Deutsche Securities
A Member of Deutsche Bank Group

15 August 2011

South African Resources

Pricing slowdown risks

Special Report

Top picks	
Anglo American (AGLJ.J),ZAR283.10	Buy
ARM (ARIJ.J),ZAR179.62	Buy
Amplats (AMSJ.J),ZAR529.96	Buy
Aquarius Platinum Limited (AQP.L),GBP239.00	Buy
Sasol (SOLJ.J),ZAR315.48	Buy

Tim Clark
Research Analyst
(+27) 11 775-7268
tim.clark@db.com

Jarrett Geldenhuys
Research Analyst
(+27) 11 7757258
jarrett.geldenhuys@db.com

Anna Mulholland, CFA
Research Analyst
(+27) 11 775-7270
anna.mulholland@db.com

Shilan Modi
Research Analyst
(+27) 11 775-7282
shilan.modi@db.com

Sector remains attractive in the event of a soft patch, not a crisis

Recent weak economic data and sovereign debt concerns have raised the issue of a potential economic slowdown. We have assessed valuations in relation to the previous downturn across the coverage universe. We find that the market is pricing in a slowdown but not to the same extent as the 2008 financial crisis.

Diversified miners

In order to assess the impact of a possible slowdown on the diversified miners we have derived four scenarios. We find that (1) under DBe that the sector is on 0.80x DCF and 5.82x 2012 – an attractive level; (2) assuming spot, the sector is on 0.74x DCF and 6.77x 2012 – also attractive; (3) assuming a soft patch (copper at US$3/lb, iron ore at US$100/t) we find that the sector is 0.94x DCF and 13.69x 2012 (we think this is what is now being priced in) – fair price today; and (4) assuming 1H09 average prices (ZARUSD 9.2, copper US$1.83/lb, iron ore US$74/t, platinum US$1095/oz and WTI US$52/bbl)the sector is on 1.16x DCF and 17.87x 2012 – leaving the sector looking expensive at current levels. Thus a soft patch is now priced in, but falling into another financial crisis remains a risk.

PGM miners

The PGM miners are trading on average at 0.9x NAV, implying 11% upside to NAV or 24% upside to the weighted average NAV multiple for the sector over the past 10 years of 1.12x. Using P/NAV, our key valuation metric, Amplats and Aquarius, trading at 0.86x and 0.85x NAV respectively, offer most upside from current levels. On a P/E basis, the sector is trading on an average 26.4x CY11E HEPS. Using spot currency and metals prices, the current ZAR/USD is weaker than our forecast for 2H11: under this scenario we see 7% upside to our HEPS forecasts for CY11E.

Oil and gas

Sasol's recent price performance mirrors WTI's correction to c.USD85/bbl, despite the appropriate Brent crude remaining firm at c.USD107/bbl. We expect the crude spread to remain open medium term, sighting Brent-specific support. Under a spot scenario, we envisage upgrades for FY12E EPS on a weaker-than-forecast currency. In a double dip scenario, we expect support from Sasol's differentiated progressive dividend policy, but highlight little confidence in OPEC's ability to support oil prices.

Gold miners

Gold, being a defensive commodity, shields the gold miners' earnings from a downturn. The biggest risks to the miners are production-related stoppages and subsequent misses of targets.

Overweight general mining and oil, underweight platinum

Our valuation is based on a DCF over the life of operations (terminal value for Sasol), the general mining and oil sectors are valued at NPV, the platinum sector at 1.3x NPV. Risks to our view include weaker commodity prices and stronger producer currencies. *For more detail on a company-by-company basis, see pg 24.*

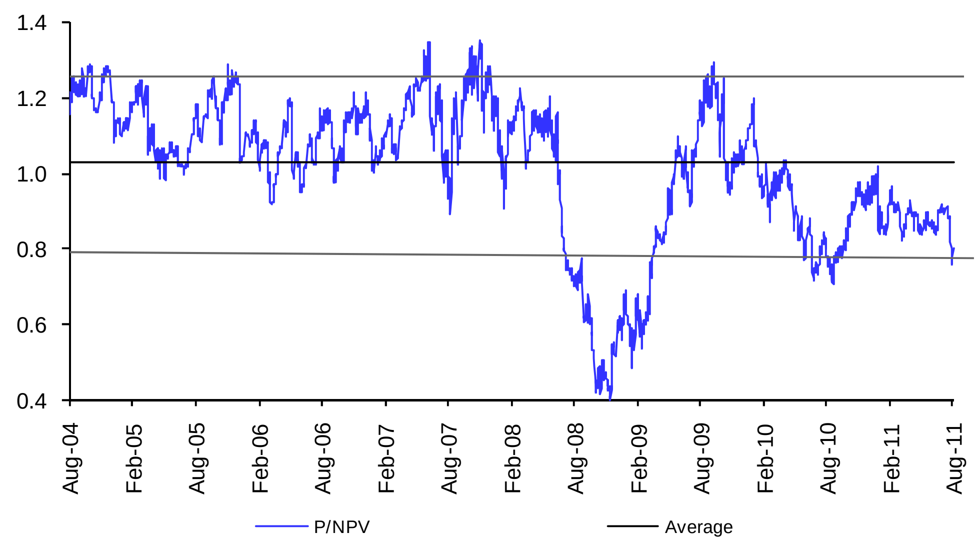
SA diversified miners

Sector looks cheap on our base case valuation

Our base case valuation tool is DCF over the life of mine (LOM) for the miners; we have consistently applied this approach over the long term. As illustrated in Figure 1 and Figure 2 the sector is currently at 0.8x DCF based on DBe, well below the long-term average of 1.03x. Anglo (0.63x), BHP (0.7x) and ARM (0.67x) look particularly cheap at this time. Based on our history the sector is trading at the 12th percentile, an attractive level.

The sector generally traded above DCF from 2004 to 2008 (average of 1.18x) and again briefly after the global financial crisis in mid 2009. Since early 2010 the sector has traded below DCF and has averaged 0.9x DCF. We think that the reason for this is likely the concerns over the growth outlook of the OECD given weak underlying economic data and concerns over sovereign debt.

Figure 1: Sector P/DCF, Aug 04 to present



Source: Deutsche Bank, Datastream

Figure 2: Company and sector P/DCF, Aug 04 to present

	BHP	Anglo	ARM	Exxaro	Kumba	Metorex	Merafe	Optimum	Sector
Average + 1SD	1.23	1.23	1.19	1.28	1.82	1.02	0.95	1.01	1.22
Average - 1SD	0.84	0.75	0.70	0.72	0.92	0.43	0.51	0.74	0.84
Average	1.04	0.99	0.94	1.00	1.37	0.73	0.73	0.88	1.03
SD	0.20	0.24	0.24	0.28	0.45	0.30	0.22	0.14	0.19
5% Percentile	0.66	0.49	0.56	0.59	0.73	0.11	0.33	0.50	0.62
95% Percentile	1.34	1.30	1.42	1.59	2.07	1.24	1.06	1.04	1.27
Current	**0.70**	**0.63**	**0.67**	**0.94**	**2.12**	**1.06**	**0.48**	**0.81**	**0.80**
Current Percentile, %	6.6%	7.8%	7.1%	42.8%	96.1%	88.6%	15.8%	15.8%	12.1%
Empirical Upside, %	47.7%	56.0%	39.6%	5.6%	-35.5%	-31.6%	50.1%	7.9%	28.3%
Current vs current	-12%	-21%	-16%	18%	165%	33%	-40%	2%	0%
Average vs Average	1%	-4%	-8%	-3%	33%	-29%	-29%	-15%	0%

Source: Deutsche Bank, Datastream

Four price scenarios – DBe, spot, soft patch, 1H09 average

In order to assess the potential downside in the event of a global slowdown and to assess current ratings in relation to the downside we have derived four scenarios:

- Scenario 1 – DB base cash estimates
- Scenario 2 – Assuming spot from 2011-2014 and DBe of the mid cycle from this point forwards. The risk is that spot commodity prices follow equities lower as demand weakens.
- Scenario 3 – Assuming a reduction of 10% of demand, or effectively a soft patch. We see these prices as representing a significant pullback in commodity prices but still recognising that Chinese and EM growth will drive above mid cycle commodity prices. Under this scenario copper is at US$3/lb, iron ore at US$100/t, coking coal at US$250/t and thermal coal at US$105/t
- Scenario 4 – Assuming prices achieved in 1HCY09. This was the trough average commodity price through the 2008 financial crisis. We think that this outcome is less likely but in the event of a hard landing in China this scenario cannot be ignored. At this time we saw an average ZAR/USD of 9.2, copper of US$1.83/lb, iron ore at US$74/t, platinum at US$1095/oz and WTI at US$52/bbl.

Figure 3: Assumptions for scenario analysis

	Scenario 1 - DBe					Scenario 2	Scenario 3	Scenario 4
Inputs	2011F	2012F	2013F	2014F	2015F	Spot	Soft Patch	1H09 average
A$/US$	1.041	1.026	0.960	0.857	0.783	1.038	0.850	0.710
Rand/$	6.7	7.2	8.1	9.0	9.8	7.3	8.5	9.2
Base Metals								
Cu Price (US ¢/lb)	433.5	493.4	431.0	363.0	226.9	388.9	300.0	183.5
Al Price (US¢/lb)	120.0	133.3	127.0	113.4	113.4	107.2	85.0	64.6
Zn price (US ¢/lb)	109.0	131.0	124.8	108.9	97.5	94.0	75.0	60.0
Ni price (US ¢/lb)	1155.2	1315.8	1225.0	1134.3	771.3	949.1	650.0	529.6
Bulk Commodities								
Iron ore lump (US$/t)	179.2	184.1	125.0	105.3	99.4	188.9	108.8	100.6
Iron ore fines (US$/t)	169.7	174.8	113.8	93.5	87.4	173.6	100.0	74.4
Coking Coal (US$/t)	282.5	275.0	200.0	160.0	120.0	305.1	250.0	214.5
Precious Metals								
Platinum (US$/oz)	1819.2	2125.0	1850.0	2000.0	1600.0	1754.0	1754.0	1095.8
Palladium (US$/oz)	837.8	1150.0	800.0	1250.0	750.0	741.0	741.0	216.0
Rhodium (US$/oz)	2317.3	3175.0	3500.0	3750.0	3350.0	1975.0	1975.0	1238.1
Au price (US$/oz)	1569.1	1900.0	1700.0	1500.0	850.0	1777.8	1500.0	915.5
Energy								
Thermal coal (US$/t)	122.0	137.5	125.0	97.5	82.5	119.4	105.0	98.0
WTI Oil Price (US$/bbl)	100.2	104.0	110.0	115.0	115.0	82.9	75.0	51.3
Brent Oil Price (US$/bbl)	114.1	117.0	120.0	123.0	116.9	105.0	90.0	51.6
Minor Metals								
Manganese ore (US$/t)	304.8	322.5	283.5	236.3	231.5	320.0	300.0	320.0
Ferromanganese HC (US$/t)	1405.5	1625.0	1550.0	1550.0	1000.0	1640.0	1500.0	1393.0
Ferrochrome (Usc/lb)	130.0	140.0	151.0	149.0	110.0	119.0	110.0	74.0
Chrome Ore (US$/t)	252.8	248.8	240.0	240.0	230.0	240.0	240.0	194.0
Zircon	1912.5	2700.0	2700.0	2113.0	1300.0	2600.0	1500.0	867.5
Rutile	1045.0	1570.0	1570.0	1188.0	800.0	1060.0	800.0	550.0

Source: Deutsche Bank

Scenario 1: DBe

Assuming DBe we find the sector cheap trading at 0.80x DCF, 5.82x 2012 and 6.42x 2013. In particular we prefer Anglo American (0.67x DCF) and ARM (0.70x DCF). This scenario assumes global growth of 4.0% in 2011 and 4.5% in 2012 as outlined in the World Outlook on 1 July 2011. Subsequent to this report economic data has disappointed and sovereign risks have been elevated. As a result we outline various weaker scenarios in addition to DBe.

Figure 4: DB base case scenario – current DB forecasts

DB values	2011	2012	2013	NPV	P/NPV
Anglo	6.81	4.46	5.06	58.0	0.67
BHP	8.18	6.30	6.79	40.7	0.80
Kumba	9.64	8.01	11.75	288.9	1.70
Exxaro	7.90	4.63	4.63	178.3	0.97
ARM	9.70	7.90	5.01	257.5	0.70
Merafe	8.68	5.33	3.39	1.9	0.48
Metorex	10.61	6.16	3.68	7.6	1.07
Optimum	16.17	4.71	4.48	29.5	0.81
Sector average	**8.13**	**5.82**	**6.42**		**0.80**

Source: Deutsche Bank

Scenario 2: Spot

If we assume spot commodity prices from 2011 to 2014 (and then mid cycle long-term prices) we find that the sector is trading on 0.74x DCF, 7.93x 2011, 6.77x 2012 and 5.93x 2013. Spot prices have seen some weakness from industrial metals but bulk and precious metals prices have remained strong through the recent selloff.

