Deutsche Bank
Markets Research

Sub-Saharan Africa
South Africa

Periodical

Elephant Book

Date
31 January 2012

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Balancing defence with a smart offence

The Elephant Book provides an overview of the economy, the outlook for equity and bond markets, and an analysis for 57 companies under coverage.

Cover photograph:

Aggressive female elephant with young calf
by
Daryl Balfour

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Not raising the white flag just yet

Ratings as they are leave us few easy options to ride out 2012. We have tried to balance protection against possible macro and geopolitical risk with exposure to out of favour sectors which could benefit from any modest upside surprise vs. overwhelmingly bearish consensus.

Few easy choices with "consensus" bearish 2012 macro outlook priced in

We find little to distinguish DB's cautious global macro outlook for 2012 from what appears to be an overwhelmingly bearish consensus view. In fact, our base case--that the eurozone will avoid disorderly breakup; China, after a sharp growth deceleration in 1Q12, will rebound; and the US will manage to sustain its recent modest improvement in macro data--may be considered the relative high road scenario. With the lessons learned about downside risk through 2008/09 fresh in investors' memories, the implications of scenarios where eurozone policymakers fail to get in front of the crisis in 2012, or a hard landing occurs in China are all too clear. With few easy options left, we have tried to balance the need for safety with exposure to lowly rated Resources equities that appear best positioned to recover if the global economy manages to avoid the worst of what appears priced in already.

Expected returns are close: 12% for equities and 7.6% for bonds

Despite a rather dismal 2011 total return on just 2.6%, SA equities are now rated at 11.2x 12mnth fwd earnings - merely in line with average rather than cheap. However, with limited differences between spot and our 2012 forecasts for most relevant currency crosses and commodities, we feel our projections are perhaps less subject to downside risks from this source than usual. Assuming a 2yr exit PE of 11.1x, which allows for some over-optimism in bottom-up forecasts, and an elevated equity risk premium that we expect to remain in place for the foreseeable future, we arrive at a total return expectation of 12% for 2012 for equities. With respect to SA bonds, with the curve steepening last year as the market priced in higher inflation expectations, we expect moves in the curve to be small. How the MPC signals it intends to react to upside risks to near-term inflation is likely to be critical for how the yield curve moves in 2012. Our base case assumes the first rate hike in 4Q11, with a resultant total return from bonds of 7.6%.

Overweight equities, slightly favouring Resources over Industrials

Downside risks under more negative global macro scenarios than DB's base case prevent us taking a more aggressive overweight position in Resources where valuations appear to be discounting a lot already. In any event, overweight positions in Gold and Oil offer some protection from negative geopolitical or macro developments. Within a relatively neutral Financial sector position, we have moved more heavily overweight Banks, believing clarification of the Basel III impact in the next few months could remove a key uncertainty. Within a small underweight position in Industrials, we are biased towards defensives but are heavily underweight consumer stocks, where we feel ratings are vulnerable to any moderation in consumer momentum. We have lifted our weighting in Bonds, given higher return expectations, but remain slightly underweight.

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Index to the shares

2012 return expectations

Figure 1: Domestic asset allocation and expected returns

Share Name	12-month expected total return %	Benchmark weight %	Portfolio weight %	Industry peer group average %
SA Equities (ex-property)	12.0	60	67	64.5
All Bond	7.6	20	18	16
Cash	6.3	15	12	16.5
SA Property	6.0	5	3	3

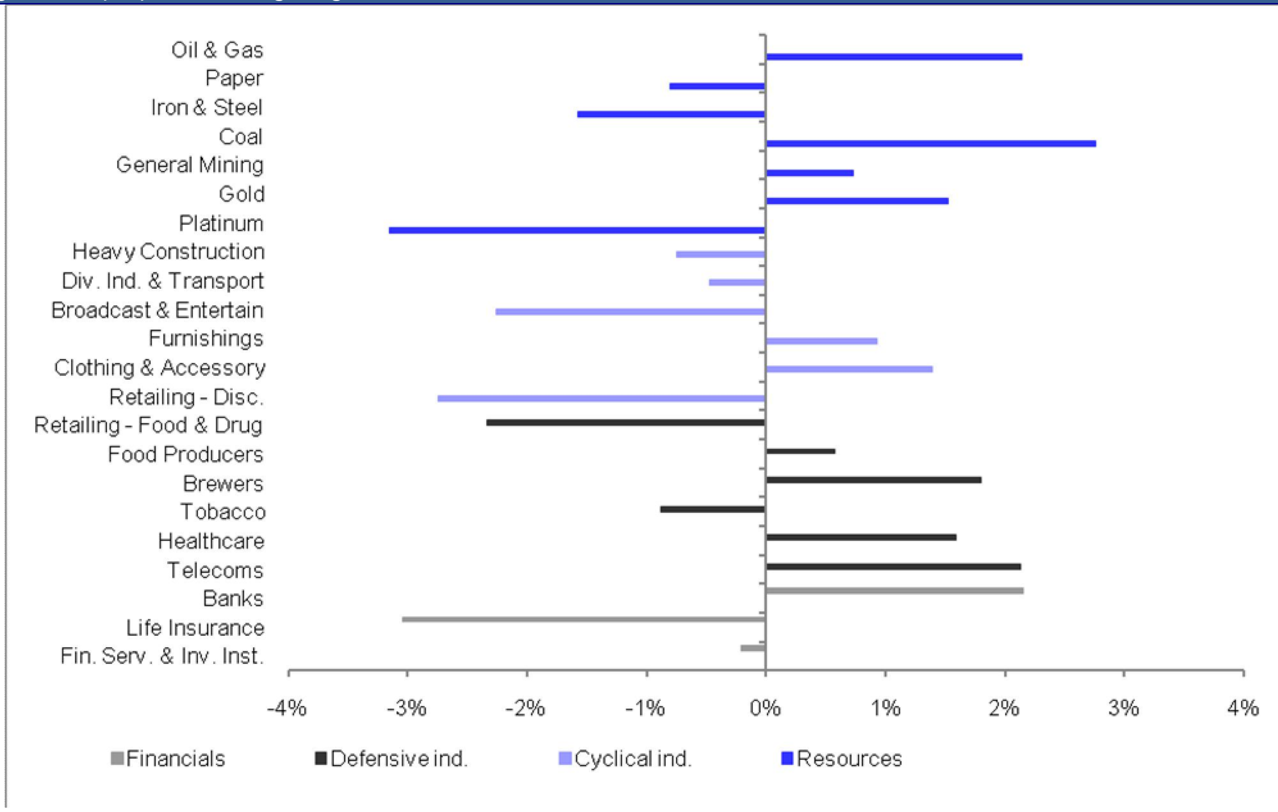
Source: Deutsche Bank, Alexander Forbes

SA equities

Within SA equities, our sector positioning is shown in Figure 2. In summary, we:

- Moved overweight Resources from a slight underweight position in 4Q11. The relative value evident in Resources after the dismal performance from many of the shares in this grouping in 2011 suggests there could be a strong rebound in the event that the macro backdrop turns out better this year than what we believe to be a consensus negative outlook. Preventing us going more aggressively overweight, however, are the potential downside risks for this grouping if some of the more negative scenarios unfold. Top of mind in this regard would be policymakers failing to get ahead of the eurozone crisis, leading to the shrinking of the EMU, with resultant financial shocks likely to push the globe into a recession at least as deep as 2009. We have remained with overweights in Oil, Gold and have a small overweight in General Mining (through higher quality BHP Billiton). We remain underweight Steel, Paper and Platinum.
- We remain relatively neutral Financials. We have, however, positioned ourselves with a clear relative preference for Banks over Life Assurers. The Banking sector has gone virtually nowhere since the beginning of 2010 and has badly underperformed domestic industrials. Now trading at a forward PE discount of almost 40% and with similar growth forecast, we feel this long out of favour sector could be due for a re-visit in 2012. A catalyst for such a reassessment may be the SA bank regulator's disclosure of his decisions on how Basel III will be implemented in SA over the next month or so. This would remove a significant uncertainty that has hung over the sector for several years and could pave the way for improved dividends.
- We have moved underweight Industrials from a slightly overweight position in 4Q11. As can be seen from Figure 2 below, our main overweights in the Industrial grouping are skewed towards the defensive sub-sectors. We are heavily underweight the consumer names, however, after yet another year of multiple expansion leaves them vulnerable to any sign of moderation in the consumer environment. While our macro forecasts still point to the consumer being a source of growth in 2012, we expect the pace to slow somewhat.

Figure 2: Equity sector weighting relative to the benchmark



Source: Deutsche Bank

SA bonds

In 2011, the All Bond Index produced a total return of 8.8%, with the best return coming from the 3-12 year portion of the curve. As it became evident that the MPC was not going to raise policy rates, the short end became well anchored, while the curve steepened as investors priced in higher inflation expectations.

With respect to 2012, we have what may be regarded as a rather low conviction view at the moment. We do not currently see much justification for large moves in the yield curve. The steepening yield curve has largely accounted for the bearish implications of higher short-term inflation and what looks likely to be a larger funding requirement in 2012. We think the critical influence on how the yield curve moves will be the signal the MPC sends regarding its tolerance for what we expect could be an upside surprise in short term inflation. We currently expect policy rates to begin rising in 4Q11. If this occurs, we would expect the short end to sell off, while the long end should rally slightly as inflation expectations ease (scenario 1). Under this scenario, we project a total return of 7.6% from SA bonds in 2012. This is our base case at the moment.

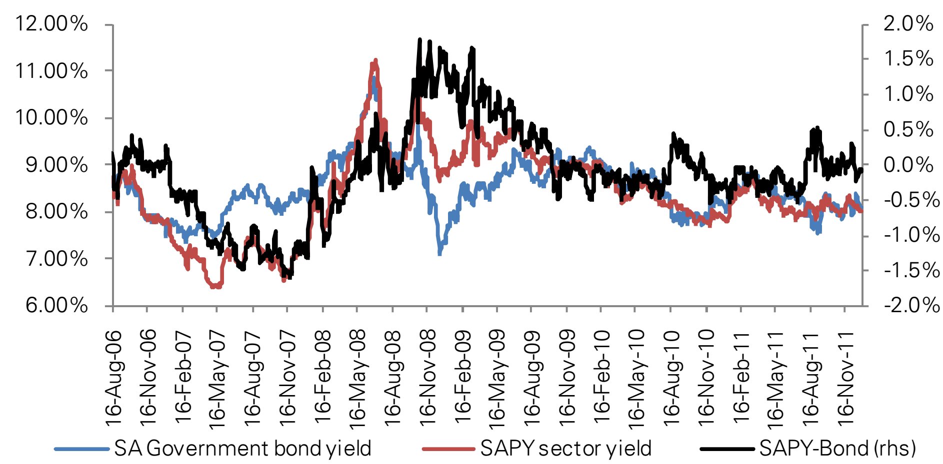
The alternative is that the MPC continues as it has done up to now to regard inflation as transitory, due to the effects of a weaker rand, and signals that it is tolerant of this with the expectation that it will moderate in due course. This could imply rates remain on hold for a much extended period (scenario 2). While this would keep short rates well anchored, the question is what happens to the long end of the curve? With higher inflation expectations already priced in, we think the prospect of low short-term yields for an extended period of time and a fairly steep yield curve will force investor demand further out and will actually cause the long end to rally slightly. Under this scenario, which is a slightly better outcome for bonds in that the whole curve rallies slightly, we project a total return of 9.4%. Clearly, the risk to our view under this scenario is that long-term inflation expectations rise further on the back of the MPC's inaction, leading to a further steepening of the yield curve.

From an investor positioning perspective, we recommend investors be slightly overweight the long end of the curve, since under both scenarios we see scope for this end to rally slightly from current levels. With the increase in our return expectation, we have raised our bond weighting to a level where we are now just slightly underweight.

SA property

With reference to Figure 3, it is evident that yield on SA Property has tracked the movements of the 10-yr bond yield closely and is currently trading at close to parity. We expect distribution growth to slow to just 4%, with cost of occupation rising for tenants, lower reversions and vacancies (particularly in office) remaining sticky. With the higher quality names in the sector already trading at a premium to bonds and the prospect for capital appreciation in the underlying portfolios limited, we do not think investors are getting much compensation for the operational risk they are exposed to relative to bonds at the moment. Our total return expectation for the sector is 6% in 2012, implying a slightly negative capital return in aggregate. We are underweight property.

Figure 3: Property sector performance vs. change in bond yield



Source: Deutsche Bank

Global macro outlook

DB's latest growth and inflation expectations are shown in Figure 4 below. After a tumultuous 2011, during which the eurozone sovereign debt issues became an increasingly dominant influence as the year progressed, a sense of perspective is provided by considering how much our forecasts have changed from what was a relatively upbeat outlook at the beginning of 2011.

In summary, while growth expectations in EM countries have moderated slightly over the course of 2011, largely due to knock-on effects of the slowdown in advanced economies on global trade, it is the downgrades to the growth outlook for advanced economies to an anaemic 1.1% which are responsible for the bulk of the c.100bp drop in global growth expectations for 2012. Despite having taken the knife to our eurozone forecasts, we think the risks are still weighted to the downside. As things stand at the moment, the various permutations concerning how the eurozone sovereign crisis is managed this year also poses the greatest risk to growth expectations globally.

Figure 4: Summary of DB's GDP and inflation forecasts currently compared with the beginning of 2011

	Forecasts: December 2010				Forecasts: Current					
	GDP growth (%)		CPI inflation		GDP growth (%)			CPI inflation		
	2011F	2012F	2011F	2012F	2011F	2012F	2013F	2011F	2012F	2013F
US	3.0	3.4	1.7	1.9	1.8	2.5	3.0	3.3	3.2	2.4
Japan	0.1	1.7	-0.3	-0.6	-0.4	0.5	1.2	-0.3	-0.3	-0.1
Euroland	1.2	1.4	2.0	1.8	1.6	-0.5	1.0	2.6	1.9	1.5
G7	**2.2**	**2.6**	**1.5**	**1.5**	**1.5**	**1.3**	**2.1**	**2.6**	**2.3**	**1.8**
China	8.7	8.4	4.1	3.5	9.1	8.3	8.6	5.3	2.8	3.5
India	8.2	8.5	6.9	6.7	7.3	7.3	8.0	9.4	6.3	6.9
EM Asia	**7.4**	**7.5**	**4.7**	**4.3**	**7.3**	**6.9**	**7.4**	**6.0**	**3.9**	**4.3**
Russia	5.0	5.3	8.2	7.4	4.5	4.6	4.9	8.6	6.8	6.9
EMEA	**4.5**	**5.0**	**7.1**	**6.8**	**4.5**	**3.7**	**4.5**	**7.7**	**6.8**	**6.6**
Brazil	4.5	4.6	5.4	4.8	3.0	3.3	5.0	6.4	5.3	5.6
Latam	**4.1**	**4.1**	**8.0**	**6.8**	**4.1**	**3.6**	**4.3**	**8.9**	**8.4**	**8.1**
Advanced economies	**2.0**	**2.5**	**1.6**	**1.6**	**1.4**	**1.1**	**2.0**	**2.7**	**2.3**	**1.7**
EM economies	**6.2**	**6.4**	**5.4**	**5.0**	**6.1**	**5.7**	**6.3**	**6.3**	**4.7**	**5.0**
World	**3.9**	**4.2**	**3.3**	**3.1**	**3.6**	**3.2**	**4.0**	**4.4**	**3.4**	**3.3**

Source: Deutsche Bank

Eurozone

Given the potential knock-on effect of the eurozone sovereign debt crisis into the other major economic regions, it is perhaps appropriate to begin with where we stand on the various possible scenarios it may follow in 2012. The large downgrades to eurozone growth expectations (we now project 3 quarters of contraction, beginning in 4Q11) have been driven by steadily tightening fiscal and credit conditions as the crisis has spread to the larger peripherals. Despite these downgrades, our forecasts assume that the crisis will be resolved soon and confidence will gradually return.

We see two possible solutions to the crisis: (i) making the existing EMU member countries meet the real economy criteria for a common currency area, or (ii) shrinking the EMU to those countries that already meet these criteria. Since the second option (downsizing the EMU) would be associated with tremendous financial and economic pain, we expect policymakers to do everything possible to make the existing EMU members fit the common currency. The latest EU summit has set the stage for establishing a hard government budget constraint, but this has to be followed by greater economic flexibility, particularly with regard to labour. Whether policymakers' efforts to make the existing members fit for EMU succeed will depend on whether the larger troubled countries (Spain and Portugal) can implement the necessary structural reforms and show that these reforms are delivering results. Failure to do so would likely lead to the EMU being reduced to a core (France, Germany, Netherlands, Austria, Finland and Belgium).

Our forecasts are based on our expectation that EU officials will get ahead of the euro crisis and succeed in making existing members fit for EMU. If we are wrong and the crisis spins out of control, we could see a global recession at least as deep as that in 2009. Should the EMU be reduced to a core group, all countries would be hit by a large negative financial shock. In addition, the new core EMU would likely be hit by an exchange rate shock as the currency would likely appreciate sharply.

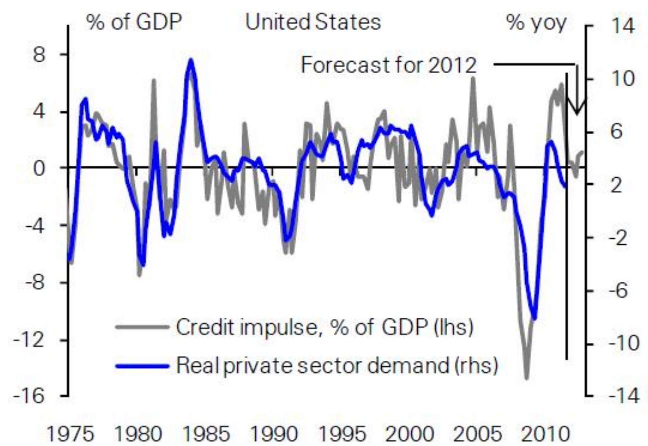
US

Recent macro data out of the US has been encouraging, although we note that the current economic expansion has been about half the pace of a traditional post-recession expansion. The weakness in growth relative to past cycles can be traced to consumption, where growth at c.2% is around half of its historical rate. Goods spending has been in line with previous cycles (interestingly, spending on big ticket highly cyclical durable goods has been running a bit faster than where it normally is at this point in the cycle). Rather, it is spending in the services sector which is weak because housing-related spending, which has been particularly soft, forms one of the largest sub-components. We expect the weakness in housing to begin to reverse, noting that rents are turning higher on the back of declining rental vacancies and residential investment appears to have bottomed finally.

With regard to business spending, certain tax incentives in 2011 (accelerated write-offs permitted) stimulated investment in some areas but, in aggregate, the rate of growth in real capital stock shows that companies have remained hesitant to invest in capital infrastructure. A need to invest more aggressively to avoid capital stock becoming dilapidated, together with inventory rebuilding (private inventories to final sales fell to an all-time low last quarter) suggest business spending should be a bright spot this year.

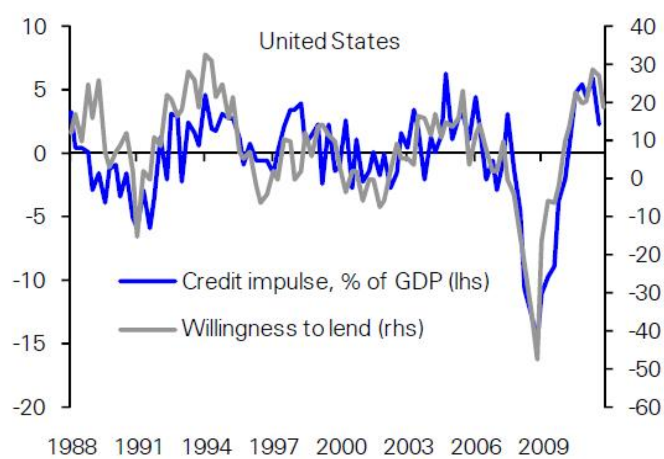
Considered from a slightly different perspective, we expect some acceleration in private sector net new borrowing in 2012, which implies a positive credit impulse. This should contribute to above trend demand growth in the US. Important to watch in this regard will be the Senior Loan officers "willingness to lend" survey (next release in early February), to which the credit impulse has been closely correlated.

Figure 5: US credit impulse and demand growth



Source: Deutsche Bank, BEA, US Federal Reserve

Figure 6: Credit conditions and the credit impulse



Source: Deutsche Bank, BEA, US Federal Reserve

In summary, we expect the positive momentum seen recently in the US to continue, assuming our base case for the eurozone plays out. If, however, the European situation deteriorates, downside risk to our expectations for US spending would likely result from a combination of the negative wealth effect from renewed investment market weakness and weakening consumer confidence.

With regard to the prospect of further quantitative easing in the US, considered both from a growth and inflation outlook, we do not expect another round. While inflation is expected to ease in 2012, we expect both core and headline inflation to remain comfortably above 2%. The economic outlook would have to deteriorate markedly for the Fed to further expand its balance sheet.

China and other Emerging Markets

Having revised down our near-term growth expectations for China in August, data in the interim have largely supported the more cautious view taken, leading to little change in our outlook. While we expect 2012 growth to slow from 9.1% to a still healthy 8.3% in 2012, we maintain our expectation of a fairly deep trough in growth in 1Q12 to 6.4%. In fact, this trough has been cut slightly from 6.8% as a consequence of a sharper slowdown in real estate FAI and the further cuts made to our eurozone growth. However, we continue to expect that growth will begin to rebound as the year progresses, resulting in China avoiding a hard landing (defined as two quarters of growth below 7%).

For the rest of EM, in a year which is likely to be a difficult one for the world economy, what looks to be a reasonably resilient growth outlook in aggregate will not be uniform across EM. We expect Asia and Latin America to be relatively better placed to weather the storm. Public and private balance sheets are not as strong in EMEA, which is also more directly exposed to the euro crisis because of its closer economic and financial linkages. Our assessment of the relative vulnerabilities across EM suggests that EMEA faces a quadruple whammy: (i) a relatively high external debt burden; (ii) sharply weaker growth in the last two to three years has put pressure on public finances, leaving many needing to tighten policy into the face of a downturn; (iii) rapid expansion of western European banks across the region leaves many countries exposed to deleveraging by foreign banks as they seek to meet additional capital requirements; and (iv) economies are relatively small and open with high trade and financial linkages to the euro area. Within EMEA, it must be noted that South Africa does not feature among the highest risk countries (Egypt, Poland and Ukraine) when these vulnerabilities are considered in aggregate.

SA macro outlook

South Africa's relatively disappointing growth through Q2 and Q3, partly due to strikes and production stoppages locally and partly the knock-on effect of the deteriorating macro environment offshore, set a relatively low base off which we expect positive growth momentum in 2012. As noted above, SA is one of the EMEA group of EM countries which are more vulnerable to the eurozone, due in part to its trade linkages. Thus, the direct impact, as well as the likely negative impact on global growth should the eurozone sovereign crisis escalate further, poses the key downside risk to our expectations at present. Indeed, should global growth fall below 3%, the likely impact on commodity prices will have negative ramifications for the economy.

It is important though to keep perspective, as we believe that domestically there are a number of areas in which SA is currently better placed to withstand global macro headwinds than it was in 2008:

- Financial conditions are less stringent for consumers than they were – Our financial vulnerability index is currently on average close to 2006 levels, although some subcomponents (employment, financial market performance, house price growth and real disposable income growth) were better back then. Relative to 2008, however, the index is much improved. While we forecast some moderation in household demand in 2012 due to high base effects, consolidating net wealth and rising inflation, household demand should remain a positive driver of growth.
- Continued replacement cycle – We believe much of the strong durable goods demand seen between 2Q09 and 2Q11 originated from higher income consumers buoyed by a rising net wealth effect. Declining indebtedness and steadily improving bad debts, a constraint to middle and low income consumers to date, suggest there is still scope for further replacement demand.
- Strong corporate balance sheets – The earnings rebound, coupled with extremely muted corporate credit demand post the recession means that, in aggregate, corporate balance sheets are in much better shape than they were. Profit per private sector worker is running at 1.5x the level it was at the start of 2008, suggesting that corporates are also much leaner at this point in the cycle.
- Monetary policy has room to manoeuvre – SA is in the fortunate position that it still has the option to cut rates further should the growth outlook deteriorate.

