349
Total liabilities	**13,735**	**17,838**	**15,506**	**16,753**	**16,869**	**17,041**
Shareholders' equity	14,406	17,545	15,375	16,528	18,049	19,873
Minorities	595	699	738	586	699	824
Total shareholders' equity	**15,001**	**18,244**	**16,113**	**17,114**	**18,748**	**20,697**
Net debt	*6,750*	*8,985*	*9,209*	*9,189*	*7,641*	*5,876*
Key Company Metrics						
Sales growth (%)	20.1	14.8	-12.7	3.2	9.4	7.6
DB EPS growth (%)	10.1	19.3	-3.9	18.7	14.5	13.1
EBITDA Margin (%)	27.0	27.0	28.1	27.2	27.8	28.0
EBIT Margin (%)	21.0	20.9	21.1	19.6	20.7	21.2
Payout ratio (%)	45.4	43.0	46.3	50.1	44.9	43.5
ROE (%)	12.0	12.7	11.4	12.7	14.9	16.0
Capex/sales (%)	9.8	11.9	14.4	9.1	7.1	7.3
Capex/depreciation (x)	1.9	2.3	2.5	1.4	1.2	1.2
Net debt/equity (%)	45.0	49.2	57.2	53.7	40.8	28.4
Net interest cover (x)	7.3	7.3	4.5	5.4	6.9	9.4

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Shoprite Holdings Ltd

Business description: Shoprite is involved in supermarket chains, property, fresh produce and furniture. The group is the largest FMCG retailer in Africa, operating in South Africa and 16 other African countries. Domestic FMCG, African FMCG and furniture contribute c.78%, 16% and 6% of EBIT respectively. The chairman of the company indirectly owns 15% of the company and together with voting rights through a deferred share scheme, controls c.43% of the total voting rights.

Shoprite has subsidiaries in supermarket, produce distribution and property businesses, operating 1,106 supermarkets, hypermarkets and furniture stores. The retail supermarkets include 383 Shoprite stores and 134 Checkers stores. The target markets are Shoprite (middle to lower income) and Checkers (middle to upper income). The 24 hypermarkets target middle to upper income groups, providing customers with a wide selection of food and electrical appliances. Usave (154 stores) is a no-frills low price-point format with a limited product range that targets lower income consumers. The Usave format is also used as a beachhead for expansion into Africa. The furniture retail operations, House & Home (46 stores) and OK Furniture (204 stores), cater for the middle and middle to lower income groups respectively. In addition, 125 Hungry Lion fast-food outlets, 14 OK Power Express stores; and 22 distribution centres supplying group stores with groceries, on-foods and fresh produce are operated.

Shoprite's convenience shopping initiative is channelled through the OK franchise division, with three different retail formats constituting 265 stores with the OK branding.

The group's other operations include: 1) The Meat Market, which procures fresh meat and supplies Shoprite/Checkers supermarkets, 2) Freshmark, which distributes fresh produce to the group's supermarkets and other retailers, 3) Money Market including provision of basic banking transactions to customers (money transfers and bill payments) and the sale of tickets for transport and major events/shows, etc, 5) Medi-Rite, a chain of small pharmacies, and 6) Hungry Lion, a fast food take-away operation (125 outlets).

Drivers: Shoprite's primary expansion plans/growth drivers include

- Strategic repositioning of the Checkers brand, increasing the group's competitiveness in the high-end consumer segment,
- Continued aggressive new store expansion domestically, particularly the Usave brand in rural areas and Africa, and
- Further expansion into commodity-rich African countries.

Performance in the African operations has improved and they contribute 16% of group EBIT and 15% of group turnover. Management retains its view that the African operations could contribute up to 50% of group operating profits over a five year period. This does not appear likely to us, based on historically achieved and projected store growth rates, primarily due to the extent of infrastructural constraints in the designated countries.

Outlook: Our outlook for Shoprite is muted given concerns over the sustainability of the African operations top-line growth and operating margins and the potential negative impact on domestic volumes from unemployment. Despite our expectations of a drop-off in demand and margin compression in the furniture business in the near term, we forecast 3-year HEPS CAGR for the group of c.12% and a reasonable forward dividend yield of c.4%. Our muted estimate for 12-month total return supports our **Hold** rating.

Valuation: We value Shoprite using a PE-relative methodology employing a normalised two-year forward PE of 11.4x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 6100cps.

Risks: Key upside risks include 1) continued aggressive market share gains domestically in an environment favouring value-focussed retailers (with all three brands performing since Checkers has shown a dramatic improvement over the last reported six months), and 2) continued margin expansion in African operations despite the impact of global demand erosion on the respective economies. The key downside risks to our view include 1) severe unemployment affecting volumes more negatively, 2) a faster reversion of food inflation stabilising at lower-than-expected levels, and 3) significant fallout in the non-South African operations lagging global demand erosion.

Model updated: 04 December 2009

Running the Numbers

S. Africa

South Africa

General Retailers

Shoprite

Reuters: SHPJ.J	Bloomberg: SHP SJ

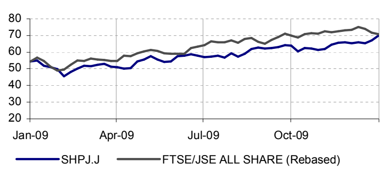
Hold

Price (29 Jan 10)	ZAR 69.85
Target price	ZAR 61.00
52-week Range	ZAR 44.36 – 69.85
Market Cap	ZAR 35,440m US$ 4,697m

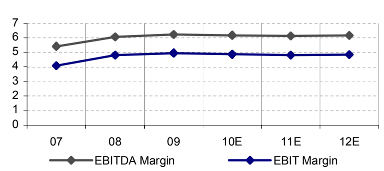
Company Profile

Shoprite is a company involved in supermarket chains, property, fresh produce and furniture. The group operates in South Africa and other African countries.

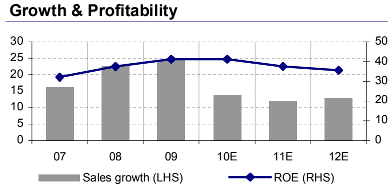
1yr Price Performance



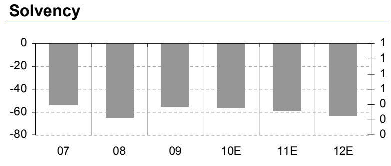
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	1.90	2.94	3.90	4.40	4.86	5.51
Reported EPS (ZAR)	2.03	2.98	3.86	4.40	4.86	5.51
DPS (ZAR)	1.01	1.55	2.00	2.25	2.49	2.82
BVPS (ZAR)	6.90	9.04	9.59	11.76	14.18	16.88
Weighted average shares (m)	507	507	507	507	507	507
Average market cap (ZARm)	13,823	19,356	24,898	35,440	35,440	35,440
Enterprise value (ZARm)	11,540	15,923	21,762	31,626	30,764	29,511
Valuation Metrics						
P/E (DB) (x)	14.4	13.0	12.6	15.9	14.4	12.7
P/E (Reported) (x)	13.4	12.8	12.7	15.9	14.4	12.7
P/BV (x)	4.73	4.37	5.74	5.94	4.92	4.14
FCF Yield (%)	12.3	6.2	2.7	5.2	6.1	7.7
Dividend Yield (%)	3.7	4.1	4.1	3.2	3.6	4.0
EV/Sales (x)	0.30	0.33	0.37	0.47	0.41	0.35
EV/EBITDA (x)	5.5	5.5	5.9	7.6	6.6	5.6
EV/EBIT (x)	7.3	6.9	7.4	9.6	8.5	7.1
Income Statement (ZARm)						
Sales revenue	**38,918**	**47,652**	**59,319**	**67,565**	**75,585**	**85,247**
Gross profit	**7,991**	**9,490**	**11,440**	**13,074**	**14,626**	**16,495**
EBITDA	**2,108**	**2,893**	**3,695**	**4,170**	**4,630**	**5,252**
Depreciation	517	597	754	881	991	1,115
Amortisation	0	0	0	0	0	0
EBIT	**1,591**	**2,297**	**2,941**	**3,289**	**3,639**	**4,137**
Net interest income(expense)	26	125	105	100	111	125
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	85	40	-28	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,701**	**2,461**	**3,018**	**3,389**	**3,750**	**4,262**
Income tax expense	623	876	999	1,088	1,203	1,368
Minorities	9	15	20	23	26	29
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,069**	**1,570**	**1,998**	**2,278**	**2,521**	**2,865**
DB adjustments (including dilution)	-67	-22	20	0	0	0
DB Net profit	**1,002**	**1,548**	**2,019**	**2,278**	**2,521**	**2,865**
Cash Flow (ZARm)						
Cash flow from operations	**2,844**	**2,643**	**2,416**	**3,844**	**3,953**	**4,514**
Net Capex	-1,150	-1,436	-1,737	-2,000	-1,800	-1,800
Free cash flow	**1,695**	**1,206**	**679**	**1,844**	**2,153**	**2,714**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-414	-581	-895	-1,143	-1,265	-1,432
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	**1,281**	**625**	**-216**	**701**	**888**	**1,282**
Change in working capital	*1,305*	*397*	*-28*	*95*	*93*	*112*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,988	3,136	2,811	3,512	4,401	5,683
Tangible fixed assets	3,804	4,503	5,360	6,478	7,287	7,972
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	347	369	411	411	411	411
Other assets	5,464	6,577	7,865	8,953	10,011	11,285
Total assets	**11,602**	**14,585**	**16,448**	**19,355**	**22,110**	**25,350**
Interest bearing debt	2	13	17	17	17	17
Other liabilities	7,911	9,753	11,402	13,151	14,624	16,402
Total liabilities	**7,914**	**9,766**	**11,418**	**13,167**	**14,640**	**16,419**
Shareholders' equity	3,639	4,759	4,960	6,095	7,351	8,784
Minorities	50	60	69	93	118	148
Total shareholders' equity	**3,689**	**4,819**	**5,029**	**6,188**	**7,469**	**8,932**
Net debt	*-1,985*	*-3,123*	*-2,795*	*-3,496*	*-4,384*	*-5,666*
Key Company Metrics						
Sales growth (%)	16.1	22.4	24.5	13.9	11.9	12.8
DB EPS growth (%)	30.9	54.9	32.7	12.6	10.7	13.2
EBITDA Margin (%)	5.4	6.1	6.2	6.2	6.1	6.2
EBIT Margin (%)	4.1	4.8	5.0	4.9	4.8	4.9
Payout ratio (%)	47.9	50.1	50.8	50.2	50.2	50.0
ROE (%)	32.0	37.4	41.1	41.2	37.5	35.5
Capex/sales (%)	3.0	3.0	2.9	3.0	2.4	2.1
Capex/depreciation (x)	2.2	2.4	2.3	2.3	1.8	1.6
Net debt/equity (%)	-53.8	-64.8	-55.6	-56.5	-58.7	-63.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Spar Group Ltd

Business description: Spar operates six distribution centres (DCs) that service a network of 825 Spar-branded grocery stores countrywide (the third-largest food retailer in South Africa with an estimated EBIT contribution of c.5% in surrounding African countries). The distribution business is owned by Spar while the stores are independently owned. The company and the franchisees are members of the Spar guild, a non-profit organisation that promotes co-operation and develops the business. Spar was unbundled from Tiger Brands in late 2004. The stock has 100% free float with foreign shareholding of around low-teens historically.