In the last downturn we found that commodity prices followed equities lower with copper holding up for nearly six months after equities had fallen.

Figure 5: Spot scenario, assuming spot to 2015, then DBe of mid cycle terminal value

Spot	2011	2012	2013	NPV	P/NPV
Anglo	7.29	5.89	3.92	61.2	0.64
BHP	8.58	7.50	8.23	40.3	0.80
Kumba	8.16	7.69	7.54	398.2	1.23
Exxaro	5.48	5.11	4.77	186.2	0.93
ARM	9.01	8.43	5.98	253.2	0.71
Merafe	nm	nm	nm	1.3	0.74
Metorex	12.59	8.96	4.68	6.8	1.19
Optimum	12.65	5.45	9.41	26.8	0.89
Sector average	**7.93**	**6.77**	**5.93**		**0.74**

Source: Deutsche Bank

Scenario 3: Soft patch

In our soft patch scenario we have assumed the impact of 10% weaker demand (in line with our global team estimates) that the copper price falls to US$3.00/lb, iron ore to US$100/t, coking coal to US$250/t and thermal coal to US$105/t. Clearly this is not a global hard landing but assumes that in the event of weakness that stimulus avoids a hard landing.

Under this scenario we find that the sector is trading on 0.94x DCF and of on 13.7x 2011 and 2012 and 11.5x 2013. This is what we believe is now being priced in as we find that the DCF remains attractive despite the marginally more stretched than long-term average (11.3x over the last 10 years) multiples.

Figure 6: Soft Patch scenario, assuming soft patch prices to 2015, then DBe of mid cycle terminal value

Soft Patch	2011	2012	2013	NPV	P/NPV
Anglo	16.20	13.19	7.67	47.1	0.83
BHP	12.75	17.96	19.09	33.0	0.98
Kumba	13.79	13.80	13.69	250.7	1.95
Exxaro	8.57	7.91	7.36	110.0	1.57
ARM	9.49	9.63	6.90	242.9	0.74
Merafe	-	-	-	1.3	0.71
Metorex	16.07	10.11	5.14	6.5	1.25
Optimum	11.75	4.87	7.91	27.8	0.86
Sector average	**13.66**	**13.69**	**11.51**		**0.94**

Source: Deutsche Bank

Scenario 4: 1H09 average prices

Commodity prices and currencies troughed on average in 1HCY09. At this time we saw an average ZAR/USD of 9.2, copper of US$1.83/lb, iron ore at US$74/t, platinum at US$1095/oz and WTI at US$52/bbl.

Under this scenario we see the sector trading at 1.16xDCF and 15x 2011, 17.87x 2012 and 20.77x 2013. Under this scenario we see continued downside to the miners and we would expect the market to sell off by another 20-30% if not more in some instances where debt levels are high and liquidity risks come to the fore.

Figure 7: 1H09 average price scenario, assuming 1H09 average prices to 2015, then DBe of mid cycle terminal value

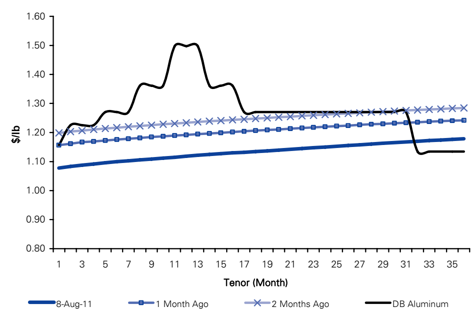
1H09	2011	2012	2013	NPV	P/NPV
Anglo	16.80	22.40	33.81	35.4	1.10
BHP	18.15	26.80	35.80	27.9	1.16
Kumba	14.85	15.13	15.05	234.5	2.09
Exxaro	11.87	10.67	9.73	90.6	1.91
ARM	11.23	14.37	9.46	231.4	0.78
Merafe	-	-	-	0.6	1.66
Metorex	- 142.61	36.82	10.07	4.7	1.72
Optimum	11.13	4.66	7.41	28.3	0.84
Sector average	**15.00**	**17.87**	**20.77**		**1.16**

Source: Deutsche Bank

DB forecasts versus spot forward curves

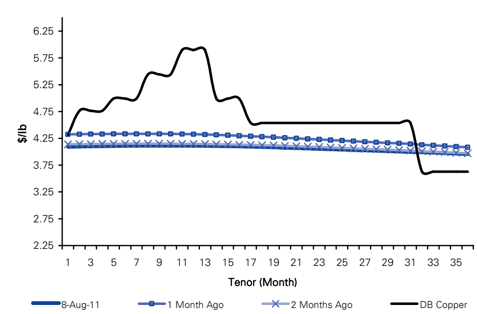
As can be seen in the charts below, spot forward curves are constantly shifting, embedding future expectations about global growth, interest rates, inflation, and are not a static target. The charts below are useful for illustrating how DB's forecasts stack up vis-à-vis market consensus for any particular year (3-year charts below measured as 36 months except for nickel and zinc which are for 27 months). Additionally one can clearly see a picture of risk aversion in the movement of the forward curves in the last 1 month period. Industrial metal forward curves have all weakened in the last one month period as a result of rising questions on stability of global growth. However precious metal forward curves have all risen in the last one month period in tune with the flight to safety theme being played out globally in the last couple of weeks.

Figure 8: Aluminium forward curves



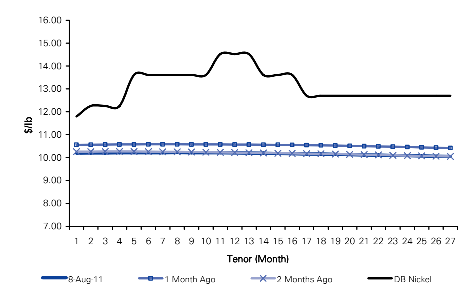
Source: Deutsche Bank

Figure 9: Copper forward curves



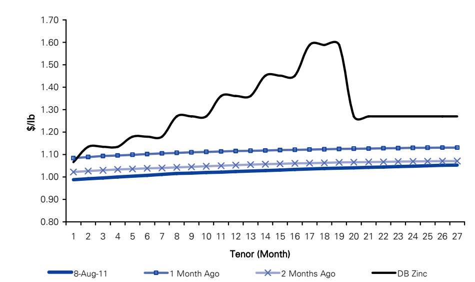
Source: Deutsche Bank

Figure 10: Nickel forward curves



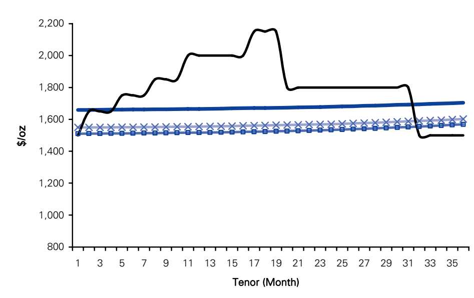
Source: Deutsche Bank

Figure 11: Zinc forward curves



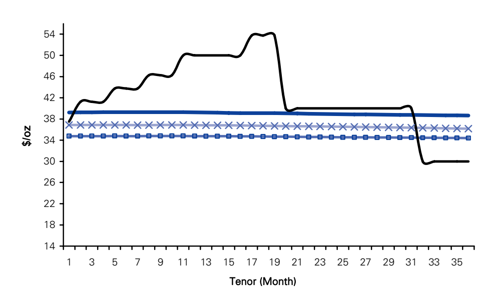
Source: Deutsche Bank

Figure 12: Gold forward curves



Source: Deutsche Bank

Figure 13: Silver forward curves



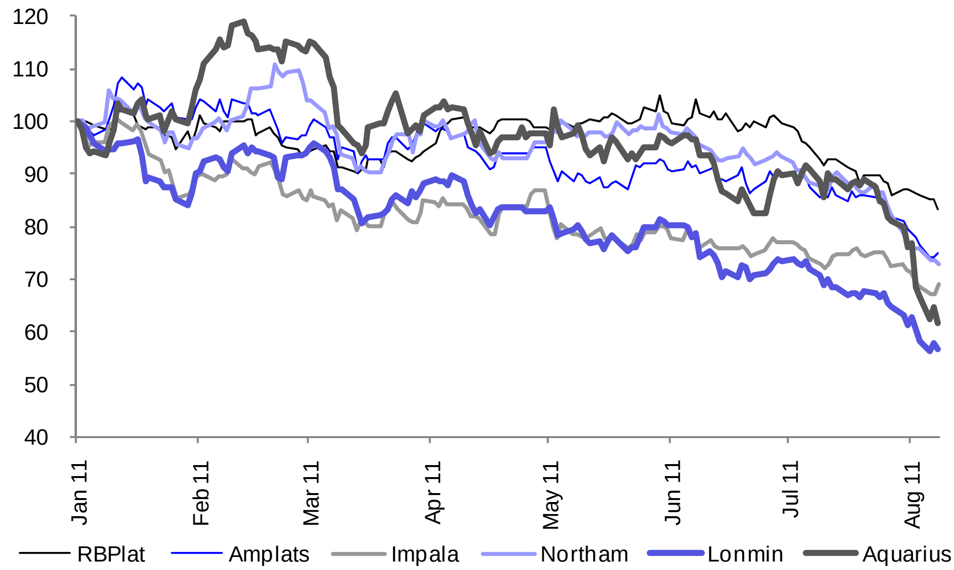
Source: Deutsche Bank

SA platinum miners

YTD price decline of 28.6% on average; top picks remain Amplats and Aquarius

As shown in Figure 14, the PGM mining stocks have dropped 28.6% on average YTD, with significant falls ranging from 1-10% since the most recent weakness in the market started on 5 August.

Figure 14: PGM miners have declined 28% on average this year



Source: Deutsche Bank, Datastream

During the last downturn, from 3Q08 throughout 2009, the share prices of the PGM miners dropped to the levels shown in Figure 15. The average downside to those levels from current prices is 49%.

Figure 15: Peak and trough price during last downturn

		2008	2009			
		Peak	Trough	% chg	Current price	% downside to trough share price
Amplats	SAc	1419	355	-75.0%	530	-33.1%
Impala	SAc	368	90	-75.5%	167	-46.0%
Northam	SAc	79	18	-76.9%	33	-44.7%
Lonmin	GBP	35.02	5.27	-85.0%	11.6	-54.6%
Aquarius	GBP	8.73	0.84	-90.4%	2.38	-64.9%

Source: Deutsche Bank

Whilst we have a negative view of the sector's ability to generate sustainable FCF in the face of operational headwinds in the South African platinum mining industry over the next 12 months, we do not believe the stocks will fall to the previous trough levels shown above. Despite the current persistent low Rand basket price, the companies used the 2008-2010 period to cut costs, reduce production levels to the lower platinum demand at the time, defer longer-dated capital intensive projects and de-gear their balance sheets, some via rights issues. As discussed below, this has led to a significant de-gearing of the companies' balance sheets. In addition, our current forecasts have some measure of conservatism, based on a continued strong Rand environment, with the ZAR/USD rate strengthening to 2H11 to 6.47. Assuming that the spot ZAR/USD exchange rate and PGM prices persist until the end of calendar 2011, we see upside to calendarised headline earnings of 7.1%, with the highest potential increases for Northam and Amplats, of 13.7% and 13.0% respectively.

Stocks trading at 0.9x NAV, 11% upside to fair value.

We continue to use NAV multiples to value the PGM mining stocks and apply a multiple of 1.3x NAV to the discounted LOM cash flows for each company to derive our target prices.