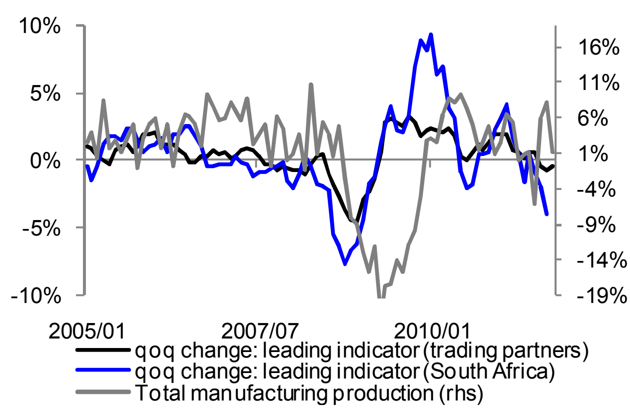
Figure 7: Key macro-economic forecasts

	2008	2009	2010	2011F	2012F	2013F
Real GDP	3.6	-1.9	2.8	3.1	3.1	3.8
Priv. Consumption	2.2	-2.0	4.4	4.8	3.5	3.7
Gov't consumption	4.7	4.8	4.6	4.3	4.0	3.6
Investment	14.1	-2.2	-3.7	3.5	4.4	4.2
Exports	1.8	-19.5	4.7	5.3	2.8	8.5
Imports	1.5	-17.4	9.6	8.6	4.0	6.9
CPI (yoy%)eop	9.1	6.3	3.5	6.4	6.1	6.4
Budget balance (% of GDP)	-1.2	-6.7	-6.6	-5.5	-5.7	-5.0
Current account balance (% of GDP)	-7.3	-4.1	-2.8	-3.1	-3.7	-3.7
FX rate (eop) ZAR/USD	9.5	7.5	6.6	8.1	7.9	8.3
FX rate (eop)ZAR/EUR	11.9	10.6	8.8	10.5	10.7	10.4

Financial markets (eop)	Current	3mnth	6mnth	12mnth
Policy rate (14 day repo rate)	5.5	5.5	5.5	6.0
3-month rate (Jibar)	5.6	5.6	5.6	6.1
10-yr bond yield	8.2	8.2	8.4	7.9

Source: Deutsche Bank

Figure 8: Leading indicators vs manufacturing production

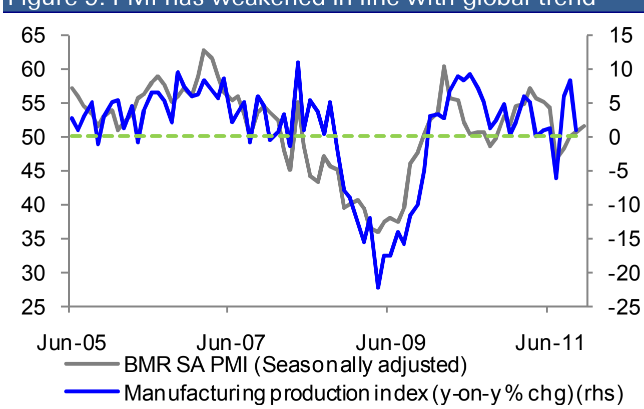


Source: Deutsche Bank, SARB, I-Net Bridge

Leading indicators point to soft manufacturing outlook

Over the course of 2011, manufacturing appears to have been impacted by temporary factors, both domestic (strikes and production stoppages), as well as offshore (Japanese tsunami). The rebound in the August data would seem to support this. If one ignores the volatility introduced by these temporary factors, there is underlying weakness in manufacturing relative to last year's base. The recent trend in leading indicators suggests weakness in manufacturing will continue in the near term.

Figure 9: PMI has weakened in line with global trend

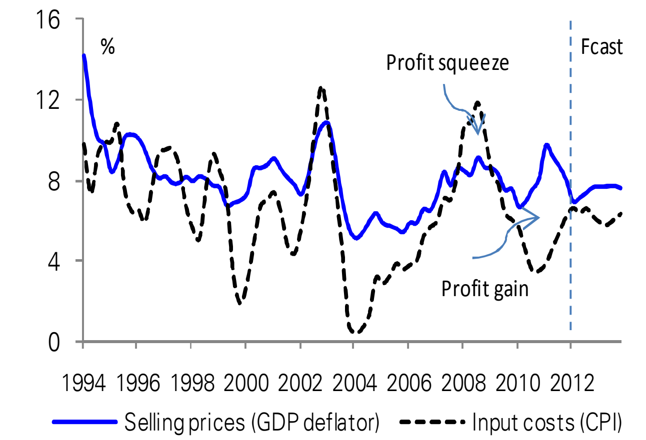


Source: Deutsche Bank, I-Net Bridge

PMI a little more upbeat than leading indicators

The Purchasing Managers' Index (PMI) has been a good leading indicator of production momentum in the manufacturing sector. The recent rebound to 51.6, while not particularly strong, suggests a more upbeat outlook for manufacturing than that implied by leading indicators.

Figure 10: Terms of trade less positive than before…

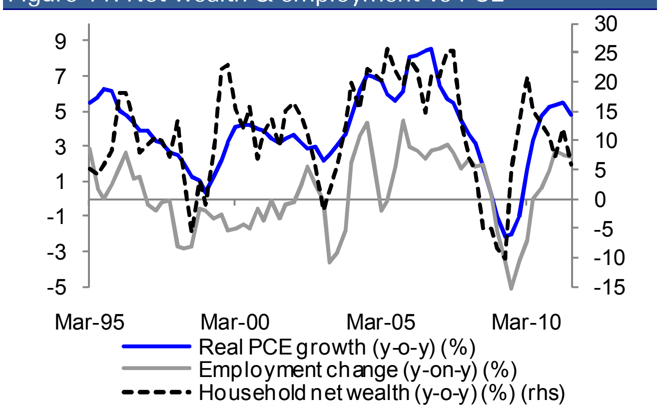


Source: Deutsche Bank, SARB

SA's strong terms of trade impacted by commodities

SA has enjoyed steadily improving terms of trade (thanks to the rally in commodity prices) since the end of the great recession. Since changes in terms of trade explain most of the difference between the GDP deflator (changes in price of what SA produces) and CPI (a proxy for input costs), it provides a reasonable top down indicator for corporate profit margins. While one might argue that terms of trade gains are concentrated in relatively few export-orientated sectors, the companies concerned are consumers of inputs from other domestically focused sectors, and thus the impact of this positive tailwind should filter into the broader economy. Weakening in commodity prices while domestic inflation remains sticky on account of currency weakness suggests what has been a relatively supportive environment is turning more difficult from a corporate profitability perspective.

Figure 11: Net wealth & employment vs PCE

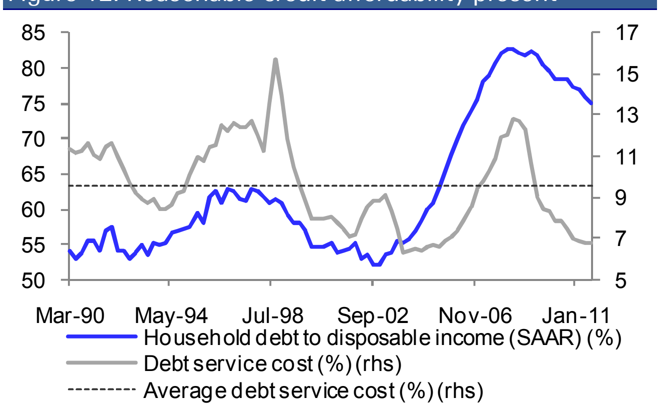


Source: Deutsche Bank, I-Net Bridge

Real PCE growth moderating along with net wealth

In line with moderate weakness in housing and slowing momentum in financial markets in 2011, growth in households' net wealth has decelerated. We have already begun to see real personal consumption expenditure (PCE) growth, which had been improving steadily since the recession, begin to moderate for the first time in the latest reading (4.7% real growth). Employment turning slightly positive is mitigating the impact of the moderating wealth effect, however.

Figure 12: Reasonable credit affordability present

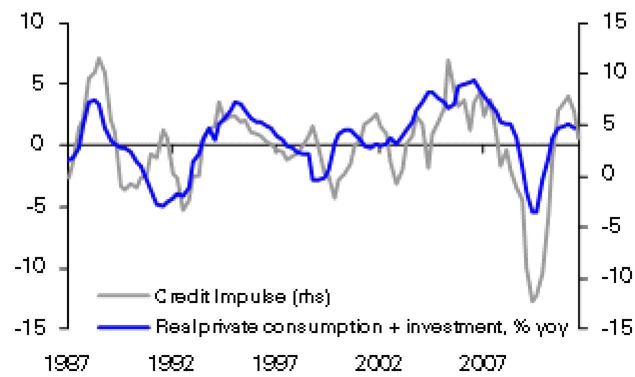


Source: Deutsche Bank, I-Net Bridge

Indebtedness falling slowly but affordability is good

A change in mix of credit towards higher-priced consumer credit, as well as a general re-pricing of credit, means true affordability is probably not quite as low as our proxy (based on prime) suggests. Although indebtedness has fallen more slowly than we had hoped, given the anaemic credit growth reported by the banks, it would now require rates to rise by 350bp to take debt service costs back to average. Despite the apparent affordability at a macro level caution on the part of lenders in the area of mortgages, which dominate the credit statistics, until a large stock of non-performing mortgages have worked their way through the system and the potentially depressing effect on property prices is understood, suggests we will not see this apparent credit capacity taken up for the time being.

Figure 13: Credit impulse beginning to roll over



Source: Deutsche Bank

Lack of continued momentum evident

Our credit impulse argument is that it is the change in the flow of credit relative to the prior year that drives final demand. Initially, even very weak credit growth provided a positive credit impulse, since it was coming off a base of nominal decline in credit. However, with credit extension growth remaining stubbornly in mid-single digits, we are beginning to see the positive credit impulse rolling over. Total credit growth has masked healthy growth in the consumer credit sub-component (c.23% yoy), which has no doubt supported a reasonable consumer environment in SA. This, however, provides a high base when considered from a future credit impulse perspective.

Equities

In order to place our expectations for the SA equity market in context, we begin by summarising the themes and return expectations for other major regions around the world. In summary, our DM strategists are considerably more upbeat about the outlook for their equity markets than is the case for our EM-focused strategists, believing that current valuations are already discounting a very negative growth scenario. In contrast, despite the superior domestic growth projected in EM generally, our expectations remain that EM equities will underperform due to, among other things, undoubtedly a more downbeat interpretation of the macro outlook at present, less compelling valuations and an inability to adjust to lower growth world for various reasons.

United States (Binky Chadha)

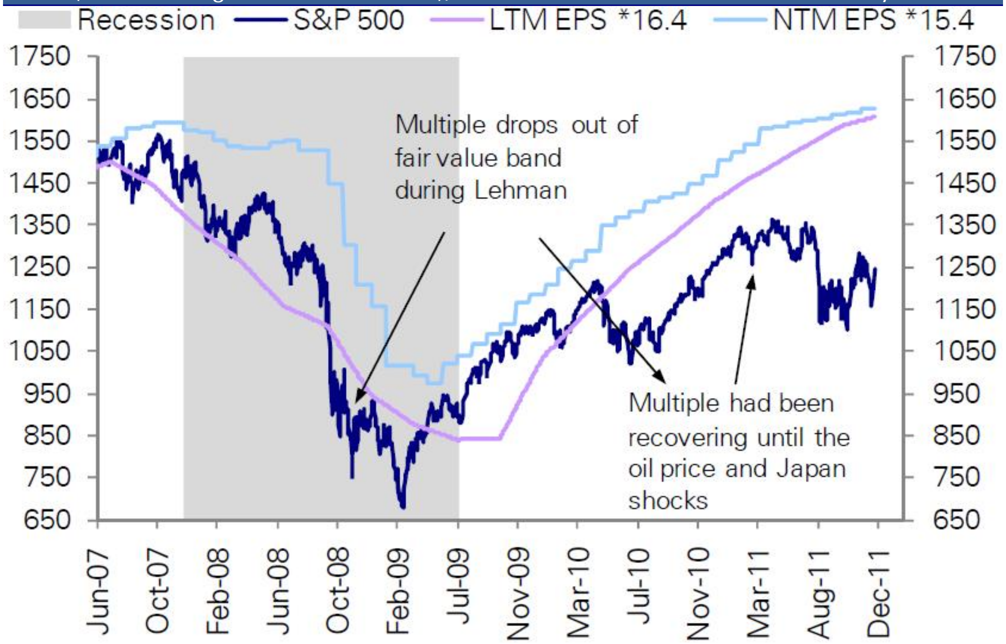
Our US team is targeting a level of 1500 for the S&P500 by the end of 2012 (14x $106 of earnings), which implies a rerating from 12.7x currently. This would produce a return from current levels of c.17%. Over the course of 2011, the US market, de-rated by c.15%, eclipsing the 14% earnings growth achieved, leaving the US market around flat for the year.

At this stage, we expect the S&P500 to meet or slightly exceed our estimated $99 for 2011 and grow by 7% in 2012. The critical question is what happens to the multiple (price/earnings ratio). A host of reasons have been put forward to justify why the multiple should remain low relative to our view of what a fair value rating is in the US (16.4x trailing earnings, 15.3x forward earnings): lack of investor demand for equities after a decade of near zero returns from the S&P500; an aging population raising relative demand for fixed income; an unwillingness to pay for earnings driven by cost cutting and cyclically high margins; an uncertainty discount for potentially more frequent business cycles; macro uncertainty and sovereign debt risks. Against this, we see a number of factors supporting the multiple in 2012, while a lack of realisation of the risks that are already priced in should see the multiple move higher:

- The current episode of risk aversion is already one of the longest on record.
- Historical drivers of deratings (large negative shocks, recessions, high inflation and/or high bond yields, high taxes) are absent in our baseline outlook.
- Dividend are rising
- Buybacks and M&A will continue to shrink the supply of equity. Even with modest outflows from US equities, hedge funds already underweight, demand-supply for US equities looks favourable.

A continuation of the euro area crisis combined with concerns about US fiscal drag will likely keep equities in the volatile range they have been in since August, but we see the positive factors eventually winning out to produce strong returns in 2012.

Figure 14: US equities, having traded in line with our estimate of long-run historical fair value (16.4x trailing and 15.4x forward), have traded below this level since May 2010



Source: Bloomberg Finance LP, Haver, Deutsche Bank

From a sector allocation perspective, the risks associated with Europe in recession and EM slowing have pushed us to a lower beta position. We recommend (i) US consumer (Consumer Discretionary, Staples) over expensive dividends (Telecom, Utilities); (ii) US corporate spend (Tech, Industrials) over global cyclical (Energy, Materials); (iii)some beta should risk aversion end (Financials over Healthcare).

Eurozone (Gareth Evans and Michael Biggs)

Our eurozone strategy team has an end 2012 target for the DJ Stoxx 600 of 275 (implying a return from the current level of 10%). This would leave the Stoxx 600 on a forward PE of 11.0x, which compares to a fair value forward PE under "normal circumstances" of around 12.5x.

The central theme that the team has structured its strategy for 2012 around is "divergence", with the high levels of correlation between returns across companies seen in 2011 breaking down. In the US the rise in credit growth (positive credit impulse) is expected to boost spending, while in the euro area credit growth will fall and could be a bigger drag on demand than the market anticipates. This provides a starting point driving a relative preference for global over domestics. Further potential themes have been taken into consideration in selecting stock preferences:

- The consequence of weak euro area demand is likely to be a contraction in capex in Europe.
- Companies that are more vulnerable to the inventory cycle turning and margin shrinking if demand falls.
- Preference for global exposure through companies where EV/FCF has fallen to attractive levels.
- Preference for global exposure to US and a lesser degree to China rather than Eastern Europe and Latam, where tight credit conditions might have a knock on effect.

- Selected European globally exposed cyclicals that show value.

The key overweight positions are Oil & Gas and Industrial Goods & Services, while their main underweights are Construction, Retail, Telecom and Utilities.

Asia (Ajay Kapur)

While most of the indicators that Ajay follows are boring and flat, giving no strong signals either way, the overall outlook is a cautious one:

- We expect Asia to continue to underperform developed markets. This is due to a combination of unfavourable valuation comparisons, EPS downside risk and margin risk. However, it we acknowledge that declining inflation could allow for a monetary policy response, which recent experience in the US suggests may help equity markets.
- We think growth is weakening *pervasively.* We are not close to seeing valuations or earnings growth expectations consistent with a world experiencing such a slowdown if we compare with past periods when this occurred. Asia's huge export dependence is a critical issue here.
- With regard to China, we are concerned by high and increasing leverage, an impending peak in China's working age population and the rapid ascent in property prices there. This is a dangerous combination and, where it has occurred, highly likely followed by a credit or property bust. Timing, of course is difficult.

GEM (John-Paul Smith)

While we acknowledge that emerging market equities look cheap on earnings and asset-based valuations in both absolute terms and relative to DM, we point out that this is not the case on cash flow multiples. The latter are expected to come under increasing pressure within GEM given the greater degree of cyclical exposure and prevailing corporate governance structures. In aggregate, we are relatively agnostic about the outlook for absolute returns in 2012 but expects GEM to underperform DM by a similar magnitude to 2011.

Key themes highlighted that support this view are:

- DM economies likely to remain fiscally challenged in 2012. The implication of this is that policy makers and corporate managers across EM can no longer look to W. Europe and the US to provide the sort of growth impetus they have become accustomed to over the last decade.
- China – difficult policy decisions against a deteriorating real economy. We do not expect China to be anything like the driving force for other emerging market economies it has been over recent years, raising longer term questions over the long held growth paradigm which supposedly underpins the GEM equity asset class. We think consensus is too optimistic for policy easing to re-stimulate the broader economy, for the following reasons: (i) while inflation may come off next year, the underlying pressures are still there from previous dramatic money supply growth and as evidenced by the extent of price controls; (ii) poor lending track record of Chinese banks, as well as weaker underlying level of productivity of Chinese enterprise than official statistics suggest; (iii) some early signs of deposit and capital outflows could indicate concern about asset quality in the banking system, continuation of which could render measures to ease monetary policy less effective.
- Limited scope for easier monetary & fiscal policy across GEM. We note that initial GEM underperformance in 2011 coincided with a realisation that inflation in many of the countries was not as transitory as previously believed. Against a weak macro

backdrop the cyclical component of inflation has eased but the underlying structural pressures leave little scope to ease policy. On the fiscal side, contingent liabilities on top of official debt figures, increases in social spending in recent years and cyclical exposure in government revenues all suggest limited scope to ease.

- Limited appetite for structural reform/political influence in resource allocation. These are likely more long term issues rather than 2012-specific, but we remain concerned about the lack of progress in addressing structural economic challenges in many GEM economies. The potential initial response then to a deteriorating growth outlook will be to redistribute resources away from capital towards labour via the state.
- Deterioration in the strategic outlook for commodity prices. We have been bearish on commodities through 2011, given our below consensus stance on the global economy, scepticism about the durability of China's growth model and liquidity-induced investment that has driven up prices. Oil is one commodity that, owing partly to geopolitical tensions, has remained well supported, but we point to deteriorating longer-term outlook as the development of shale gas grows. In summary, we see 2012 as a year in which the awareness of investors of the longer term implications of lower commodity prices will grow.
- Corporate governance and management in the face of slowing growth. Aggressive pro-cyclical investment in capital intensive industries across GEM may be exposed. We are concerned that corporate will be either unwilling or unable because of state interference, to adjust in line with the changing economic environment.

After a very difficult and volatile 2011, in which neither growth, nor value, nor momentum worked, we do not envisage much change in the year ahead. Value is too tied to the commodity and financials trade to work, while the poor economic backdrop within and outside GEM is unlikely to support a growth strategy. As with 2011, we expect markets to move in a series of small, incremental and apparently predictable steps, sucking in active investors, before making a violent reversal in very short order. We advocate a contrarian strategy, which is the one that did work in 2011, but is acknowledged to be the hardest of all.

From a country selection perspective, we base our positioning on three themes: (i) the impact of the difficult economic environment on the domestic political economy and equities of the individual emerging markets (short Korea/long Mexico); (ii) beneficiaries/losers of the continued slide in commodity prices, particularly oil (short Russia and Brazil/long Turkey and Taiwan); (iii) markets which are outstandingly cheap or expensive as investors become excessively gloomy or euphoric about their respective secular prospects (short Indonesia/ long C3). We are neutral in China and India. We are also neutral in South Africa.

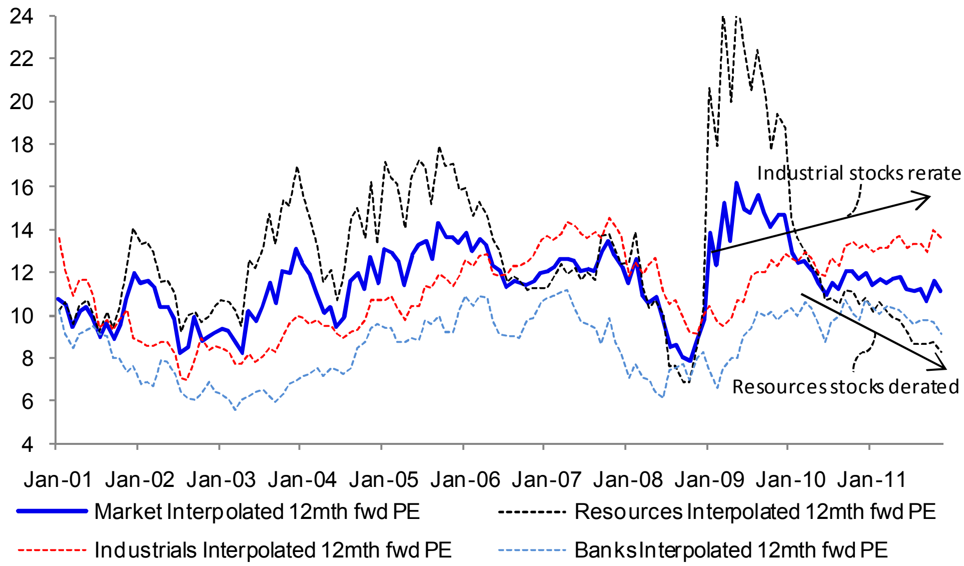
South African equity market outlook

Firstly, reflecting back on 2011. The total RAND return of just 2.6% for the FTSE/JSE All Share Index was well short of the c.20% total return we had projected. While earnings growth achieved in 2011 (c.34%) for the market was a little short of the 45% we projected, this was something we had accounted in our return projection. Rather, it was the degree to which the trailing PE multiple compressed that surprised us. As can be seen from Figure 16, at 12.7x trailing earnings is well below the average over the last 20 years of 14.7x.

While the trailing PE for South Africa is in reasonable value territory relative to its history, as is the case for many other regions discussed above, this value is not as evident when assessed from the perspective of the forward PEs. On the latter basis, as

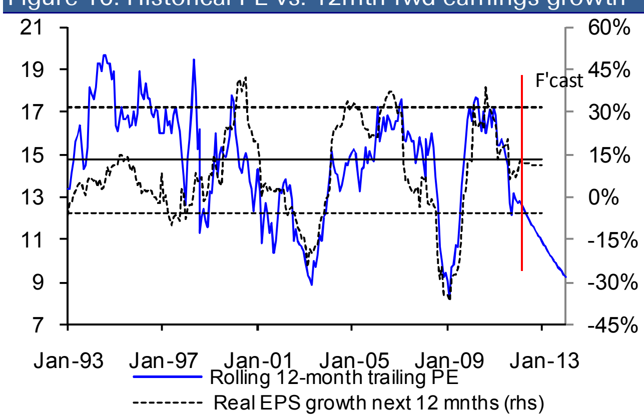
Figures 17 and 18 show, the current rating is around average. This, however, has been the net result of the opposing fortunes of the cyclical Resources and more defensive Industrial sectors. With limited value evident among the bulk of domestically orientated Financial and Industrial stocks, strong returns from SA equities will, in our view, require a reversal in the negative momentum in Resources.

Figure 15: Forward PE decomposed by economic group



Source: Deutsche Bank

Figure 16: Historical PE vs. 12mth fwd earnings growth

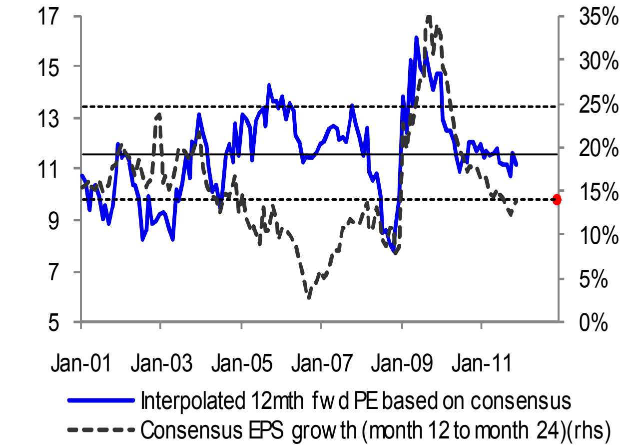


,Source: -I-Net Bridge; Deutsche Bank

SA equities: discounting earnings disappointment to come

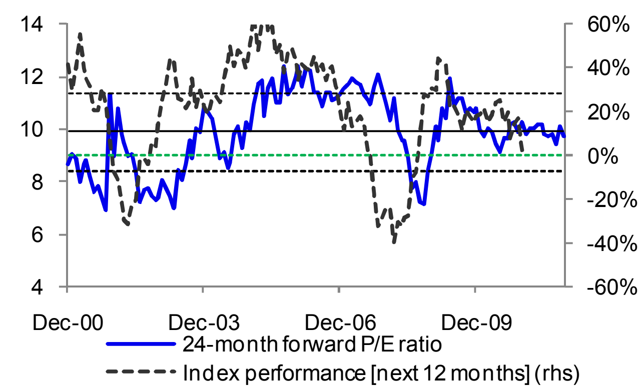
Despite respectable earnings growth achieved through 2011 (34%), the market has simply de-rated courtesy of a deep distrust of the sustainability of Resource sector earnings in particular. At 12.7x trailing earnings, the market is approaching 1 std. dev. on the cheap side. The tight relationship with earnings growth over the next 12 months suggests we are in territory consistent with real earnings growth over the next 12 months of 0-5% (c.5-10% nominal). Having already put through significant downgrades for a number of commodities across the complex, we feel earnings projections for the Resources component of the market (the main driver of forecast error typically) are beginning to reflect the challenging macro environment more accurately.