Drivers: As per the FY08 financial statements, the food store network consists of 218 SuperSpar stores (sized 1,500-3,000m²), 457 Spar stores (700-1,500m²) and 150 KwikSpar stores (250-750m²). In addition, Spar has exposure to the DIY market through its fast-growing network of 245 Build-it stores. Build-it comprises c.9.3% of group turnover. Spar's TOPS format consists of small departments within existing Spar stores selling liquor comprising c.4.8% of group turnover. The TOPS format is expanding rapidly and management expects the contribution to group's turnover to grow in the medium term.

Spar's retail sales constitute c.28% of the formal food retail market in South Africa. Notwithstanding that stores are under no obligation to purchase from the DCs, the loyalty factor (% of merchandise sourced from the group) is high – c.75%. While management believes it is possible to increase the loyalty ratio marginally, it is a gradual task. The loyalty levels in the TOPS brand are significantly lower at around 45% due to the competitive environment driven by the large number of independent vendors.

The primary drivers of profitability are:

- **Expansion of the Build-it and TOPS** store formats servicing the DIY and liquor market respectively,
- **Continued expansion of the domestic franchisees** into previously under-serviced rural markets,
- **Significant expansion of its DCs' capacity** has been undertaken from FY08- FY10 to handle the increased sales volumes experienced and to create sufficient capacity to adequately cater well into 2012,
- **Flexibility to control operating costs:** Given a substantial portion of contract labour (c.25%) there is flexibility to control the biggest cost category; namely employee costs (c.51% of total costs).

During the extensive capex expansion phase, temporary bottlenecks have occurred. Through the use of third-party warehouse services and running of additional shifts, these constraints were successfully managed to date. Despite being in the middle of a capex up-phase for the last couple years, double-digit real volume growth has been realised by Spar (implying market share gains) confirming the South African consumer's strong preference for convenience shopping.

Outlook: Despite a slowing DIY category (affecting the Build-it format which contributes <10% of EBIT) and the concerns over food inflation reverting, our outlook for the stock remains positive. We highlight the defensive nature of the stock, both in terms of sensitivity to interest rates (product offering predominantly food for which demand is inelastic) and broader emerging market risk aversion due to low foreign shareholding. We believe the reversion of food inflation, whilst placing pressure on near-term margins, will not result in significant margin compression due to the solid real growth we expect to continue through market share gains domestically. We expect significant total shareholder return over the next 12 months supporting our **Buy** recommendation.

Valuation: We value Spar using a PE-relative methodology employing a normalised two-year forward PE of 12.1x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 8100cps.

Risks: Key downside risks include 1) Food inflation reverting quicker than expected and settling at a lower level for longer placing operating margins under pressure, 2) cost efficiency worsening as top line slows due to inflation but warehousing and distribution costs (c.50% of total cost base) remain volume-driven, and 3) the impact of unemployment is worse-than-expected, particularly given the rural store footprint concentration and the number of dependents relying on income streams at the low end.

Model updated: 04 December 2009

Running the Numbers

S. Africa

South Africa

General Retailers

Spar Group Limited

Reuters: SPPJ.J Bloomberg: SPP SJ

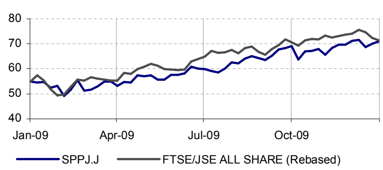
Buy

Price (29 Jan 10)	ZAR 71.00
Target price	ZAR 81.00
52-week Range	ZAR 48.40 – 72.04
Market Cap	ZAR 12,035m US$ 1,595m

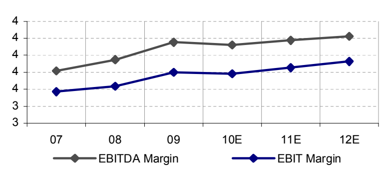
Company Profile

Spar owns and operates six distribution centres that supply and service 762 independently owned Spar stores, TOPS liquor and Build iT builders merchant outlets in South Africa and neighbouring countries.

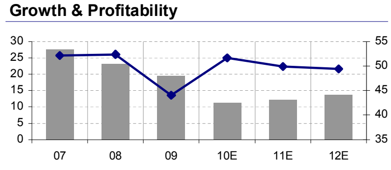
1yr Price Performance



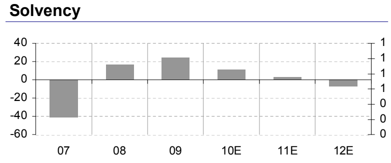
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	2.98	3.90	3.92	5.22	5.90	6.89
Reported EPS (ZAR)	2.98	3.90	3.92	5.22	5.90	6.89
DPS (ZAR)	1.85	2.55	3.22	3.62	4.14	4.83
BVPS (ZAR)	6.35	8.52	9.30	10.96	12.80	15.09
Weighted average shares (m)	170	170	170	170	170	170
Average market cap (ZARm)	8,107	9,026	9,404	12,035	12,035	12,035
Enterprise value (ZARm)	7,532	9,219	9,739	12,197	12,047	11,790
Valuation Metrics						
P/E (DB) (x)	16.0	13.7	14.1	13.6	12.0	10.3
P/E (Reported) (x)	16.0	13.7	14.1	13.6	12.0	10.3
P/BV (x)	8.68	5.92	6.95	6.48	5.55	4.70
FCF Yield (%)	9.4	nm	5.7	6.5	7.0	13.5
Dividend Yield (%)	3.9	4.8	5.8	5.1	5.8	6.8
EV/Sales (x)	0.35	0.34	0.30	0.34	0.30	0.26
EV/EBITDA (x)	9.1	8.7	7.3	8.3	7.2	6.2
EV/EBIT (x)	9.7	9.5	8.0	9.1	7.8	6.6
Income Statement (ZARm)						
Sales revenue	**21,704**	**26,742**	**31,962**	**35,531**	**39,856**	**45,333**
Gross profit	**1,777**	**2,160**	**2,569**	**2,856**	**3,212**	**3,654**
EBITDA	**828**	**1,056**	**1,328**	**1,464**	**1,665**	**1,914**
Depreciation	53	84	113	120	129	134
Amortisation	0	0	0	0	0	0
EBIT	**775**	**972**	**1,214**	**1,344**	**1,536**	**1,780**
Net interest income(expense)	22	27	5	6	8	22
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-3	-1	-132	-7	-7	-7
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**797**	**999**	**1,220**	**1,350**	**1,544**	**1,802**
Income tax expense	272	317	402	423	484	566
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**522**	**680**	**686**	**920**	**1,053**	**1,230**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**522**	**680**	**686**	**920**	**1,053**	**1,230**
Cash Flow (ZARm)						
Cash flow from operations	**1,056**	**-56**	**1,017**	**1,010**	**1,144**	**1,880**
Net Capex	-297	-421	-480	-230	-300	-250
Free cash flow	**759**	**-477**	**537**	**780**	**844**	**1,630**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-246	-355	-683	-614	-702	-820
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-97	65	0	0	0	0
Net cash flow	**415**	**-767**	**-146**	**167**	**142**	**810**
Change in working capital	*444*	*-870*	*206*	*-37*	*-45*	*-57*
Balance Sheet (ZARm)						
Cash and other liquid assets	454	-252	-394	-222	-71	185
Tangible fixed assets	736	1,083	1,450	1,560	1,731	1,847
Goodwill/intangible assets	246	246	246	246	246	246
Associates/investments	122	59	59	59	59	59
Other assets	3,349	4,208	4,948	5,492	6,152	6,988
Total assets	**4,906**	**5,344**	**6,308**	**7,135**	**8,117**	**9,325**
Interest bearing debt	0	0	0	0	0	0
Other liabilities	3,796	3,856	4,681	5,202	5,833	6,632
Total liabilities	**3,796**	**3,856**	**4,681**	**5,202**	**5,833**	**6,632**
Shareholders' equity	1,110	1,488	1,627	1,933	2,284	2,694
Minorities	0	0	0	0	0	0
Total shareholders' equity	**1,110**	**1,488**	**1,627**	**1,933**	**2,284**	**2,694**
Net debt	*-454*	*252*	*394*	*222*	*71*	*-185*
Key Company Metrics						
Sales growth (%)	27.6	23.2	19.5	11.2	12.2	13.7
DB EPS growth (%)	29.1	30.6	0.6	33.0	13.1	16.8
EBITDA Margin (%)	3.8	3.9	4.2	4.1	4.2	4.2
EBIT Margin (%)	3.6	3.6	3.8	3.8	3.9	3.9
Payout ratio (%)	60.1	63.5	79.6	66.6	66.6	66.6
ROE (%)	52.1	52.4	44.0	51.7	49.9	49.4
Capex/sales (%)	1.4	1.6	1.5	0.6	0.8	0.6
Capex/depreciation (x)	5.6	5.0	4.2	1.9	2.3	1.9
Net debt/equity (%)	-40.9	16.9	24.2	11.5	3.1	-6.9
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Travel & Leisure

Sun International Ltd

Business description: Sun International Ltd (Sun) is a holding company for various gaming and leisure investments, both in South Africa and internationally. Over the past few years the group has restructured and simplified its structure through the following: 1) SISA minorities were bought out, 2) underperforming cinema interests were exited, 3) it was decided to sell the KZL stake, 4) City Lodge stake was disposed of, and 5) some minorities were bought out through the acquisition of a 58% stake in Real Africa Holdings (RAH) in FY07 (for around R1bn), the group's stake has subsequently increased to 66%. In an attempt to address the capital structure, management implemented a scheme to buy back 15% of the shares in issue in July 2007.