Figure 16: DB target prices and recommendations

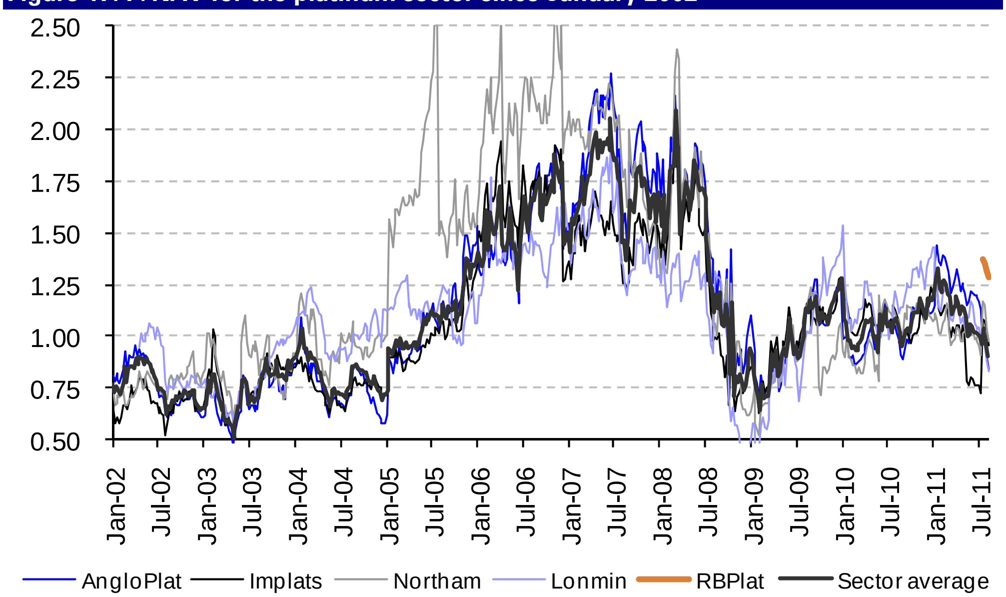
		Recommendation	Target price	Current price	% upside
Amplats	ZAR	Buy	740	530	39.6%
Impala	ZAR	Hold	190	167	13.8%
Northam	ZAR	Hold	41	33	24.2%
Lonmin	GBP	Hold	16.7	11.6	44.0%
Aquarius	GBP	Buy	3.3	2.38	38.7%
RBPlat	ZAR	Sell	57	56	1.8%

Source: Deutsche Bank

Figure 17 shows the P/NAV multiples for the sector over the last ten year period. The weighted average has been 1.12x NAV with a high of 2.09x (March 2008) and a low of 0.51x (April 2003). In the last downturn (2008-9), the trough multiple was 0.55x on a weighted average across the sector.

On today's prices and our latest estimates, the stocks are trading below the 1.12x average for the last 10 years:

Figure 17: P/NAV for the platinum sector since January 2002



Source: Deutsche Bank

Using the 2008 trough NAV multiple as a benchmark, the stocks with the most potential downside are shown in Figure 18:

Figure 18: Downside on 2008 trough multiples

	Current price	No. of shares	Market cap	Current NAV	Implied multiple	Last trough	Implied downside	Implied low per share	Potential downside to trough	Share price low in last trough
Amplats	R 530	261.5	R 138,595	R 162,055	0.86	0.69	R 95,631	R 365.70	-31.0%	R 354.70
Impala	R 167	601	R 100,299	R 99,599	1.01	0.63	R 63,188	R 105.21	-37.0%	R 90.15
Northam	R 33	363	R 11,982	R 12,368	0.97	0.52	R 6,231	R 17.16	-48.0%	R 18.25
Lonmin	£11.60	202.3	£2,347	£2,368	0.99	0.24	£563	£2.78	-76.0%	£5.27
Aquarius	£2.38	464	£1,104	£1,290	0.86	0.63	£696	£1.50	-37.0%	£0.84
RBPlat	R 56	164.10	R 9,189	R 7,262	1.27	NM				

Source: Deutsche Bank

This time round is different

We believe it is unlikely that the PGM miners will trade at the trough multiples of the 2008 downturn. In our view, trough valuations at that time reflected the market's concerns regarding the balance sheet positions of the companies, when FCF was squeezed by the halving of the platinum price over three months, to a low of $763/oz in October 2008, coupled with similar decreases in the palladium and rhodium prices over the same period.

Indeed, Amplats, Lonmin and Aquarius all found it necessary to issue rights to help fund operating expenses and de-gear their balance sheets in the first half of 2009. Aquarius announced a rights offer of US$251m in March 2009, followed by an offer by Amplats for R12.5bn in April 2009, and Lonmin's offer of US$457m in May 2009. Since that time, the sector's gearing levels have reduced substantially – as shown in Figure 19, measuring gearing by a net debt/EBITDA basis, the average multiple has decreased to 0.10x for FY11E from 2009 where Amplats' net debt/EBITDA reached 3.8x and both Aquarius and Lonmin were in negative EBIDTA positions.

Figure 19: Net Debt/EBITDA for the sector FY11e vs. FY09

		FY11E			FY09
		Net debt	EBITDA	Net debt/EBITDA	Net debt/EBITDA
Amplats	Rm	6,106	11,348	0.54	3.82
Impala	Rm	2,453	12,023	0.20	-0.22
Northam	Rm	-313	521	-0.60	0.94
RBPlat	Rm	-107	993	-0.11	NM
Lonmin	USDm	298	414	0.72	-2.35
Aquarius	USDm	-36	226	-0.16	-7.74

Source: Deutsche Bank

As such, we believe the balance sheets of the PGM miners are more robust and able to withstand the current downturn, shielding the shares from a return of the market's concerns regarding high levels of gearing. Northam and RBPlat remain in net cash positions; and, given the persistent strong Rand environment, we expect the whole industry is likely to retain cash rather than use it to invest in capital in the low Rand Basket Price environment.

Testing NAV and EPS at spot exchange rates and metals prices

To test our valuations and earnings forecasts at the current ZAR/USD rate and current PGM prices in USD, we have used the following inputs:

Figure 20: Spot assumptions

ZAR/USD	**7.15**
Pt	1780
Pd	736
Rh	2288

Source: Deutsche Bank

Scenario 1: NAV at spot Rand

Under this scenario, we use a ZAR/USD rate of 7.15 throughout our models from 3Q11E onwards across our life of mine forecasts.

Figure 21: NAV on spot rand

	NAV using spot Rand	Implied multiple
Amplats	R 114,768	0.83
Impala	R 43,605	0.43
Northam	R 4,921	0.41
Lonmin	£263	0.11
Aquarius	£1,210	1.10
RBPlat	R 6,756	0.74

Source: Deutsche Bank

Scenario 2: NAV at spot PGM prices

Under this scenario, we use the current platinum, palladium and rhodium $/oz prices shown above throughout our models from 3Q11E onwards across our life of mine forecasts.

Figure 22: NAV on spot PGM prices

	NAV using spot PGM prices	Implied multiple
Amplats	R 141,817	1.02
Impala	R 85,526	0.85
Northam	R 10,950	0.91
Lonmin	£2,038	0.87
Aquarius	R 1,031	0.93
RBPlat	R 7,154	0.78

Source: Deutsche Bank

Scenario 3: NAV at spot Rand and PGM prices

The results of combining scenarios 1 and 2 are shown in Figure 23.

Figure 23: NAV on spot rand and PGM prices

	NAV using spot PGM prices and spot Rand	Implied multiple
Amplats	R 116,104	0.84
Impala	R 31,647	0.32
Northam	R 3,640	0.30
Lonmin	-£67	-0.03
Aquarius	R 948	0.86
RBPlat	R 6,746	0.73

Source: Deutsche Bank

Scenario 4: CY11E headline EPS at spot Rand and spot PGM prices

We have looked at our headline EPS forecasts for 2011 calendar year (Aquarius, Northam and Impala report the year to June and Lonmin the year to September). On average, due to our base case forecast of a strengthening Rand versus the US dollar throughout 2H11 (calendar), we see 7.1% upside to headline EPS at spot ZAR/USD and PGM prices across the sector.

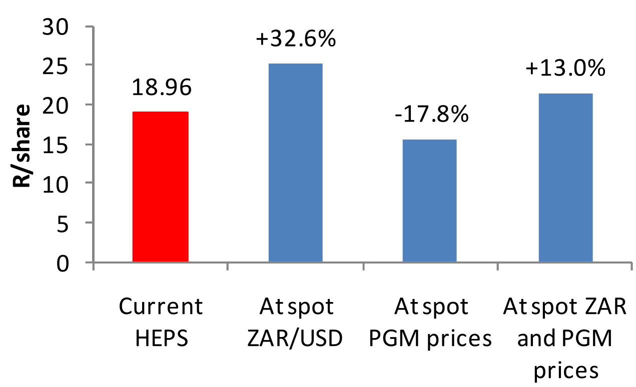
Headline EPS for CY11 for Northam and Amplats are the most geared on the upside if the Rand and PGM prices stay at the current spot levels:

Figure 24: Downside to EPS at spot PGM and rand

Calendarised 2011E		Current HEPS	At spot ZAR/USD	% chg	At spot PGM prices	% chg	At spot ZAR and PGM prices	% chg
Amplats	ZAR	18.96	25.15	32.6%	15.58	-17.8%	21.42	13.0%
Impala	ZAR	15.38	17.21	11.9%	14.51	-5.7%	16.25	5.7%
Northam	ZAR	64.09	88.14	37.5%	50.27	-21.6%	72.87	13.7%
Lonmin	GBP	73.12	86.2	17.9%	62.67	-14.3%	75.75	3.6%
Aquarius	GBP	13.68	16.36	19.6%	10.45	-23.6%	13.13	-4.0%
RBPlat	ZAR	1.61	2.04	26.7%	1.36	-15.5%	1.78	10.6%
Average				24.4%		-16.4%		7.1%