Figure 17: Alsi fwd PE vs. investment return



Source: -I-Net Bridge; Deutsche Bank

Figure 18: 24mnth fwd PE vs index performance



Source: Deutsche Bank

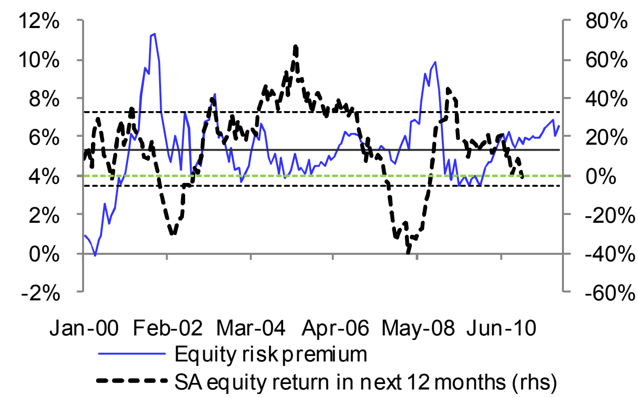
Interpolated fwd PE just slightly below average

Following an exercise to build a consensus history bottom-up, we are now able to better assess the SA equity market's forward rating currently against a history based on what the market expected over time rather than a forward PE based on actual results as if the market had perfect foresight. Our analysis shows that the SA market has traded on an average 12 month forward multiple of 11.6x over the last decade. At 11.2x currently, unwinding to one standard deviation below average the rating appears reasonable, but hardly represents great value when considered against the balance of risks from a macro perspective. 2nd year earnings growth forecast of c.14%, for all its frailties (analysts have a poor record of forecasting beyond a year out), does not stand out particularly relative to the sort of levels forecast over time either.

Interpolated 24 mnth fwd PE broadly in line with average

The 24 mnth forward PE calculated in the same manner as the 12-mnth fwd PE above shows that, because 2nd year earnings growth is not forecast to be particularly strong, the rating close to average above also shows little either way when viewed from the perspective of the 24 month forward PE over time. At 9.5x 2yr fwd earnings, the market is only marginally below its average of 9.8x since 2000. Analysts' difficulty in forecasting the next year's earnings proves problematic enough, particularly in a market with large weightings in cyclical resources stocks. Scepticism surrounding the value in looking at a 2-yr fwd multiple is therefore understandable. We note though that, even with the tendency of the Resources stocks to deliver strong returns off peak PE multiples (trough earnings), the 2yr fwd multiple has been a reasonable guide as to when the market is getting ahead of itself in either direction. In a stable business cycle, history would suggest positive returns, but in more challenging times of 2002 and 2008, the market got cheaper before delivering a strong rebound.

Figure 19: Equity risk premium (fwd EY – real bond yield)



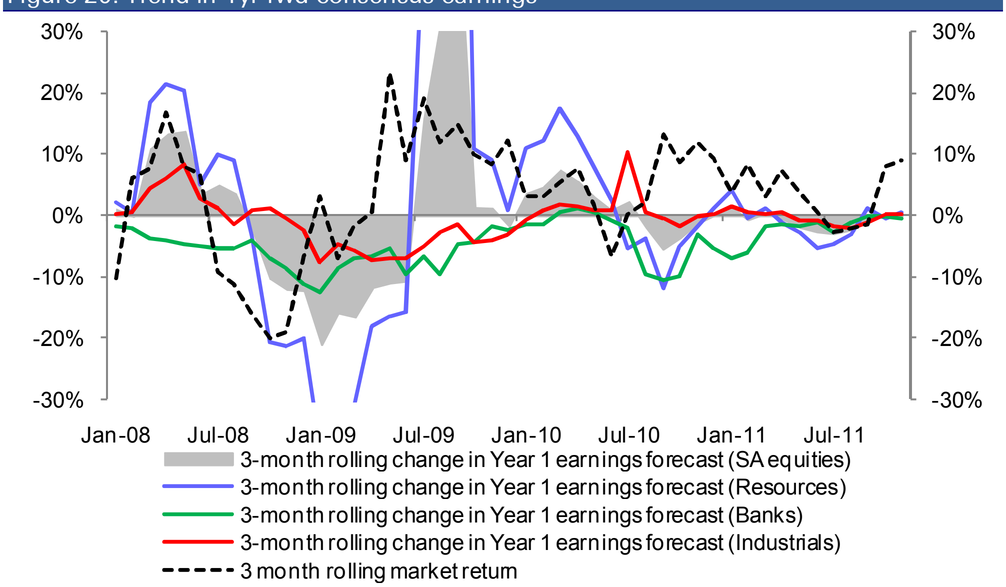
Source: Deutsche Bank, I-Net Bridge

Equity risk premium: looks favourable for equities

We calculate the equity risk premium by subtracting the real yield on long term inflation linked bonds from the forward earnings yield implied by consensus earnings over time. The absence of inflation targeting prior to 2000 and the fact that bond yields were managed to a large extent produce an *ex-post* equity risk premium before 2000 that we think is of limited value. Based on this rather short history, relative to an average equity risk premium of c.5.3%, the equity risk premium at the moment of c.6.5% looks appealing. It is notable that when the equity risk premium has spiked into what could be regarded as deep value territory, it has tended to be the market moving more quickly than earnings forecasts. Equities have subsequently performed poorly from these points. A view on where earnings forecast risks lie is therefore important in conjunction.

The chart below shows how the 1yr-fwd earnings forecast has evolved over time. The degree to which Resources shares have amplified forecast risk in the SA market is clearly evident. It is somewhat surprising that consensus has not begun to react much to commodity weakness in 3Q11. Our own forecasts have been revised down quite materially and we fully expect that broader consensus will follow as the various sellside institutions mark to market and revise their commodity outlooks.

Figure 20: Trend in 1yr fwd consensus earnings



Source: Deutsche Bank

Below are our current bottom-up aggregated forecasts, together with consensus. To clarify, the "rolling" version is based on JSE methodology (in which earnings move from the forecast period to history only on the date that a company in the index actually reports its results). The "interpolated" basis adjusts the historical earnings base 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 has the advantage of giving a much more up-to-date view of the market rating and growth outlook. The rolling methodology, aside from being behind the curve, is susceptible to quite material changes in the market multiple in a very short time as the more heavily-weighted cyclical stocks report.

With regard to how our current projections compare to consensus at the moment, the only area worth remarking on is Resources, where it is evident that our recent downward revisions are a little ahead of where competitors are at the moment. We would expect consensus to drift down in the short-term.

Figure 21: Consensus and Deutsche Bank earnings growth and rating unwind

Forecasts and rating unwind on a rolling basis

	Historical PE	Historical DY	Cons. EPS growth (Yr1)	DB EPS growth (Yr1)	Cons. PE (1YrF)	DB PE (1YrF)	Cons. DY (1YrF)	DB DY (1YrF)	Cons. EPS growth (Yr2)	DB EPS growth (Yr2)	Cons. PE (2YrF)	DB PE (2YrF)	Cons. DY (2YrF)	DB DY (2YrF)
All Share Index	13.0	2.8	25%	20%	10.4	10.9	3.6	3.6	17%	18%	8.9	9.2	4.0	3.8
Resource Index	9.9	2.3	31%	20%	7.5	8.2	3.1	2.8	17%	22%	6.4	6.8	6.4	3.1
Financial Index	11.7	3.8	12%	12%	10.5	10.4	4.4	4.5	15%	15%	9.1	9.1	4.6	4.7
Industrial Index	18.0	2.7	25%	24%	14.4	14.5	3.6	3.7	16%	14%	12.4	12.7	3.8	4.0

Forecasts and rating unwind on an interpolated basis

	Historical PE	Historical DY	Cons. EPS growth (Yr1)	DB EPS growth (Yr1)	Cons. PE (1YrF)	DB PE (1YrF)	Cons. DY (1YrF)	DB DY (1YrF)	Cons. EPS growth (Yr2)	DB EPS growth (Yr2)	Cons. PE (2YrF)	DB PE (2YrF)	Cons. DY (2YrF)	DB DY (2YrF)
All Share Index	11.9	3.3	21%	19%	9.6	10.0	3.9	3.8	12%	15%	8.6	8.7	4.3	4.2
Resource Index	9.9	2.8	24%	21%	7.6	8.2	3.5	3.2	10%	15%	6.9	7.1	3.9	3.5
Financial Index	11.2	4.9	15%	14%	9.8	9.8	5.3	5.3	14%	15%	8.6	8.5	6.0	6.2
Industrial Index	15.9	3.1	20%	18%	13.4	13.5	3.6	3.7	17%	15%	11.4	11.7	4.1	4.2

Source: -I-Net Bridge; Deutsche Bank

With regard to risks to our earnings from current levels, the biggest culprits are traditionally our currency and commodity calls. In Figure 22, we have shown where our expectations are for 2012 and 2013 relative to spot (negative percentages mean spot is below our forecast). From this it is evident that, with the exception possibly of precious metals and coking coal, there is not a significant directional bias in our projections. Perhaps we can conclude that our projections are more cognizant of the challenging macro outlook than they were.

Figure 22: Current spot versus DB forecasts for relevant commodities and currency

	Spot vs 2012 forecast	Spot vs 2013 forecast
Copper	6%	-7%
Gold	-10%	-18%
Palladium	-9%	-15%
Platinum	-2%	-15%
Iron ore lump	-7%	-14%
Coking coal	-15%	-6%
Brent oil	-2%	-6%
Thermal coal	-2%	-3%
ZAR/USD	0%	0%
USD/EUR	-2%	-2%

Source: Deutsche Bank

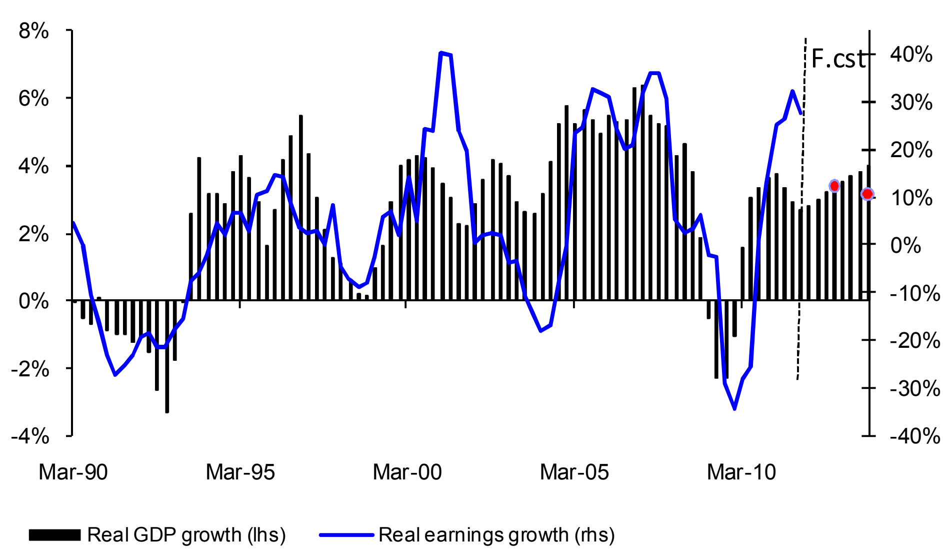
Updated SA equity return expectation

Our one-year equity return projection is based on a mean reversion model, which starts by assuming 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%. Although volatile over the short term, the average earnings yield over the past 20 years has been c.7.6%, suggesting that the long-term average earnings yield approximates investors' real return expectations and, by implication, the market level adjusts to deliver this return. Based on the 7.9% real return over the past 20 years, we have set a fair through-the-cycle market earnings yield of 7.9% (equivalent to a PE of 12.7x).

While the above represents our neutral position, we do make allowances for a discretionary adjustment to the equity risk premium implied. At present, we feel there remains a strong case to assume an exit multiple well below the historical average:

- While we think recent adjustments to commodity price forecasts have better encapsulated the current macro environment, we continue to see risks biased to the downside for as long as GDP projections are being lowered. While acknowledging the tenuous relationship between SA GDP and the earnings growth reported by SA listed companies (large foreign-sourced earnings component and different composition), current expectations do not appear out of line but look vulnerable to any further cuts to GDP.

Figure 23: Real earnings growth achieved by SA equities vs. real GDP growth



Source: Deutsche Bank

- Our own commodity forecast profile anticipates that prices peak in 2013 and then begin to decline. For as long as investors believe Resource earnings are close to peak levels, the Resources sector will likely trade at a discount trailing multiple relative to history.
- In what will likely prove a slower, more volatile growth environment for large OECD economies, with elevated forecast risk due to the reliance on policymakers, we believe equity investors will demand a higher equity risk premium than usual.

With a greater level of comfort around our earnings forecasts following recent downgrades and limited directional bias from commodities and exchange rates, we have reduced the amount by which we expand the equity risk premium from 50% in 4Q11 to 25%.This implies an exit PE multiple in two years' time of 11.1x. This aims to cater to downside risk to earnings forecasts in the interim, as well as the potential for a lower-than-average multiple for the reasons given above. Relative to our assumed neutral rating over time, our discount caters for earnings falling short of expectation by c.13% over the next two years.

Incorporating these assumptions into our top-down model, we arrive at a total expected return of approximately 12% for the SA equity market over the next 12 months.

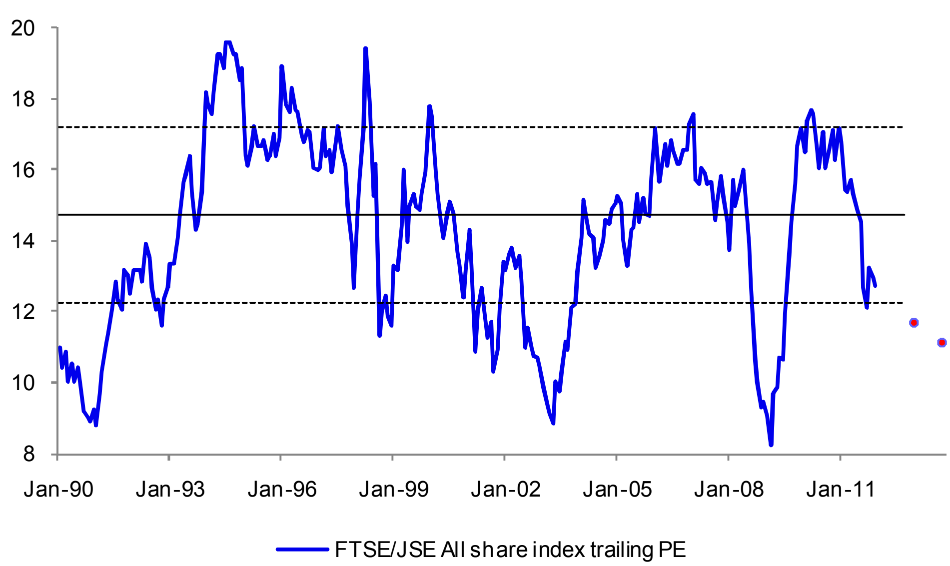
Figure 24: One-year equity market return projection

Calculation of one-year exit PE		
Earnings growth (months 13-24)		18.0%
Dividends (months 13-24)		3.8%
Total return		21.8%
Inflation expectation (year two)		6.2%
Total real return (year two)		15.6%
Mean historical real return/EY	12.7x	7.9%
Current ERP expansion/(compression)		25.0%
Adjusted exit PE/EY	11.1	9.0%
Expected equity total return in year two		15.2%
Required capital return (total return less div yield)		11.4%
Implied one-year exit trailing PE (x)		**11.7**

One-year return projection	
Current rolling PE	13.0
Yr 1 earnings growth (base)	20.0%
One year forward PE	10.8
Projected rolling one-year exit PE	11.7
Price return	8.3%
Dividend return	3.6%
Total return	**11.9%**

Source: Deutsche Bank

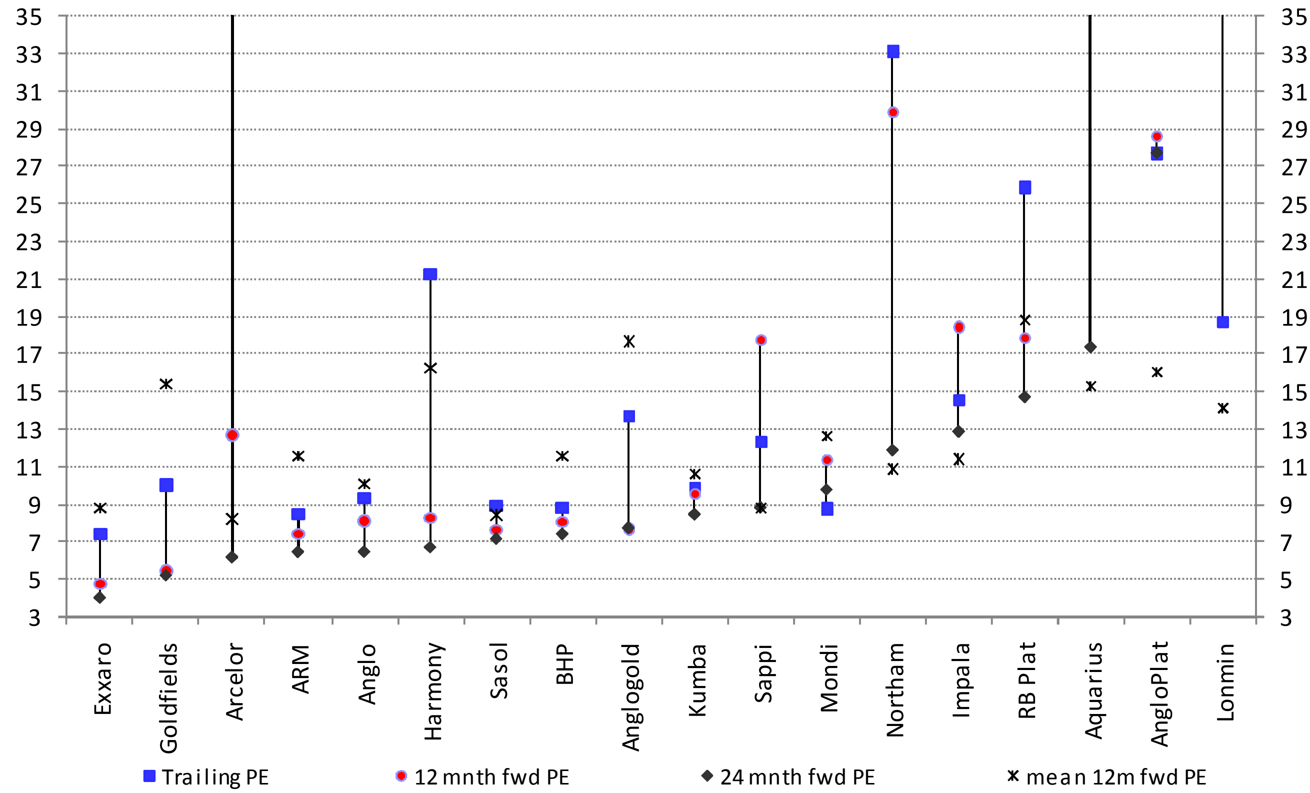
Figure 25: FTSE/JSE trailing PE evolution based on Deutsche Bank's market return expectations



Source: Deutsche Bank, I-Net Bridge

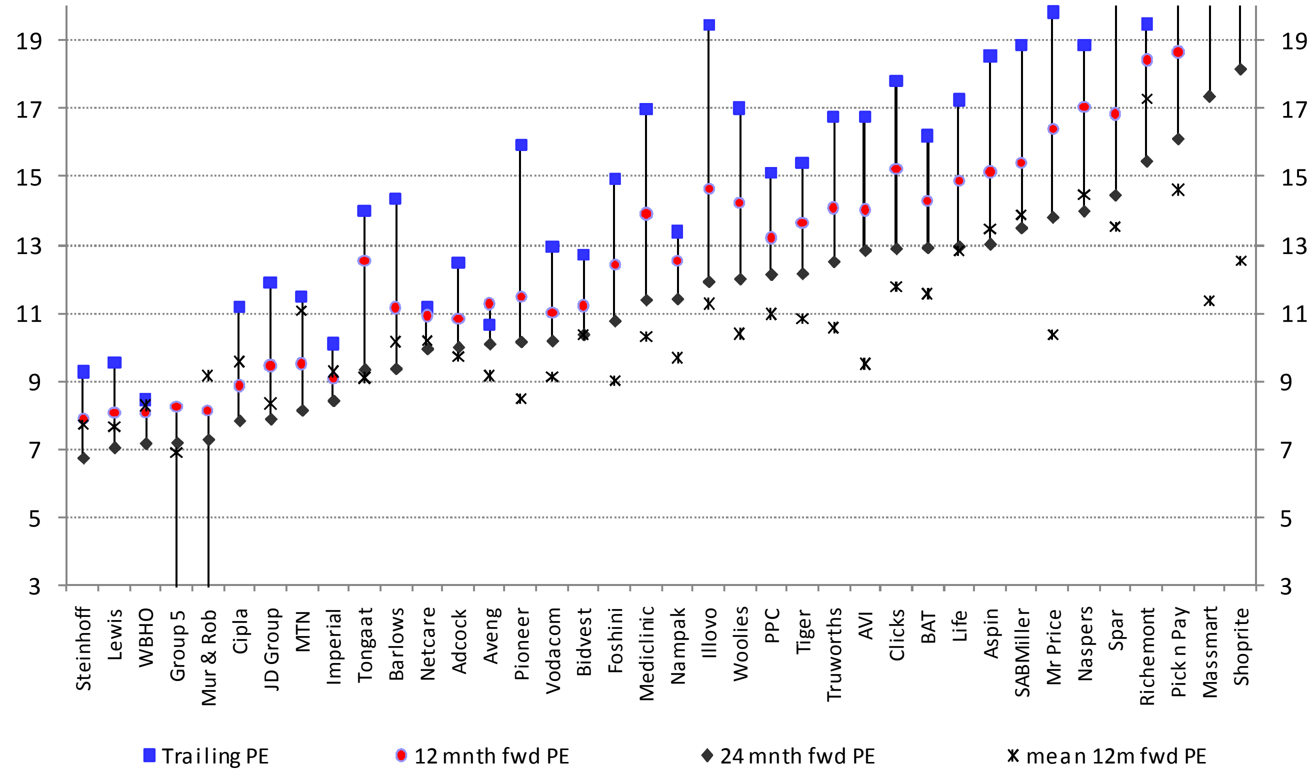
In the sections that follow, we detail our expectations for each of the sectors, as well as our relative stock preferences. The charts below show how the PE multiples are projected to unwind over the next two years. To give a sense of perspective to how the shares are currently rated against history, we have shown the average 12 month forward multiple based on consensus projections over time.