Drivers:

- **Sun International (SA) Ltd (SISA).** It is a 100%-held subsidiary, forming the bulk of the group's NAV. SISA is one of the leading casino and resort operators in South Africa, controlling c.41.2% of the domestic casino market. SISA's casino operations are managed by Sun's subsidiary, Sun International Management Ltd – discussed below. Due to casino licence requirements, SISA has empowerment shareholders in many of its underlying operations.
- **Sun International Management Ltd (SIML).** This is a fully owned subsidiary that manages SISA's casino operations and charges fees based on turnover and operating profit. These fees are shared with empowerment partners. The company also owns the rights to the 'Sun International' brand name. The business is high margin and low risk, and we believe it is Sun's most attractive asset.
- **Other interests.** These interests comprise the Cape Town International Convention Centre, loans to empowerment partners, and other hotel and casino interests in southern Africa, Nigeria, Egypt and Chile.

Outlook: We rate Sun International **Hold**. The stock is trading in line with our current valuation and we believe that the next 12-18 months will be a difficult environment for this stock with no apparent catalysts emerging over this period. In addition we highlight the extent to which forecast medium term earnings growth is dependant on success in offshore projects.

Valuation: We value Sun International using a DCF valuation for South African operations (75% of the NAV). WACCs range from 12.2%-12.8% for South African operations. We use a risk-free rate of 8.5% and a market risk premium of 4.5%. Betas range from 1.1 to 1.25x. Our growth to perpetuity assumption range is 4-6% (depending on the operation/province and are based on South African inflation target ranges). We also include a DCF valuation of the Chile and Nigeria operations, as well as EV/EBITDA-based valuations for SIML and other African operations. We derive our one-year price target by rolling forward the assessed fair valuation.

Risks: Key downside risks include the dilutive impact of disposals to empowerment partners, an offshore acquisition strategy that may not enhance value, greater-than-forecast increase in interest rates, a faster-than-anticipated slowdown in gaming revenues. Upside risks include stronger-than-anticipated growth in gaming revenue, and new operations performing above our expectations.

Model updated: 28 August 2009

Running the Numbers

S. Africa

South Africa

Travel & Leisure

Sun International Ltd

Reuters: SUIJ.J Bloomberg: SUI SJ

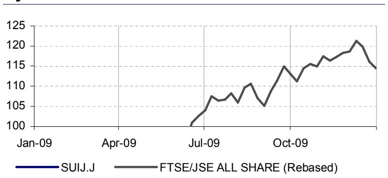
Hold

Price (29 Jan 10)	ZAR 92.50
Target price	ZAR 80.00
52-week Range	ZAR 59.50 – 95.13
Market Cap	ZAR 8,869m US$ 1,176m

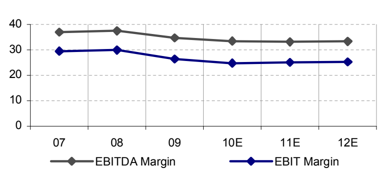
Company Profile

Sun International is a major casino and resort operator in the southern hemisphere. The group has the largest casino market share in South Africa and has operations in other African countries.

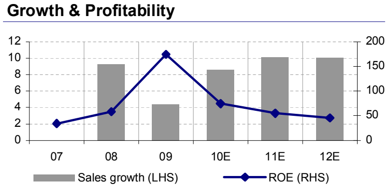
1yr Price Performance



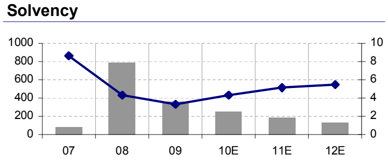
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	7.19	7.39	6.18	6.44	7.81	9.25
Reported EPS (ZAR)	7.05	7.39	6.18	6.44	7.81	9.25
DPS (ZAR)	4.00	4.80	0.00	2.15	2.60	3.08
BVPS (ZAR)	21.15	1.25	5.99	11.72	17.43	24.14
Weighted average shares (m)	111.3	96.3	95.9	95.9	95.9	95.9
Average market cap (ZARm)	13,155	12,495	7,942	8,869	8,869	8,869
Enterprise value (ZARm)	16,041	18,169	14,578	15,384	15,197	14,796
Valuation Metrics						
P/E (DB) (x)	16.4	17.6	13.4	14.4	11.8	10.0
P/E (Reported) (x)	16.8	17.6	13.4	14.4	11.8	10.0
P/BV (x)	6.93	70.21	12.74	7.89	5.31	3.83
FCF Yield (%)	5.6	nm	nm	3.1	5.6	8.5
Dividend Yield (%)	3.4	3.7	0.0	2.3	2.8	3.3
EV/Sales (x)	2.31	2.40	1.84	1.79	1.61	1.42
EV/EBITDA (x)	6.3	6.4	5.3	5.4	4.9	4.3
EV/EBIT (x)	7.9	8.0	7.0	7.2	6.4	5.6
Income Statement (ZARm)						
Sales revenue	**6,937**	**7,583**	**7,916**	**8,594**	**9,465**	**10,418**
Gross profit	**4,046**	**4,423**	**4,617**	**5,013**	**5,521**	**6,077**
EBITDA	**2,561**	**2,836**	**2,745**	**2,871**	**3,131**	**3,471**
Depreciation	518	568	658	742	759	838
Amortisation	0	0	0	0	0	0
EBIT	**2,043**	**2,268**	**2,087**	**2,129**	**2,372**	**2,632**
Net interest income(expense)	-236	-522	-626	-491	-460	-480
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	47	33	0	0	0
Other pre-tax income/(expense)	-116	-33	-85	-106	-112	-119
Profit before tax	**1,691**	**1,497**	**1,311**	**1,532**	**1,800**	**2,034**
Income tax expense	669	784	611	655	740	817
Minorities	224	256	199	252	301	319
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**798**	**720**	**600**	**625**	**758**	**898**
DB adjustments (including dilution)	16	0	0	0	0	0
DB Net profit	**814**	**720**	**600**	**625**	**758**	**898**
Cash Flow (ZARm)						
Cash flow from operations	**1,708**	**726**	**2,086**	**1,392**	**1,616**	**1,838**
Net Capex	-972	-914	-2,307	-1,114	-1,121	-1,081
Free cash flow	**736**	**-188**	**-221**	**278**	**494**	**757**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-456	-445	-227	-82	-216	-261
Net inc/(dec) in borrowings	1,220	2,900	409	18	-740	-500
Other investing/financing cash flows	-1,017	0	0	0	0	0
Net cash flow	**483**	**2,267**	**-39**	**214**	**-462**	**-4**
Change in working capital	*168*	*-678*	*345*	*-51*	*8*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,089	850	794	1,008	546	542
Tangible fixed assets	5,883	6,229	7,878	8,250	8,613	8,856
Goodwill/intangible assets	0	308	382	382	382	382
Associates/investments	213	120	97	97	97	97
Other assets	924	1,125	836	850	888	935
Total assets	**8,109**	**8,632**	**9,987**	**10,588**	**10,526**	**10,812**
Interest bearing debt	3,546	6,098	6,507	6,525	5,785	5,285
Other liabilities	1,573	1,869	1,891	1,854	1,900	1,953
Total liabilities	**5,119**	**7,967**	**8,398**	**8,379**	**7,685**	**7,238**
Shareholders' equity	2,348	119	569	1,113	1,655	2,292
Minorities	642	546	1,020	1,095	1,186	1,281
Total shareholders' equity	**2,990**	**665**	**1,589**	**2,208**	**2,841**	**3,574**
Net debt	*2,457*	*5,248*	*5,713*	*5,517*	*5,239*	*4,743*
Key Company Metrics						
Sales growth (%)	na	9.3	4.4	8.6	10.1	10.1
DB EPS growth (%)	na	2.8	-16.4	4.2	21.2	18.4
EBITDA Margin (%)	36.9	37.4	34.7	33.4	33.1	33.3
EBIT Margin (%)	29.5	29.9	26.4	24.8	25.1	25.3
Payout ratio (%)	55.8	64.2	0.0	32.9	32.9	32.9
ROE (%)	34.0	58.4	174.4	74.4	54.8	45.5
Capex/sales (%)	14.0	12.1	29.1	13.0	11.8	10.4
Capex/depreciation (x)	1.9	1.6	3.5	1.5	1.5	1.3
Net debt/equity (%)	82.2	789.2	359.5	249.8	184.4	132.7
Net interest cover (x)	8.7	4.3	3.3	4.3	5.2	5.5

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications

Telkom SA Ltd

Business description: Telkom is the incumbent fixed-line operator in South Africa. It provides fixed-line services including access, national and international voice, data and directory services. Telkom has some 4.4m fixed-line today, an element which remains under pressure as mobile substitution continues. Telkom recently announced plans to launch its mobile offering in the South African market in 2010, this is largely seen as a defensive play by the incumbent as traditional fixed-line revenues continue to decline. Telkom's international operations are dominated by its CDMA business in Nigeria MultiLinks. This business has struggled over the past few years in a highly competitive Nigerian market.

Drivers:

- **Pressure on core fixed-line** Telkom is facing a significant challenge in its core fixed-line business with low single digit revenue growth while costs remain under pressure highlighted by the above inflationary increases in staff costs with the SG&A (selling, general and admin) costs are also increasing above inflation. This pressure on costs and revenues has seen core fixed-line margins remain decline over the past few years. Should this cost pressure remain, something we are expecting, we believe this will be a continued drag.
- **Africa operations struggling.** With the pressure on its South African operations Telkom has over the past two years expanded into Africa with acquisitions of MultiLinks, AOL and MWeb Africa. The group's key international venture MultiLinks has continued to underperform with declining EBITDA in local currency terms and high levels of capex. While management has guided for a turnaround in this business, this remains a significant risk for Telkom and investors will remain sceptical until the group delivers on the promised turnaround.

Outlook: Telkom remains the dominant fixed-line operator in South Africa, although the competitive environment has changed over the past few years with the licensing of the second national operator (SNO) Neotel. Competition for Telkom has been further impacted by the rollout of fibre networks by the mobile operators which has seen the mobile operators compete in Telkom's traditional corporate data market. Telkom's international operations have delivered a fairly disappointing performance over the past few years. The MultiLink's business in Nigeria has struggled against the dominant mobile operators and while management appears to remain committed to turn this business around, we believe the group will struggle to gain foothold in the Nigerian market. We rate the share **Hold**, with no apparent catalysts for near-term outperformance.

Valuation: Our target price of 4500cps is based on c.7.5x March 2010e PE, a c.40% discount to our 13.0x exit multiple on the market, reflecting investor uncertainty around the prospects for the Telkom group, as the market remains cautious on management's ability to deliver on turnaround.