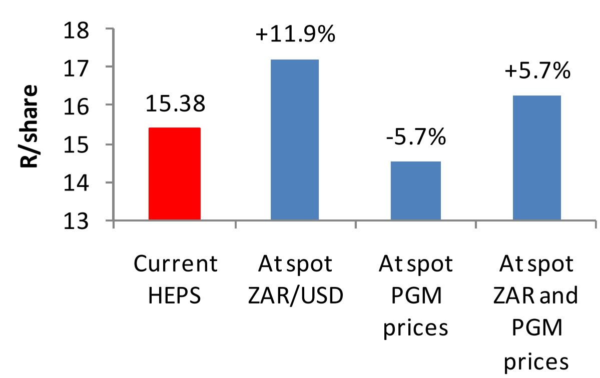
Source: Deutsche Bank

Figure 25: Amplats HEPS sensitivity



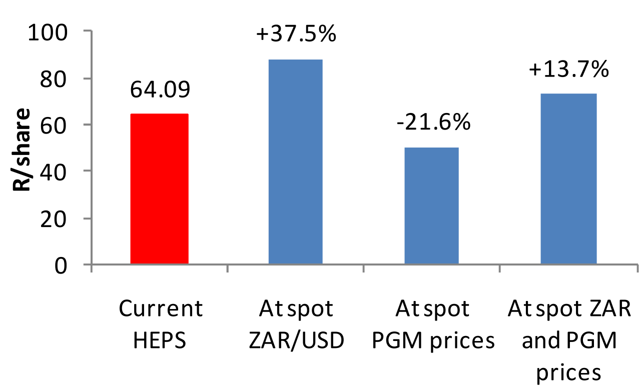
Source: Deutsche Bank

Figure 26: Impala HEPS sensitivity



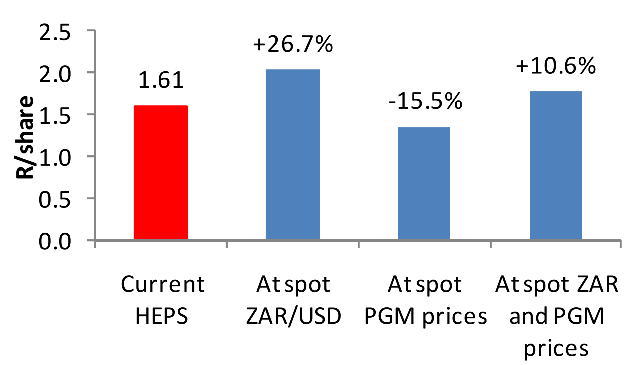
Source: Deutsche Bank

Figure 27: Northam HEPS sensitivity



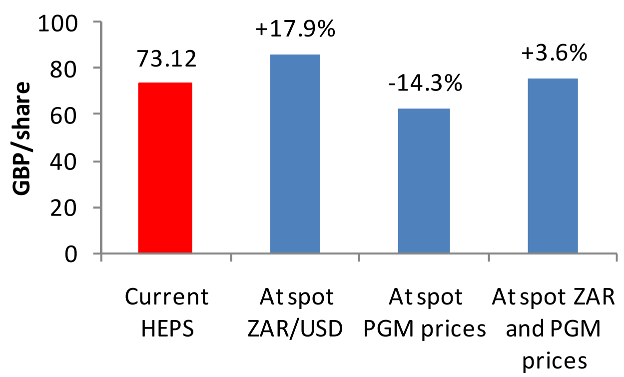
Source: Deutsche Bank

Figure 28: RBPlat HEPS sensitivity



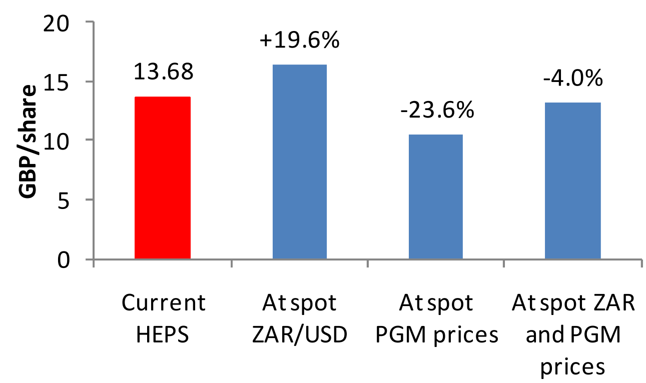
Source: Deutsche Bank

Figure 29: Lonmin HEPS sensitivity



Source: Deutsche Bank

Figure 30: Aquarius HEPS sensitivity



Source: Deutsche Bank

SA oil & gas producers

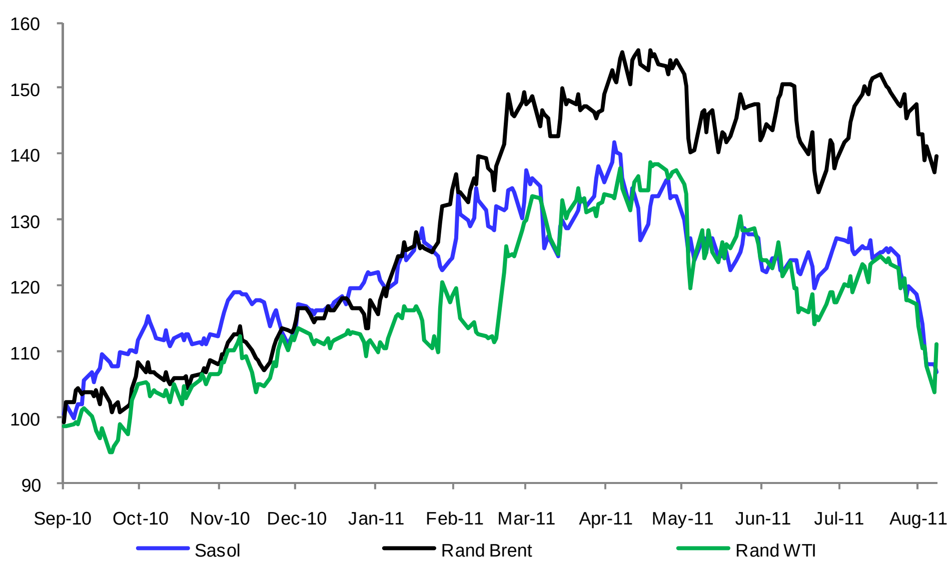
Sasol no longer following Brent, but premium set to stay

Sasol's recent price action mirrors the correction in WTI oil and suggests the market is not prepared to pay for the WTI-Brent spread to remain open. We estimate the market to be discounting a c.US$85/bbl Brent price, roughly equivalent of spot WTI.

In our opinion, the political risk premium in Brent resulting from Libya and to a lesser extent Syria is not expected to dissipate medium term as production historically takes longer than expected to recover post resolution to conflict. Brent is further supported relative to WTI by China's SPR build, Asian growth in middle distillate demand which favours Brent equivalent crudes over WTI, declining Brent supplies compared to the land locked oversupplied WTI, compounded by concerns over US growth rates and hence WTI demand.

Sasol's earnings are far more geared to Brent prices than WTI given the basic fuel calculation in South Africa (linked to Mediterranean, Arab Gulf and Singapore product prices) as well as the concentration of chemical business in Europe, Asia and South Africa. Simplistically, the Olefins and Surfactants division is most exposed to WTI pricing with the majority of operations and marketing channels located in the US and accounting for c.15% of group revenue.

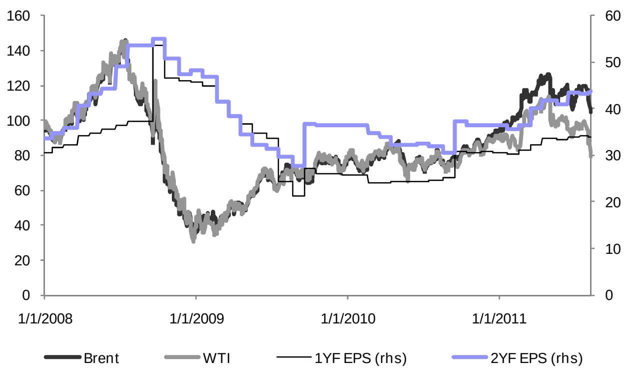
Figure 31: Sasol is following WTI down, but Brent is the appropriate crude, suggesting the market is not pricing the WTI-Brent spread to remain open



Source: Deutsche Bank, DataStream

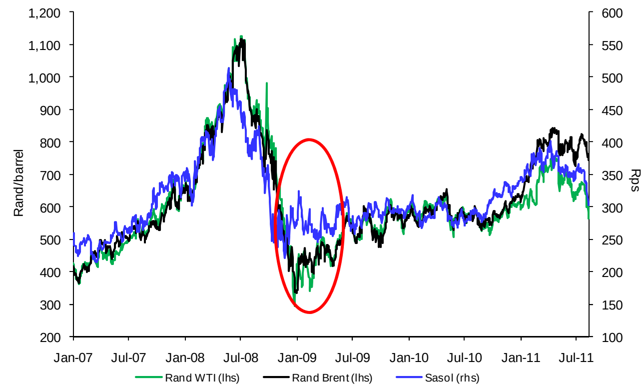
Should we have a 2008 repeat down-cycle, we would expect Sasol to outperform oil (both WTI and Brent) at the trough of the market, eventually seeing through oil prices below finding and development costs for new supply, further supported by net asset values.

Figure 32: Consensus EPS downgrades ignored spot and priced in c.US$70/bbl long term consistent with finding and development costs at the time



Source: Deutsche Bank, DataStream

Figure 33: Sasol outperformed the commodity at the trough, now the market is pricing for Brent to correct to c.85US$/bbl, where WTI is now



Source: Deutsche Bank, DataStream

We have modelled selected ZARUSD and oil scenarios, based on spot (US$106/bbl Brent, ZARUSD7.15), an estimate of OPEC requirements to balance budgetary positions (c.US$86.5/bbl) and approximating current finding and development costs, and finally average trough conditions during the period of oil priced below US$60/bbl in 2008/2009.

Our earning sensitivity complements Figures 35 and 36, while the NPV calculation is our estimate of fair value should the scenario conditions persist for FY12E and FY13E, gradually returning to our existing forecasts. To date Brent in 2H11, oil has averaged US$115/bbl and ZARUSD 6.83.

Figure 34: Earnings and NPV estimations under various scenarios

	USDZAR			Oil (US$/bbl			EPS			NPV
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	
DB current	7	6.68	7.7	97	117	118	34.92	42.97	54.38	460
Spot		7.15	7.15		106.00	106.00		45.54	40.30	455
OPEC/ F+D		7.15	7.15		86.50	86.50		31.70	25.90	430
Trough previous cycle		9.56	9.56		47.3	47.3		18.8	12.5	340

Source: Deutsche Bank

Figure 35: FY12E EPS sensitivity

		Oil USD/bbl						
		70	80	90	100	110	120	130
USDZAR	6.5	22.7	26.4	30.2	34.0	37.9	41.8	45.7
	7	28.8	32.8	36.9	41.0	45.1	49.3	53.5
	7.5	35.0	39.2	43.5	47.9	52.3	56.8	61.3
	8	41.1	45.6	50.2	54.9	59.6	64.3	69.1

Source: Deutsche Bank

Figure 36: FY13E EPS sensitivity

		Oil USD/bbl						
		70	80	90	100	110	120	130
USDZAR	6.5	13.4	18.1	22.8	27.6	32.4	37.2	42.1
	7	19.2	24.2	29.3	34.4	39.6	44.8	50.0
	7.5	25.0	30.4	35.8	41.3	46.8	52.3	57.9
	8	30.8	36.5	42.3	48.1	54.0	59.9	65.8

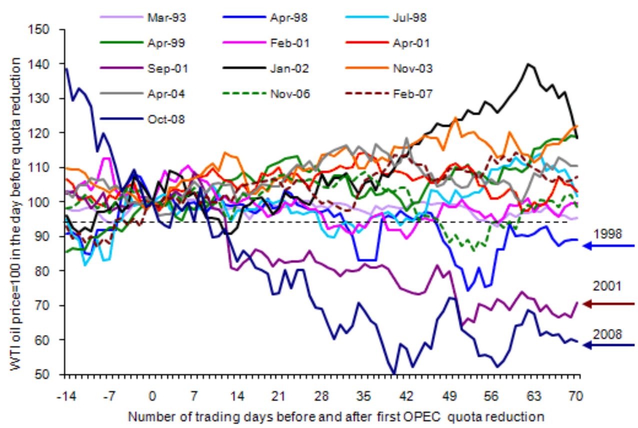
Source: Deutsche Bank

OPEC unlikely to support oil prices in a 2008 scenario repeat

We believe OPEC has a poor record of defending oil prices when world growth falls below 2.5%. Figure 37 examines the performance of the crude oil price before and after OPEC takes action and cuts production to defend the oil price. We find that the periods where the cartel failed to reverse oil price weakness within three months occurred in 1998 and 2001 and more recently in 2008-9. This reflected the fact that the cartel struggled to cut production as fast as world growth was slowing.

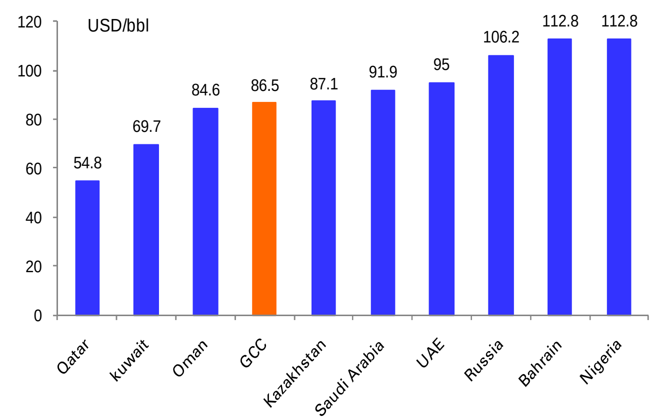
In the current fragile economic and financial environment we believe OPEC will be naturally slow to take action to defend the oil price should it continue to fall. However, the significant increase in government expenditures across the Middle East this year to quell civil unrest has meant the level of the oil prices required to balance budgetary positions is significantly higher today than it was just one year ago. On our estimates, the pain threshold for Saudi Arabia is at a Brent price of US$92/bbl and for the GCC region as a whole, US$86.5 (see Figure 38). The cartel may therefore be torn between attempting to avoid worsening the global economy and trying to ensure oil revenues are high enough to maintain civil order.

Figure 37: Number of trading days before and after first OPEC quota reduction



Source: Deutsche Bank

Figure 38: Breakeven oil prices for various oil exporters (Brent equivalent prices)

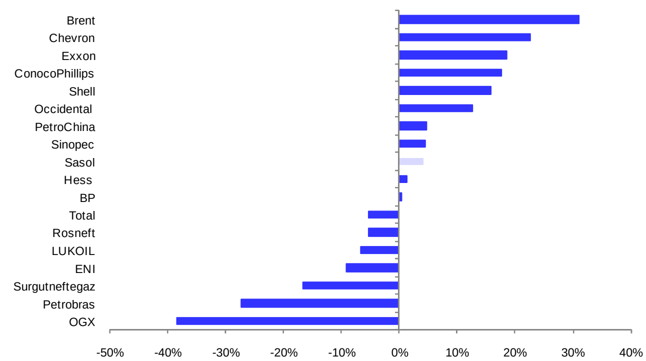


Source: Deutsche Bank

Global share price performance

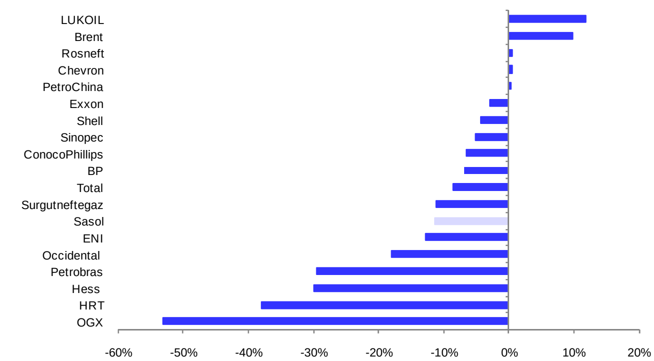
We do not note Sasol-specific negative newsflow apart from the recently concluded strike action. We have not adjusted production volumes in our earnings estimates as the effect of the strike is negligible at this stage; we continue to forecast 7.45mt for the key Synfuels operations in FY12E.