Figure 26: Resources: Stock level interpolated PE multiple unwind based on DB forecasts



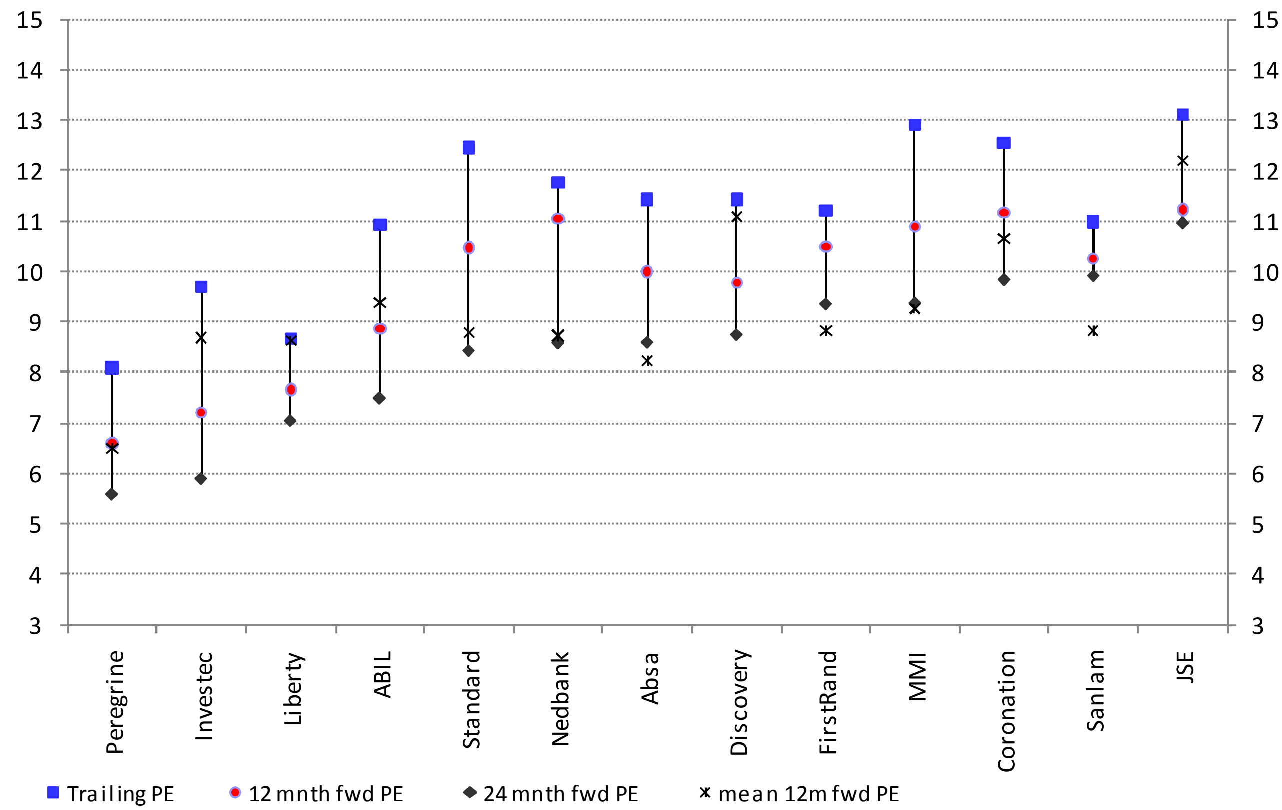
Source: Deutsche Bank

Figure 27: Industrials: Stock level interpolated PE multiple unwind based on DB forecasts



Source: Deutsche Bank

Figure 28: Financials ex. Property: Stock level interpolated PE multiple unwind based on DB forecasts



Source: Deutsche Bank

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Equity review: Forecast summary

	Price (cps)	Year end	EPS (cps) Historical	FY1	FY2	DPS (cps) FY1	FY2	PE FY1	DY FY1 %	Rating
Banks										
ABSA	15140	Dec-10	1116.0	1291.0	1471.5	614.7	700.7	11.1	4.4	Hold
FirstRand	2280	Jun-11	190.3	201.1	213.2	94.6	100.3	11.3	4.1	Buy
Nedbank	15700	Dec-10	1101.6	1271.9	1342.4	552.6	588.1	11.9	3.6	Buy
Standard Bank	10600	Dec-10	709.6	812.5	959.7	390.1	404.3	12.4	4.2	Buy
Life Insurance										
Discovery	4625	Jun-11	295.2	437.0	482.3	110.0	120.0	10.6	2.4	Buy
Liberty	8500	Dec-10	908.1	953.7	1085.4	500.0	525.0	8.0	6.7	Hold
MMI Holdings	1810	Jun-11	105.0	157.3	174.2	115.0	123.0	11.5	6.4	Hold
Sanlam	3059	Dec-10	252.4	257.3	287.0	128.0	140.0	10.7	6.4	Buy
Real Estate										
Growthpoint	1998	Jun-11	131.0	135.4	143.3	135.4	143.3	14.8	6.8	Hold
Redefine	762	Aug-11	68.0	64.3	67.4	64.3	67.4	11.8	8.4	Buy
General Mining										
Anglo American*	32650	Dec-10	400.6	471.2	479.3	70.0	72.0	9.3	1.8	Buy
African Rainbow Minerals	18305	Jun-11	1551.9	1849.1	2556.3	743.1	1027.2	7.8	6.8	Buy
BHP Billiton*	26455	Jun-11	405.6	362.3	416.0	117.0	122.9	9.2	3.5	Buy
Exxaro Resources	18850	Dec-10	1441.4	2310.9	3660.3	816.0	1240.0	6.2	5.9	Buy
Kumba Iron Ore	52950	Dec-10	4452.4	5309.9	5434.9	4080.0	5060.0	10.4	8.2	Hold
Gold Mining										
AngloGold Ashanti	34603	Dec-10	257.6	2512.8	4580.7	269.7	400.0	10.0	1.1	Buy
Gold Fields	12379	Dec-10	1178.0	1211.2	2330.9	220.0	245.0	6.2	1.9	Hold
Harmony	8995	Jun-11	23.8	863.6	1463.4	70.0	80.0	10.4	0.8	Buy
Platinum & Precious Metals										
Amplats	54500	Dec-10	1929.2	2006.6	1921.3	812.0	777.0	32.2	1.3	Hold
Impala	17799	Jun-11	1165.4	753.4	1065.7	575.0	750.0	23.6	3.2	Buy
Northam Platinum	3177	Jun-11	96.2	103.4	191.5	10.0	25.0	30.7	0.3	Buy
RBPlat	5939	Dec-10	198.4	263.4	260.1	0.0	0.0	21.0	0.0	Hold
Non-mining Resources: Oil & Gas										
Sasol	40989	Jun-11	3286.2	4968.3	5348.1	1469.0	1630.6	8.3	3.6	Buy
Non-mining Resources: Paper										
Mondi	6200	Dec-10	46.7	68.7	49.7	33.5	34.0	12.1	5.6	Buy
Sappi*	2590	Sep-11	11.9	12.6	26.1	15.0	20.0	25.1	4.7	Hold
Non-mining Resources: Steel										
ArcelorMittal SA	6800	Dec-10	335.4	98.7	516.8	55.0	173.8	37.6	1.2	Buy

** Price in ZAR; all other values in US$*
*** Price in ZAR; all other values in GBP*
**** Price in ZAR; all other values in EUR*
***** Price in CHF; all other values in EUR*
All prices are as at Friday, 20 January 2012
Source: Company data; Deutsche Bank estimates

Equity review: Forecast summary (cont)

	Price (cps)	Year end	EPS (cps) Historical	EPS (cps) FY1	EPS (cps) FY2	DPS (cps) FY1	DPS (cps) FY2	PE FY1	DY FY1 %	Rating
Industrials										
Aveng	3450	Jun-11	283.1	298.0	316.4	74.5	79.1	11.6	2.2	Hold
AVI	4100	Jun-11	251.6	265.9	292.8	137.8	151.7	15.4	3.4	Hold
Barloworld	8081	Sep-11	461.2	698.0	840.6	234.6	282.5	11.6	2.9	Buy
BAT**	36104	Dec-10	175.7	195.4	206.6	127.0	134.3	14.8	5.2	Hold
Bidvest	16795	Jun-11	1153.9	1384.5	1532.2	575.9	637.4	12.1	3.4	Hold
Clicks	4210	Aug-11	249.1	286.0	336.7	159.2	187.3	14.7	3.8	Buy
Foschini	11020	Mar-11	619.9	753.8	890.7	425.6	502.9	13.0	4.3	Hold
Group Five	2383	Jun-11	-198.6	259.1	296.9	59.2	67.8	9.2	2.5	Hold
Imperial	13350	Jun-11	1296.6	1354.4	1454.8	504.3	541.7	9.9	3.8	Hold
JD Group	5125	Aug-11	403.4	512.2	617.3	256.0	308.6	10.0	5.0	Hold
Lewis	7500	Mar-11	772.4	854.2	1010.4	401.4	474.8	7.8	6.1	Buy
Life Healthcare	2147	Sep-11	127.0	142.7	161.6	95.1	107.7	15.0	4.4	Buy
Massmart	18300	Jun-11	631.4	739.4	937.6	445.9	565.4	24.8	2.4	Sell
Mediclinic	3485	Mar-11	171.9	207.0	254.8	73.0	84.9	13.7	2.6	Hold
MTN Group	13489	Dec-10	907.3	1110.2	1345.7	730.4	951.5	10.4	6.8	Buy
Murray & Roberts	2620	Jun-11	-503.4	311.5	343.5	0.0	68.7	8.4	0.0	Hold
Nampak	2220	Sep-11	164.4	185.7	200.2	122.0	131.5	11.9	6.8	Hold
Naspers	37689	Mar-11	1611.7	1818.1	2232.5	305.3	374.9	20.7	0.8	Buy
Netcare	1315	Sep-11	114.2	121.0	130.4	60.5	65.2	10.9	4.6	Hold
Pick 'n Pay	4719	Feb-11	160.1	160.7	255.8	134.0	197.0	19.4	4.4	Hold
PPC Cement	2814	Sep-11	164.4	199.0	217.7	159.2	174.2	14.1	5.7	Hold
Richemont****	4521	Mar-11	192.5	215.5	234.1	71.8	81.0	24.6	1.4	Hold
SABMiller*	28624	Mar-11	190.5	206.5	233.5	88.0	99.0	15.7	3.0	Hold
Shoprite	13151	Jun-11	507.7	612.2	698.5	305.1	348.2	21.5	2.3	Sell
Spar	11200	Sep-11	522.9	615.6	721.4	437.3	512.5	18.2	3.9	Hold
Steinhoff	2515	Jun-11	235.8	281.2	334.8	87.6	106.3	8.9	3.5	Buy
Tiger Brands	25850	Sep-11	1545.0	1751.8	1975.6	892.9	1006.9	14.8	3.5	Buy
Truworths	7830	Jun-11	447.2	513.0	580.5	300.7	340.7	15.3	3.8	Sell
Vodacom	9150	Mar-11	655.7	720.1	842.7	580.0	750.0	11.4	7.4	Hold
WBHO	10995	Jun-11	1327.9	1339.2	1365.3	315.1	321.2	8.2	2.9	Buy
Woolies	4269	Jun-11	209.8	263.6	312.0	175.8	208.0	16.2	4.1	Hold

** Price in ZAR; all other values in US$*
*** Price in ZAR; all other values in GBP*
**** Price in ZAR; all other values in EUR*
***** Price in CHF; all other values in EUR*
All prices are as at Friday, 20 January 2012
Source: Company data; Deutsche Bank estimates

South Africa – Banks

Price (20 January 2012): 15140c Target price: 14000c Rating: Hold

Absa Group Ltd

Stefan Swanepoel

Business description: Absa was formed in 1991 by the merger of United and Allied Building Societies and Volkskas Bank. By January 1992, Absa was the largest local banking group by assets. Absa was historically predominantly a retail bank and has operated under a single brand, Absa Bank, since 1998. The corporate and investment bank was rebranded Absa Capital in 2006 following Barclays' acquisition of a controlling stake (currently 55.5%) in 2005. Outside South Africa, Absa has a limited African footprint, with its largest operation being in Tanzania. Africa contributes just 1% of earnings. Following its unsuccessful foray in micro-lending through the acquisition of UniFer in 2000, 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 meant that talks were called off. As such, Absa remains focussed on southern Africa, resulting in limited opportunity for growth by geographic expansion. More recently, Barclays' African operations were placed under the operational control of the Absa CEO Maria Ramos. The legal entities will remain separate, with no change in ownership.

Drivers: For the banking operations, retail constitutes 64.8% of net advances relating mostly to mortgages (75% of total retail advances). Overall, we expect muted asset growth in FY11 (c.+1.9%) but turn more positively in FY12 (c.+5.3%) and FY13 (c.+9.3%) as the consumer and corporates rehabilitate by benefiting from the low rate environment. We expect the margin to expand in the current year as the bank benefits from re-pricing new credit as well as the continued but declining benefit from the hedging out of the endowment effect. We expect earnings to be driven by declining impairment losses, non-interest revenue (47% of total revenue) in the medium-term as retail fees remain resilient supplemented by some 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 continue to build into 2012, particularly on a relative basis given the lacklustre revenue growth outlook (FY11 costs: 7%).

Outlook: Absa shows some prospects for earnings growth in the near term with DB adjusted EPS expected to be up 16% in FY11, slowing down to an anticipated 14% in FY12. Given our expectations of a rate hiking cycle, the environment continues to be challenging for Absa. Although we expect it to gain traction in NIR, low asset growth expectations combined with the endowment hedge could place pressure on revenues. Absa continues to benefit from a reduction in the bad debt charge as provisions decline (to c.2% of advance in FY13), although remaining at higher levels than historically achieved as a result of the mix effect from lending into the unsecured market. The declining charge is assisted somewhat by the low level of asset growth. The outlook for the company is dependent on its ability to generate growth in NIR. It is facing considerable headwinds along with the sector, with the introduction of the market conduct regulator. Given the importance of NIR growth to Absa, it does place it at a greater relative risk. Our absolute price target level remains low, supported by our determined P/B multiple implied from a ROE ratio. As there is potential for this to re-rate as a result of the payout of additional dividends/share-buy backs, we recommend a Hold on the stock.

Valuation: We value Absa on a sum-of-the-parts basis, applying a terminal price/book multiple to the FY13 NAV of the banking operations (based on assumptions of ROE: 17%, COE: 13.9%, g: 6%). The above results in a terminal P/B multiple of 1.4x. For Absa Financial Services, we value the life insurance operations on multiple to EV and the short term and investment operations on PE basis. Our price target is 14000 cps.

Risks: Risks include the potential deployment to shareholders of excess capital, either in the form of dividends or share buy backs. Interest rates remain a differentiator given the hedging policy that Absa adopts should interest rates decline further; Absa will offer investors some margin protection. Regulatory concerns remain a risk to Absa, given the larger Barclays group's GSIB status.

Model updated:11 October 2011

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Absa

Reuters: ASAJ.J | Bloomberg: ASA SJ

Hold

Price (20 Jan 12)	ZAR 151.40
Target Price	ZAR 140.00
52 Week range	ZAR 123.55 - 151.40
Market Cap (m)	ZARm 108,476
	USDm 13,641

Company Profile

Absa Group Limited is the holding company of a banking and financial services group. The Group provides a range of retail and corporate banking, insurance, financial and property services through local and international networks.

Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Data Per Share						
EPS (stated)(ZAR)	14.69	10.99	11.23	13.01	14.80	17.21
EPS (DB) (ZAR)	14.12	9.37	11.16	12.91	14.71	17.12
Growth Rate - EPS (DB) (%)	8	-34	19	16	14	16
DPS (ZAR)	5.95	4.45	4.55	6.15	7.01	8.56
BVPS (stated) (ZAR)	69.50	72.92	78.58	86.86	94.72	104.70
Tang. NAV p. sh. (ZAR)	68.09	71.12	76.08	84.11	91.69	101.38
Market Capitalisation (ZARm)	73,572.10	89,076.20	100,282.00	108,476.30	108,476.30	108,476.30
Shares in issue (m)	702.80	711.50	720.70	721.79	722.01	723.43
Valuation Ratios & Profitability Measures						
PE (stated)	7.4	11.7	12.5	11.6	10.2	8.8
PE (DB)	8.2	12.3	12.7	11.7	10.3	8.8
P/B (stated)	1.6	1.8	1.8	1.7	1.6	1.4
P/Tangible equity (DB)	1.59	1.81	1.84	1.80	1.65	1.49
ROE(stated)(%)	23.40	15.58	15.05	15.72	16.32	17.28
ROTE (tangible equity) (%)	22.14	15.57	15.35	16.24	16.85	17.85
ROIC (invested capital) (%)	22.0	15.6	15.3	16.2	16.9	17.9
Dividend yield(%)	6.0	4.0	3.4	4.1	4.6	5.7
Dividend cover(x)	2.5	2.5	2.5	2.1	2.1	2.0
Profit & Loss (ZARm)						
Net interest revenue	21,795	21,854	23,340	23,737	24,577	26,237
Non interest income	21,115	20,232	19,474	21,393	23,533	26,010
Commissions	16,985	16,864	16,740	18,346	20,116	22,227
Trading Revenue	0	0	0	0	0	0
Other revenue	4,130	3,368	2,734	3,048	3,417	3,784
Total revenue	42,910	42,086	42,814	45,130	48,110	52,247
Total Operating Costs	21,917	21,770	24,841	26,656	28,643	30,710
Employee Costs	11,604	10,806	12,537	13,415	14,421	15,430
Other costs	10,313	10,964	12,304	13,242	14,222	15,280
Pre-Provision profit/(loss)	20,993	20,316	17,973	18,474	19,467	21,537
Bad debt expense	5,839	8,967	6,005	5,111	4,194	3,801
Operating Profit	15,154	11,349	11,968	13,363	15,274	17,736
Pre-tax associates	73	-50	-9	35	42	46
Pre-tax profit	15,227	11,299	11,959	13,398	15,316	17,783
Tax	3,966	2,340	3,262	3,618	4,135	4,801
Other post tax items	-651	-2,119	-579	-463	-556	-594
Stated net profit	9,926	7,621	8,041	9,318	10,624	12,388
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	-956	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	9,926	6,665	8,041	9,318	10,624	12,388
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	357,959	386,264	422,713	430,709	453,436	453,436
Interest-earning assets	661,703	586,067	578,449	593,747	625,968	682,593
Customer Loans	532,171	506,163	498,635	508,392	536,044	587,307
Total Deposits	602,814	564,282	558,062	613,868	675,255	742,781
Stated Shareholder Equity	47,280	50,547	56,290	62,237	67,993	75,342
Equals: Tangible Equity	46,323.0	49,302.0	54,496.0	60,263.4	65,822.2	72,954.2
Tier 1 capital	44,149.0	48,971.0	54,061.0	60,007.8	57,007.4	54,157.0
Tier 1 ratio (%)	12	13	13	14	13	12
o/w core tier 1 capital ratio (%)	12	13	13	14	13	12
Credit Quality						
Gross NPLs/Total Loans(%)	4.16	7.13	7.95	4.11	2.05	1.53
Risk Provisions/NPLs(%)	40	36	35	66	125	150
Bad debt / Avg loans (%)	1.18	1.73	1.20	1.02	0.80	0.68
Bad debt/Pre-Provision Profit(%)	27.8	44.1	33.4	27.7	21.5	17.6
Growth Rates & Key Ratios						
Growth in revenues (%)	20	-2	2	5	7	9
Growth in costs (%)	14	-1	14	7	7	7
Growth in bad debts (%)	140	54	-33	-15	-18	-9
Growth in RWA (%)	-2	8	9	2	5	0
Net int. margin (%)	4	4	4	4	4	4
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	88.28	89.70	89.35	82.82	79.38	79.07
ROTE Decomposition						
Revenue % ARWAs	11.87	11.31	10.58	10.58	10.88	11.52
Net interest revenue % ARWA	6.03	5.87	5.77	5.56	5.56	5.79
Non interest revenue % ARWA	5.84	5.44	4.81	5.01	5.32	5.74
Costs/income ratio (%)	51.1	51.7	58.0	59.1	59.5	58.8
Bad debts % ARWAs	1.62	2.41	1.48	1.20	0.95	0.84
Tax rate (%)	26.2	20.6	27.3	27.1	27.1	27.1
Adj. Attr. earnings % ARWA	2.73	1.80	1.99	2.18	2.39	2.72
Capital leverage (ARWA/Equity)	8.7	7.8	7.8	7.4	7.0	6.5
ROTE (Adj. earnings/Ave. equity)	23.6	14.0	15.5	16.2	16.8	17.8

Source: Company data, Deutsche Bank estimates

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South Africa – Banks

Price (20 January 2012): 2280c   Target price: 2500c   Rating: Buy

FirstRand Ltd

Stefan Swanepoel

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). 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. In FY02, FirstRand bulked up its sub-scale mortgage business by R16.8bn, through the acquisition of NBS' and Saambou's homeloan books. 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. Currently, FirstRand Bank is ranked third among South Africa's four large commercial banks ranked by total assets. 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 December 2010, FirstRand unbundled Momentum, its insurance component, which it merged with Metropolitan and created a separate entity (MMI holdings). Subsequently, FirstRand's main shareholder RMB Holdings announced its restructuring that will involve RMB Holdings increasing its stake in FirstRand to c.34% with Remgro also owning a substantial stake (c.3% directly and c.10% indirectly via a 31.4% stake in RMB Holdings). Senior management holds a significant stake in RMB Holdings that, due to a co-operative voting arrangement with Remgro, ensures a degree of control is retained by management.

Drivers: For the banking operations, the dominant earnings driver, real asset growth remains depressed; however, momentum is slowly accelerating as the impact of low interest rates filters through the system. We expect marginal expansion in net interest margin in FY12 and more noticeable pickup in FY13 as the positive endowment impact benefits margins. FirstRand's asset mix (exposure to instalment finance rather than mortgages) resulting in an earlier impairment cycle than its peers. Additionally, due to this mix, FirstRand has led the recovery.

Outlook: FirstRand remains domestically focused, growing its asset base and seeing NII growth. FirstRand declared a dividend in specie in lieu of the Momentum unbundling (and subsequent merger with Metropolitan) as well as a special dividend from the sale of Outsurance. This will result in a marginal re-rating of ROEs in our view. The remaining entity is now more pure domestic banking play. Wesbank continues to be the market leader in vehicle and asset finance, which has recovered from a low base to achieve record profits. FNB continues to achieve good growth in selected segments, and the group as a whole managed substantial growth in the unsecured personal loan space. FirstRand has historically had greater than expected volatility through NII as it takes selective views on the interest rate cycle and hence remains exposed to the effects of a changing rate environment as positions taken may amplify instead of hedge the impact. Some margin expansion is anticipated, nonetheless, given the asset growth and mix effect changes. Its ability to generate NIR growth should remain strong, supported by the levels of expected asset growth in RMB and elsewhere in the group. NIR growth should be up 7% in FY13 and 9% in FY14, on our estimates. FNB is anticipated to gain further traction in terms of client numbers and transaction volumes. FirstRand continues to trade at a premium P/B relative to the rest of the industry given the superior returns that it has generated and we anticipate investment returns through the growth in NAV. We recommend Buy.

Valuation: We value FirstRand on a two-stage Gordon Growth Model that bases the target price on a discounted terminal value, and adds back the value of discounted interim dividends in order to account for all expected cash flows to the investor. In order to calculate the terminal value, we multiply expected year-three book value by a terminal price-to-book multiple of 1.77x (assuming an ROE: 20%, COE: 13.9%, g: 6%). Based on the above, we have set our target price for FirstRand at 2500 cps.

Risks: FirstRand has guided the market that its risk appetite in trading is too low this could introduce additional volatility into the income statement. The bank has selectively been growing longer-dated assets. Should the Basel III liquidity reforms be implemented as planned, they could place FirstRand at a relative disadvantage in terms of having to match term funding on a greater portion of the book. There is some uncertainty regarding re-pricing and it could be left carrying aspects of these costs.

Model updated:11 October 2011

Running the numbers

Sub-Saharan Africa

South Africa

Banks

FirstRand

Reuters: FSRJ.J Bloomberg: FSR SJ

Buy

Price (20 Jan 12)	ZAR 22.80
Target Price	ZAR 25.00
52 Week range	ZAR 17.90 - 22.80
Market Cap (m)	ZARm 128,705
	USDm 16,185

Company Profile

FirstRand Limited is an integrated financial services group. The Group provides a comprehensive range of products and services to the South African market and niche products in certain international markets. The group's main divisions are FNB (Retail & Corporate Bank), Wesbank (Vehicle and Asset Finance)& RMB (Investment Bank).

Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Data Per Share						
EPS (stated)(ZAR)	1.17	1.68	1.82	1.92	2.03	2.38
EPS (DB) (ZAR)	1.21	1.77	1.90	2.01	2.13	2.49
Growth Rate - EPS (DB) (%)	-35.6	46.2	7.7	5.7	6.0	16.9
DPS (ZAR)	0.56	0.77	0.81	0.95	1.00	1.18
BVPS (stated) (ZAR)	9.13	10.20	10.44	10.24	11.44	12.87
Tang. NAV p. sh. (ZAR)	8.12	9.83	10.05	9.97	11.20	12.65
Market Capitalisation	79,270	101,821	111,913	128,705	128,705	128,705
Shares in issue	5,631	5,638	5,573	5,646	5,653	5,660
Valuation Ratios & Profitability Measures						
PE (stated)	12.0	10.8	10.9	11.9	11.2	9.6
PE (DB)	11.0	10.2	10.5	11.3	10.7	9.2
P/B (stated)	1.5	1.8	1.9	2.2	2.0	1.8
P/Tangible equity (DB)	1.7	1.8	2.0	2.3	2.0	1.8
ROE(stated)(%)	13.0	17.3	17.4	18.5	18.7	19.6
ROTE (tangible equity) (%)	15.7	19.7	1.2	20.1	20.2	20.9
ROIC (invested capital) (%)	15.7	19.7	1.2	20.1	20.2	20.9
Dividend yield(%)	3.9	4.3	4.1	4.1	4.4	5.2
Dividend cover(x)	2.1	2.2	2.2	2.0	2.0	2.0
Profit & Loss (ZARm)						
Net interest revenue	17,289	16,350	17,369	18,949	21,109	23,570
Non interest income	21,418	26,954	31,882	30,195	32,373	35,342
Commissions	15,298	17,396	19,799	21,329	23,035	25,392
Trading Revenue	1,427	3,691	2,844	5,472	5,610	5,824
Other revenue	4,693	5,867	9,239	3,395	3,728	4,125
Total revenue	38,707	43,304	49,251	49,144	53,482	58,911
Total Operating Costs	23,387	25,311	27,515	29,679	32,281	35,115
Employee Costs	11,241	13,076	14,106	15,234	16,453	17,769
Other costs	12,146	12,235	13,409	14,444	15,828	17,346
Pre-Provision profit/(loss)	15,320	17,993	21,736	19,466	21,201	23,796
Bad debt expense	8,024	5,686	3,778	3,258	4,180	4,808
Operating Profit	7,296	12,307	17,958	16,208	17,020	18,988
Pre-tax associates	1,577	700	868	917	963	1,011
Pre-tax profit	8,873	13,007	18,826	17,125	17,984	20,000
Tax	1,300	3,527	4,582	4,824	4,891	4,752
Other post tax items	-1,353	-36	5,821	-1,483	-1,633	-1,796
Stated net profit	6,594	9,453	10,117	10,818	11,460	13,452
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	212	510	488	537	590	650
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	6,806	9,963	10,605	11,355	12,051	14,102
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	329,504	341,608	385,190	424,612	465,980	604,123
Interest-earning assets	476,075	492,215	532,471	575,659	630,556	697,314
Customer Loans	420,224	434,793	464,593	503,940	554,071	621,371
Total Deposits	489,746	512,469	553,657	592,413	633,882	678,254
Stated Shareholder Equity	51,461	57,509	58,858	57,785	64,644	72,834
Equals: Tangible Equity	45,763	55,405	56,671	56,264	63,275	71,601
Tier 1 capital	40,612	46,116	57,744	63,452	69,496	77,598
Tier 1 ratio (%)	12	13	15	15	15	13
o/w core tier 1 capital ratio (%)	12.3	13.5	15.0	14.9	14.9	12.8
Credit Quality						
Gross NPLs/Total Loans(%)	5.77	5.11	4.26	2.85	2.84	2.74
Risk Provisions/NPLs(%)	40	40	50	62	55	52
Bad debt / Avg loans (%)	1.85	1.33	0.84	0.67	0.79	0.82
Bad debt/Pre-Provision Profit(%)	52.4	31.6	17.4	16.7	19.7	20.2
Growth Rates & Key Ratios						
Growth in revenues (%)	-4	12	14	0	9	10
Growth in costs (%)	6	8	9	8	9	9
Growth in bad debts (%)	58	-29	-34	-14	28	15
Growth in RWA (%)	-12	4	13	10	10	30
Net int. margin (%)	3.55	3.38	3.39	3.42	3.50	3.55
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	86	85	84	85	87	92
ROTE Decomposition						
Revenue % ARWAs	11.01	12.91	13.55	12.14	12.01	11.01
Net interest revenue % ARWA	4.92	4.87	4.78	4.68	4.74	4.41
Non interest revenue % ARWA	6.09	8.03	8.77	7.46	7.27	6.61
Costs/income ratio (%)	60.4	58.4	55.9	60.4	60.4	59.6
Bad debts % ARWAs	2.28	1.69	1.04	0.80	0.94	0.90
Tax rate (%)	17.8	28.7	25.5	29.8	28.7	25.0
Adj. Attr. earnings % ARWA	1.49	2.76	2.68	2.58	2.49	2.45
Capital leverage (ARWA/Equity)	7.7	6.6	6.5	7.2	7.5	7.9
ROTE (Adj. earnings/Ave. equity)	11.4	18.3	17.4	18.5	18.6	19.4

Source: Company data, Deutsche Bank estimates

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South Africa – Banks

Price (20 January 2012): 15700c Target price: 15000c Rating: Buy

Nedbank Ltd

Stefan Swanepoel

Business description: Nedbank is the smallest of the big four South African banks measured by total assets. 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. Nedbank acquired BOE in a R7.5bn transaction in 2002. This propelled Nedbank from being the smallest of the big four 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. It has since disposed of many of its non-core assets. Nedbank also recently acquired the remaining interest in Imperial Bank to boost its asset-based finance franchise to the second largest in the country, as well as the remaining interests in several JVs with Old Mutual, assisting further in the development of its bancassurance and wealth businesses. Nedbank partnered with Ecobank to explore potential African opportunities; however, the agreement currently does not involve any form of ownership, but Nedbank does currently hold options to acquire a c.20% stake in due course. In 2010, parent company Old Mutual plc indicated to the market that its stake in Nedbank was up for sale. HSBC was a potential bidder; however its interest was subsequently withdrawn.