Risks: The key downside risk facing Telkom would be increased competition in the domestic South African market from the SNO, Neotel, as well as the mobile operators in the group's traditional corporate market. Another significant risk for Telkom would be the inability of the group to turn around the loss-making MultiLink's business. This could lead to further losses and increased capex with the associated negative impact on free cash flow. The key upside risk for Telkom would be a quicker-than-anticipated turnaround in the group's Nigerian business. Given market concerns over Nigeria, this could lead to better-than-expected upside for the counter.

Model updated: 24 November 2009

Running the Numbers

S. Africa

South Africa

Telecommunications

Telkom

Reuters: TKGJ.J Bloomberg: TKG SJ

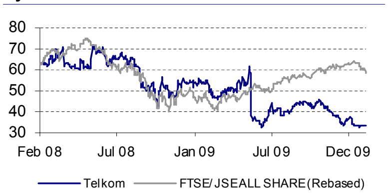
Hold

Price (29 Jan 10)	ZAR 33.19
Target price	ZAR 45.00
52-week Range	ZAR 32.20 – 61.40
Market Cap	ZAR 16,784m US$ 2,225m

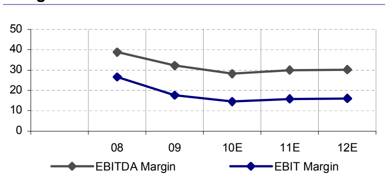
Company Profile

Telkom is the incumbent fixed-line operator in South Africa. It provides the majority of fixed-line services including national and international voice, data and directory services. Telkom owns 50% of South Africa's leading mobile operator Vodacom(VODJ.J).

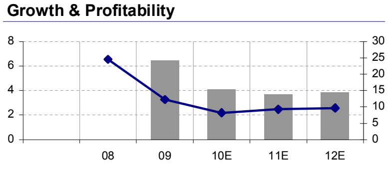
1yr Price Performance



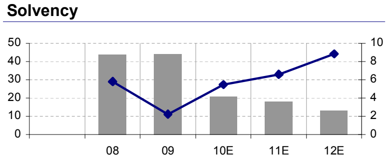
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Financial Summary					
DB EPS (ZAR)	16.30	9.89	5.94	6.98	7.66
Reported EPS (ZAR)	15.61	8.30	5.94	6.98	7.66
DPS (ZAR)	11.25	6.66	2.50	3.00	3.25
BVPS (ZAR)	64.39	72.40	75.05	78.47	82.32
Weighted average shares (m)	510	501	506	511	516
Average market cap (ZARm)	38,988	28,665	16,784	16,950	17,116
Enterprise value (ZARm)	52,610	44,479	24,501	23,925	22,620
Valuation Metrics					
P/E (DB) (x)	4.7	5.8	5.6	4.8	4.3
P/E (Reported) (x)	4.9	6.9	5.6	4.8	4.3
P/BV (x)	0.96	0.69	0.44	0.42	0.40
FCF Yield (%)	12.4	5.7	11.7	13.9	18.9
Dividend Yield (%)	14.7	11.6	7.5	9.0	9.8
EV/Sales (x)	1.54	1.23	0.65	0.61	0.56
EV/EBITDA (x)	4.0	3.8	2.3	2.0	1.8
EV/EBIT (x)	5.8	7.0	4.5	3.9	3.5
Income Statement (ZARm)					
Sales revenue	**34,083**	**36,283**	**37,764**	**39,153**	**40,657**
Gross profit	**13,202**	**11,668**	**10,643**	**11,734**	**12,286**
EBITDA	**13,202**	**11,668**	**10,643**	**11,734**	**12,286**
Depreciation	4,133	5,280	5,176	5,522	5,762
Amortisation	0	0	0	0	0
EBIT	**9,069**	**6,388**	**5,467**	**6,212**	**6,524**
Net interest income(expense)	-1,556	-2,843	-995	-938	-736
Associates/affiliates	3,138	2,181	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	168	181	226	226	226
Profit before tax	**7,681**	**3,726**	**4,697**	**5,500**	**6,013**
Income tax expense	2,647	1,660	1,526	1,753	1,869
Minorities	123	26	140	146	154
Other post-tax income/(expense)	0	0	0	0	0
Net profit	**8,049**	**4,221**	**3,032**	**3,601**	**3,991**
DB adjustments (including dilution)	356	810	0	0	0
DB Net profit	**8,405**	**5,031**	**3,032**	**3,601**	**3,991**
Cash Flow (ZARm)					
Cash flow from operations	**16,335**	**14,768**	**9,680**	**9,580**	**10,207**
Net Capex	-11,488	-13,148	-7,720	-7,220	-6,970
Free cash flow	**4,847**	**1,620**	**1,960**	**2,360**	**3,237**
Equity raised/(bought back)	-1,647	0	804	56	59
Dividends paid	-5,732	-3,336	-1,262	-1,531	-1,677
Net inc/(dec) in borrowings	4,562	7,956	-7,000	-2,500	-2,500
Other investing/financing cash flows	-2,546	-4,750	6,666	-70	-72
Net cash flow	**-516**	**1,490**	**1,167**	**-1,684**	**-952**
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	1,134	1,931	3,098	1,414	462
Tangible fixed assets	46,815	41,418	43,962	45,660	46,868
Goodwill/intangible assets	8,468	7,232	7,232	7,232	7,232
Associates/investments	1,499	1,383	1,452	1,525	1,601
Other assets	12,456	33,815	10,092	10,230	10,379
Total assets	**70,372**	**85,779**	**65,836**	**66,060**	**66,543**
Interest bearing debt	15,733	18,275	11,275	8,775	6,275
Other liabilities	21,302	30,398	15,618	16,070	16,524
Total liabilities	**37,035**	**48,673**	**26,893**	**24,845**	**22,799**
Shareholders' equity	32,815	36,253	37,950	40,077	42,451
Minorities	522	853	993	1,139	1,293
Total shareholders' equity	**33,337**	**37,106**	**38,943**	**41,216**	**43,743**
Net debt	*14,599*	*16,344*	*8,177*	*7,361*	*5,813*
Key Company Metrics					
Sales growth (%)	na	6.5	4.1	3.7	3.8
DB EPS growth (%)	na	-39.3	-40.0	17.6	9.8
EBITDA Margin (%)	38.7	32.2	28.2	30.0	30.2
EBIT Margin (%)	26.6	17.6	14.5	15.9	16.0
Payout ratio (%)	71.2	79.0	41.6	42.5	42.0
ROE (%)	24.5	12.2	8.2	9.2	9.7
Capex/sales (%)	34.2	36.4	20.5	18.5	17.2
Capex/depreciation (x)	2.8	2.5	1.5	1.3	1.2
Net debt/equity (%)	43.8	44.0	21.0	17.9	13.3
Net interest cover (x)	5.8	2.2	5.5	6.6	8.9

Source: Company data, Deutsche Bank estimates

South Africa – Food Producers

Tiger Brands Ltd

Business description: Tiger Brands is a branded FMCG company operating primarily in South Africa. It has a balanced portfolio of food products that covers a broad spectrum, from value-added products to staple foods. The company operates in four divisions: domestic food, home and personal care, fishing, and exports and international. Domestic food division is engaged in manufacturing, distribution and marketing of food brands. The consumer healthcare division is engaged in the manufacture, distribution and marketing of personal care, baby care and home care brands.

Drivers:

- Domestic Food Division: This division is the biggest contributor to profitability, contributing c.77% of FY09 group EBIT. Consumer spending and food inflation, as well as international agricultural commodity prices are the key drivers for this division. The grains division put in a record performance in the second half of FY09 as margins benefited from a reduction in soft commodity prices.
- Home and Personal Care (HPC): The HPC division contributes 15% to group EBIT and is driven by general economic conditions, consumer spending patterns, brand equity and brand awareness, pest season and input costs.
- Exports and International division: While this division currently contributes a relatively small (c.7%) proportion of EBIT, the group is looking at acquisitions to obtain a share of growth in the African regions as a means to drove growth in revenue and profitability.
- Fishing division: The group derives its fishing earnings from an equity accounted 45% stake in JSE-listed Oceana after recently divesting its interest in Sea Harvest.

Expense management/input cost management is the common theme across divisions for driving profitability.

Outlook: Tiger Brands is our preferred pick in the sector; this focused-FMCG company has strong brands, a diverse EBIT make-up and low gearing levels. We believe the sector faces headwinds (food inflation) and believe Tiger Brands strong brands and highly diverse earnings stream will position the company well to withstand these pressures and deliver solid growth in earnings notwithstanding a challenging environment. We believe Africa offers significant potential for the food producers (material GDP levels and lower levels of competition) and we believe their products are well-positioned to exploit these markets. Tiger Brands' has already started to deliver on a clearly-defined Africa strategy. Recent acquisitions are performing reasonably, and have been concluded at reasonable valuation metrics (<10x PE) considering their strategic importance. **Buy**.

Valuation: We value Tiger Brands on a DCF basis. We calculate a DCF-based fair value of 16500c Inputs into our five-year DCF include WACC of 12.7% (COE of 13.7%, 15% D:E, levered Beta of 1.15x), risk-free rate of 8.5% (in line with our house long bond forecast), market risk premium of 4.5%, and terminal growth of 4.5% (the South African mid-point inflation target). Rolled forward one year by the cost of equity implies a price target of 18000c.

Risks: Risks includes continued weakness in the consumer environment, margin pressure in the face of sustained low levels of food inflation (or deflation) as well as the risk that its African expansion strategy does not generate adequate returns.

Model updated: 25 November 2009

Running the Numbers

S. Africa

South Africa

Food Producers

Tiger Brands

Reuters: TBSJ.J Bloomberg: TBS SJ

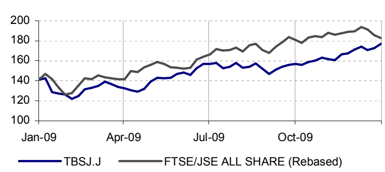
Buy

Price (29 Jan 10)	ZAR 177.00
Target price	ZAR 180.00
52-week Range	ZAR 121.41 – 177.00
Market Cap	ZAR 27,791m US$ 3,683m

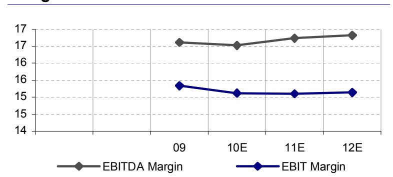
Company Profile

Tiger Brands engages in food and pharmaceutical manufacturing and food distribution. It has a balanced portfolio of food products that covers a broad spectrum, from value-added products to staple foods.