Figure 39: 12 Month share price performance



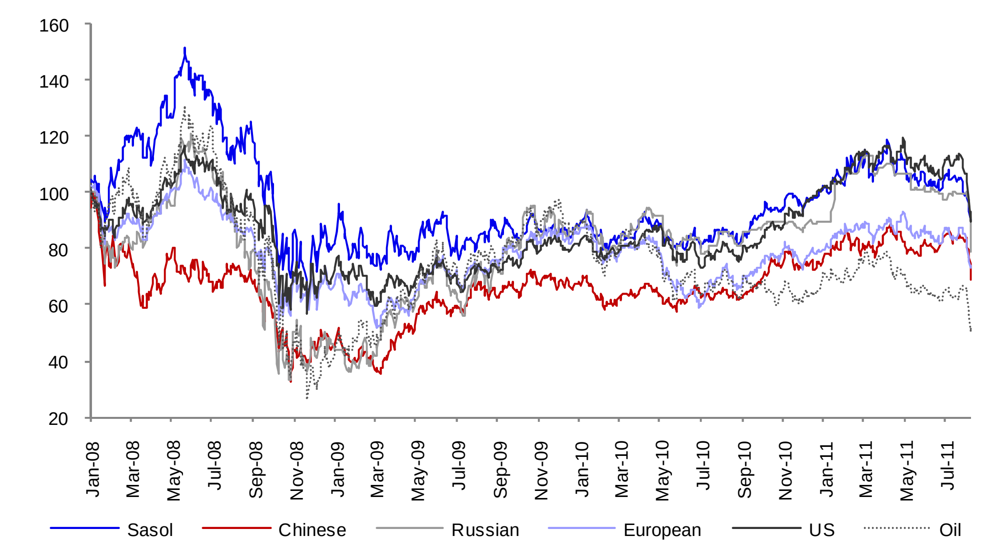
Source: Deutsche Bank, Datastream

Figure 40: YTD share price performance



Source: Deutsche Bank, Datastream

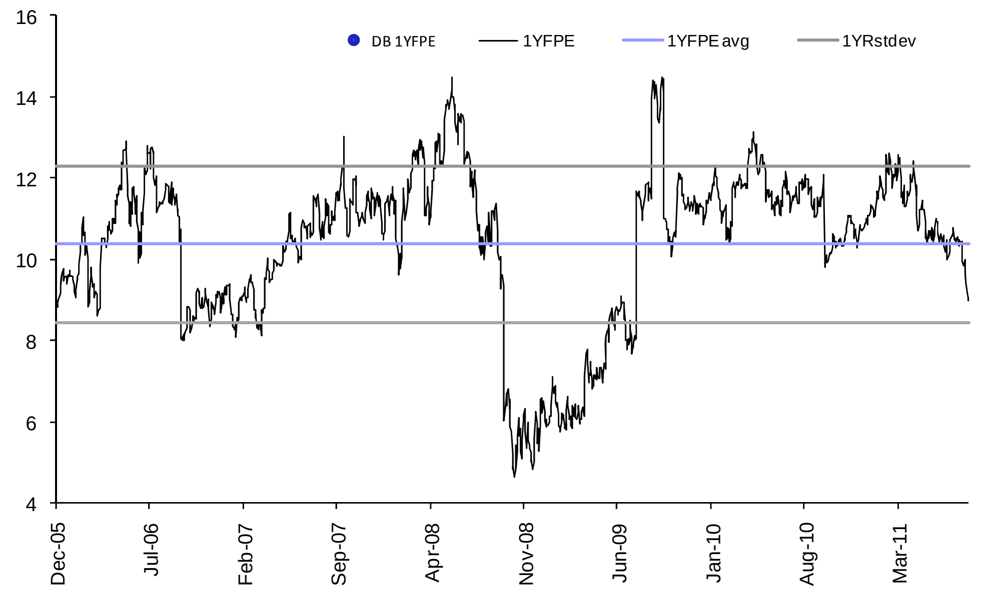
Figure 41: Sasol held up relatively well in previous down cycle, supported by weakened rand, the progressive dividend policy is also a key differentiator now



Source: Deutsche Bank

One year forward PE valuation at a trough scenario

Figure 42: Sasol's 1YF PE although relatively stable fell to 6x during the previous downturn



Source: Deutsche Bank

As an alternative to DCF, we have assessed one year forward earnings multiple trends in the event of oil prices correcting to a similar extent as in 2008/2009. Using a previous cycle tough multiple applied to one year forward earnings, we derive scenario based multiple valuations on both current and spot earnings forecasts. We note Sasol's trading low during the previous downturn of R221/share (20/10/2008, oil US$46.5/bbl).

Figure 43: Using current forecast earnings and spot on average and trough multiples

PE multiples	5 year average	EPS	R/share	Earnings multiples based valuation
One year forward	10.3	FY12E	42.97	442
Bottom of previous cycle, one year forward				
DB current	6	FY12E	42.97	257
Spot	6	FY12E	45.5	273

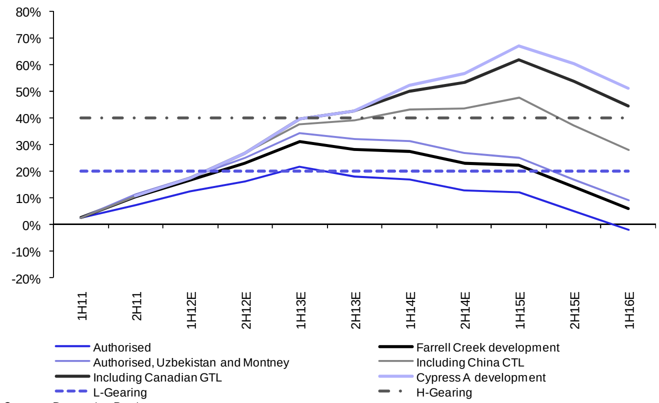
Source: Deutsche Bank

Balance sheet can support a downturn and continue progressive dividend policy

A key differentiator to the 2008/2009 downturn is Sasol's FY10 implemented progressive dividend policy. We forecast DPS of SAc1200 and SAc1300 in FY11E and FY12E respectively. In a scenario of further share price pressure, we would expect the dividend yield to support the share price to some extent.

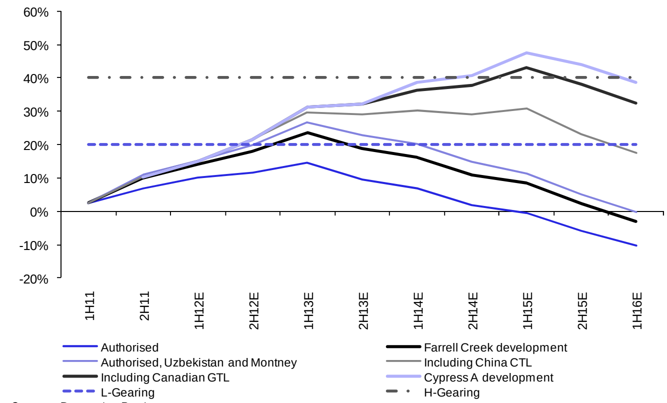
Sasol's balance sheet is expected to remain in a strong position, including the progressive dividend policy to oil prices as low as US$80/bbl as we do not expect the Chinese CTL project capex to materialise.

Figure 44: Gearing forecasts at US$80/bbl oil, no pressure without China CTL



Source: Deutsche Bank

Figure 45: Gearing at US$100/bbl oil, without China CTL, there is room for a potential Lake Charles GTL



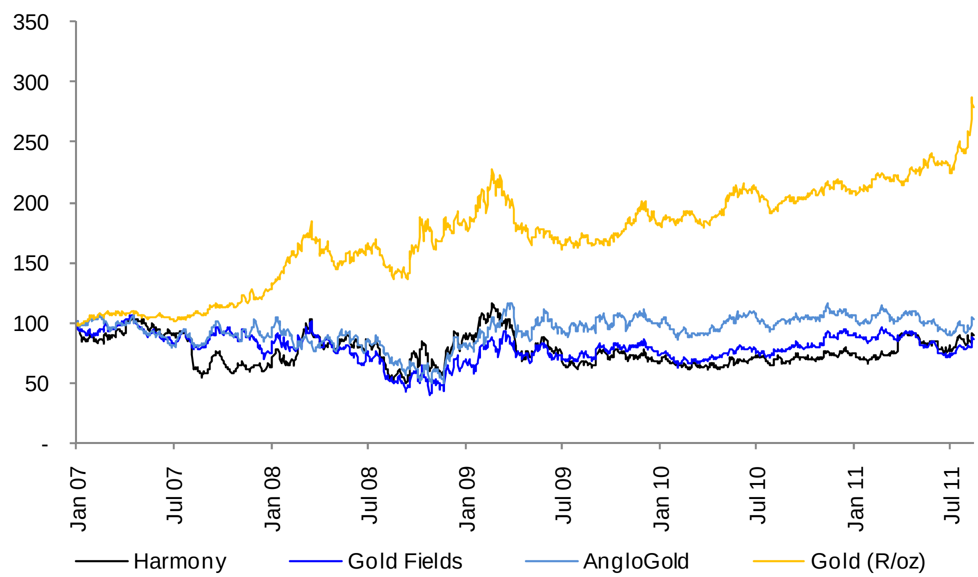
Source: Deutsche Bank

SA gold miners

SA gold miners do not track spot, but offer downside protection

The SA gold miners have not tracked metal prices since c.2005 as production has been declining y/y and production costs have been rising steadily. The highest cost operations are mostly located in SA where there is generally high mining wage inflation and hence steady margin erosion.

Figure 46: Gold miners don't track spot due to (generally) falling production and rising costs

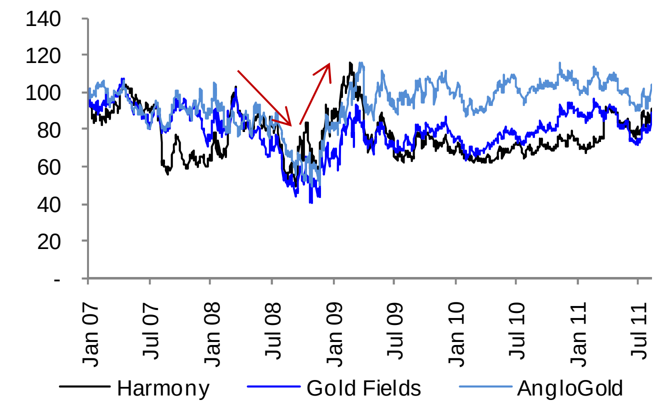


Source: Deutsche Bank, Datastream. Note: All figures rebased to 1/1/2007 levels

The gold miners, however, did experience a v-shaped dip and recovery from mid 2008 to early 2009 (see Figure 47). From 1 July 2009 average stock price fell c.30% by the end of August before recovering to a 25% premium to their July 1 share prices. The dip may have been driven by production issues, but we think that a shift in foreign investor holdings from SA stocks back into their domestic currencies exacerbated the share price fall.

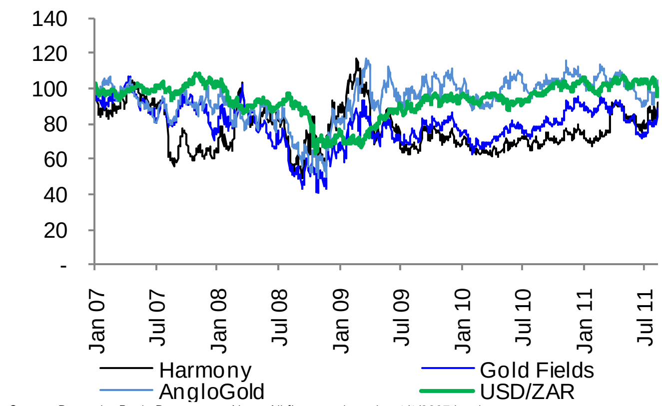
As the USD/ZAR recovered so did the gold miners' share prices. The relationship of dip and recovery over roughly the same time period is illustrated in Figure 48.

Figure 47: Share price bounce...



Source: Deutsche Bank, Datastream. Note: All figures rebased to 1/1/2007 levels

Figure 48: ... probably caused by foreign capital flows



Source: Deutsche Bank, Datastream. Note: All figures rebased to 1/1/2007 levels

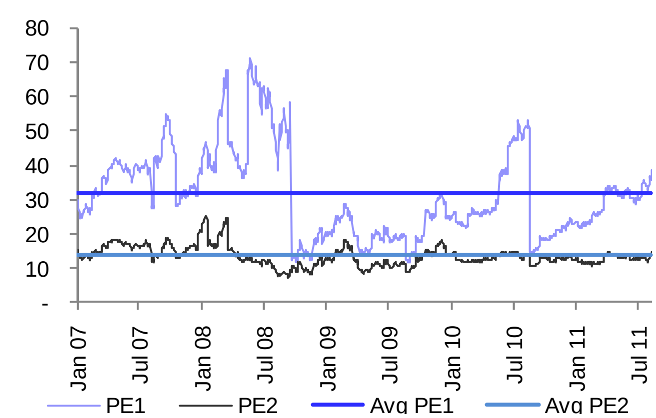
No risk aversion earnings downgrades

Gold has performed well over the last 10 years and tends to perform well during time of risk aversion. The rand tends to weaken against major currencies during these periods as well. This is supportive of gold miner earnings and offers support for the stock. The only downside to earnings should come from potential production guidance downgrades at the quarterly reporting dates.