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. However, more recently Nedbank has struggled to find material top line growth while costs appear to have been stripped bare already. This, combined with lower interest margins than its peers (corporate bias plus onerous fixed funding from 2002-06), has left Nedbank with the lowest ROA in the sector since 2003. While the lower ROA suggests a weaker ROE, we note that Nedbank is more financially leveraged than its South African banking peers (perhaps justifiably so given its larger corporate bias). This means that Nedbank shows more volatile, although similar ROEs to its banking peers. The lower ROAs also have the effect of creating more operational leverage with Nedbank being more sensitive to margin and bad debt cycles.

Outlook: Nedbank continues to offer good earnings growth prospects as management actions are put in place to address strategic issues relative to its peers. In particular, there has been greater focus on achieving NIR growth (relative to expenses). Over the past year, Imperial businesses as well as wealth JVs have been acquired from Nedbank's parent company Old Mutual. These are high ROE businesses which support the NIR growth strategy. We anticipate this traction to continue. Nedbank remains exposed to the endowment effect, despite not seeking to grow its assets materially and hence not expecting a massive uplift in NII, remaining muted at c.6% FY11 and 7% in FY12. With the increasing rate cycle approaching, it should have greater scope to benefit from higher interest rates. Nedbank continues to benefit from its good corporate franchise in its ability to attract longer term funding. For bad debts, we expect the full year charges to be at c.1.09% for FY11 as a result of the changes in the mix effect from unsecured lending. The unwind remains supported by the work out of NPLs and is not offset by higher asset levels, given the muted asset growth expectations. Nedbank is continuing to invest for growth. With its muted advances growth, it will be of particular importance for Nedbank to continue to exercise restraint in cost management. In our view, Nedbank does not have the similar industry prospects of paying out excess capital. It continues to be more leveraged than the other banks. We recommend Buy.

Valuation: We value Nedbank on a two-stage Gordon Growth Model that bases the target price on a discounted terminal value, and adds back the value of discounted interim dividends in order to account for all expected cash flows to the investor. In order to calculate the terminal value, we multiply expected year-three book value by a terminal price-to-book multiple of 1.4x (assuming an ROE: 17%, COE: 14.1%, g: 6%). Based on the above, we have set our target price for Nedbank at 15000 cps.

Risks: Nedbank is exposed to the following risks: its earnings growth and ROE re-rating are dependent on a reduction in credit loss ratios as well as achieving NIR growth in excess of expenses growth. A reduction in the bad debt charge, although anticipated could be offset by the increased lending into the unsecured environment. Nedbank had very low cost growth in 2008, without retrenching staff. Given the relative historical underinvestment, it might find it more difficult than other banks to refrain from investing.

Model updated:02 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Nedbank

Reuters: NEDJ.J Bloomberg: NED SJ

Buy

Price (20 Jan 12)	ZAR 157.00
Target Price	ZAR 150.00
52 Week range	ZAR 125.25 - 157.00
Market Cap (m)	ZARm 71,210
	USDm 8,955

Company Profile

Nedbank Group Limited is a bank holding company which provides personal, commercial, corporate and merchant banking, funding management and related financial services throughout South Africa. In addition, Nedbank operates internationally through offices in London, Isle of Man, and subsidiaries and associates in sub-Saharan Africa.

Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Data Per Share						
EPS (stated)(ZAR)	14.22	10.10	11.04	12.71	13.53	17.47
EPS (DB) (ZAR)	14.48	10.12	11.25	12.85	13.56	17.47
Growth Rate - EPS (DB) (%)	-1	-30	11	14	6	29
DPS (ZAR)	6.20	4.40	4.80	5.53	5.88	7.60
BVPS (stated) (ZAR)	85.22	90.99	98.32	104.60	111.38	121.23
Tang. NAV p. sh. (ZAR)	85.22	90.99	98.32	104.60	111.38	121.23
Market Capitalisation (ZARm)	39,126.35	54,052.68	58,470.33	71,209.57	71,209.57	71,209.57
Shares in issue (m)	411.50	435.07	448.56	453.56	458.56	463.56
Valuation Ratios & Profitability Measures						
PE (stated)	6.7	12.3	11.8	12.4	11.6	9.0
PE (DB)	7.4	14.0	11.4	12.2	11.6	9.0
P/B (stated)	1.1	1.4	1.3	1.5	1.4	1.3
P/Tangible equity (DB)	1.12	1.36	1.33	1.50	1.41	1.30
ROE(stated)(%)	17.71	11.47	11.70	12.53	12.52	15.02
ROTE (tangible equity) (%)	16.32	10.34	12.27	12.73	12.63	15.10
ROIC (invested capital) (%)	19.1	12.5	14.9	15.1	14.5	16.9
Dividend yield(%)	6.0	4.3	3.6	3.5	3.7	4.8
Dividend cover(x)	2.3	2.3	2.3	2.3	2.3	2.3
Profit & Loss (ZARm)						
Net interest revenue	16,170	16,306	16,608	17,984	18,819	21,260
Non interest income	10,729	11,906	13,214	14,767	16,135	17,701
Commissions	7,919	8,583	9,768	10,695	11,550	12,588
Trading Revenue	2,051	2,139	1,796	2,288	2,481	2,623
Other revenue	759	1,184	1,650	1,784	2,103	2,490
Total revenue	26,899	28,212	29,822	32,752	34,954	38,961
Total Operating Costs	14,115	15,538	17,045	19,332	20,909	22,669
Employee Costs	7,040	7,898	8,794	10,078	10,884	11,755
Other costs	7,075	7,640	8,251	9,255	10,025	10,914
Pre-Provision profit/(loss)	12,784	12,674	12,777	13,419	14,044	16,292
Bad debt expense	4,822	6,634	6,188	5,361	5,256	4,885
Operating Profit	7,962	6,040	6,589	8,058	8,788	11,407
Pre-tax associates	154	55	1	0	0	0
Pre-tax profit	8,116	6,095	6,590	8,058	8,788	11,407
Tax	1,868	1,307	1,364	2,017	2,298	2,977
Other post tax items	162	38	-416	-308	-321	-374
Stated net profit	5,765	4,277	4,899	5,733	6,169	8,056
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	194	126	148	95	51	42
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	5,959	4,403	5,047	5,828	6,220	8,098
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	355,235	326,466	323,681	332,878	356,145	389,816
Interest-earning assets	485,275	489,002	513,883	528,484	565,423	618,880
Customer Loans	434,233	450,301	475,273	486,641	518,828	567,512
Total Deposits	466,890	469,355	490,440	539,484	593,432	652,776
Stated Shareholder Equity	34,913	39,649	44,101	47,444	51,075	56,197
Equals: Tangible Equity	34,913.0	39,649.0	44,101.0	47,444.2	51,074.7	56,196.6
Tier 1 capital	33,458.0	36,627.0	36,861.0	40,204.2	43,834.7	48,956.6
Tier 1 ratio (%)	942	1,122	1,139	1,208	1,231	1,256
o/w core tier 1 capital ratio (%)	8	10	10	10	11	11
Credit Quality						
Gross NPLs/Total Loans(%)	3.98	6.01	5.59	3.58	3.37	3.37
Risk Provisions/NPLs(%)	45	36	42	66	67	59
Bad debt / Avg loans (%)	1.19	1.50	1.34	1.11	1.05	0.90
Bad debt/Pre-Provision Profit(%)	37.7	52.3	48.4	40.0	37.4	30.0
Growth Rates & Key Ratios						
Growth in revenues (%)	9	5	6	10	7	11
Growth in costs (%)	2	10	10	13	8	8
Growth in bad debts (%)	123	38	-7	-13	-2	-7
Growth in RWA (%)	6	-8	-1	3	7	9
Net int. margin (%)	4	3	3	3	3	4
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	93.01	95.94	96.91	90.20	87.43	86.94
ROTE Decomposition						
Revenue % ARWAs	7.80	8.28	9.17	9.98	10.15	10.45
Net interest revenue % ARWA	4.69	4.78	5.11	5.48	5.46	5.70
Non interest revenue % ARWA	3.11	3.49	4.06	4.50	4.68	4.75
Costs/income ratio (%)	52.5	55.1	57.2	59.0	59.8	58.2
Bad debts % ARWAs	1.40	1.95	1.90	1.63	1.53	1.31
Tax rate (%)	23.5	21.6	20.7	25.0	26.2	26.1
Adj. Attr. earnings % ARWA	1.68	1.28	1.55	1.78	1.81	2.17
Capital leverage (ARWA/Equity)	10.6	9.1	7.8	7.2	7.0	7.0
ROTE (Adj. earnings/Ave. equity)	17.8	11.7	12.1	12.7	12.6	15.1

Source: Company data, Deutsche Bank estimates

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South Africa – Banks

Price (20 January 2012): 10500c Target price: 10500c Rating: Buy

Standard Bank Group Ltd

Stefan Swanepoel

Business description: Standard Bank's 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 13 countries outside Africa (with an emerging-market focus). Standard Bank owns 54% of Liberty (a listed insurance business) to strengthen its position in the wealth-management and long-term savings markets. Early in 2008, the Industrial and Commercial Bank of China (ICBC) purchased a 20% stake in the group, at the time making it one of the largest investments of the ICBC outside Asia. After the global financial crisis, Standard Bank refined its strategy, with a greater focus on Africa, and has consequently sold its investment in Russia to Sberbank and the majority stake in its Argentinean business to the ICBC. Standard Bank no longer has ambitions to buy or build additional domestic businesses in markets outside Africa. It has identified key areas in Africa for further expansion, among others Nigeria, Kenya and Angola, where it has currently subscale presence.

Drivers: Standard Bank derives c.42% 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 c.56% of earnings, with the international CIB operations accounting for c.23% of the c.56%. 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 net interest margin. We expect rate hikes to start supporting margins while bad debts are expected to continue improving to 80bps in FY12. Standard Bank's Corporate and Investment Banking (CIB) operations remain focussed primarily on debt and commodities businesses although Standard Bank has started to expand into areas like equities. With domestic markets at a fairly mature stage, CIB is likely to be driven more by the international operations, particularly in Africa.

Outlook: The outlook for the group remains positive in South Africa as it is arguably the most exposed to the positive impact from the endowment effect. Standard Bank has also been actively writing mortgages, gaining market share and margins, to positively impact the embedded value of its mortgage book. Having taken the pain on retrenchments during the course of FY10, Standard Bank could keep expenses growth in low single-digits in the current year. NIR growth is supported by the levels of asset growth and the extent of the exposure of the operations in Africa. Given the level of anticipated asset growth, the net benefit from bad debts should abate in due course as higher than normalised levels of provisions are maintained. Although there is considerable release of capital with the sale of Troika (Russian operation) and Standard Bank Argentina (c.US$750m) as well as further release of capital expected from balance sheet optimisation (of c.US$750m), Standard Bank has indicated it is going to use those funds to acquire business in key African countries. In particular acquisitions are expected in Nigeria (c.US$2bn), Kenya (c.US$800m) and Angola (c.US$1-2bn). As the acquisitions are in excess of the anticipated release of capital, further capital might have to be raised to fund the acquisitions. We recommend a Buy.

Valuation: We value Standard Bank on a sum-of-the parts basis. The banking operation is valued using a two-stage Gordon Growth Model that bases the target price on a discounted terminal value, and adds back the value of discounted interim dividends to account for all expected cash flows to investors. The above results in a terminal P/B multiple of 1.52x (assuming an ROE: 17%, COE: 14.1%, g: 6%). Liberty (insurance operation) is valued on a multiple to embedded value. Our price target is 10500cps.

Risks: The following risks to the downside need to be considered: if there is a rights issue, it could potentially dilute the other shareholders (and medium term ROEs). There is a risk that Standard Bank might overpay for some of the assets in Africa. Should there be another interest rate cut, Standard Bank will be the most affected of peers as they are the most exposed to the endowment impact. In our view, the bank has selectively been growing longer-dated assets. Should the Basel III liquidity reforms be implemented as planned, this could place it at a relative disadvantage in terms of having to match term funding on a greater portion of the book. There is some uncertainty regarding re-pricing and it could be left carrying aspects of these costs.

Model updated:11 October 2011

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Standard Bank

Reuters: SBKJ.J	Bloomberg: SBK SJ

Buy

Price (20 Jan 12)	ZAR 106.00
Target Price	ZAR 105.00
52 Week range	ZAR 90.29 - 107.85
Market Cap (m)	ZARm 168,862
	USDm 21,235

Company Profile

Standard Bank Group Limited is the holding company for a group of companies offering financial services. The Group provides services in personal, corporate, merchant and commercial banking, including insurance broking, mutual fund management, property fund management, as well as other services. Standard Bank is also the holding company of Liberty Life Group Limited.

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Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Data Per Share						
EPS (stated)(ZAR)	9.68	7.45	7.03	8.09	9.58	12.02
EPS (DB) (ZAR)	9.36	7.53	7.07	8.22	9.63	12.02
Growth Rate - EPS (DB) (%)	2	-20	-6	16	17	25
DPS (ZAR)	3.86	3.86	3.86	3.90	4.04	4.84
BVPS (stated) (ZAR)	56.33	56.12	57.26	61.13	66.72	79.56
Tang. NAV p. sh. (ZAR)	49.65	50.08	50.71	54.05	59.06	71.22
Market Capitalisation (ZARm)	126,575.66	158,942.32	170,470.73	168,861.92	168,861.92	168,861.92
Shares in issue (m)	1,512.40	1,561.17	1,599.03	1,601.26	1,609.26	1,609.26
Valuation Ratios & Profitability Measures						
PE (stated)	8.6	13.7	15.3	13.1	11.1	8.8
PE (DB)	8.8	13.3	15.0	12.8	11.0	8.8
P/B (stated)	1.5	1.8	1.9	1.7	1.6	1.3
P/Tangible equity (DB)	1.67	2.04	2.12	1.96	1.79	1.49
ROE(stated)(%)	19.43	12.98	12.31	13.54	14.87	16.26
ROTE (tangible equity) (%)	22.15	15.55	14.44	15.96	17.18	18.57
ROIC (invested capital) (%)	22.1	15.6	14.9	17.0	17.5	20.2
Dividend yield(%)	4.5	4.4	3.6	3.7	3.8	4.6
Dividend cover(x)	2.5	1.9	1.8	2.1	2.4	2.5
Profit & Loss (ZARm)						
Net interest revenue	31,918	31,316	28,742	29,531	34,148	40,134
Non interest income	29,448	31,512	30,004	31,852	35,061	38,743
Commissions	17,607	18,108	18,641	19,860	21,640	23,629
Trading Revenue	9,463	10,916	8,509	8,934	10,066	11,345
Other revenue	2,378	2,488	2,854	3,058	3,355	3,770
Total revenue	61,366	62,828	58,746	61,384	69,209	78,877
Total Operating Costs	30,390	32,827	36,656	37,258	40,542	44,210
Employee Costs	16,951	17,848	19,542	20,246	22,170	24,276
Other costs	13,439	14,979	17,114	17,012	18,373	19,934
Pre-Provision profit/(loss)	30,976	30,001	22,090	24,126	28,667	34,668
Bad debt expense	11,342	12,097	7,524	6,634	7,213	7,886
Operating Profit	19,634	17,904	14,566	17,492	21,453	26,782
Pre-tax associates	234	-34	584	526	105	116
Pre-tax profit	19,868	17,870	15,150	18,018	21,559	26,898
Tax	5,229	5,315	4,490	5,649	6,757	8,266
Other post tax items	-707	-1,501	184	240	353	383
Stated net profit	14,017	11,253	10,969	12,738	15,184	19,044
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	138	507	344	418	310	293
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	14,155	11,760	11,313	13,157	15,494	19,338
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	614,960	599,822	620,064	646,714	712,771	785,783
Interest-earning assets	805,308	773,013	737,307	804,345	891,223	1,046,147
Customer Loans	790,087	723,507	713,025	774,128	861,950	958,343
Total Deposits	843,815	768,548	796,635	916,130	961,937	1,048,511
Stated Shareholder Equity	85,902	87,454	90,755	97,389	106,824	127,371
Equals: Tangible Equity	75,722.0	78,045.0	80,372.0	86,110.0	94,557.9	114,020.8
Tier 1 capital	67,726.0	60,324.0	72,392.0	81,094.4	88,785.3	107,450.3
Tier 1 ratio (%)	11	10	12	13	12	14
o/w core tier 1 capital ratio (%)	10	9	11	12	12	13
Credit Quality						
Gross NPLs/Total Loans(%)	3.50	6.31	5.99	4.08	3.57	3.05
Risk Provisions/NPLs(%)	51	41	40	52	53	60
Bad debt / Avg loans (%)	1.58	1.60	1.05	0.89	0.88	0.87
Bad debt/Pre-Provision Profit(%)	36.6	40.3	34.1	27.5	25.2	22.7
Growth Rates & Key Ratios						
Growth in revenues (%)	30	2	-6	4	13	14
Growth in costs (%)	23	8	12	2	9	9
Growth in bad debts (%)	147	7	-38	-12	9	9
Growth in RWA (%)	17	-2	3	4	10	10
Net int. margin (%)	4	4	4	4	4	4
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	93.63	94.14	89.50	84.50	89.61	91.40
ROTE Decomposition						
Revenue % ARWAs	10.77	10.34	9.63	9.69	10.18	10.53
Net interest revenue % ARWA	5.60	5.16	4.71	4.66	5.02	5.36
Non interest revenue % ARWA	5.17	5.19	4.92	5.03	5.16	5.17
Costs/income ratio (%)	49.5	52.2	62.4	60.7	58.6	56.0
Bad debts % ARWAs	1.99	1.99	1.23	1.05	1.06	1.05
Tax rate (%)	26.6	29.7	30.8	32.3	31.5	30.9
Adj. Attr. earnings % ARWA	2.44	1.94	1.76	1.99	2.26	2.57
Capital leverage (ARWA/Equity)	8.9	7.9	7.7	7.6	7.5	7.2
ROTE (Adj. earnings/Ave. equity)	21.7	15.3	13.5	15.2	17.0	18.4

Source: Company data, Deutsche Bank estimates

South Africa – Life Assurance | Price (20 January 2012): 4625c | Target price: 4900c | Rating: Buy

Discovery Holdings Ltd

Larissa van Deventer

Business description: Discovery is a South African based financial services group. The company 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 UK, and partnered with Ping An Health Insurance Company in the Chinese market in 2010, although that venture remains in its infancy. The group also launched a short-term insurance offering, Discovery Insure, in May 2011.

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. Although we do not expect any the group's offshore ventures to contribute significantly to earnings in the near term, we expect all UK and US ventures to be profitable by FY12.

Outlook: In our opinion, Discovery is the clear leader within the South African health schemes market and is also a successful niche player in the life insurance industry. The business has attained this position through product innovation, with the Vitality concept being a particularly strong differentiator. In South Africa, compressing health margins and a pronounced slowdown in the growth rate of life sales add to a more moderate long-term growth profile. In 2010, Discovery invested R1.6bn to acquire an additional 25% of Prudential Health Holdings, which concurrently purchased the UK operations of Standard Life Healthcare. However, it seems that the goodwill related to the purchase may not be immediately rewarded in our earnings expectations. Discovery also announced a US venture with Humana, which will be a fee-based operation providing wellness offerings to Humana members. We value Discovery's track record of innovation, strong market position of its South African health operations and profitable South African life business. Buy.

Valuation: We value insurers listed on the JSE 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 standard cost of equity we apply across the South African insurance sector is 14%, which we adjust for a 'franchise score' that quantifies the 'quality' we consider inherent to the stock.

Risks: Key sector risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Discovery's South African life and health operations are particularly exposed to increased lapse rates and related negative reserve write-offs. The group is also exposed to currency risk through its UK and Chinese ventures; this risk will likely become increasingly important as the relative contributions from these countries grow.

Running the numbers

Discovery Holdings Ltd						
Tickers	**Reuters**	DSYJ.J		**Bloomberg**	DS SJ	
Price at 20 January 2012		R46.25				
Target price		R49.00				
Rating		Buy				

Year Ending 30 June	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**
DATA PER SHARE						
EPS (stated) (ZAR)	1.72	2.25	2.79	2.95	4.37	4.82
DPS (ZAR)	0.45	0.59	0.69	0.90	1.10	1.20
Growth rate - DPS	20.3	31.5	17.9	30.4	22.2	9.1
EV (DB adjusted) (ZAR)	25.4	29.1	33.0	36.4	41.1	46.4
Average Market Cap (ZAR)	14,042	13,200	17,338	21,165	25,806	25,806
Weighted average shares (m)	592	591	591	591	591	591
VALUATION RATIOS & PROFITABILITY MEASURES						
PE (stated) (x)	15.0	10.7	11.2	12.9	10.6	9.6
Price / EV (DB Adj, x)	0.94	0.77	0.89	0.98	1.06	0.94
ROEV (DB adjusted) (%)	3.0	23.4	14.4	21.2	15.4	15.5
Dividend yield (%)	1.7	2.4	2.2	2.4	2.4	2.6
Dividend cover (x on DB adj earns)	3.9	3.8	4.0	3.3	4.0	4.0
PROFIT & LOSS (ZAR m)						
Pre-tax life	1,193	1,295	1,641	1,837	1,952	2,137
Pre-tax non-life	0	0	0	0	0	0
Pre-tax asset management	0	0	0	0	0	0
Pre-tax banking	0	0	0	0	0	0
Pre-tax other	471	519	856	1,614	1,489	1,731
Pre-tax total	**1,664**	**1,814**	**2,497**	**3,451**	**3,441**	**3,868**
Goodwill	0	0	0	0	0	0
Tax	-506	-590	-782	-872	-963	-1,083
Minorities	-2	-12	2	-2	-23	-41
Stated Net Income	**1,156**	**1,212**	**1,717**	**2,577**	**2,455**	**2,744**

Source: Company data; Deutsche Bank

South Africa – Life Assurance | Price (20 January 2012): 8500c | Target price: 8200c | Rating: Hold

Liberty Holdings Ltd

Larissa van Deventer

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, one of the largest asset managers in the country, alongside several smaller ventures, notably in health administration and property management. The group has a presence in several African countries, although the contributions to earnings from the rest of Africa is not meaningful at present.

Drivers: Liberty suffered losses in 1H09, but subsequent results have shown evidence of margin and volume recovery in its life operations. We expect the group to recover to FY08 new business volume in FY12, alongside volume-related margin recovery. However, considering the competitive and saturated nature of Liberty's key South African affluent insurance market, we look to its African ventures and repositioned entry-level operations to support sustained longer-term growth.

Outlook: Liberty can access Standard Bank's established presence in Africa to facilitate low-risk entry and growth in the continent. Also, we note the group has sufficient capital to support new ventures such as its recently launched African health administration operations and other non-life pursuits. However, we expect little upside from businesses outside South Africa in FY11-13e. The group remains dependent on the performance of its core South African life and asset management operations in the near term, where continued upward momentum since challenging 2009 results suggest a modest but sustained turnaround. Although the share price outperformed peers and the overall market following results, we believe that a portion of the turnaround has been priced in, leaving the stock with less upside potential than peers. Hold.