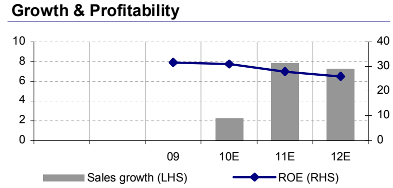
1yr Price Performance



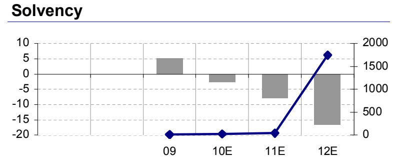
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2009	2010E	2011E	2012E
Financial Summary				
DB EPS (ZAR)	13.98	14.90	15.70	16.83
Reported EPS (ZAR)	13.98	14.90	15.70	16.83
DPS (ZAR)	7.04	7.45	7.85	8.41
BVPS (ZAR)	44.48	52.43	60.78	69.62
Weighted average shares (m)	157	157	157	157
Average market cap (ZARm)	22,034	27,791	27,791	27,791
Enterprise value (ZARm)	21,202	26,404	25,898	24,829
Valuation Metrics				
P/E (DB) (x)	10.0	11.9	11.3	10.5
P/E (Reported) (x)	10.0	11.9	11.3	10.5
P/BV (x)	3.38	3.38	2.91	2.54
FCF Yield (%)	9.1	6.1	6.2	8.6
Dividend Yield (%)	5.0	4.2	4.4	4.8
EV/Sales (x)	1.04	1.26	1.15	1.03
EV/EBITDA (x)	6.2	7.7	6.9	6.1
EV/EBIT (x)	6.8	8.4	7.6	6.8
Income Statement (ZARm)				
Sales revenue	**20,430**	**20,887**	**22,526**	**24,156**
Gross profit	**20,430**	**20,887**	**22,526**	**24,156**
EBITDA	**3,395**	**3,451**	**3,770**	**4,064**
Depreciation	262	293	369	406
Amortisation	0	0	0	0
EBIT	**3,133**	**3,158**	**3,401**	**3,658**
Net interest income(expense)	-255	-132	-81	-2
Associates/affiliates	204	269	281	293
Exceptionals/extraordinaries	-221	0	0	0
Other pre-tax income/(expense)	374	37	39	41
Profit before tax	**3,457**	**3,331**	**3,639**	**3,989**
Income tax expense	978	939	1,110	1,277
Minorities	49	38	49	53
Other post-tax income/(expense)	0	0	0	0
Net profit	**2,210**	**2,354**	**2,481**	**2,659**
DB adjustments (including dilution)	0	0	0	0
DB Net profit	**2,210**	**2,354**	**2,481**	**2,659**
Cash Flow (ZARm)				
Cash flow from operations	**1,841**	**2,735**	**2,662**	**2,884**
Net Capex	172	-1,036	-938	-492
Free cash flow	**2,013**	**1,699**	**1,724**	**2,393**
Equity raised/(bought back)	0	0	0	0
Dividends paid	-1,259	-1,105	-1,169	-1,271
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	0	0	0	0
Net cash flow	**754**	**594**	**555**	**1,122**
Change in working capital	*-471*	*49*	*-236*	*-235*
Balance Sheet (ZARm)				
Cash and other liquid assets	506	1,199	1,254	2,376
Tangible fixed assets	2,203	2,945	3,514	3,599
Goodwill/intangible assets	1,669	1,669	1,669	1,669
Associates/investments	1,510	1,510	1,510	1,510
Other assets	5,800	6,095	6,568	7,039
Total assets	**11,687**	**13,417**	**14,515**	**16,193**
Interest bearing debt	884	983	483	483
Other liabilities	3,519	3,864	4,101	4,338
Total liabilities	**4,403**	**4,846**	**4,584**	**4,820**
Shareholders' equity	6,984	8,232	9,543	10,932
Minorities	301	339	387	441
Total shareholders' equity	**7,285**	**8,571**	**9,931**	**11,373**
Net debt	*377*	*-216*	*-771*	*-1,893*
Key Company Metrics				
Sales growth (%)	na	2.2	7.8	7.2
DB EPS growth (%)	na	6.5	5.4	7.2
EBITDA Margin (%)	16.6	16.5	16.7	16.8
EBIT Margin (%)	15.3	15.1	15.1	15.1
Payout ratio (%)	50.0	49.7	49.7	49.7
ROE (%)	31.6	30.9	27.9	26.0
Capex/sales (%)	-0.8	5.0	4.2	2.0
Capex/depreciation (x)	-0.7	3.5	2.5	1.2
Net debt/equity (%)	5.2	-2.5	-7.8	-16.6
Net interest cover (x)	12.3	23.9	41.8	1745.8

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Truworths International Ltd

Business description: Truworths International Ltd is an investment holding company with two main trading subsidiaries: Truworths (retailing niche high-end mens-, womens- and childrenswear through multiple brands) and Young Designers Emporium (agency sales of upcoming independent new designers' apparel and accessories with contribution reported on a commission basis). The group's exposure ex-South Africa is immaterial at 2.5% of total sales. The credit offered to consumers is considered an integrated offering enabling sales of core product as opposed to being a separate profit centre.

Truworths commands a significant share of both the womenswear (c.21%) and menswear (c.18%) CFT (Clothing, footwear and textile) market in South Africa. Its target market is predominantly LSM 7-10 consumers with the core age group being 24-30 years old. Various brands appeal to specific niche consumer segments eg Uzzi and Identity appealing to a younger 18-24 year-old demographic. Truworths has consistently positioned itself as a high fashion retailer.

Drivers: Truworths' key profit drivers over the medium term are:

- **Superior volume growth and continued organic expansion** of stores leading to markets share gains. The offset to top line support from store expansion is in dilution of trading densities and hence returns and margin pressure from already high levels. Truworths' top line has been defensive relative to peers throughout the last two years.
- **Reigning in the extension of new credit** and containment of further bad debts resulting in lower operating costs and a significant recovery in FY10 and FY11.
- **Selective acquisitions:** Truworths has cash on its balance sheet and will continue to assess potential acquisitions that compliment the core fashion business.

Despite risks of pressure on GP margins brought to bear by increasing markdowns, Truworths has actually increased GP's consistently throughout the last period of weak consumption. We believe that softening debtors' costs (after a significant increase in FY08 and FY09) will assist in operating cost growth remaining below top line growth. We believe this will result in solid mid-teen earnings growth being produced in the current weak environment over the next three years.

Outlook: Despite expected slower GDP growth and a significant base effect from four aggressive years of growth, we believe the landscape is conducive to a wider distinction between those business models that are robust and have consistently delivered value in the past (like Truworths) vs those undergoing restructuring or repositioning into a weaker consumer environment. While we are forecasting softer GPs and declining trading densities as space continues to be added, we believe that growth in debtors' costs will roll over, resulting in a boost to earnings in the next two years that will in turn result in continued earnings growth in mid-teens over three years. We expect ROEs to decline, but to remain in excess of 44% per year. We believe Truworths will continue to gain market share and maintain margins in a tough trading environment. 17% three-year CAGR in diluted HEPS, >5% dividend yield and a mid-teen 12-month total return supports our **Buy** recommendation.

Valuation: We value Truworths using a PE-relative methodology employing a normalised two-year forward PE of 9.3x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 4700cps.

Risks: The key downside risks to our valuation and recommendation include: 1) Softer like-for-like sales growth due to weaker-than-expected consumption of semi-durable goods (reversion to negative like-for-like growth for the sector) and dilution in trading densities as aggressive space continues to be rolled out; 2) Continued high levels of delinquency in the book, resulting in a longer consumer credit recovery period than expected; and 3) A weaker rand causing unavoidable product inflation and trading margins to squeeze on imported products (Truworths imports c.45% of its products).

Model updated: 04 December 2009

Running the Numbers

S. Africa

South Africa

General Retailers

Truworths

Reuters: TRUJ.J Bloomberg: TRU SJ

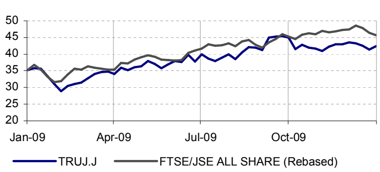
Buy

Price (29 Jan 10)	ZAR 42.40
Target price	ZAR 47.00
52-week Range	ZAR 27.50 – 45.65
Market Cap	ZAR 18,224m US$ 2,415m

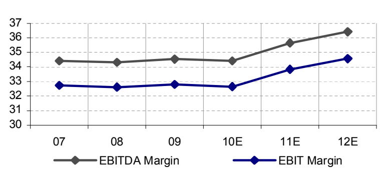
Company Profile

Truworths International Limited is an investment holding company with two main trading subsidiaries: Truworths (retailing niche high-end mens-, womens and childrenswear through multiple brands) and Young Designers Emporium (agency sales of upcoming independent new designers' apparel adn accessories).