Harmony

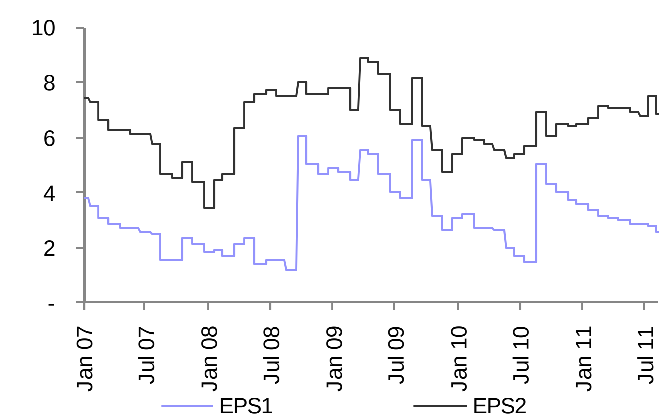
Harmony's earnings upgrades in August are a result of a restatement of guidance following their year end. The company did not experience any 2-year forward PE expansion or contraction during the last downturn and this multiple appears stable at 13.7x (on average, since January 2007). Datastream mean consensus 2-year forward EPS is 685 SAc at 12 August 2011.

Figure 49: Harmony's Forward PEs



Source: Deutsche Bank, Datastream

Figure 50: Harmony's Forward EPS

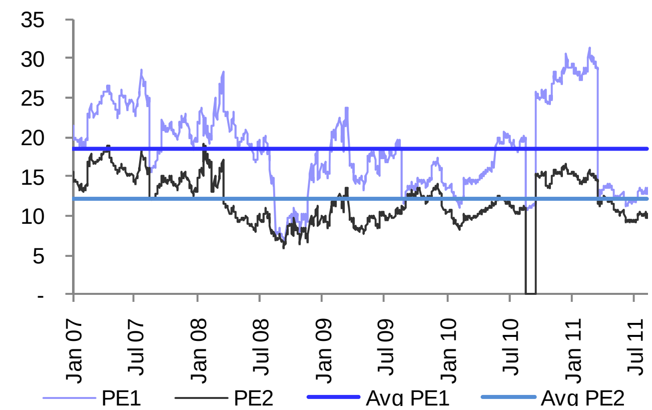


Source: Deutsche Bank, Datastream

Gold Fields

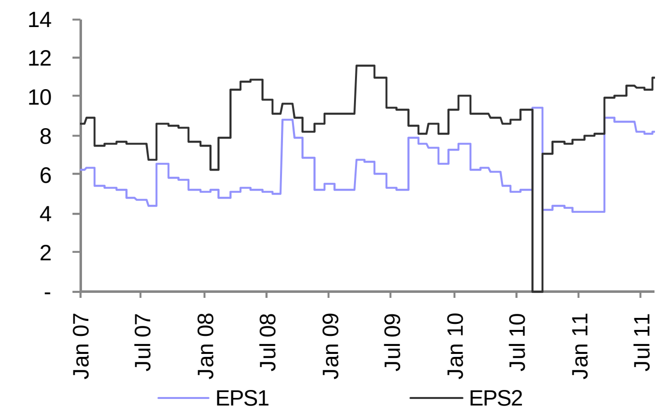
Gold Fields 2-year forward PE is more volatile than Harmony's. Gold Fields' 2-year forward PE also did not expand or contract during the last downturn and this multiple at 12.2x (on average, since January 2007). Datastream mean consensus 2-year forward EPS is 1099 SAc at 12 August 2011.

Figure 51: Gold Fields' Forward PEs



Source: Deutsche Bank, Datastream

Figure 52: Gold Fields' Forward EPS

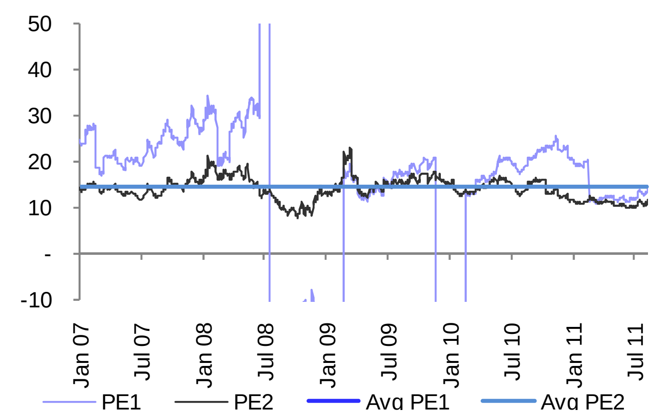


Source: Deutsche Bank, Datastream

AngloGold Ashanti

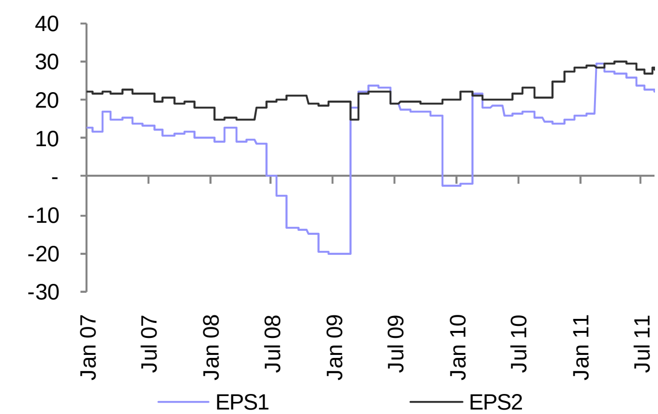
AngloGold's earnings downgrades were most likely due to paying down their hedge book and from production issues. AngloGold's mean 2-year forward PE averages 14.4x while its consensus earnings are 2791SAc at 12 August 2011.

Figure 53: AngloGold's Forward PEs



Source: Deutsche Bank, Datastream

Figure 54: AngloGold's Forward EPS



Source: Deutsche Bank, Datastream

Input forecasts

Summary price deck

The changes to our commodity and FX assumptions are summarised in the tables below:

Figure 55: Price estimates: Base and precious metals

	Unit	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	2011	2012	2013	2014	LT
Base Metals													
Aluminium	USc/lb	119.4	120.2	127.0	131.6	138.4	136.1	127.0	120.0	133.3	127.0	113.4	113.4
Copper	USc/lb	416.0	431.0	449.2	499.1	544.5	476.4	453.7	433.5	493.4	431.0	363.0	226.9
Lead	USc/lb	114.5	118.0	127.0	131.6	136.1	136.1	131.6	119.4	133.8	129.3	113.4	90.7
Nickel	USc/lb	1107.5	1088.9	1202.4	1270.4	1361.2	1361.2	1270.4	1155.2	1315.8	1225.0	1134.3	771.3
Tin	USc/lb	1318.6	1202.4	1270.4	1315.8	1383.8	1361.2	1270.4	1285.4	1332.8	907.4	816.7	680.6
Zinc	USc/lb	102.9	108.9	115.7	122.5	129.3	140.7	131.6	109.0	131.0	124.8	108.9	97.5
Base Metals													
Aluminium	USD/t	2632	2650	2800	2901	3051	3000	2800	2645	2938	2800	2500	2500
Copper	USD/t	9171	9502	9903	11003	12004	10503	10002	9557	10878	9502	8003	5002
Lead	USD/t	2524	2601	2801	2901	3001	3001	2901	2632	2951	2851	2500	2000
Nickel	USD/t	24416	24006	26508	28007	30009	30008	28008	25468	29008	27007	25007	17004
Tin	USD/t	29070	26508	28007	29008	30508	30009	28007	28339	29383	20005	18005	15005
Zinc	USD/t	2269	2401	2551	2701	2851	3102	2901	2404	2889	2751	2401	2150
Precious metals													
Gold	USD/oz	1509	1630	1750	1750	1850	2000	2000	1569	1900	1700	1500	850
Silver	USD/oz	39.0	37.0	41.0	41.7	45.1	50.0	50.0	37.2	46.7	37.8	30.0	14.0
Platinum	USD/oz	1785	1750	1950	2000	2050	2200	2250	1819	2125	1850	2000	1600
Palladium	USD/oz	760	850	950	1000	1100	1250	1250	838	1150	800	1250	750
Rhodium	USD/oz	2139	2300	2400	2500	3200	3600	3400	2317.25	3175	3500	3750	3350
Ruthenium	USD/oz	176	220	220	280	280	280	280	198.75	280	220	200	250

Source: Deutsche Bank

Figure 56: Price estimates: Bulks

	Unit	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	2011	2012	2013	2014	LT
Iron ore													
Australian Lump to Asia	USD/t	167.0	182.0	192.0	187.0	187.0	187.0	187.0	182.0	187.0	127.0	107.0	82.0
Australian Fines to Asia	USD/t	152.0	167.0	177.0	172.0	172.0	172.0	172.0	167.0	172.0	112.0	92.0	67.0
Australia Lump to Asia	USc/dmtu FOB	260.9	284.4	300.0	292.2	292.2	292.2	292.2	284.4	292.2	198.4	167.2	128.1
Australia Fines to Asia	USc/dmtu FOB	245.2	269.4	285.5	277.4	277.4	277.4	277.4	269.4	277.4	180.6	148.4	108.1
IOC pellets to Europe	USc/dmtu FOB	281.9	304.0	318.6	311.3	311.3	311.3	311.3	304.0	311.3	223.2	193.8	157.1
Coking Coal													
Premium hard coking coal	USD/t	330.0	300.0	275.0	275.0	275.0	275.0	275.0	282.5	275.0	200.0	160.0	120.0
Standard hard coking coal	USD/t	295.0	270.0	250.0	250.0	250.0	250.0	250.0	253.8	250.0	180.0	145.0	110.0
Semi soft coking coal	USD/t	260.0	235.0	215.0	215.0	215.0	215.0	215.0	220.0	215.0	150.0	118.0	85.0
Other Bulks													
Chrome Ore	USD/t	266.0	230.0	250.0	255.0	240.0	250.0	250.0	252.8	248.8	240.0	240.0	230.0
Ferro-chrome	USc/lb	135.0	125.0	135.0	145.0	140.0	135.0	140.0	130.0	140.0	151.0	149.0	110.0
Manganese ore	USc/dmtu	6.5	5.1	5.7	6.0	6.5	7.5	7.3	6.1	6.8	6.0	5.0	4.9
Ferro-manganese	USD/t	1,322	1,300	1,500	1,600	1,550	1,650	1,700	1,406	1,625	1,550	1,550	1,000

Source: Deutsche Bank

Figure 57: Price estimates: Minor metals, energy, mineral sands and FX

	Unit	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	2011	2012	2013	2014	LT
Minor metals													
Cobalt (99.3%)	USD/lb	20.0	20.0	20.0	15.0	15.0	15.0	15.0	19.3	15.0	15.0	15.0	13.0
Molybdenum	USD/lb	16.70	18.00	20.00	22.00	24.00	24.00	22.00	17.95	23.00	20.00	16.00	14.00
Energy													
Oil West Tex	USD/bbl	103.00	100.00	103.00	105.00	101.00	104.00	106.00	100.15	104.00	110.00	115.00	115.00
Japanese thermal coal (JFY)	USD/t	130.0	130.0	130.0	130.0	140.0	140.0	140.0	130.0	140.0	120.0	90.0	80.0
Uranium (U3O8)	USD/lb	57.03	68.00	68.00	65.00	65.00	65.00	65.00	64.51	65.00	70.00	75.00	55.00
Mineral Sands													
Ilmenite	A$/t	138.73	151.90	162.74	168.84	170.08	171.27	172.39	145.66	170.65	182.39	163.49	153.85
Rutile	USD/t	780	1310	1310	1570	1570	1570	1570	1045	1570	1570	1188	800
Synthetic Rutile	USD/t	650	1100	1100	1325	1325	1325	1325	875	1325	1325	999	640
Zircon	USD/t	1600	2200	2500	2700	2700	2700	2700	1913	2700	2700	2113	1300
Foreign Exchange													
Euro	USD/EUR	1.44	1.38	1.32	1.29	1.28	1.26	1.25	1.38	1.27	1.22	1.18	1.18
Australia	USD/AUD	1.06	1.05	1.05	1.04	1.03	1.02	1.02	1.04	1.03	0.96	0.86	0.78
South Africa	ZAR/USD	6.79	6.53	6.47	6.70	7.07	7.33	7.60	6.70	7.18	8.15	8.97	10.11

Source: Deutsche Bank

Investment theses

Anglo American - Investment thesis

Outlook

Anglo is focused on value delivery through optimisation of its portfolio and also on delivering the four major growth projects expected to come on line between 2011 and 2014 (Barro Alto, Los Bronces, Kolomela and Minas Rio). Anglo will deliver production growth of 35% in delivery of these projects and plans to approve US$10bn (attributable) of projects over the next three years. In addition Anglo has a US$65-70bn longer-term project pipeline of unapproved projects. Anglo has progressed the sale of non-core businesses and only Scaw SA and Tarmac remain to be sold. Anglo is now in a strong financial position and given the outlook for cash generation over organic growth spend will we anticipate return excess capital to shareholders through special dividends in time. Given the upside potential based on our valuation we rate Anglo as a Buy.