Valuation: We value insurers listed on the JSE 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 standard cost of equity we apply across the South African insurance sector is 14%, which we adjust for a 'franchise score' that quantifies the 'quality' we consider inherent to the stock.

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 a concern. Liberty is also exposed to currency risk, notably the US$. 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).

Running the numbers

Liberty Holdings Ltd

Tickers	**Reuters**	LBHJ.J		**Bloomberg**	LBH SJ
Price at 20 January 2012		R85.00			
Target price		R82.00			
Rating		Hold			

Year Ending 31 December	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
DATA PER SHARE						
EPS (stated) (ZAR)	7.23	0.47	9.08	9.54	10.85	11.83
DPS (ZAR)	4.55	4.55	4.55	5.00	5.25	5.50
Growth rate - DPS	11.0	0.0	0.0	9.9	5.0	4.8
EV (DB adjusted) (ZAR)	87.7	74.8	68.2	80.1	85.5	91.9
Average Market Cap (ZAR)	10,346	16,731	18,854	22,151	22,151	22,151
Weighted average shares (m)	163	286	286	286	286	286
VALUATION RATIOS & PROFITABILITY MEASURES						
PE (stated) (x)	9.1	136.2	8.0	8.9	7.8	7.2
Price / EV (DB Adj, x)	0.41	0.78	0.97	0.97	0.90	0.84
ROEV (DB adjusted) (%)	1.2	-6.6	13.3	14.2	10.5	11.0
Dividend yield (%)	6.9	7.1	6.3	5.9	6.2	6.5
Dividend cover (x on DB adj earns)	1.6	0.1	2.0	1.9	2.1	2.2
PROFIT & LOSS (ZAR m)						
Pre-tax life	1,267	17	2,478	2,524	2,890	3,128
Pre-tax non-life	0	0	0	0	0	0
Pre-tax asset management	459	442	457	503	518	540
Pre-tax banking	0	0	0	0	0	0
Pre-tax other	-616	-417	-413	-374	-378	-359
Pre-tax total	**1,110**	**42**	**2,522**	**2,654**	**3,030**	**3,309**
Goodwill	0	0	0	0	0	0
Tax	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Stated Net Income	**1,110**	**42**	**2,522**	**2,654**	**3,030**	**3,309**

Source: Company data; Deutsche Bank

South Africa – Life Assurance | Price (20 January 2012): 1810c | Target price: 1900c | Rating: Hold

MMI Holdings Ltd

Larissa van Deventer

Business description: MMI Holdings resulted from the merger of Metropolitan Holdings, and Momentum, which previously formed part of the FirstRand Group. The two individual brands were retained as part of the merger, with Metropolitan focussing on entry-level market business, while Momentum focuses on the middle and affluent insurance and asset management markets. MMI Holdings is the third largest listed life insurer in South Africa by market capitalisation, and the majority of the group's operations are also based in South Africa. In addition to life insurance, the group has asset management operations and a health administration unit that administers the Government Employee Medical Scheme, the largest closed medical aid scheme in the country. The group is also active in life insurance and health insurance in several other African countries, including Nigeria, Ghana and Kenya.

Drivers: MMI is the largest writer of gross new business premiums in South Africa. This operational strength in volumes is offset by margins below its peer group average, with re-rating potential if the affluent margin becomes competitive relative to peers. We believe MMI could have promising operational re-rating potential as merger-related synergies such as headcount reductions and systems alignment become evident.

Outlook: MMI Holdings represents a large, diversified listed insurer that should prove more defensive than its component parts through economic cycles (Metropolitan was focussed on the entry-level market, while Momentum was focussed on the middle- to affluent segments). The benefit of potential cost synergies remains, although the Competition Tribunal's ruling preventing retrenchments for two years delays the impact of employee restructuring to 2H13. Operational re-rating efficiencies should arise from the merger in the long term, we believe, as processes are aligned and margins strengthened, but we expect those to become apparent from FY13, with the full benefit of merger synergies only in FY14. Hold.

Valuation: We value insurers listed on the JSE 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 standard cost of equity we apply across the South African insurance sector is 14%, which we adjust for a 'franchise score' that quantifies the 'quality' we consider inherent to the stock.

Risks: Key risks pertain to financial market volatility, solvency, liquidity and regulatory risk. MMI is specifically exposed to downside risks pertaining to suboptimal execution of the merger. The entry-level operations housed in Metropolitan are exposed to the loss of premium income from its lower earning market segments due to the economic downturn's impact on disposable income and unemployment. The mid- to affluent operations housed in Momentum are exposed to margin compression in that highly competitive market segment, and our earnings estimates and valuation could be adversely impacted by a more pronounced customer preference for savings products than anticipated, as those render lower margins. Upside risks include better than expected merger synergies, especially if those become apparent earlier than expected (FY13), or better than expected margin improvement in life operations specifically.

Running the numbers

MMI Holdings Ltd

Tickers	**Reuters**	MMIJ.J	**Bloomberg**	MMI SJ
Price at 20 January 2012		R18.10		
Target price		R19.00		
Rating		Hold		

Year Ending 31 December	**2011**	**2012E**	**2013E**
DATA PER SHARE			
EPS (stated) (ZAR)	1.05	1.57	1.74
DPS (ZAR)	1.26	1.15	1.23
Growth rate - DPS	n/a	-8.7	7.0
EV (DB adjusted) (ZAR)	16.0	17.1	18.2
Average Market Cap (ZAR)	24,907	26,880	26,880
Weighted average shares (m)	1,605	1,605	1,605
VALUATION RATIOS & PROFITABILITY MEASURES			
PE (stated) (x)	15.9	11.5	10.4
Price / EV (DB Adj, x)	0.97	0.98	0.92
ROEV (DB adjusted) (%)	11.3	12.3	12.2
Dividend yield (%)	7.5	6.4	6.8
Dividend cover (x on DB adj earns)	0.8	1.4	1.4
PROFIT & LOSS (ZAR m)			
Pre-tax life	1,822	1,824	1,873
Pre-tax non-life	0	0	0
Pre-tax asset management	182	178	181
Pre-tax banking	0	0	0
Pre-tax other	338	1,504	1,830
Pre-tax total	**2,342**	**3,507**	**3,884**
Goodwill	0	0	0
Tax	-656	-982	-1,087
Minorities	0	0	0
Stated Net Income	**1,686**	**2,525**	**2,796**

Source: Company data; Deutsche Bank

South Africa– Life Assurance | Price (20 January 2012): 3059c | Target price: 3600c | Rating: Buy

Sanlam Limited

Larissa van Deventer

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, one of the largest asset managers 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 Europe and Australia.

Drivers: Structurally, we prefer insurers with exposure to entry-level markets due to higher growth prospects and margins. Sanlam shows promising growth in its emerging market operations, which focuses on entry-level markets in South Africa, the rest of Africa and India. We consider Sanlam to be best positioned to tap insurance growth in the Rest of Africa, a lucrative market with low penetration offering superior margins. Compared to peers Sanlam has the highest overall exposure to entry-level life sales relative to its total book. We expect the group’s other operations (South African affluent life insurance, short-term insurance, asset management etc.) to continue the measured but consistent, profitable growth the group has exhibited in recent years.

Outlook: We are optimistic on Sanlam’s long-term growth potential: Sanlam seems best placed to tap lucrative growth in the Rest of Africa; the group is a major competitor in the South Africa entry-level market and the most profitable writer of affluent savings products in South Africa. Diversified operations should provide a defensive buffer against earnings cyclicality. Sanlam’s consistent, conservative accounting and transparent disclosure negate valuation discounts, in our view. Buy.

Valuation: We value life insurance companies listed on the JSE using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value, referring to the embedded value of the life EV, adjusted to DB assumptions on a basis consistent with those applied elsewhere in the sector, plus the present value of profits from future sales. Asset management operations are valued using a discounted earnings approach. Other administration businesses are valued using discounted cash flow methods. For fundamental valuation purposes, the standard cost of equity we apply across the South African insurance sector is 14%, which we adjust for a 'franchise score' to arrive at a one-year forward target price.

Risks: Key sector risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Sanlam's earnings are exposed to equity market direction as a result of shareholder fund exposure to equities. The group is further at risk of sub-optimal returns on its excess capital. Sanlam is also exposed to country and political risk in its chosen emerging markets, 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.

Running the numbers

Sanlam Ltd

Tickers	**Reuters**	SLMJ.J		**Bloomberg**	SLM SJ
Price at 20 January 2012		R30.59			
Target price		R36.00			
Rating		Buy			

Year Ending 31 December	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
DATA PER SHARE						
EPS (stated) (ZAR)	0.94	2.19	2.52	2.55	2.85	3.13
DPS (ZAR)	0.98	1.04	1.15	1.28	1.40	1.48
Growth rate - DPS	5.4	6.1	10.6	11.3	9.4	5.7
EV (DB adjusted) (ZAR)	15.7	19.1	20.9	22.0	23.5	25.4
Average Market Cap (ZAR)	36,376	36,758	48,553	59,797	59,797	59,797
Weighted average shares (m)	2,094	2,053	2,045	2,027	2,004	2,004
VALUATION RATIOS & PROFITABILITY MEASURES						
PE (stated) (x)	13.8	8.5	9.8	12.0	10.7	9.8
Price / EV (DB Adj, x)	1.13	0.93	1.14	1.35	1.26	1.16
ROEV (DB adjusted) (%)	-8.1	17.1	16.5	11.2	11.7	12.8
Dividend yield (%)	5.4	5.6	4.7	4.2	4.5	4.8
Dividend cover (x on DB adj earns)	1.4	2.1	2.2	2.0	2.1	2.1
PROFIT & LOSS (ZAR m)						
Pre-tax life	1,940	1,857	2,150	2,630	2,712	2,821
Pre-tax non-life	439	242	575	635	644	697
Pre-tax asset management	589	593	489	437	473	502
Pre-tax banking	0	0	0	0	0	0
Pre-tax other	**-266**	**1,746**	**1,908**	**1,472**	**1,877**	**2,248**
Pre-tax total	2,702	4,438	5,122	5,174	5,706	6,268
Goodwill	0	0	0	0	0	0
Tax	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Stated Net Income	**2,702**	**4,438**	**5,122**	**5,174**	**5,706**	**6,268**

Source: Company data; Deutsche Bank

South Africa – Real Estate | Price (20 January 2012): 1998c | Target price: 1750c | Rating: Hold

Growthpoint Properties Ltd

Ahmed Motara

Business description: The portfolio (ex V&A) geographically by GLA has 50% exposure in Greater Johannesburg, 12% in Pretoria, 20% in the Western Cape, 9% in KwaZulu-Natal and the remaining 9% in the Eastern Cape, North West and other provinces. By net property income, 29% is generated from retail, 35% from office, 20% from industrial, 16% from Growthpoint Australia (GOZ) and 0.5% from the V&A. The contribution from the V&A (7 June 2011 transfer date) is set to increase materially in 2012. Growthpoint is the largest local property stock, with a market capitalisation of R33bn. The current value of the South African physical portfolio is R38bn, with the consolidated holding in GOZ equating to R8bn. 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 acquisition of a controlling stake in Orchard Industrial Fund (now renamed Growthpoint Australia). From a portfolio perspective, Growthpoint 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 in rentals are continued difficult rental negotiations, increased debt refinancing costs, lower reversionary potential at V&A retail and increases in assessment rates and electricity costs limiting rental upside. Growthpoint has indicated it intends to bring the Australian operations up to scale and increase liquidity, with recent announced acquisitions and share issuance suggesting this is increasingly evident. The South African development pipeline has been largely non-existent in recent months, with our expectation for no significant developments to be undertaken until increased certainty emerges of an improvement in GDP and consumer spending.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect in-force escalations to remain in the 8-9% range with new and expiring leases negotiated at upwards reversions that, while still positive, are below escalation levels. Vacancies are anticipated to remain at current levels in the retail and industrial space, but to start showing improved levels in the office arena over FY12. We believe the near term will remain tough for South African property operationally, but expect to see signs of stabilisation in the letting environment starting to materialise. Margins have benefited in past years from strong rental escalations with costs increasing at a lower growth rate. This scenario has reversed, with significant pressures on administered costs increasingly evident. As such, we expect operating expenses/revenue to rise to 24% in FY12 (FY11: 23%).

Outlook: Growthpoint has significant exposure to defensive industrial, office and retail space. Management's focus remains on sustainable earnings and long term positive distribution growth, with less focus now expected on South African acquisitions post the V&A acquisition. Expected focus areas for the medium term are on disposing of smaller operations and ongoing extensions, tenant retention, refurbishments and the bedding down of the V&A acquisition On GOZ, (Growthpoint Properties Australia) further acquisitive opportunities will continue to be pursued. We expect the office developments completed largely in FY09 and vacant during FY10 have largely been filled in FY11, with our expectation for materially lower reversionary growth to emerge in FY12 on this portfolio segment. The acquisition of a 50% stake in the V&A Waterfront is positive at the margin, but the likely realisation of value is only expected beyond our explicit three year forecast horizon, possibly beyond five years. The prospect statement provided by management suggests 3-7% distribution growth as achievable in FY12. We expect FY12 will also be negatively impacted by the refinancing of debt at higher margins and potentially negative reversions on V&A retail, with the resultant pressure on distribution growth. Hold.

Valuation: We apply a DCF to ensure our bond yield-derived price target is supported by distributable cash flows. In our DCF, we use a 0.60x beta, a risk free rate of 8.5%, a terminal growth rate of 3.2% based on our South African IPD stats over the past 15 years and a standard ERP for South African stocks of 4.5%. We derive an 1885c DCF PT using the above assumptions. We derive our 12-month official bond yield relative price target by capitalising our interpolated F2 DPS. We expect the stock to exit at a 19bp premium to our 8.5% long bond forecast yield.

Risks: Specific downside risks to Growthpoint are a material decline in GDP, employment, retail sales and industrial or manufacturing production, given broad exposure to all property sub-sectors. Upside risks would include a stronger GDP environment than we anticipate becoming evident, the letting of existing vacancies in excess of expectations and better reversions emerging than we currently anticipate. A key upside risk would be potential completion of development work at the V&A Waterfront, ahead of our expected timeframe and yields.

Model updated: 28-Dec-11

Equity Research
South Africa
Real Estate
Property Loan Stock

Growthpoint

Bloomberg: GRT SJ

Recommendation:	**HOLD**
Price as of 20-Jan-12:	19.98
Price Target:	R17.50

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

Company description:
Growthpoint is a PLS stock with its balanced physical portfolio spread across retail, office and industrial properties remaining the key performance driver. The strategy is to remain diversified, whilst pursuing global opportunities such as the controlling stake acquired in Growthpoint Australia (GOZ)

Research Team
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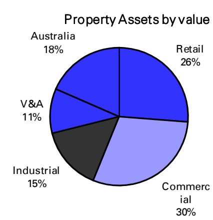
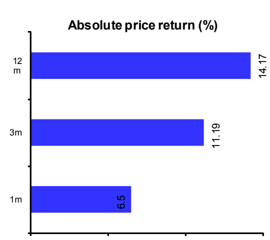
Key assumptions:
Risk-free rate: 8.50%
Terminal growth rate: 3.22%
Cost of equity: 11.20%
Forward dividend yield (interpolated): 7.19%
Historic dividend yield (interpolated): 6.91%
Exit dividend yield: 8.31%
Beta applied: 0.60

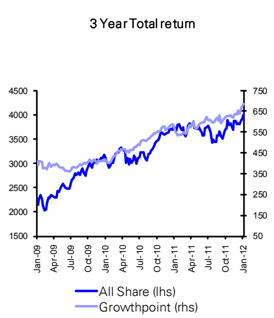


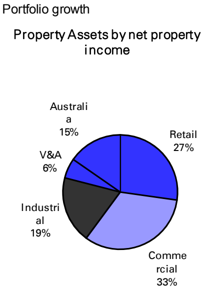
52 week high/low:	R18.85 - R16.40
Market cap (m):	R31,471
Market cap (m):	$4,382
12m Value traded (m):	R14,741
12m Value traded (m):	$2,052

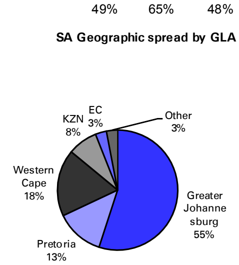
Source: DB Estimates, Company data

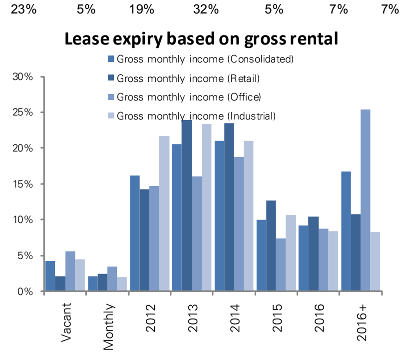


Financial Year End: June	2004A	2005A	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E
Summary											
Year end units(m)	613	660	778	1,074	1,281	1,409	1,548	1,592	1,692	1,692	1,692
Weighted average units (m)	613	660	778	1074	1281	1409	1548	1592	1692	1692	1692
DPU (ZAR)	0.6900	0.7320	0.8130	0.9310	1.0649	1.1455	1.2123	1.3097	1.3537	1.4330	1.5297
DPU growth (%)		6.09%	11.07%	14.51%	14.38%	7.57%	5.83%	8.04%	3.35%	5.86%	6.75%
Finance costs / Revenue	30%	29%	28%	29%	26%	29%	29%	28%	30%	30%	31%
Debt/Investment Property	51.7%	45.2%	38.2%	37.6%	33.4%	34.2%	35.3%	42.9%	37.8%	37.0%	36.4%
Property expenses/Revenue	34.13%	25.19%	27.02%	25.05%	24.89%	23.64%	23.13%	22.75%	24.21%	23.95%	24.28%
NAV/share (ZAR)	5.77	7.37	10.26	12.75	15.45	14.25	14.44	16.50	17.66	19.08	20.58
Price/Book (x)	1.04	1.23	1.04	1.16	0.72	0.91	1.07	1.11	1.08	1.00	0.93
Dividend yield (%)	11.5%	8.1%	7.6%	6.3%	9.6%	8.8%	7.8%	7.2%	7.1%	7.5%	8.0%
Yield rel All Share	3.61	2.98	3.39	2.77	3.20	2.94	2.60	2.79			
Yield rel Property	1.08	0.97	0.97	1.00	1.60	1.47	1.30	0.95			
Cap rate (ROI) %	9.9%	10.2%	6.9%	8.2%	8.2%	9.1%	9.4%	7.9%	8.7%	8.6%	8.8%
Nav/share growth (%)		28%	39%	24%	21%	-8%	1%	14%	7%	8%	8%
Market cap at year end (Rm)	R3,675	R5,983	R8,334	R15,877	R14,218	R18,317	R24,018	R29,149			
Profit & Loss (Rm)											
Revenue	920	1014	1299	2152	2712	3211	3956	4435	5186	5440	5983
Property Expenses	-314	-255	-351	-539	-675	-759	-915	-1009	-1255	-1303	-1452
Net Property Income	606	926	1,029	1,823	2,245	2,671	3,291	3,631	4,162	4,380	4,797
Other operating expenses	35	46	66	120	62	75	101	135	184	189	210
Investment income	86	59	34	45	1	1	0	0	0	0	0
Finance income	58	9	49	44	87	162	128	90	87	95	95
Finance costs	-272	-298	-361	-615	-697	-921	-1157	-1237	-1540	-1621	-1827
Profit before debenture interest	461	507	626	969	1,264	1,520	2,016	1,956	2,525	2,666	2,856
Debenture interest	-443	-482	-603	-966	-1,363	-1,612	-1,874	-2,070	-2,291	-2,421	-2,586
Cash flow (Rm)											
Cash flow from operating activities	147	16	3	99	384	93	204	-21	0	0	0
Cash generated from operations	541	717	803	1484	0	2416	2948	3168	3746	3948	4321
Sundry income	0	0	0	-6	0	-35	0	0	0	0	0
Investment income	86	59	34	45	1	1	0	46	0	0	0
Finance income	58	9	49	0	0	162	128	0	87	95	95
Finance costs	-272	-298	-361	-598	-523	-942	-1157	-1233	-1540	-1621	-1827
Distribution to unitholders	-265	-449	-497	-804	-1174	-1502	-1715	-1995	-2294	-2423	-2589
Cash flow from investing activities	-896	-910	-1135	-1339	-3296	-1767	-1741	-7458	-239	-839	-906
Investment in fixed property	-1295	-1396	-1290	-327	0	0	0	-7458	-777	-839	-906
Investment in listed property	-121	-27	-89	0	0	0	0	0	0	0	0
Proceeds on sale of fixed property	98	102	214	167	0	0	0	0	539	0	0
Proceeds on sales of listed property	422	411	248	0	0	0	0	0	0	0	0
Cash flow from financing activities	813	853	1102	1243	2920	2144	1352	7508	239	839	906
Non-current loans raised	1880	869	2080	0	0	0	0	7493	-1562	839	906
Repayment of non-current loans	-97	-298	-978	0	0	0	0	0	0	0	0
Proceeds from issue of shares	1418	282	0	0	0	0	0	0	1800	0	0
Net inc/dec in cash	64	-40	-30	3	8	470	-185	29	0	0	0
Balance sheet (Rm)											
Investment properties	6132	9119	15017	22173	27245	28637	34208	45163	47226	50455	53914
Cash	86	46	16	19	27	497	310	339	339	339	339
Other	56	104	290	765	3385	3231	3173	3229	3229	3229	3229
Total assets	6842	9660	15544	22957	30657	32365	37691	48731	50794	54023	57482
Creditors & Accruals	111	145	182	385	638	615	821	858	858	858	858
Financial Debt	2957	4003	5748	8293	9132	8815	9932	15983	14422	15261	16167
Other	239	645	1631	579	716	2499	3691	5110	5110	5110	5110
Total liabilities	3307	4793	7562	9257	10873	12288	14850	22470	20909	21748	22654
Linked unitholders interest	31	33	39	54	64	70	77	79	79	79	79
Reserves	3505	4834	7944	13646	19720	20007	22764	26182	29807	32196	34749
Retained income	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Total Trust equity	3535	4867	7982	13700	19784	20077	22841	26261	29886	32275	34828
Growth rates											
Revenue		10%	28%	66%	26%	18%	23%	12%	17%	5%	10%
Net Property Income		53%	11%	77%	23%	19%	23%	10%	15%	5%	10%
Portfolio growth		49%	65%	48%	23%	5%	19%	32%	5%	7%	7%









source: Company data, Deutsche Bank

South Africa – Real Estate

Price (20 January 2012): 762c Target price: 785c Rating: BUY

Redefine Properties Ltd

Ahmed Motara

Business description: Redefine's 2009 acquisition of ApexHi, Madison and Ambit created one of the largest property stocks on the JSE, with R20bn market cap. The net property income contribution is 35% retail, 45% office, 15% industrial and 5% foreign. Redefine also has a 31.2% listed holding in Hyprop and a 33% effective holding in Redefine International plc. The Redefine business remains in the evolution phase with management focused on restructuring and rationalising the SA portfolio into higher physical quality/lower management intensiveness. We would categorise Redefine as having high quality retail exposure (Hyprop) and exposure to a defensively placed portfolio in the UK, Australia and Continental Europe via its offshore holdings. While a hybrid in nature, Redefine is still dominated by its physical portfolio contribution to the revenue line. There are, however, elements of non-core income through fees and trading income included in the revenue line and concerns are evident on a significant level of debt maturing in Redefine International plc in 2012, which is c.70% geared.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect escalations to remain 7-8% with new and expiring leases negotiated at reversionary levels below escalation rates. Our reversionary expectations are for 8% reversions in retail, 6% in office and 0% in industrial. 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 with the exposure to a largely cash-based consumer in the retail space mitigates the risk posed in a weak letting environment. While the portfolio is not largely A-grade, recent disposals and indications suggest a drive to improve overall portfolio quality. We believe the next six months will continue to remain tough for SA property operationally, but then expect an improvement to start in 2H12. FY11 has seen a significant increase in the cost/income ratio to 27% (FY10: 21%) partly due to restructuring costs. We expect a 25-26% ratio in FY12-14. A key factor for Redefine is the efficiencies to be realised in the medium term by bedding down the acquisitively grown portfolio and acquiring and developing larger properties larger increasingly consisting of larger retail offerings. We expect Redefine's International operations are unlikely to become meaningful in the medium term given that SA operations and the physical SA portfolio still dominate revenue contribution. Non-core income has continued to remain a feature in FY11. We expect this to become less relevant in FY12, with physical contractual income anticipated to rise from 79% of total revenue in FY11 to 86% in FY12.

Outlook: The SA portfolio is currently undergoing significant structural changes, with potentially a decline to 258 properties (FY11: 358) to emerge. Part of this rationalisation involves the unbundling of the Arrowhead portfolio to Redefine shareholders, which we believe is more suited to specialised management and could result in a rerating of Redefine. This shift in Redefine's portfolio will also involve the acquisition of lower yielding, higher quality properties with better long term capital growth prospects and significantly reduce the multi-tenanted nature of the portfolio. Our expectation is that once-off costs and yield dilution through the Arrowhead disposal and higher quality acquisitions will impede FY12 distribution growth, post which we expect a return to 5-6% p.a. distribution growth to emerge. Redefine has an effective 36% stake in Redefine International, which we expect will continue to show positive distribution growth in FY12. We expect Redefine's portfolio to show improvements in quality and the maintenance of a steady cost/income ratio in the medium term, as Redefine manages short term dilution in the pursuit of better quality properties and disposes of those properties that are non-core in nature. Our view is that Redefine's current focus is also on achieving internal efficiencies which, together with a potential disposal of its 31% holding in Hyprop, should lead to yield enhancing results. Our current forecast does not build in any potential future disposal of Hyprop. Buy.