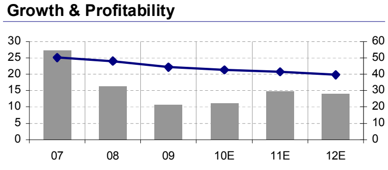
1yr Price Performance



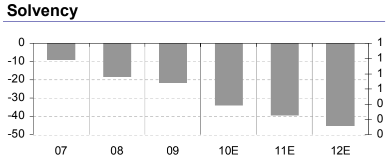
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	2.42	2.90	3.32	3.87	4.59	5.33
Reported EPS (ZAR)	2.42	2.90	3.31	3.87	4.59	5.33
DPS (ZAR)	1.20	1.44	1.71	2.00	2.36	2.75
BVPS (ZAR)	5.37	6.55	8.35	10.03	12.31	14.96
Weighted average shares (m)	445	441	433	430	430	431
Average market cap (ZARm)	13,706	12,891	13,867	18,224	18,245	18,266
Enterprise value (ZARm)	13,500	12,358	13,100	16,780	16,190	15,391
Valuation Metrics						
P/E (DB) (x)	12.7	10.1	9.7	11.0	9.2	7.9
P/E (Reported) (x)	12.7	10.1	9.7	11.0	9.2	7.9
P/BV (x)	6.80	3.51	4.43	4.23	3.45	2.83
FCF Yield (%)	4.7	8.6	8.1	6.9	8.4	10.4
Dividend Yield (%)	3.9	4.9	5.3	4.7	5.6	6.5
EV/Sales (x)	2.78	2.19	2.10	2.42	2.03	1.70
EV/EBITDA (x)	8.1	6.4	6.1	7.0	5.7	4.7
EV/EBIT (x)	8.5	6.7	6.4	7.4	6.0	4.9
Income Statement (ZARm)						
Sales revenue	**4,858**	**5,651**	**6,248**	**6,940**	**7,965**	**9,079**
Gross profit	**2,345**	**2,865**	**3,199**	**3,558**	**4,148**	**4,765**
EBITDA	**1,672**	**1,939**	**2,158**	**2,389**	**2,839**	**3,306**
Depreciation	82	96	109	123	144	167
Amortisation	0	0	0	0	0	0
EBIT	**1,590**	**1,843**	**2,049**	**2,266**	**2,695**	**3,139**
Net interest income(expense)	27	37	65	55	58	66
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,617**	**1,880**	**2,114**	**2,321**	**2,753**	**3,205**
Income tax expense	527	596	680	657	779	907
Minorities	10	7	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,080**	**1,277**	**1,434**	**1,664**	**1,974**	**2,298**
DB adjustments (including dilution)	0	0	2	0	0	0
DB Net profit	**1,080**	**1,277**	**1,436**	**1,664**	**1,974**	**2,298**
Cash Flow (ZARm)						
Cash flow from operations	**800**	**1,276**	**1,307**	**1,562**	**1,783**	**2,101**
Net Capex	-156	-166	-191	-300	-250	-200
Free cash flow	**644**	**1,110**	**1,116**	**1,262**	**1,533**	**1,901**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-456	-575	-683	-849	-1,006	-1,169
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-191	-218	-201	264	84	88
Net cash flow	**-3**	**317**	**232**	**677**	**612**	**820**
Change in working capital	*-372*	*-104*	*-236*	*-226*	*-334*	*-364*
Balance Sheet (ZARm)						
Cash and other liquid assets	216	533	767	1,444	2,055	2,875
Tangible fixed assets	455	527	618	795	901	934
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	2,648	2,780	3,073	3,377	3,827	4,316
Total assets	**3,319**	**3,840**	**4,458**	**5,615**	**6,783**	**8,126**
Interest bearing debt	0	0	0	0	0	0
Other liabilities	915	920	907	1,349	1,549	1,763
Total liabilities	**915**	**920**	**907**	**1,349**	**1,549**	**1,763**
Shareholders' equity	2,394	2,920	3,551	4,266	5,234	6,363
Minorities	10	0	0	0	0	0
Total shareholders' equity	**2,404**	**2,920**	**3,551**	**4,266**	**5,234**	**6,363**
Net debt	*-216*	*-533*	*-767*	*-1,444*	*-2,055*	*-2,875*
Key Company Metrics						
Sales growth (%)	27.3	16.3	10.6	11.1	14.8	14.0
DB EPS growth (%)	34.0	19.4	14.6	16.7	18.5	16.3
EBITDA Margin (%)	34.4	34.3	34.5	34.4	35.6	36.4
EBIT Margin (%)	32.7	32.6	32.8	32.6	33.8	34.6
Payout ratio (%)	49.5	49.7	51.6	51.6	51.6	51.6
ROE (%)	50.2	48.1	44.3	42.6	41.5	39.6
Capex/sales (%)	3.2	2.9	3.1	4.3	3.1	2.2
Capex/depreciation (x)	1.9	1.7	1.8	2.4	1.7	1.2
Net debt/equity (%)	-9.0	-18.3	-21.6	-33.8	-39.3	-45.2
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications

Vodacom Group Ltd

Business description: Vodacom Group Ltd operates a cellular telephone network in South Africa. The company also has mobile operations in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo. The group's South African business remains the key contributor to profitability for the group, although with mobile penetration in excess of 100% this has regions has started to slow. Vodacom acquired the Gateway business in 2008. Gateway routes traffic for telecoms operators across the African continent.

Drivers:

- **Slowing revenue growth** Aside from the high mobile penetration in South Africa the business is also faced with regulatory pressure in the form of reduction in mobile termination rates (MTR) and subscriber registration (RICA). We expect South Africa to remain under pressure in the short term and managing revenue growth in this environment will be key for investor sentiment

- **Turnaround in Africa. The group's African operations have disappointed over the past 12 months** with the DRC in particular struggling under the current economic climate. With the slowing growth in South Africa managing growth in the group's African operations is important for the business.

Outlook: From a broad operational perspective we believe Vodacom remains a defensive investment opportunity with the stable South African business contributing the majority of profits for the group. Competition in South Africa has proved to be fairly stable over the past five years and the only factor that has changed and is likely to change the status quo is an increase in regulations in this area. The group's international operations have found the past six months to be more challenging and we have seen a slowdown in growth across a number of their African operations impacted by both competition and challenging economic conditions. Management remains committed to expanding the operation across the African continent and the current economic conditions may yet provide some good investment opportunities. We rate the share **Buy**.

Valuation: The group is currently trading at a 12-month forward (September 2010E) EV/EBITDA multiple of approximately 5.0x, an undemanding multiple in our view. We believe an exit EV/EBITDA multiple of between 5.5x and 6.0x would be more appropriate. This would imply an exit price (using a mid-range exit EV/EBITDA multiple of 5.75x) 12 months from now of approximately 6500cps. Our valuation for the group is underpinned by the group's better than sector dividend yield (approximately 4.3%) and a business which in our view is defensive in nature in the current volatile markets.

Risks: The key risk facing Vodacom would be increased regulatory issues across its markets. South Africa in particular remains a key contributor to group profitability and further regulatory interference could negatively impact group margins. Another challenge for the group remains the current challenging economic conditions which we have seen already negatively impact spending patterns amongst consumers. Should this persist this could negatively impact our medium term forecasts. Given the group's strategy to expand further across the continent, investors would continue to monitor acquisitions as the potential exists that the group make an acquisition that is negatively perceived by the market.

Model updated: 03 February 2010

Running the Numbers

S. Africa

South Africa

Telecommunications

Vodacom

Reuters: VODJ.J Bloomberg: VOD SJ

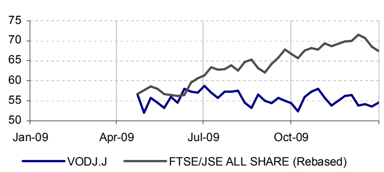
Buy

Price (29 Jan 10)	ZAR 54.50
Target price	ZAR 65.00
52-week Range	ZAR 51.55 – 59.50
Market Cap	ZAR 81,093m US$ 10,748m

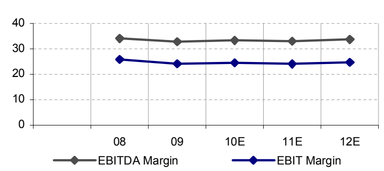
Company Profile

Vodacom Group (Pty) Limited operates a cellular telephone network in South Africa. The company has mobile operations in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo.

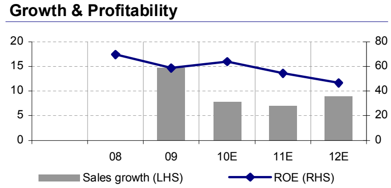
1yr Price Performance



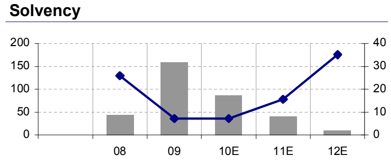
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Financial Summary					
DB EPS (ZAR)	na	4.09	5.15	6.40	7.44
Reported EPS (ZAR)	na	4.09	5.15	6.40	7.44
DPS (ZAR)	na	3.49	2.30	2.56	2.98
BVPS (ZAR)	na	6.29	9.81	13.71	18.20
Weighted average shares (m)	na	1,488	1,488	1,488	1,488
Average market cap (ZARm)	na	na	81,093	81,093	81,093
Enterprise value (ZARm)	na	na	96,009	91,391	85,596
Valuation Metrics					
P/E (DB) (x)	na	na	10.6	8.5	7.3
P/E (Reported) (x)	na	na	10.6	8.5	7.3
P/BV (x)	na	na	5.56	3.98	2.99
FCF Yield (%)	na	na	7.7	10.6	12.9
Dividend Yield (%)	na	na	4.2	4.7	5.5
EV/Sales (x)	na	na	1.61	1.43	1.23
EV/EBITDA (x)	na	na	4.8	4.3	3.7
EV/EBIT (x)	na	na	6.5	5.9	5.0
Income Statement (ZARm)					
Sales revenue	**48,334**	**55,442**	**59,745**	**63,945**	**69,661**
Gross profit	**16,432**	**18,182**	**19,892**	**21,081**	**23,432**
EBITDA	**16,432**	**18,182**	**19,892**	**21,081**	**23,432**
Depreciation	3,941	4,795	5,232	5,711	6,235
Amortisation	0	0	0	0	0
EBIT	**12,491**	**13,387**	**14,660**	**15,370**	**17,197**
Net interest income(expense)	-480	-1,857	-2,014	-980	-490
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	54	-1,293	9	16	27
Profit before tax	**12,065**	**10,237**	**12,655**	**14,406**	**16,734**
Income tax expense	3,991	4,045	4,840	4,682	5,438
Minorities	136	103	156	194	226
Other post-tax income/(expense)	0	0	0	0	0
Net profit	**7,937**	**6,090**	**7,658**	**9,530**	**11,069**
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	**7,937**	**6,090**	**7,658**	**9,530**	**11,069**
Cash Flow (ZARm)					
Cash flow from operations	**10,866**	**11,346**	**12,969**	**15,339**	**17,414**
Net Capex	-6,561	-8,002	-6,721	-6,714	-6,966
Free cash flow	**4,304**	**3,344**	**6,247**	**8,625**	**10,448**
Equity raised/(bought back)	7	0	0	0	0
Dividends paid	-5,741	-6,190	-3,450	-3,812	-4,428
Net inc/(dec) in borrowings	3,227	11,675	-2,365	-1,893	-1,474
Other investing/financing cash flows	-853	-9,000	0	0	0
Net cash flow	**945**	**-171**	**432**	**2,920**	**4,546**
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	381	666	1,098	4,017	8,564
Tangible fixed assets	19,120	23,827	25,316	26,319	27,050
Goodwill/intangible assets	4,224	8,435	8,857	9,300	9,765
Associates/investments	0	0	0	0	0
Other assets	9,854	11,287	12,220	13,079	14,248
Total assets	**33,578**	**44,215**	**47,491**	**52,715**	**59,626**
Interest bearing debt	5,529	17,203	14,838	12,945	11,470
Other liabilities	16,244	16,629	16,881	18,008	19,483
Total liabilities	**21,773**	**33,832**	**31,719**	**30,952**	**30,953**
Shareholders' equity	11,402	9,364	14,596	20,393	27,077
Minorities	404	1,019	1,175	1,370	1,596
Total shareholders' equity	**11,805**	**10,383**	**15,772**	**21,763**	**28,673**
Net debt	*5,148*	*16,538*	*13,740*	*8,927*	*2,907*
Key Company Metrics					
Sales growth (%)	na	14.7	7.8	7.0	8.9
DB EPS growth (%)	na	na	25.8	24.4	16.2
EBITDA Margin (%)	34.0	32.8	33.3	33.0	33.6
EBIT Margin (%)	25.8	24.1	24.5	24.0	24.7
Payout ratio (%)	nm	85.4	44.7	40.0	40.0
ROE (%)	69.6	58.7	63.9	54.5	46.6
Capex/sales (%)	13.6	14.4	11.3	10.5	10.0
Capex/depreciation (x)	1.7	1.7	1.3	1.2	1.1
Net debt/equity (%)	43.6	159.3	87.1	41.0	10.1
Net interest cover (x)	26.0	7.2	7.3	15.7	35.1