Valuation

Our price target reflects a valuation taking into consideration both DCF over life-of-mine (9.5% WACC - Beta 1.25, ERP 4.5%, Rf 5%, COD 6% on a through-the-cycle target gearing of 30%) for core asset valuations and market values or peer group multiples for non-core assets. We value at 1x NPV in line with its long-term average and what we believe is the market's unwillingness to pay for more than approved growth.

Risks

Risks to our view include stronger-than-expected operating currencies (Rand, A$) and lower commodity prices, in particular PGMs, copper and iron ore. More specific 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.

BHP Billiton - Investment thesis

Outlook

The BHP Billiton story remains one of growth, both organically and through acquisitions. US$80bn of growth capex has been allocated over the next 5 years. The recent US$15bn purchase of gas assets in the US shows not only a focus on value accretive acquisitions, but on strategic growth options. The company's capital allocation strategy is focused on: 1. Organic growth, 2. Balance sheet management (acquisitions & share buybacks), and 3. Progressively growing (and periodically rebasing) the dividend. The petroleum business should be seen as a positive when a rising energy cost environment returns. Commodity skew is very much biased to Chinese raw material shortages - specifically iron ore, oil, coking coal and copper, amongst others. 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. We rate BHP a Buy due to the attractive valuation and superior growth and diversification vs. peers.

Valuation

We apply a 1.2x exit multiple on BHP based on DCF valuation to set our price target. The premium multiple reflects the company's high margin, long life and diverse commodity portfolio, as well as the unrecognised value in the project portfolio. We value BHP at US$40.92/share using life of mine cash flows with a WACC of 8.88% (COE 11.4% - Rf 6%, Rp 4.5%; CoD 6.0% on a D/E of 35%; Beta is 1.20). Our price target is set using a USD/GBP exchange rate of 1.55 and ZAR/USD of 7.67.

Risks

The key risks to our forecasts include variance in commodity prices and exchange rates vs. our estimates. Downside risks include the ability to continue to deliver on planned growth at reasonable costs. Delivery risk also exists on the large iron ore expansions in the Pilbara, and the petroleum growth projects. A potential near-term slowdown in Chinese steel demand may result in lower iron ore and coking coal demand and therefore lower bulk commodity prices.

ARM - Investment thesis

Outlook

ARM has a through its '2X2010' strategy delivered 170% production growth since its establishment in 2004, and has transformed the portfolio into one of long life and low cost. The result of this growth and constraints to further growth; as a result of a higher base, rail and power constraints we well as the JV structure; have put ARM into a strongly cash-generative position in the medium term, which we expect to lead to de-gearing and higher dividends. We believe that recent weaker manganese markets, causing lower prices and volumes, have resulted in the company trading below our valuation and target price. If we assume long term prices throughout the forecast period we find that ARM is trading below 1xNPV, clearly an attractive value opportunity. The strong cash generation and cheap long term valuation as well as upside to our valuation, lead us to rate ARM as a Buy.

Valuation

Our target price is based on a sum-of-the-parts valuation, with the stake in Harmony valued at the market 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-mine.

Risks

Downside risks to our target price include lower-than-forecast commodity prices, in particular nickel, PGMs, manganese, ferromanganese and iron ore, as well as a stronger ZAR/USD. Other risks include delivery of the Konkola project on time and on budget, and limited available rail capacity in the long term, which would hamper anticipated volume growth.

Exxaro - Investment thesis

Outlook

We rate Exxaro Resources a Buy, primarily based on upside potential to our 12-month target price. We believe Exxaro is well poised to benefit from South Africa's increased coal requirement (Eskom and IPP) and due to its contracts with Eskom remaining relatively defensive. 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, though in the short term risks remain as debt levels increase. Additional value will likely be released over the next two years from head office cost savings and from the current buoyant conditions in the Heavy Minerals division, where prices are rallying. These positive catalysts are expected to result in continued momentum for Exxaro: Buy.

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 ERP 4.5%), in line with the sector.

Risks

Downside risks to our forecasts include lower than expected heavy minerals, iron ore and coal prices, stronger-than-expected currencies including the AUD and ZAR versus the USD as well as lower export coal volumes given poor Transnet performance. Company-specific risks include the delivery of the project pipeline on time and budget, as well as realising benefit from the anticipated growth at Eskom.

Kumba - Investment thesis

Outlook

Kumba Iron Ore (Kumba) has a good growth pipeline, limited by Transnet's expansion of the rail link between Sishen and Saldanha. 8.75m tonnes of the current 42.75m tonnes production is sold on a cost +3% basis to ArcelorMittal SA, though the terms of this arrangement are in dispute. The ten-year strategy is to increase production to 70m tonnes pa, most of which will come from Kolomela (9mt approved) but further potential from Sishen and Kolomela depending on rail expansions. Anglo American controls SIOC through its 65%-held subsidiary Kumba. Kumba is trading above our valuation and with expected iron ore weakness as Chinese steel mills continue to destock we rate Kumba as a Sell.

Valuation

We value Kumba on a multiples basis as the company trades in line with short-term earnings and the spot ZAR/USD fob iron ore price. We apply a 10% discount to Vale and value Kumba in line with the long-term global iron ore FY2 sector average multiple of 7x as Kumba has more limited capacity to grow than Vale, does not enjoy the benefit of proximity to Asian markets and has a high proportion of lump, a product that is more cyclical than fines. Kumba trades well in excess of its long-term DCF valuation (2.1x).

Risks

Upside risks to our view include continued rising iron ore prices, a weaker-than-assumed ZAR/USD exchange rate and higher than expected railings and production from the super tariff. Specific risks include the potential for a negative outcome from the dispute with ArcelorMittal SA.

Metorex - Investment thesis

Metorex produces copper and cobalt. The company is exposed to the DRC and Zambia. We expect copper production to increase from 45kt to 110-130kt from FY10 to FY16. Recent management clarity on the mine and production plan for Ruashi have given greater clarity on the outlook for cashflow and earnings, with strong financial and operational gearing as the plant ramp up is completed. We expect approval of further growth opportunities and a continued tight copper market. The share price has performed strongly recently after the bid by Vale and the announcement of another bidder. Limited upside to our valuation leads to our Hold recommendation.

Valuation

Our valuation is based on DCF over life-of-mine for operating assets and approved projects, discounted at a WACC of 12.8% (with South Africa as the source of capital) (Rf 8.5%, ERP 4.5%, beta 1.25) at the NPV, in line with the sector.

Risks

Upside risks to our view include a higher counter bid as well as a weaker than expected ZAR/USD exchange rate. Downside risks include lower-than-expected copper, cobalt prices as well as regulatory problems and delays to completion of the offer. Specific risks include lower-than-expected mining grades and higher operating cost inflation in the DRC.

Merafe - Investment thesis

Outlook

Merafe is one of the world's largest ferrochrome producers. Merafe is the BEE partner of Xstrata Alloys, which came about after the joint venture arrangement (from 1 July 2004) between South African Chrome and Alloys Ltd (subsequently renamed Merafe Resources) and Xstrata's chrome division. The Venture has proprietary technology (called Premus) that reduces the demand for raw materials and should be less affected by the current cost pressures than other South African producers. Demand for ferrochrome is a function of stainless steel demand and hence global consumer demand; in our view, the key catalyst for this stock is a rebound in consumer demand. Given the upside implied by our target price, we rate the stock a Buy.

Valuation

Our valuation is based on a discounted cash flow analysis over the life-of-mine using a WACC of 12.2% (Rf 8.5%, ERP 4.5% and Beta 1.25), our target price is set in line with NPV.

Risks

Risks to our view include a stronger-than-expected rand and weaker ferrochrome prices, as well as higher cost pressure, particularly from electricity, coke and other reductants. Industry risks include further stainless steel production cuts. Company-specific risks include the loss of specialist skills operating the proprietary furnace technology as well as liquidity of the group in the event of prices falling below cash costs.

Optimum Coal - Investment thesis

Outlook

Optimum Coal is the fourth-largest thermal coal exporter in South Africa. It mines coal for sale to domestic and export markets at its two primary operations: Optimum Collieries and Koornfontein Mines. Management seeks to increase production through investment in organic growth at current operations and through acquisition. Optimum also has a substantial interest in the Richards Bay Coal Terminal. It has loss-making fixed supply contracts with Eskom, the South African power parastatal, giving it high operational leverage linked to production levels. Our forecast increasing rand coal price should allow margins to expand. To date operations have experienced regular production issues, resulting in limited free cash generation. Limited upside to our valuation and concerns over reaching export and production targets despite a forecast weak ZAR/USD and rising thermal coal prices leads us to rate Optimum Coal as Hold.

Valuation

Our primary valuation methodology is a DCF over life-of-mine using a WACC of 12.9% (Rf 8.5%; ERP 4.5%; and a net-of-tax cost of debt of 7.8%). Key drivers of this valuation are production volumes, the ZAR/USD exchange rate, Richards Bay export coal price and growth capex.

Risks

Key upside risks include better-than-expected production and railage. Downside risks include a stronger-than-expected rand exchange rates, and lower coal prices. Specific risks include higher-than-expected rail allocation and export volumes.

Amplats - Investment thesis

Outlook

Amplats is coming to the end of its three-year restructuring plan in which it aimed to trim back production to match market demand, restructure its cost base including right-sizing the number of employees, pushing for sustained improvements in productivity and reviewing its capital expenditure and capital allocation procedures and trends. This process is largely complete with a reasonable degree of success in an extremely difficult operating environment with rampant mining cost inflation and production interruptions. The next 12 months will need to see Amplats move onto the next chapter of its strategy in our view - we expect management to focus on how to grow market share from the current 40%, through ramping up production to meet a projected 4% demand growth in platinum, ahead of production growth from peers. We believe the focus of growth will be on three sources of lower grade, but lower-cost, ounces: Western Limb UG2, Mogalakwena and Unki. We believe capex would have to rise from the current levels of R8bn per year (potentially up to R10bn per year to fund 4% production growth on a 10-15 year view) to achieve this but that employee productivity should also rise and cash operating costs per tonne should remain fairly steady in the face of tough inflation trends.

Amplats trades at a premium to its large-cap peer, Impala. We believe this reflects the optionality of its large asset portfolio and resource base, and its greater leverage to a higher price environment. Buy.

Valuation

We value Amplats on a sum-of-the-parts DCF valuation basis, applying a nominal WACC of 13% and a P/DCF exit multiple of 1.3 to the group's respective assets (equivalent to the exit multiple applied to the other SA PGM equities).

Risks

Downside risks to our price target include:

- Lower than forecast PGM metals prices;
- A stronger than forecast ZAR/USD exchange rate;
- Industrial action/prolonged strike action due to the current wage negations;
- A more negative than expected outcome in Zimbabwe regarding indigenisation;
- Higher than forecast capex to sustain higher production levels in the longer-term (our base case assumes a peak of R12bn pa in 2014).

Aquarius - Investment thesis

Outlook

Aquarius Platinum's recent two acquisitions - Afarak Platinum and Booysendal South - at below-average USD/resource oz prices, have positioned the company well for medium-term growth, in our view. In addition, we believe the acquisitions provide low-capex life extensions - which is not easy to achieve in the maturing South African Bushveld Complex. We think a shift towards pursuing production growth by Amplats will benefit Aquarius Platinum in its 50:50 JVs with Amplats - namely Marikana and Kroondal. A resource exchange, which would lengthen the lives of these two operations, would benefit both parties in our view. Near-term concerns such as the indigenisation of assets in Zimbabwe, the impact of the Japanese earthquake on supply-demand dynamics in platinum and the potential for labour unrest in South Africa have all weighed on the Aquarius share price and we believe that risks are now to the upside for the stock: Aquarius' high leverage to PGM prices is likely to play in its favour (given our view of a rising PGM price profile), and the company's business model of exploiting lower grade, but shallower, less capex-intensive deposits puts it at an advantage in a challenging South African operating environment. We acknowledge that the lack of clarity around Zimbabwe's indigenisation rules and any enforced changes in those rules may also increase negative investor sentiment towards Aquarius in the short-to-medium term. However, with the stock currently trading at a significant discount to our price target, we reiterate our Buy recommendation.

Valuation

Our AUD6.30/share price target is set at 1.1x our AUD5.70/share NPV. We value AQP on a sum-of-the-parts asset DCF valuation basis, applying a nominal WACC of 9.6% (cost of equity post tax 11.7% (beta 1.23), cost of debt 6.5%). Our NPV assumes a real long-term 3E PGM (Pt, Pd, Rh) basket price of US$1,600/oz.