Valuation: We apply a DCF to ensure our bond yield-derived price target is supported by distributable cash flows. In our DCF, we use a 0.75x beta, a risk free rate of 8.5%, a terminal growth rate of 3.6% based on our SA IPD stats over the past 15 years and a standard ERP for SA stocks of 4.5%. We derive a 795c DCF PT using the above assumptions. We derive our 12-month official bond yield relative price target by capitalising our interpolated F2 DPS. We expect the stock to exit at a 12bp discount to our 8.5% long bond forecast yield. Our derived price target is 785c.

Risks: The fund's remaining hybrid structure raises the risk profile, with the potential for overpaying for growth a potential risk. Forecast risk is above sector average, given the multiple revenue streams on which its income is based and the volatility inherent in fee income derived, in part, from underwriting fees. We do note however that increased disclosure and better long term development plans have lowered this risk relative to prior years. Downside risks to our view would involve management disappointing the market on distribution growth, a material change in stated strategy or a significant acquisition abroad that increases the risk profile without being materially distribution enhancing.

Model updated: 28-Dec-11
Equity Research
South Africa
Real Estate
Property Loan Stock

Redefine Propertes Ltd
Bloomberg: RDF SJ

Recommendation: Buy
Price as at 20 Jan 2012 ZAR 7.62
Price target: RDF (785c) ZAR 7.85

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

Company description:
Redefine's acquisition of ApexHi, Madison and Ambit in 2009 created the second largest property stock on the JSE. The rental contribution is 35% retail, 45% office, 15% industrial and 5% international. Redefine is a hybrid fund, with listed holdings in Hyprop, Oryx, Dipula, Cromwell and Redefine International.

Research Team
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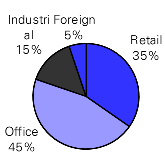
Key assumptions:
Risk Free rate: 8.50%
Terminal growth rate: 3.58%
Cost of equity: 11.88%
Forward dividend yield (interpolated): 8.69%
Exit yield: 8.62%
Beta applied: 0.75

Contribution by rental income



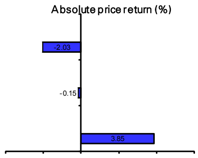
52 week high/low: RDF(R7.93 - R6.82)

Market cap(Rm): RDF: 20015
Market cap($m): RDF: 2451

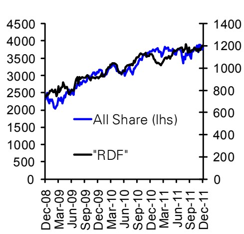
12m Value traded(Rm): RDF: 7851

12m Value traded($m): RDF: 935

Absolute price return (%)



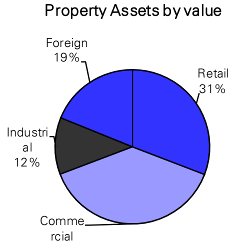
3 Year Total return



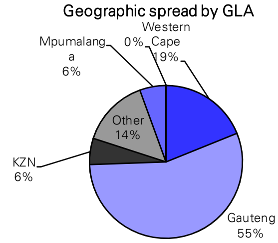
Source: DB Estimates, Company data

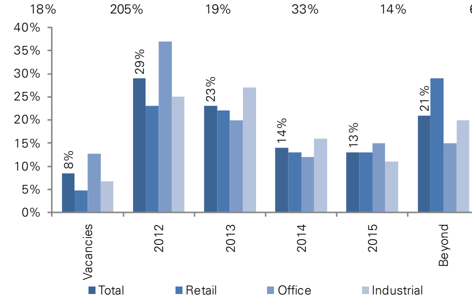
Financial Year End: August	2004A	2005A	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E
Summary											
Year end units(m)			557	813	893	2,649	2,684	2,684	2,684	2,684	2,684
Weighted average units (m)			516	746	856	1042	2662	2684	2684	2684	2684
DPU (ZAR)			0.4267	0.5125	0.5663	0.5655	0.6650	0.6800	0.6432	0.6745	0.7130
DPU growth (%)			15.95%	20.11%	10.50%	-0.14%	17.60%	2.26%	-5.40%	4.86%	5.71%
Finance costs / Revenue			62%	58%	42%	37%	21%	34%	29%	37%	42%
Debt/Investment Property			41%	32%	34%	25%	39%	29%	37%	38%	43%
Property expenses/Revenue			19%	20%	20%	18%	21%	27%	25%	26%	26%
NAV/share (ZAR)			5.66	6.85	6.73	6.78	7.43	8.15	7.97	8.45	8.82
Price/Book (x)			1.00	1.08	1.03	1.10	1.00	0.91	0.93	0.88	0.84
Dividend yield (%)			7.6%	6.9%	8.2%	7.6%	8.9%	9.1%	8.6%	9.1%	9.6%
Yield rel All Share		3.06	3.29	2.76	2.84	3.25	3.77	3.39			
Yield rel Property		1.04	1.04	1.01	1.03	0.90	1.22	1.25			
Cap rate (ROI) %			9.4%	6.8%	7.2%	5.7%	9.1%	7.0%	6.9%	8.5%	9.2%
Initial yield			13.7%	8.6%	10.2%	10.8%	9.4%	7.9%	9.0%	10.1%	
Market cap at year end (Rm)	R1,346	R2,229	R3,094	R5,946	R6,203	R19,352	R21,494	R22,328	R20,015	R20,015	R20,015
Profit & Loss (Rm)											
Revenue			293	430	539	742	2,502	2,763	3,036	4003	4743
Property Expenses			-56	-87	-106	-130	-538	-733	-752	-1037	-1215
Net Property Income			237	343	433	611	1,964	2,030	2,283	2,966	3,527
Other operating expenses			-36	-56	-104	-93	-136	-159	-165	-177	-190
Investment income			207	300	332	308	266	342	444	473	506
Finance income			9	-	51	79	284	161	215	229	229
Finance costs			-190	-	-282	-350	-843	-1,099	-1,092	-1726	-2206
Profit before debenture interest			1,053	1,565	300	244	3,058	1,236	2,560	3,082	2,925
Debenture interest			-226	-416	-495	-711	-1,777	-1,825	-1,727	-1,811	-1,914
Cash flow (Rm)											
Cash flow from operating activities			-62	35	-78	-240	-26	545	-	-	-
Cash generated from operations			335	645	681	1,034	2,180	2,819	2,604	3308	3891
Sundry income			-	-	-	-	-15	-48	-215	-229	-229
Investment income			-	-	-	-	-	-	-	-	-
Finance income			-	19	47	-	-	-	215	229	229
Finance costs			-182	-270	-282	-271	-559	-937	-877	-1497	-1977
Distribution to unitholders			-215	-359	-476	-1,003	-1,632	-1,288	-1,727	-1811	-1914
Cash flow from investing activities			-1,235	-45	-856	481	-3,116	-3,296	-3,180	-655	-2469
Investment in fixed property			-	-562	-811	-	-	-3,296	-3,180	-655	-2469
Investment in listed property			-1,202	-588	-573	-	-	-	-	0	0
Proceeds on sale of fixed property			-	444	253	-	230	-	-	0	0
Proceeds on sales of listed property			-	832	344	-	-	-	-	0	0
Cash flow from financing activities			1,253	141	970	-288	3,678	2,799	3,180	655	2469
Non-current loans raised			903	-77	423	-	3,678	2,799	3,180	655	2469
Repayment of non-current loans			-	-	-	-	-	-	-	0	0
Proceeds from issue of shares			350	218	547	-	-	-	-	-	-
Net inc/dec in cash			-44	131	36	-47	537	48	-	-	-
Balance sheet (Rm)											
Investment properties			2,513	5,050	5,975	18,235	21,651	28,848	32,861	34,788	38,268
Cash			0	129	158	111	607	660	660	660	660
Other			3,589	4,656	4,585	7,597	12,715	14,855	12,874	12,874	12,874
Total assets			6,103	9,834	10,717	25,943	34,972	44,363	46,396	48,322	51,803
Creditors & Accruals			66	95	96	374	636	1,037	1,037	1,037	1,037
Financial Debt			2,458	3,190	3,679	5,480	11,549	18,412	20,927	21,582	24,051
Other			1,427	2,441	2,539	6,888	7,675	7,858	7,858	7,858	7,858
Total liabilities			3,952	5,726	6,313	12,743	19,861	27,307	29,822	30,477	32,946
Share capital and premium			461	1,642	2,089	11,603	11,788	11,788	11,788	11,788	11,788
Reserves			1,690	2,497	2,341	1,594	2,670	2,997	2,514	3,785	4,797
Retained income			-	-32	-32	-	-	-	-	-	-
Other			-	-	6	3	653	2,271	2,271	2,271	2,271
Total Trust equity			2,151	4,108	4,404	13,200	15,111	17,056	16,573	17,845	18,856
Growth rates											
Revenue				47%	25%	38%	237%	10%	10%	32%	18%
Net Property Income				45%	26%	41%	221%	3%	12%	30%	19%
Portfolio growth				101%	18%	205%	19%	33%	14%	6%	10%

Property Assets by value



Geographic spread by GLA





South Africa – General Mining | Price (20 January 2012): 18305c | Target price: 24500c | Rating: Buy

African Rainbow Minerals Ltd

Tim Clark

Business description: Following ARMgold's successful listing, the same management team created African Rainbow Minerals (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: 55%) 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 the expansion to 16mtpa of iron ore. Manganese volumes are limited to rail capacity where prices no longer support trucking. The ferrochrome business is being reduced due to the conversion of furnaces to ferromanganese, a higher margin and less cyclical business.

The nickel and platinum divisions (NAV contribution: 16%) 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 (platinum group metal), chrome and base metal by-products. The mine is currently experiencing some issues from the oxidised cap and as the plant is ramped up. Modikwa and Two Rivers have performed well from a cost perspective recently and both have significant expansion potential.

Harmony (12% of NAV) is predominantly a South African gold producer; with most production remaining in South Africa. Harmony acquired 100% of Avgold in 1H04. ARM holds 14% of Harmony; we expect it to retain this stake in the short and medium term.

Copper and coal, ARM's copper business (5% of NAV) is held through a 50:50 joint venture with Vale. The Konkola North project is now a growth area for ARM. ARM Coal (7% of NAV) is owned through a BEE structure with Xstrata, the business has taken considerable capital resulting in R3bn of debt and as a result struggles to cover the cost of finance presently.

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 FY12 (Khumani and Nkomati).

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 joint venture 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 ARM is trading below 1x NPV, clearly an attractive value opportunity. The strong cash generation and cheap long term valuation as well as upside to our valuation, leads 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 budget, and limited available rail capacity in the long term, which would hamper anticipated volume growth.

Model updated:17 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

ARM

Reuters: ARIJ.J | Bloomberg: ARI SJ

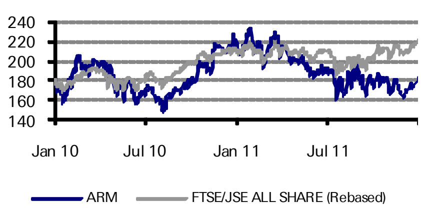
Buy

Price (20 Jan 12)	ZAR 183.05
Target Price	ZAR 245.00
52 Week range	ZAR 160.01 - 233.99
Market Cap (m)	ZARm 38,969
	USDm 4,901

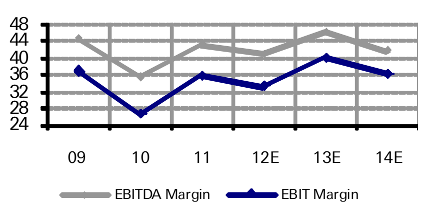
Company Profile

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.

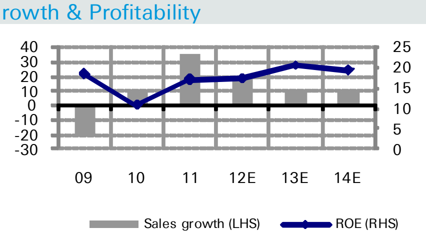
Price Performance



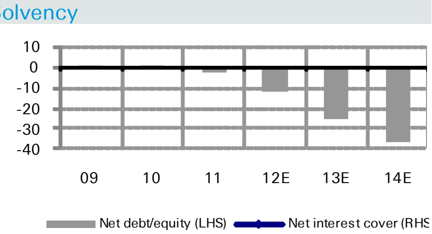
Margin Trends



Growth & Profitability



Solvency



Tim Clark
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	10.79	7.98	15.52	18.49	25.56	28.31
Reported EPS (ZAR)	13.36	8.44	15.48	18.49	25.56	28.31
DPS (ZAR)	1.75	2.00	4.50	7.43	10.27	11.38
BVPS (ZAR)	76.2	83.5	99.3	114.3	134.8	157.5
Weighted average shares (m)	212	212	213	213	213	213
Average market cap (ZARm)	30,842	35,231	41,253	38,969	38,969	38,969
Enterprise value (ZARm)	24,866	29,536	34,122	29,860	25,534	20,510
Valuation Metrics						
PE (DB) (x)	13.5	20.8	12.5	9.9	7.2	6.5
PE (Reported) (x)	10.9	19.7	12.5	9.9	7.2	6.5
P/BV (x)	1.71	1.93	1.90	1.60	1.36	1.16
FCF Yield (%)	2.6	0.1	3.4	8.0	15.1	16.6
Dividend Yield (%)	1.2	1.2	2.3	4.1	5.6	6.2
EV/Sales (x)	2.5	2.7	2.3	1.7	1.3	1.0
EV/EBITDA (x)	5.5	7.6	5.3	4.1	2.8	2.3
EV/EBIT (x)	6.7	10.1	6.4	5.1	3.3	2.7
Income Statement (ZARm)						
Sales revenue	10,094	11,022	14,893	17,673	19,533	21,322
Gross profit	4,494	3,907	6,427	7,242	9,020	8,888
EBITDA	4,494	3,907	6,427	7,242	9,020	8,888
Depreciation	787	987	1,105	1,368	1,210	1,173
Amortisation	0	0	0	0	0	0
EBIT	3,707	2,920	5,322	5,874	7,811	7,715
Net interest income(expense)	29	17	0	192	565	1,206
Associates/affiliates	147	-51	-135	-160	-188	74
Exceptionals/extraordinaries	514	97	-11	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	4,397	2,983	5,176	5,906	8,187	8,995
Income tax expense	1,727	1,009	1,671	1,762	2,466	2,654
Minorities	-198	162	194	189	254	287
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,868	1,812	3,311	3,955	5,467	6,055
DB adjustments (including dilution)	-551	-98	8	0	0	0
DB Net profit	2,317	1,714	3,319	3,955	5,467	6,055
Cash Flow (ZARm)						
Cash flow from operations	4,050	2,521	4,329	5,983	7,188	7,158
Net Capex	-3,255	-2,487	-2,945	-2,884	-1,307	-697
Free cash flow	795	34	1,384	3,100	5,882	6,461
Equity raised/(bought back)	2	44	37	0	0	0
Dividends paid	0	0	0	-773	-1,113	-1,224
Net inc/(dec) in borrowings	-173	-773	-625	0	0	0
Other investing/financing cash flows	107	163	-347	0	0	0
Net cash flow	731	-532	449	2,327	4,769	5,236
Change in working capital	*0*	*0*	*0*	*-272*	*-332*	*-377*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,513	3,039	3,668	5,995	10,764	16,000
Tangible fixed assets	11,725	13,480	15,714	17,230	17,327	16,851
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	6,809	6,766	7,490	7,330	7,142	7,216
Other assets	3,452	4,948	5,437	6,027	6,282	7,253
Total assets	25,499	28,233	32,309	36,582	41,515	47,320
Interest bearing debt	3,744	3,346	3,069	3,069	3,069	3,069
Other liabilities	5,004	6,358	7,125	8,027	8,352	9,040
Total liabilities	8,748	9,704	10,194	11,096	11,421	12,109
Shareholders' equity	16,149	17,765	21,157	24,339	28,693	33,523
Minorities	602	764	958	1,147	1,401	1,688
Total shareholders' equity	16,751	18,529	22,115	25,486	30,094	35,211
Net debt	*231*	*307*	*-599*	*-2,926*	*-7,695*	*-12,931*
Key Company Metrics						
Sales growth (%)	-19.8	9.2	35.1	18.7	10.5	9.2
DB EPS growth (%)	-42.4	-26.0	94.4	19.2	38.2	10.7
EBITDA Margin (%)	44.5	35.4	43.2	41.0	46.2	41.7
EBIT Margin (%)	36.7	26.5	35.7	33.2	40.0	36.2
Payout ratio (%)	12.9	23.4	28.9	40.0	40.0	40.0
ROE (%)	18.5	10.7	17.0	17.4	20.6	19.5
Capex/sales (%)	32.3	22.7	19.8	16.3	6.7	3.3
Capex/depreciation (x)	4.1	2.5	2.7	2.1	1.1	0.6
Net debt/equity (%)	1.4	1.7	-2.7	-11.5	-25.6	-36.7
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (20 January 2012): 32650c | Target price: 45000c | Rating: Buy

Anglo American plc

Tim Clark / Grant Sporre

Business description: Anglo American's (Anglo's) portfolio now consists of seven core mining-based divisions (metallurgical and thermal coal, nickel, platinum, iron ore (incorporating Kumba, Minas Rio and Samancor), diamonds and copper) and the 'other mining and industrial group' (industrial minerals, Scaw South Africa, Copebras, Catalao and two coal assets). 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 US$3-4bn in FY10-12.

Anglo's acquisition of De Beers, Minas Rio, 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 higher long-term price assumptions. There is a strong portfolio of organic growth within the group with US$10bn of projects to be approved before 2013 and a US$66bn unapproved future project pipeline. We think that Anglo would like to approve more projects to fill the growth cap caused after limited new project announcements since the global financial crisis and after the loss of copper growth in the Anglo Sur option exercise, but constraints remain.

The actions around the Codelco option over 49% of Anglo Sur has resulted in Anglo selling 24.5% of Anglo Sur to Mitsubishi for US$5.4bn and the declaration of a legal dispute over the extent of Codelco's ability to exercise its 49% option. We expect this to result in a protracted legal dispute. We have assumed 49% is sold, with another 24.5% sale to Codelco in terms of the contract.

The recent sale of 24.5% of Anglo Sur to Mitsubishi as well as strong operating cash flow and lower-than-planned capex results in Anglo having net debt of US$700m (DB estimate) at the end of FY11. Debt levels are expected to rise into 2012 as the De Beers acquisition (US$6.1bn incl debt) is completed offset by the higher production from Kolomela, Barro Alto and Los Bronces projects starts to deliver cash flow. In addition, the sale of non-core assets should result in an accelerated debt reduction over time.

Anglo is trading on a discount to FY2 rating of the other diversified mining companies and has three large divisions that are operating at very low margins – platinum group metals (PGMs), industrial minerals and nickel. Recovery of this margin will be a positive catalyst for Anglo's rating in our view.

Drivers:

- Rand and A$.
- 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 that 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.

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). In our opinion, Anglo will deliver production growth of 35% in delivering these projects and plans to approve US$10bn (attributable) of projects over the next three years. Anglo also has a US$65-70bn longer-term project pipeline of unapproved projects. Anglo has progressed the sale of non-core businesses and only Scaw South Africa 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 potential delays at Minas Rio, the outcome of the legal dispute with Codelco, the delivery of cost controls at Amplats and delays to project approvals.

Model updated:09 January 2012

Running the numbers

Europe

United Kingdom

Metals & Mining

Anglo American

Reuters: AGLJ.J Bloomberg: AGL SJ

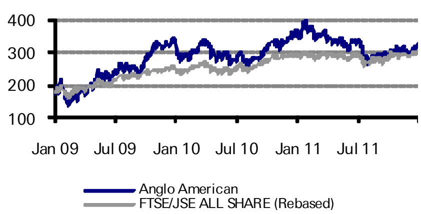
Buy

Price (20 Jan 12)	ZAR 326.50
Target Price	ZAR 455.00
52 Week range	ZAR 266.00 - 395.70
Market Cap (m)	ZARm 394,739
	USDm 49,640

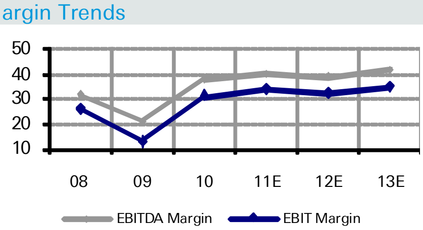
Company Profile

Anglo American plc is a globally diversified mining company. It has interests in diamonds, platinum, coal, copper, nickel, zinc, iron ore, and industrial minerals. The Group has operations and developments in Africa, Europe, Australia, and South and North America. The company first listed in London in 1999, and has been disposing on non-core assets to create a more focused mining group. Anglo's diamond and platinum assets differentiate it from the other diversified miners.

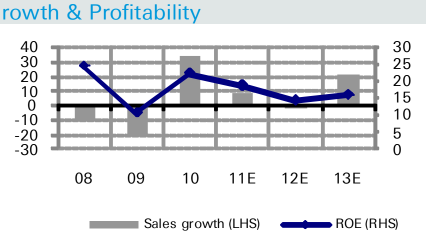
Price Performance



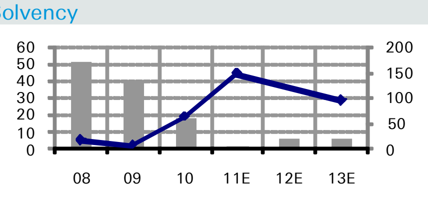
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (USD)	4.33	2.08	4.01	4.71	4.79	6.02
Reported EPS (USD)	4.31	1.97	5.23	5.39	4.79	6.02
DPS (USD)	0.44	0.00	0.65	0.70	0.72	0.74
BVPS (USD)	16.9	21.7	28.4	33.4	37.9	43.7
Weighted average shares (m)	1,200	1,202	1,206	1,209	1,209	1,209
Average market cap (USDm)	57,068	33,259	49,691	49,640	49,640	49,640
Enterprise value (USDm)	62,728	39,545	51,688	59,203	57,993	60,381
Valuation Metrics						
PE (DB) (x)	11.0	13.3	10.3	8.7	8.6	6.8
PE (Reported) (x)	11.0	14.1	7.9	7.6	8.6	6.8
P/BV (x)	1.35	2.00	1.83	1.21	1.08	0.94
FCF Yield (%)	5.2	nm	5.1	6.9	0.7	0.6
Dividend Yield (%)	0.9	0.0	1.6	1.7	1.8	1.8
EV/Sales (x)	2.4	1.9	1.8	2.0	2.0	1.7
EV/EBITDA (x)	7.5	8.9	4.9	4.9	5.1	4.1
EV/EBIT (x)	9.2	14.4	6.0	5.8	6.1	4.9
Income Statement (USDm)						
Sales revenue	26,311	20,858	27,960	30,175	29,598	35,872
Gross profit	8,359	4,432	10,532	12,051	11,416	14,881
EBITDA	8,359	4,432	10,532	12,051	11,416	14,881
Depreciation	1,509	1,692	1,866	1,867	1,961	2,453
Amortisation	0	0	0	0	0	0
EBIT	6,850	2,740	8,666	10,184	9,455	12,428
Net interest income(expense)	-401	-407	-139	-69	25	-131
Associates/affiliates	1,113	84	822	1,128	1,163	1,385
Exceptionals/extraordinaries	1,009	1,612	1,579	417	0	0
Other pre-tax income/(expense)	0	0	154	31	0	0
Profit before tax	8,571	4,029	11,082	11,691	10,643	13,682
Income tax expense	2,451	1,117	2,809	3,029	2,927	4,206
Minorities	905	487	1,575	1,757	1,576	1,761
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,215	2,425	6,698	6,905	6,140	7,715
DB adjustments (including dilution)	22	144	-1,568	-868	0	0
DB Net profit	5,237	2,569	5,130	6,037	6,140	7,715
Cash Flow (USDm)						
Cash flow from operations	8,065	4,087	7,727	8,521	8,680	10,528
Net Capex	-5,116	-4,561	-5,216	-5,075	-8,334	-10,225
Free cash flow	2,949	-474	2,511	3,446	346	303
Equity raised/(bought back)	-608	50	-64	-18	200	200
Dividends paid	-2,346	-472	-919	-1,520	-858	-883
Net inc/(dec) in borrowings	6,616	-371	-788	-227	0	0
Other investing/financing cash flows	-7,045	1,282	1,882	4,593	-2,050	-131
Net cash flow	-434	15	2,622	6,274	-2,363	-510
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (USDm)						
Cash and other liquid assets	2,771	3,269	6,401	12,853	10,491	9,981
Tangible fixed assets	29,545	35,198	39,810	38,645	42,518	50,289
Goodwill/intangible assets	3,250	3,118	2,695	2,726	2,726	2,726
Associates/investments	7,179	6,899	8,915	9,788	15,389	16,694
Other assets	6,993	7,824	8,835	10,139	10,287	11,547
Total assets	49,738	56,308	66,656	74,151	81,411	91,237
Interest bearing debt	14,075	14,506	13,581	13,558	13,558	13,558
Other liabilities	13,907	13,733	15,104	15,577	15,779	16,811
Total liabilities	27,982	28,239	28,685	29,135	29,337	30,369
Shareholders' equity	20,221	26,121	34,239	40,344	45,826	52,859
Minorities	1,535	1,948	3,732	4,672	6,248	8,009
Total shareholders' equity	21,756	28,069	37,971	45,017	52,074	60,868
Net debt	*11,304*	*11,237*	*7,180*	*705*	*3,067*	*3,577*
Key Company Metrics						
Sales growth (%)	-10.9	-20.7	34.0	7.9	-1.9	21.2
DB EPS growth (%)	-0.3	-51.9	92.3	17.6	1.7	25.7
EBITDA Margin (%)	31.8	21.2	37.7	39.9	38.6	41.5
EBIT Margin (%)	26.0	13.1	31.0	33.8	31.9	34.6
Payout ratio (%)	10.1	0.0	11.7	12.3	14.2	11.6
ROE (%)	24.4	10.5	22.2	18.5	14.3	15.6
Capex/sales (%)	19.6	22.1	18.9	16.9	28.2	28.5
Capex/depreciation (x)	3.4	2.7	2.8	2.7	4.2	4.2
Net debt/equity (%)	52.0	40.0	18.9	1.6	5.9	5.9
Net interest cover (x)	17.1	6.7	62.3	147.5	nm	95.2

Source: Company data, Deutsche Bank estimates

Tim Clark
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South Africa – General Mining | Price (20 January 2012): 26455c | Target price: 32000c | Rating: Buy

BHP Billiton plc

Tim Clark

Business description: BHP Billiton (BHP) is the world's largest mining group, formed from the June 2001 unification of Billiton plc and BHP Ltd. BHP'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, natural gas, iron ore, aluminium, alumina, metallurgical coal, thermal coal, copper, nickel, potash, diamonds, mineral sands and manganese.