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Woolworths Holdings Ltd

Business description: Woolworths operates 410 corporate food, clothing and homeware outlets (both full-line stores containing all three product categories and food-only stores) predominantly in South Africa. It owns 88% of Country Road retailing clothing and homeware through retail outlets and concessions in large department stores in Australia and New Zealand. In addition, the company operates c.160 franchise stores (including 40 smaller Food Stop stores at garage forecourts). Woolworths also operates a joint venture with Absa offering consumer finance through store cards, visa cards and personal loans. Clothing and Home currently contributes c.25% of product turnover (excluding Country Road) with the remainder being contributed by the food business. On an turnover level, we estimate Clothing and Home contributes c.35%, Food 52%, Country Road contributes c.11% with the remainder being generated from 'logistic and other'.

Drivers: Woolworths' key profit drivers over the medium term are:

- A recovery in the primary food business assisted by the repositioning of price points (to incorporate more value price points)
- Repositioning the clothing business as a more accessible fashionable retailer growing market shares and potentially enhancing trading margins in the format.
- Recovery in the home and general merchandise offering: The range of product has been revamped substantially and off a soft base, higher y-o-y growth is expected to realise in FY10.
- Share in profitability of Woolworths financial services (50% sold to Absa): Selling 50% of the financial services business to a specialist banking partner and appropriately gearing the business, is expected to deliver better future returns (historically a low ROE business).

Woolworths commands a c.10% share of the domestic food market that has grown rapidly over the last five years. It remains focussed at the top-end consumer with a high perishables focus (c.82%) and almost exclusively private label product (c.11% national brands across the group). The clothing business has been tracking sideways for a number of years and is currently being repositioned towards increased fashionability to appeal to a broader segmented audience supported by the launch of a number of 'hero brands' (eg w collection, Re-jeans and studio w).

Outlook: With signs of improvement in the store card book, the top line starting to show a little resilience supported by the value price point offerings and positive surprises on the clothing GP margin, we believe the outlook for Woolworths has improved. We expect robust three-year CAGR in earnings of >20% however with limited upside from current levels, we believe this is already fully priced in. We do not anticipate any near-term catalysts in the stock but believe that it offers an attractive yield, keeping the stock treading water. This supports our **Hold** recommendation.

Valuation: We value Woolworths using a PE-relative methodology employing a normalised two-year forward PE of 9.7x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12-month price target of 1900cps.

Risks: Downside risks include: 1) Sustained rand weakness resulting in a geared negative impact on operating margins in the clothing and home business; 2) A weaker-than-expected consumer environment due to the impact of retrenchments and increased savings causing continued trading down by consumers (high-end focus of Woolworths exposes it to greater risk); and 3) Rapidly reverting food inflation below CPIX, together with upward cost pressures, causing more significant operating margin decline. Upside risks include: 1) More aggressive rate cuts than expected; 2) A quicker recovery in bad debts and higher synergies realised on the WFS deal; 3) Better-than-expected top-line growth due to acceptance of the value proposition on food and success in passing on higher clothing inflation than expected to consumers.

Model updated: 20 January 2010

Running the Numbers

S. Africa

South Africa

General Retailers

Woolworths Holdings Ltd

Reuters: WHLJ.J Bloomberg: WHL SJ

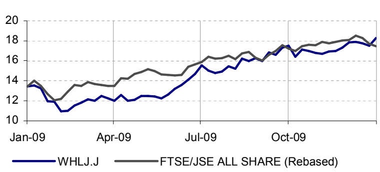
Hold

Price (29 Jan 10)	ZAR 18.28
Target price	ZAR 19.00
52-week Range	ZAR 10.05 – 18.28
Market Cap	ZAR 14,441m US$ 1,914m

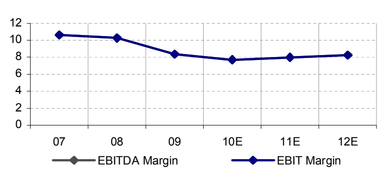
Company Profile

Woolworths operates a large chain of food and clothing- and home outlets predominantly in South Africa. Country Road retails clothing and homeware through retail outlets and concessions in large department stores in Australia and New Zealand.They have a joint venture offering consumer finance through store cards, visa and personal loans.

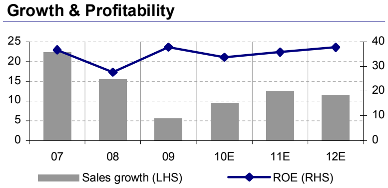
1yr Price Performance



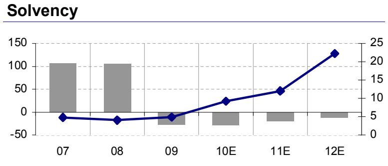
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	1.26	1.13	1.07	1.37	1.65	1.99
Reported EPS (ZAR)	1.32	1.13	1.55	1.37	1.65	1.99
DPS (ZAR)	0.76	0.79	0.85	0.92	1.10	1.33
BVPS (ZAR)	4.05	4.36	3.92	4.50	5.11	5.86
Weighted average shares (m)	817	830	801	790	790	790
Average market cap (ZARm)	14,581	12,896	9,511	14,441	14,441	14,441
Enterprise value (ZARm)	18,161	16,741	8,714	13,498	13,800	14,008
Valuation Metrics						
P/E (DB) (x)	14.2	13.8	11.0	13.3	11.1	9.2
P/E (Reported) (x)	13.6	13.8	7.7	13.3	11.1	9.2
P/BV (x)	5.29	2.34	3.30	4.07	3.57	3.12
FCF Yield (%)	3.9	0.3	3.3	2.1	3.9	5.7
Dividend Yield (%)	4.3	5.1	7.2	5.0	6.0	7.3
EV/Sales (x)	1.05	0.83	0.41	0.58	0.53	0.48
EV/EBITDA (x)	9.8	8.1	4.9	7.6	6.6	5.8
EV/EBIT (x)	9.8	8.1	4.9	7.6	6.6	5.8
Income Statement (ZARm)						
Sales revenue	**17,377**	**20,065**	**21,175**	**23,192**	**26,107**	**29,109**
Gross profit	**4,175**	**4,623**	**4,590**	**4,885**	**5,493**	**6,156**
EBITDA	**1,846**	**2,060**	**1,772**	**1,785**	**2,083**	**2,404**
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	**1,846**	**2,060**	**1,772**	**1,785**	**2,083**	**2,404**
Net interest income(expense)	-379	-503	-360	-193	-172	-108
Associates/affiliates	0	0	70	103	112	124
Exceptionals/extraordinaries	55	-60	316	-64	-64	-64
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,467**	**1,558**	**1,411**	**1,592**	**1,911**	**2,296**
Income tax expense	435	553	546	525	631	758
Minorities	12	9	12	20	23	27
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,074**	**937**	**1,239**	**1,086**	**1,305**	**1,572**
DB adjustments (including dilution)	-49	-1	-378	0	0	0
DB Net profit	**1,025**	**936**	**861**	**1,086**	**1,305**	**1,572**
Cash Flow (ZARm)						
Cash flow from operations	**1,216**	**674**	**932**	**1,059**	**1,268**	**1,526**
Net Capex	-649	-638	-614	-750	-700	-700
Free cash flow	**567**	**35**	**318**	**309**	**568**	**826**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-550	-636	-654	-696	-836	-1,008
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-530	345	4,973	553	0	0
Net cash flow	**-514**	**-255**	**4,637**	**166**	**-268**	**-181**
Change in working capital	*184*	*-332*	*67*	*-8*	*-12*	*-12*
Balance Sheet (ZARm)						
Cash and other liquid assets	424	826	2,391	2,557	2,278	2,097
Tangible fixed assets	1,867	1,811	1,937	2,225	2,925	3,625
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	7,795	8,205	3,586	3,922	4,372	4,845
Total assets	**10,086**	**10,842**	**7,914**	**8,705**	**9,576**	**10,567**
Interest bearing debt	3,962	4,618	1,547	1,547	1,547	1,547
Other liabilities	2,835	2,640	3,295	3,676	4,055	4,455
Total liabilities	**6,797**	**7,259**	**4,842**	**5,223**	**5,602**	**6,002**
Shareholders' equity	3,247	3,531	3,025	3,415	3,884	4,448
Minorities	43	52	47	67	90	117
Total shareholders' equity	**3,289**	**3,583**	**3,072**	**3,482**	**3,973**	**4,565**
Net debt	*3,538*	*3,793*	*-844*	*-1,010*	*-731*	*-550*
Key Company Metrics						
Sales growth (%)	22.3	15.5	5.5	9.5	12.6	11.5
DB EPS growth (%)	21.8	-10.1	-4.7	27.9	20.2	20.5
EBITDA Margin (%)	10.6	10.3	8.4	7.7	8.0	8.3
EBIT Margin (%)	10.6	10.3	8.4	7.7	8.0	8.3
Payout ratio (%)	57.8	70.0	55.0	66.7	66.7	66.7
ROE (%)	36.7	27.6	37.8	33.7	35.8	37.7
Capex/sales (%)	3.7	3.2	2.9	3.2	2.7	2.4
Capex/depreciation (x)	na	na	na	na	na	na
Net debt/equity (%)	107.5	105.9	-27.5	-29.0	-18.4	-12.0
Net interest cover (x)	4.9	4.1	4.9	9.3	12.1	22.2