Risks

Downside risks to our price target include: 1) Lower-than-forecast PGM metals prices. 2) A stronger-than-forecast ZAR/USD exchange rate. 3) Industrial action/prolonged strike action due to the current wage negations. 4) A more negative-than-expected outcome in Zimbabwe regarding indigenisation (Mimosa is c.20% of AQP's value). 5) A longer-than-expected ramp up of Everest Mine and a longer-than-expected period for Blue Ridge on 'care and maintenance.

Impala - Investment thesis

Outlook

We believe the Impala share price will be range bound in the next 12 months whilst uncertainty around the future indigenisation of Zimplats and Mimosa mines in Zimbabwe continues. We see no resolution to the situation until a General Election is called in the country and we believe the likely timing of this is end 2012. In the meantime, we believe management has done a good job managing the group's main operating mine, the Lease Area in Rustenburg, and we expect production and cost control targets will be met. The company's advantageous cost position and balance sheet translate into a more defensive position. In a more robust price environment, investors may well prefer higher leverage - overall, Impala's platinum production profile is fairly flat until 2014, with only Zimplats expanding. As such, the company does not have the option of controlling unit costs through increased volumes to the same extent as peers. This reduces Impala's gearing to the expansion in metals prices we expect over 2011-14e. In the longer-term, Impala may have to switch its focus from cheaper Zimbabwean production growth to more expensive South African growth. Hold.

Valuation

We value Impala on a sum-of-the-parts DCF valuation basis, applying a nominal WACC of 13% and a P/DCF exit multiple of 1.3 to the group's respective life of mine operating cash flows (equivalent to the exit multiple applied to the other SA PGM equities).

Risks

Upside risks to our price target include:

- Higher-than-forecast PGM metals prices
- A weaker-than-forecast ZAR/USD exchange rate
- A more benign outcome than expected for Indigenisation of Zimbabwean PGM assets
- A sustainable improvement in safety trends, leading to fewer production stoppages
- Lower-than-expected mining cost inflation
- A more positive-than-expected outcome of the strategic review of Marula mine

Downside risks to our price target include:

- Lower-than-forecast PGM metals prices
- A stronger-than-forecast ZAR/USD exchange rate
- Industrial action/prolonged strike action due to the current wage negations
- A more negative-than-expected outcome of the strategic review of Marula mine

Northam - Investment thesis

Outlook

On a 12-month view, we believe Northam shares are fairly valued at current levels. We see a balance of potential positive and negative catalysts for the stock.

In the near-term, we expect FY11 earnings to disappoint, with Northam likely to miss its 300koz production target for the year, having been hit by a strike in 1H11 and numerous safety stoppages in 2H11. Due to the fall in production, Northam's operating mine, Zondereinde, has moved up to the fourth quartile of the cost curve, on our estimates. Management is also currently in wage negotiations in a more difficult industry operating environment.

More positively, Northam's lower-cost Booysendal project is on track for first production in 2013. We believe the recent successful acquisition of Mvelaphanda Resources' assets by Northam secures options for it to fund Booysendal capex from future non-core asset sales.

In the longer-term, we believe the likelihood of corporate action involving Northam at the group level, as we believe many investors have expected in the past, has reduced - we think there is growing uncertainty about the potential for ENRC, Northam's major (14%) shareholder, to increase its exposure in the platinum sector as it focuses on its own internal issues. In addition, we believe that Impala, which bid for Northam in 2008, now has a variety of increased growth options. We thus expect the shares to remain at current levels. Hold.

Valuation

We value Northam on a sum-of-the-parts DCF basis, applying a nominal WACC of 13% and a P/DCF exit multiple of 1.3x to the group's respective assets (equivalent to the multiple applied to the other SA PGM equities).

Risks

Upside risks to our price target include:

- Higher-than-forecast PGM metals prices;
- A weaker-than-forecast ZAR/USD exchange rate;
- A sustainable improvement in safety trends, leading to fewer production stoppages;
- Lower-than-expected mining cost inflation.

Downside risks to our price target include:

- Lower-than-forecast PGM metals prices;
- A stronger-than-forecast ZAR/USD exchange rate;
- Industrial action/prolonged strike action due to the current wage negotiations;
- Slower-than-expected ramp-up of the Booysendal North project

Lonmin - Investment thesis

Outlook

Lonmin's misfortunes in the first half of this year highlight the challenges of operating underground platinum mines in South Africa. Two of Lonmin's strengths had been its good safety record and its sound labour relations, but four fatalities in the first six months of this year (six for the fiscal year) led to a number of safety stoppages, which started off the year poorly. The strike at Karee shaft due to internal union disputes, also interrupted production and the shaft will only return to normalised mining levels from August. Despite management trimming back guidance to 720,000oz of refined platinum sales for the year to September 2011, in our opinion there is a risk of further shortfalls - in particular, management will likely want to be ultra cautious on safety, as it ramps Karee back up post the rehiring of staff. In summary, we believe that the stock's current valuation factors in a seamless operational turnaround, which we believe will take longer to deliver than market expectations. As such we maintain our Hold rating. We acknowledge that the company's lack of exposure to Zimbabwe may be perceived as an advantage over peers Aquarius, Amplats and Impala in the near term, which may lead to periods of outperformance.

Valuation

Our price target is derived by applying a 1.3x exit multiple on the group's DCF valuation(based on life-of-mine cash flows discounted at a WACC of 9.4%, (Beta 1.23, ERP 5%)- consistent with the trading history for a comparable period in the cycle and the company's South African based peers.

Risks

Upside risks to our price target include:

- Higher-than-forecast PGM metals prices;
- A weaker-than-forecast ZAR/USD exchange rate;
- A sustainable improvement in safety trends, leading to fewer production stoppages;
- Lower-than-expected mining cost inflation;
- A potential bid by major shareholder Xstrata for the remaining 75% of the company.

Downside risks to our price target include:

- Lower-than-forecast PGM metals prices;
- A stronger-than-forecast ZAR/USD exchange rate;
- Industrial action/prolonged strike action due to the current wage negations;
- An exit by Xstrata of its 25% shareholding.

RBPlat - Investment thesis

Outlook

RBPlat is a mid-tier PGM mining company, which is black-owned, controlled and managed. The company has an aggressive production growth plan, aiming to more than double production of 4E ounces in concentrate by 2017 from its shallow, high-grade Merensky mine and project on the Western Limb of the Bushveld Complex, from 200kozpa to just over 400kozpa. Delivery of this target, with containment of inflation in costs per tonne milled to 3.4% pa (on our estimates), should result in a headline CAGR in earnings of 15% from 2011-15E. RBPlat's assets are part of a 67:33 JV with Amplats, in which Amplats purchases the 67% of concentrate mined and milled by RBPlat to smelt and refine along with its own 33%; the terms of this agreement are favourable to RBPlat. Ahead of the first growth in its production profile from current levels in 2015, we see few levers that management can pull to create value. Capex savings on the R7.9bn (RBPlat's share) Styldrift project are one lever, and aggressive control of its variable costs (30% of on-mine cash costs) are another, but RBPlat will likely be subject to the mining inflation headwinds faced by the rest of the industry in the short to medium term. In addition, management has said that it is unlikely to pay dividends until Styldrift is fully ramped up from 2017 onwards. In short, on our 12-month valuation view and beyond to a five-year view, RBPlat is running to stand still, in our opinion.

Valuation

In line with our valuation methodology for the PGM miners under our coverage, we discount RBPlat's life-of-mine cash flows (applying a nominal WACC of 13% [cost of equity, post-tax, of 14.8%, assuming a beta of 1.4, and a post-tax cost of debt of 5.8%]; we use the company's target debt to equity ratio of 20:80) and then apply a 30% premium to the company's operating asset valuation to derive our target price of 5700cps. The premium reflects the mid-point of the last 10-year period, which saw the sector trade up to 2.0x P/NPV in 2007-08 and average 1.3x in the period. RBPlat is currently trading at 1.4x P/NPV 2011E, and thus we believe there could be downside to the stock reverting to the sector long-run average.

Our NPV assumes a real long-term basket price received by RBPlat for 4E ounces in concentrate of R14,271/oz and a long-term real ZAR/USD exchange rate of 10.

Risks

Key upside risks are:

- Management success in saving capital (up to R1bn) at the R7.9bn Styldrift project.
- A significant, sustained weakening of the South African rand versus the US dollar compared with our forecasts,
- Higher-than-forecast PGM prices, potentially leading to an earlier-than-guided dividend payment.
- Announcement of corporate action: either Impala Platinum reviving its ambitions to buy 100% of the BRPM mine (MiningMx, 11 March 2011), or RBPlat announcing its own acquisitions (International Business Times, 8 March 2011).

The shares could see an initial upwards movement on the resumption of M&A interest from Impala or Amplats, but this is unlikely to amount to anything tangible, in our view, and we advise investors to sell into any spikes.

Sasol - Investment thesis

Outlook

Sasol is an integrated liquid fuel and chemical company with upstream coal, gas and oil assets. Sasol leverages value from coal and gas feedstock through its proprietary coal-to-liquids (CTL) and gas-to-liquids (GTL) technologies in the production of liquid fuels and chemicals. Management is actively seeking expansion opportunities created by its technological positioning. We forecast strong medium-term cash generation through high leverage to improving oil fundamentals. The expected margin expansion is supported by rationalisation, predominantly in the Chemicals cluster, and an expected curtailment of cost inflation through reduced dependence on Eskom-sourced power. We expect additional volume contributions from project ramp-ups, improved operational performance, and volume stability in existing assets from committed capex programmes into FY12. The strong expected cash flows should allow the group further expansion opportunities while maintaining dividend yield levels (c.3.6- 4.0%). Buy.

Valuation

Our valuation includes only existing operations and committed capex. We see further potential upside to our valuation primarily from the Uzbekistan GTL project, as well as Canadian GTL and China CTL projects. We are cautious in including our assessment of the projects' value given the extended period until initial revenue generation and project-specific risks and uncertainties. We use a discounted cash flow valuation (DCF) as the primary tool in arriving at our price target and investment view on Sasol. We believe this methodology allows us to take a much wider range of fundamental factors into account than would a comparable multiples valuation, which often fails to factor in differences related to capex plans, capital structure, and longer-term growth rates. Our discount rate is based on CAPM. Our one-year target price is derived by rolling our DCF forward at the cost of equity less expected dividend yield. Our WACC of 12.3% incorporates a debt/equity ratio of 20:80, beta of 1.1x, risk-free rate of 8.5% and an equity 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 2.3% terminal growth rate represents a conservative outlook weighted according to Sasol's operational regions and products. Sasol's volume growth is dependent on the successful implementation of carbon sequestration technology and retaining its proven technological advantage.

Risks

Risks include a weaker-than-forecast oil price and a stronger-than-forecast ZAR/USD exchange rate. Delayed project delivery, cost overruns and suboptimal ramp-up are also risks. Sasol has an interest in, and may invest in, various higher-risk-rated countries including Iran, China and Uzbekistan. Implementation of carbon costing is an additional risk. We highlight the additional potential financial leverage risk added to an already highly operationally levered (c.1x oil, c.1.5x ZAR/USD) EPS base, should a rand-oil environment below ZAR525/bbl continue or weaken during the proposed projects' (China CTL, Uzbekistan GTL and Canadian GTL) financing period.

Appendix 1

Important Disclosures

Additional information available upon request

For disclosures pertaining to recommendations or estimates made on a security mentioned in this report, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr.

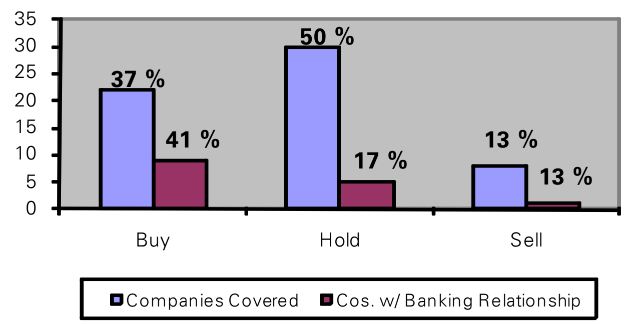
Analyst Certification

This report covers more than one security and was prepared by more than one analyst. The views expressed in this report accurately reflect the personal views of each undersigned lead analyst about the subject issuers covered by each, and the securities of those issuers. In addition, the undersigned lead analysts have not and will not receive any compensation for providing a specific recommendation or view in this report. Tim Clark/Jarrett Geldenhuys/Anna Mulholland/Shilan Modi

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.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
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
Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
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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Deutsche Securities (Pty) Ltd

South African locations

Deutsche Securities (Pty) Ltd.
3 Exchange Square
87 Maude Street
Sandton 2196
Tel: (27) 11 775 7000

Deutsche Securities (Pty) Ltd.
2E Nautica
The Water Club
Beach Road
Granger Bay 8005
Tel: (27) 21 419 4235

International locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

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