Source: Company data, Deutsche Bank estimates

Stocks by market capitalisation

Rank	Share Name	Sector	Market Cap (Rm)	Annual value traded (Rm)	Market cap USDm)	Annual value traded (USDm)
1	British America Tobacco	Tobacco	511,405	42,626	67,140	5,596
2	BHP Billiton	General Mining	508,696	186,856	66,784	24,531
3	Anglo American	General Mining	381,392	239,692	50,071	31,468
4	SABMiller	Beverage Breweries	344,271	77,974	45,198	10,237
5	MTN	Wireless Telecom Services	201,447	211,212	26,447	27,729
6	Sasol	Integrated Oil & Gas	183,235	146,220	24,056	19,196
7	AngloPlat	Platinum	172,957	60,545	22,707	7,949
8	Standard Bank	Banks	169,620	125,917	22,269	16,531
9	Richemont	Clothing & Accessories	135,407	56,200	17,777	7,378
10	Impala Platinum	Platinum	124,737	134,225	16,376	17,622
11	FirstRand	Banks	105,148	57,287	13,804	7,521
12	Kumba Iron Ore	General Mining	104,128	24,140	13,671	3,169
13	AngloGold Ashanti	Gold Mining	101,056	114,971	13,267	15,094
14	Absa	Banks	96,420	58,093	12,658	7,627
15	Vodacom	Wireless Telecom Services	81,093	25,991	10,646	3,412
16	Old Mutual	Life Insurance	69,924	50,556	9,180	6,637
17	Gold Fields	Gold Mining	62,798	73,978	8,244	9,712
18	Nedbank	Banks	60,849	27,501	7,989	3,610
19	Sanlam	Life Insurance	49,421	23,283	6,488	3,057
20	Bidvest	Business Support Services	45,663	28,753	5,995	3,775
21	Shoprite	General Retail	37,962	28,536	4,984	3,746
22	Exxaro	General Mining	37,841	16,385	4,968	2,151
23	ARM	General Mining	35,665	15,982	4,682	2,098
24	Liberty International	Real Estate and Development	34,507	19,002	4,530	2,495
25	Tiger Brands	Food Producer	33,614	27,066	4,413	3,553
26	Harmony	Gold Mining	30,684	46,742	4,028	6,137
27	Investec plc	Speciality & Other Finance	24,630	19,439	3,234	2,552
28	ABIL	Consumer Finance	23,876	24,308	3,135	3,191
29	Growthpoint	Real Estate and Development	21,186	10,398	2,781	1,365
30	Pick n Pay	General Retail	20,397	8,042	2,678	1,056
31	PP Cement	Building & Construction	19,666	16,521	2,582	2,169
32	Truworths	Apparel Retail	19,311	21,422	2,535	2,812
33	Liberty Holdings	Life Insurance	19,163	6,210	2,516	815
34	Redefine	Real Estate and Development	19,006	6,603	2,495	867
35	Discovery	Life Insurance	18,380	8,602	2,413	1,129
36	Sappi	Paper	17,617	11,512	2,313	1,511
37	Massmart	General Retail	17,551	16,444	2,304	2,159
38	Telkom	Fixed Line Telecommunications	17,285	17,672	2,269	2,320
39	Imperial	Diversified Industrial	17,071	16,798	2,241	2,205
40	Woolies	Apparel Retail	15,229	14,415	1,999	1,893
41	Aveng	Building & Construction	14,058	22,932	1,846	3,011
42	Foschini	Apparel Retail	13,509	18,482	1,774	2,426
43	M&R Holdings	Building & Construction	13,116	20,826	1,722	2,734
44	Spar	General Retail	12,129	7,798	1,592	1,024
45	Nampak	Packaging	10,297	3,899	1,352	512
46	Barloworld	Diversified Industrial	10,281	13,987	1,350	1,836
47	Sun International	Leisure Facilities	10,276	3,439	1,349	452
48	Adcock Ingram	Pharmaceuticals	9,318	5,311	1,223	697
49	JD Group	General Retail	7,434	10,571	976	1,388
50	Mondi	Paper	6,537	5,216	858	685
51	Lewis	General Retail	5,124	4,550	673	597

Prices as at Friday, 29 January 2010
Source: I-Net Bridge; Deutsche Bank estimates

Appendix A: Equity valuations

We reproduce the Executive summary from Chris Veegh's Equity Valuations: Total eclipse of the art, dated 9 April 2008, for our valuation methodologies.

Executive summary

Introduction
The note serves four main purposes:

1. Sets out our standardised valuation inputs.
2. Updates our one-year return expectations.
3. Reconciles top-down market returns with bottom-up price targets.
4. Explains DB South Africa's valuation methodologies and price targets (in the Appendix).

The aim of the document is to provide a reference point, and to highlight inconsistencies that analysts will have to address. (Rather than bombard clients with a series of minor price target adjustments, analysts will, where necessary, revise these in their next update note.)

Standard valuation inputs
We have standardised the following inputs:

- **Risk-free rate:** 8.5% in rand and 4.5% in USD/EUR.
- **Equity risk premium:** 4.5% across all markets.
- **South Africa country risk premium:** 1.5% (with a South Africa country risk beta of 1).
- **Terminal growth rate:** maximum at 6% in rand and 4% in USD/EUR.
- **Betas:** fundamental rather than historical betas/factor betas for commodity stocks.

Revised return expectations
Our one-year equity return estimate is derived from analysts' bottom-up earnings growth expectations and assumes that the market will exit in line with its long-term mean earnings yield of 7.9% after 24 months. We use **real** earnings growth estimates for year 2 to derive the market's one-year forward exit PE. We have recently revisited our market and sector return expectations to take account of:

- Market volatility.
- Significant upward earnings expectation revisions in the resource sector.
- Revised inflationary expectations .

At present, we estimate the one-year forward exit PE at 13.5x, and a 12-month return from equities of 21% (vs 12.5% from cash and 13.5% from bonds). The equity return is allocated as follows: Resources 18%; Industrials 17%; Financials 33%.

Top-down and bottom-up reconciled
To ensure that our top-down and bottom-up return expectations are not too disparate, we compare the two on a regular basis. Factoring in our top-down 15% adjustment to forecast earnings growth over each of the next two years, the difference between our estimated top-down exit PE (13.2x) and the implied exit PE (13.5x) is a modest 2.3%.

The difference in return expectations is more pronounced across the sectors (top-down vs bottom-up): Resources (18% vs 16%); Industrials (17% vs 23%); and Financials (33% vs 33%).

Appendix: Valuation and price target methodologies

Given the diverse nature of companies under coverage, and that some are dual-listed and thus subject to co-coverage, we cannot be too prescriptive on valuation and price target methodologies. Some art will thus remain in the process. For reference purposes, we have therefore outlined analysts' current valuation inputs, and the manner in which they arrive at their price targets. As explained before, some of these inputs will be subject to change, and we have highlighted these. We do not expect these to impact materially on our price targets and recommendations, however.

If you would like to access the full document, the URL is:

https://gm.db.com/ger/document/ShowPdf.eqsr?productIDMore=0900b8c081004813

Glossary

Abbreviation	Explanation	Abbreviation	Explanation
¢	US cents	GFAM	Guinness Flight Asset Management
¢ps	US cents per share	GTL	Gas-to-Liquids
ABIL	African Bank Investments Ltd	IT	Information Technology
ALSI	FTSE/JSE Africa All Share Index	J203	FTSE/JSE Africa All Share Index
Anglo	Anglo American plc	JDG	JD Group
AngloPlat	Anglo Platinum Ltd	JSE	JSE Stock Exchange South Africa
ARM	African Rainbow Minerals Ltd	JV	Joint Venture
ARMgold	African Rainbow Minerals Gold	Kumba	Kumba Iron Ore
ARMI	African Rainbow Minerals Investments	KZL	Kerzner International Ltd
AUD	Australian dollar	Libhold	Liberty Holdings Ltd
AUD	Australian dollar	LPM	Ltd pay-out machine
BAT	British American Tobacco plc	m	million
BEE	Black Economic Empowerment	Mvela	Mvelaphanda Resources Ltd
bn	billion	NCA	National Credit Act
bp	basis points	NTRLI	Non-Traditional Retail Lending Institutions
c	South African cents	p	British pence
c.	circa	pa	per annum
Capex	Capital expenditure	PGM	Platinum Group Metals
CAT	Caterpillar	PPC	Pretoria Portland Cement Company Ltd
CEO	Chief Executive Officer	pps	pence per share
CIB	Standard Bank Corporate & Investment Banking	RBCT	Richards Bay Coal Terminal
cps	South African cents per share	RCS	Retail Credit Solutions
CSC	Capital Shopping Centres	ROE	Return on Equity
CTL	Coal-to-Liquids	RPM	Rustenburg Platinum Mines Ltd
DB	Deutsche Bank	SA	South Africa
DC	Distribution Centre	SABM	SABMiller plc
DIY	Do-it-yourself	SBG	Standard Bank Group
DRC	Democratic Republic of the Congo	SIML	Sun International Management Ltd
EBIT	Earnings Before Interest & Taxation	SIOC	Sishen Iron Ore Company
ECB	European Central Bank	SISA	Sun International (SA) Ltd
EM	Emerging Markets	SOTP	Sum-of-the-parts
EM	Emerging markets	SPI	Sasol Petroleum International
EUR	Euro	Sun	Sun International
EV	Enterprise Value	US¢	US cents
FCF	Free Cash Flow	USD	US dollar
Fed	Federal Reserve	WACC	Weighted Average Cost of Capital
FMCG	Fast Moving Consumer Goods	ZAR	South African rand
FT	Fischer-Tropsch	ZWD	Zimbabwe dollar
GBP	British pound		

Appendix 1

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Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

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Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
   Buy: Expected total return (including dividends) of 10% or more over a 12-month period
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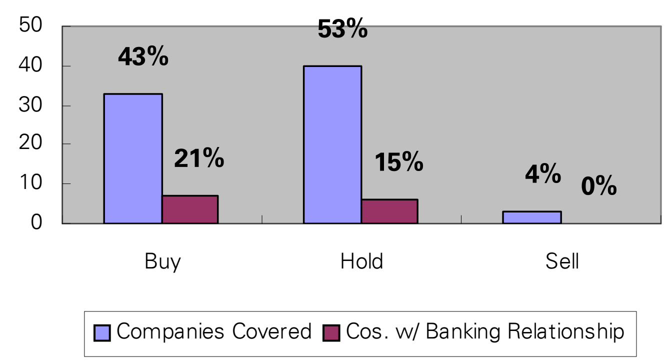
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



GEMs South African Universe

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