We believe BHP's investment case remains its ability to deliver strong and consistent growth over the longer term. We estimate it can grow at 6-8% CAGR in copper equivalent terms – above many peers over an extended period. BHP's growth strategy is increasingly focused on six basins and five commodities, each with over a 100 years worth of resources (Western Australian iron ore; Queensland coal; Olympic Dam copper/uranium; Escondida copper; onshore US gas, and Saskatchewan potash). In terms of peak demand commodity cycles, the Pilbara iron ore and Queensland coking coal basins serve the strong near-term demand in steel, Olympic Dam and Escondida serve the more medium term copper demand, and the two newest additions – Saskatchewan and the onshore US petroleum – serve longer dated energy demand. This in our view leaves BHP well positioned across the various commodity cycles.

2011 was a particularly active year for BHP with a number of large project approvals, and US$20bn of US onshore gas acquisitions. The rate at which projects are approved is likely to slow down in 2012, although we expect announcements on progress with the Jansen potash project and the Olympic Dam copper project. 2012 is more likely to be a year of consolidation and may also be accompanied by a streamlining of BHP's asset portfolio. An evaluation of the Ekati mine is likely to lead to a sale, and we believe other assets will be considered, although it is not under any pressure to make disposals. We believe the two key challenges for BHP in 2012 is convincing investors the entry into shale gas was reasonably timed, and that the approval of the first stage of the Olympic Dam expansion will be value accretive.

Drivers: BHP's FY12 earnings profile remains dominated by carbon the steel materials – iron ore, coking coal and manganese (53% of EBIT) – and petroleum (23% of EBIT) CSGs. Key currency exposures include the A$, CHP and rand, having a significant impact on US$ operating costs and earnings. We believe BHP'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 capex commitments between the demands of the diversified portfolio.
- Maintain and enhance return on capital employed targets.

Outlook: The BHP story remains one of long-term sustainable growth, both organically and through acquisitions. US$80bn of growth capex has been allocated over the next five years, which has potentially increased to US$100bn including US onshore gas. The recent US$15bn purchase of gas assets in the US shows not only a focus on long-term strategic growth options. The company's capital allocation strategy is focused on: 1. Organic growth, 2. Balance sheet management (acquisitions and 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'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 value BHP based on DCF valuation at 1x NPV to set our price target. We value BHP 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. An extended period of gas over-supply in the US may lead to questions of value in the company's recently acquired shale gas business.

Model updated:18 January 2012

Running the numbers

Europe

United Kingdom

Metals & Mining

BHP Billiton Plc

Reuters: BILJ.J Bloomberg: BIL SJ

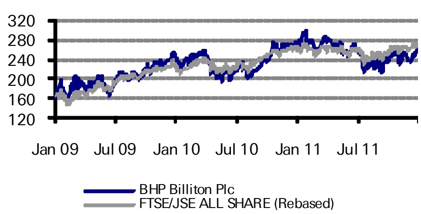
Buy

Price (20 Jan 12)	ZAR 264.55
Target Price	ZAR 300.00
52 Week range	ZAR 211.93 - 297.01
Market Cap (m)	ZARm 1,407,697
	USDm 177,023

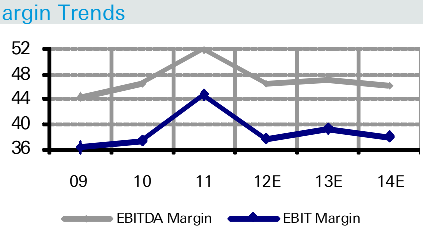
Company Profile

BHP Billiton, 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 in the next few years. The group's operations are divided into seven Customer Sector Groups (CSG): Aluminium, Base Metals, Carbon Steel Materials (iron ore, coking coal and manganese), Diamonds and Specialty (Titanium and Potash)Products, Energy Coal, Petroleum and Stainless Steel Materials (Nickel).

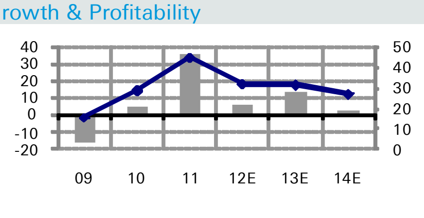
Price Performance



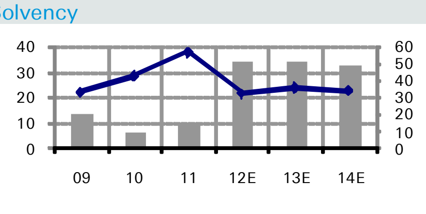
Margin Trends



Growth & Profitability



Solvency



Tim Clark
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (USD)	1.92	2.23	4.06	3.62	4.16	4.13
Reported EPS (USD)	1.05	2.27	4.42	3.62	4.16	4.13
DPS (USD)	0.82	0.87	1.01	1.17	1.23	1.29
BVPS (USD)	7.2	8.7	10.7	12.2	14.2	16.6
Weighted average shares (m)	5,565	5,565	5,321	5,321	5,321	5,321
Average market cap (USDm)	117,270	162,274	191,670	177,023	177,023	177,023
Enterprise value (USDm)	121,307	164,584	196,620	199,181	203,576	206,739
Valuation Metrics						
PE (DB) (x)	11.0	13.1	8.9	9.2	8.0	8.0
PE (Reported) (x)	20.1	12.8	8.1	9.2	8.0	8.0
P/BV (x)	3.16	3.00	3.67	2.73	2.34	2.01
FCF Yield (%)	8.1	5.4	10.4	3.8	2.5	3.4
Dividend Yield (%)	3.9	3.0	2.8	3.5	3.7	3.9
EV/Sales (x)	2.4	3.1	2.7	2.6	2.3	2.3
EV/EBITDA (x)	5.4	6.7	5.3	5.6	5.0	5.0
EV/EBIT (x)	6.7	8.3	6.1	6.9	6.0	6.1
Income Statement (USDm)						
Sales revenue	50,211	52,798	71,739	76,433	87,000	89,220
Gross profit	22,275	24,513	37,093	35,605	42,988	42,982
EBITDA	22,275	24,513	37,093	35,411	41,065	41,196
Depreciation	4,061	4,794	5,113	6,571	7,017	7,296
Amortisation	0	0	0	0	0	0
EBIT	18,214	19,719	31,980	28,840	34,048	33,899
Net interest income(expense)	-543	-459	-561	-877	-940	-986
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-6,054	312	-164	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	11,617	19,572	31,255	27,964	33,109	32,913
Income tax expense	5,279	6,563	7,309	8,393	10,595	10,533
Minorities	461	287	298	203	273	279
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,877	12,722	23,648	19,367	22,241	22,101
DB adjustments (including dilution)	4,845	-253	-1,964	0	0	0
DB Net profit	10,722	12,469	21,684	19,367	22,241	22,101
Cash Flow (USDm)						
Cash flow from operations	18,863	17,920	31,061	27,796	28,115	31,152
Net Capex	-9,328	-9,191	-11,067	-21,104	-23,754	-25,161
Free cash flow	9,535	8,729	19,994	6,692	4,360	5,991
Equity raised/(bought back)	29	12	-9,828	0	0	0
Dividends paid	-4,563	-4,618	-5,054	-6,255	-6,568	-6,896
Net inc/(dec) in borrowings	3,575	-588	-799	14,800	-1,000	1,200
Other investing/financing cash flows	-1,980	-1,912	-6,685	-17,380	-1,831	-1,893
Net cash flow	6,596	1,623	-2,372	-2,142	-5,038	-1,598
Change in working capital	*2,665*	*-2,115*	*461*	*223*	*-3,713*	*-780*
Balance Sheet (USDm)						
Cash and other liquid assets	10,833	12,456	10,084	7,942	2,904	1,306
Tangible fixed assets	49,032	55,576	68,468	93,001	109,739	127,604
Goodwill/intangible assets	661	687	904	1,819	2,298	2,879
Associates/investments	2,306	1,802	1,866	1,866	1,866	1,866
Other assets	15,938	18,331	21,569	21,431	23,735	24,219
Total assets	78,770	88,852	102,891	126,058	140,542	157,873
Interest bearing debt	16,419	15,764	15,907	30,707	29,707	30,907
Other liabilities	21,640	23,759	29,229	29,339	33,670	36,753
Total liabilities	38,059	39,523	45,136	60,046	63,377	67,660
Shareholders' equity	39,954	48,525	56,762	64,754	75,548	88,232
Minorities	757	804	993	1,258	1,616	1,981
Total shareholders' equity	40,711	49,329	57,755	66,013	77,164	90,213
Net debt	*5,586*	*3,308*	*5,823*	*22,765*	*26,803*	*29,601*
Key Company Metrics						
Sales growth (%)	-15.6	5.2	35.9	6.5	13.8	2.6
DB EPS growth (%)	-30.1	16.4	82.0	-10.7	14.8	-0.6
EBITDA Margin (%)	44.4	46.4	51.7	46.3	47.2	46.2
EBIT Margin (%)	36.3	37.3	44.6	37.7	39.1	38.0
Payout ratio (%)	77.6	38.1	22.7	32.1	29.4	31.1
ROE (%)	15.0	28.8	44.9	31.9	31.7	27.0
Capex/sales (%)	18.9	17.7	15.5	27.6	27.3	28.2
Capex/depreciation (x)	2.3	1.9	2.2	3.2	3.4	3.4
Net debt/equity (%)	13.7	6.7	10.1	34.5	34.7	32.8
Net interest cover (x)	33.5	43.0	57.0	32.9	36.2	34.4

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (20 January 2012): 18850c | Target price: 20000c | Rating: Buy

Exxaro Resources Ltd

Tim Clark

Business description: Exxaro, South Africa's premier BEE-owned and managed mining company, was created from Kumba Resources and Eyesizwe Mining. Exxaro's controlling shareholder, BEE Holdco, is in turn controlled by Sipho Nkosi's Eyesizwe Mining. Exxaro is the third largest South African coal producer with capacity of 45mtpa. The heavy minerals business (including Namakwa acquired in September 2008) is the second-largest titanium slag producer and the third-largest titanium feedstock and zircon supplier globally. 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.

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 6.3mtpa allocation at the expanded Richards Bay Coal Terminal (RBCT). Annual production is 45mt; 83% of which is sold to Eskom on various terms including two cost+ agreements and various coal mining inflation-linked contracts. Only 6-8% 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 6.3mtpa when the RBCT expansion is complete, but the Witbank/RBCT Spoornet COALlink expansion remains a constraint to realising this potential capacity.

Current projects are dominated by the R9.5bn Medupi project (a new power station near Grootegeluk requiring 15mtpa) and Fairbreeze to replace Hillendale. Longer term growth is in the Waterberg (Eskom commercial coal) from various projects and in Australia at Moranbah South (hard coking coal with Anglo in Australia).

The heavy minerals division is currently in the process of a merger with Tronox, subject to regulatory approvals and is expected to be completed in 2Q12. Mineral sands prices have risen more than 100% in the last year and momentum remains. The division is now a significant driver of longer term profitability with a headline contribution of 30 and 31% in 2012 and 2013. The potential for higher prices and a positive listing environment for Tronox would be very supportive for Exxaro.

Drivers:

- ZAR/USD exchange rate.
- Iron ore spot, thermal and semi-soft coal prices and mineral sands prices.
- Mining cost inflation for the captured operations.

Exxaro's main profit drivers include mineral sands prices as well as local and export coal sales.

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. We view the recent deal announced with Tronox as positive in delivering more stable long term margins in heavy minerals. These positive catalysts are expected to result in continued momentum for Exxaro.

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 A$ and rand vs the US$, 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.

Model updated:11 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

Exxaro Resources Ltd

Reuters: EXXJ.J Bloomberg: EXX SJ

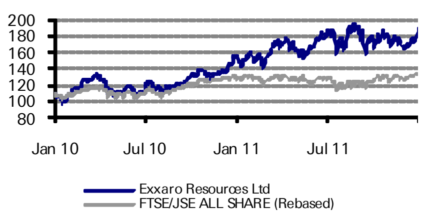
Buy

Price (20 Jan 12)	ZAR 188.50
Target Price	ZAR 240.00
52 Week range	ZAR 141.00 - 195.00
Market Cap (m)	ZARm 65,598
	USDm 8,249

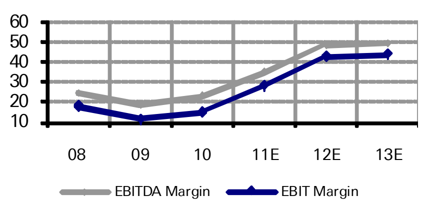
Company Profile

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.

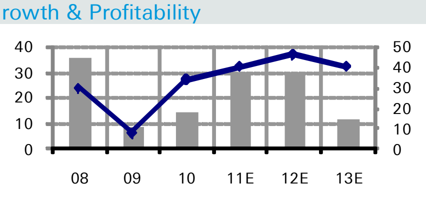
Price Performance



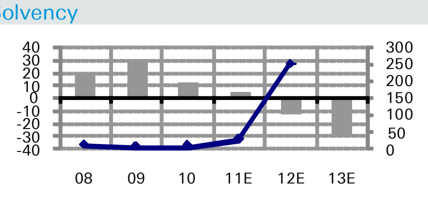
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	10.06	7.02	14.41	23.11	36.60	43.39
Reported EPS (ZAR)	9.43	2.86	14.43	23.10	36.60	43.39
DPS (ZAR)	3.75	2.00	5.00	8.16	12.40	14.60
BVPS (ZAR)	36.7	36.2	48.7	66.6	93.0	122.9
Weighted average shares (m)	343	345	347	348	348	348
Average market cap (ZARm)	35,268	27,647	41,524	65,598	65,598	65,598
Enterprise value (ZARm)	34,351	28,196	38,466	60,653	55,406	47,111
Valuation Metrics						
PE (DB) (x)	10.2	11.4	8.3	8.2	5.1	4.3
PE (Reported) (x)	10.9	28.0	8.3	8.2	5.1	4.3
P/BV (x)	1.96	2.89	2.80	2.83	2.03	1.53
FCF Yield (%)	nm	nm	nm	1.0	13.8	20.3
Dividend Yield (%)	3.6	2.5	4.2	4.3	6.6	7.7
EV/Sales (x)	2.5	1.9	2.2	2.7	1.9	1.5
EV/EBITDA (x)	10.1	9.9	9.6	7.8	3.9	2.9
EV/EBIT (x)	13.9	16.2	14.6	9.7	4.5	3.3
Income Statement (ZARm)						
Sales revenue	13,843	15,009	17,155	22,236	28,887	32,251
Gross profit	3,394	2,857	4,016	7,788	14,129	16,082
EBITDA	3,394	2,857	4,016	7,788	14,129	16,082
Depreciation	927	1,118	1,380	1,517	1,775	1,922
Amortisation	0	0	0	0	0	0
EBIT	2,467	1,739	2,636	6,271	12,354	14,159
Net interest income(expense)	-241	-415	-455	-233	-49	632
Associates/affiliates	1,665	1,900	3,719	4,466	4,492	5,075
Exceptionals/extraordinaries	0	-1,435	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	3,891	1,789	5,900	10,504	16,797	19,866
Income tax expense	510	766	665	2,133	3,546	4,159
Minorities	-24	0	27	9	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,405	1,023	5,208	8,362	13,250	15,707
DB adjustments (including dilution)	225	1,491	-5	3	0	0
DB Net profit	3,630	2,514	5,203	8,365	13,250	15,707
Cash Flow (ZARm)						
Cash flow from operations	1,910	-206	2,364	5,494	14,130	16,691
Net Capex	-4,345	-3,060	-2,766	-4,842	-5,088	-3,385
Free cash flow	-2,435	-3,266	-402	651	9,043	13,306
Equity raised/(bought back)	31	43	29	10	0	0
Dividends paid	0	0	0	-1,203	-3,795	-5,012
Net inc/(dec) in borrowings	2,734	831	-304	-137	0	0
Other investing/financing cash flows	589	1,617	1,794	1,645	0	0
Net cash flow	919	-775	1,117	967	5,248	8,294
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,769	1,023	2,140	3,039	8,286	16,581
Tangible fixed assets	11,309	11,866	13,305	16,094	19,406	20,869
Goodwill/intangible assets	113	218	121	231	231	231
Associates/investments	3,426	3,183	5,255	6,133	6,133	6,133
Other assets	6,568	6,940	7,788	9,676	10,623	11,973
Total assets	23,185	23,230	28,609	35,172	44,680	55,787
Interest bearing debt	4,150	4,754	4,360	4,257	4,257	4,257
Other liabilities	5,911	5,567	6,835	7,091	7,143	7,555
Total liabilities	10,061	10,321	11,195	11,348	11,400	11,812
Shareholders' equity	12,996	12,908	17,437	23,855	33,310	44,005
Minorities	128	1	-23	-30	-30	-30
Total shareholders' equity	13,124	12,909	17,414	23,825	33,280	43,975
Net debt	*2,381*	*3,731*	*2,220*	*1,218*	*-4,029*	*-12,324*
Key Company Metrics						
Sales growth (%)	36.3	8.4	14.3	29.6	29.9	11.6
DB EPS growth (%)	150.7	-30.2	105.3	60.3	58.4	18.5
EBITDA Margin (%)	24.5	19.0	23.4	35.0	48.9	49.9
EBIT Margin (%)	17.8	11.6	15.4	28.2	42.8	43.9
Payout ratio (%)	37.8	67.4	33.3	34.0	32.6	32.3
ROE (%)	29.9	7.9	34.3	40.5	46.4	40.6
Capex/sales (%)	11.7	13.2	15.6	23.6	17.6	10.5
Capex/depreciation (x)	1.7	1.8	1.9	3.5	2.9	1.8
Net debt/equity (%)	18.1	28.9	12.7	5.1	-12.1	-28.0
Net interest cover (x)	10.2	4.2	5.8	26.9	249.9	nm

Source: Company data, Deutsche Bank estimates

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South Africa – General Mining

Price (20 January 2012): 52950c Target price: 42500c Rating: Hold

Kumba Iron Ore Ltd

Tim Clark

Business description: Kumba Iron Ore (Kumba) comprises a 74% holding in Sishen Iron Ore Company (SIOC), the fifth-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 44mt; 8.75mt (27%) being sold on a cost+3% basis to ArcelorMittal (subject to offtake requirements and currently in dispute). Expansions of 9mtpa have been approved in the Kolomela project currently in commissioning. Kolomela will take production capacity to 53mtpa. Longer term expansions are dependent on an expansion of the Orex rail line from 60mt (current expanded capacity approved and in construction) to 90-95mt or the approval of the Zandrivierspoort project. We expect the announcement and approval of this expansion will be in 2012/13 with a 4-5 year construction period.

Anglo controls SIOC through its 65%-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 and the terms for the BEE deal met in 2016.

Kumba has sold between 60-70% of export volumes to China recently and is highly exposed to Chinese steel demand. At present we are forecasting prices to remain reasonably flat around the US$145/tonne level for the next couple of years with a weakening ZAR/USD.

Sishen should pay 50% higher dividends in two years' time, assuming the 20% volume increase from Kolomela and the dividend cover being cut from 1.3x to 1.0x. This dividend should be passed onto shareholders unless Kumba is successful in finding an opportunity in its newly established African strategy which requires considerable capital.

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 weaker rand and flat or higher iron ore prices that lead to strong cash generation and thus ultimately to the high dividends (FY11 8%).

Outlook: Kumba Iron Ore (Kumba) has a good growth pipeline, limited by Transnet's expansion of the rail link between Sishen and Saldanha. 8.75mt of the current 42.75mt production is sold on a cost+3% basis to ArcelorMittal SA, though the terms of this arrangement are in dispute. The 10-year strategy is to increase production to 70mtpa, most of which will come from Kolomela (9mt approved) but further potential from Sishen and Kolomela depending on rail expansions. Anglo controls SIOC through its 65%-held subsidiary Kumba. Kumba is trading in line with our valuation on a total return basis with lower expected iron ore prices offset by higher dividends as production growth is delivered. The African strategy remains a risk to dividends. Hold.

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 7.5x 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 (2x).

Risks: Upside risks to our view include a weaker-than-assumed ZAR/USD exchange rate and higher-than-expected railings and production. Downside risks include lower iron ore prices and an African iron ore acquisition threatening dividends. Specific risks include the potential for a negative outcome from the dispute with ArcelorMittal SA.

Model updated:09 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

Kumba Iron Ore Ltd

Reuters: KIOJ.J Bloomberg: KIO SJ

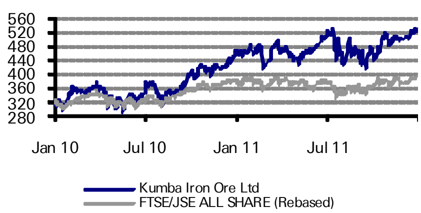
Hold

Price (20 Jan 12)	ZAR 529.50
Target Price	ZAR 460.00
52 Week range	ZAR 415.00 - 529.50
Market Cap (m)	ZARm 170,527
	USDm 21,444

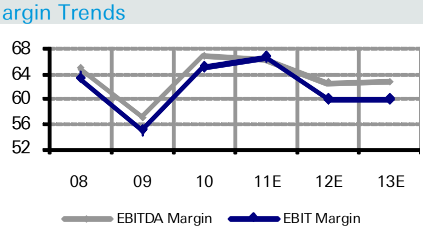
Company Profile

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.

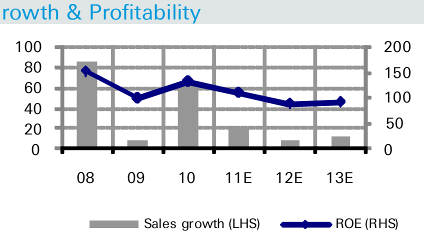
Price Performance



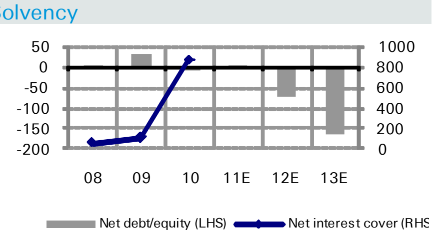
Margin Trends



Growth & Profitability



Solvency



Tim Clark
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Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	22.54	21.79	44.52	53.10	54.35	61.58
Reported EPS (ZAR)	22.54	21.79	44.52	53.10	54.35	61.58
DPS (ZAR)	20.10	14.60	34.50	40.80	50.60	61.60
BVPS (ZAR)	21.9	22.9	45.1	51.9	69.7	65.7
Weighted average shares (m)	316	318	320	322	322	322
Average market cap (ZARm)	79,582	65,363	114,296	170,527	170,527	170,527
Enterprise value (ZARm)	80,994	69,726	116,204	166,944	152,964	137,328
Valuation Metrics						
PE (DB) (x)	11.2	9.4	8.0	10.0	9.7	8.6
PE (Reported) (x)	11.2	9.4	8.0	10.0	9.7	8.6
P/BV (x)	7.40	13.31	9.41	10.19	7.60	8.06
FCF Yield (%)	4.3	0.1	11.8	10.0	10.8	12.1
Dividend Yield (%)	8.0	7.1	9.7	7.7	9.6	11.6
EV/Sales (x)	3.8	3.0	3.0	3.5	3.0	2.4
EV/EBITDA (x)	5.9	5.2	4.5	5.3	4.7	3.8
EV/EBIT (x)	6.0	5.4	4.6	5.3	4.9	3.9
Income Statement (ZARm)						
Sales revenue	21,360	23,408	38,704	47,349	51,675	58,250
Gross profit	13,830	13,369	25,896	31,430	32,351	36,507
EBITDA	13,830	13,369	25,896	31,430	32,351	36,507
Depreciation	317	489	765	-155	1,327	1,592
Amortisation	0	0	0	0	0	0
EBIT	13,513	12,880	25,131	31,586	31,024	34,915
Net interest income(expense)	-251	-127	-29	170	275	1,941
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	13,262	12,753	25,102	31,755	31,298	36,856
Income tax expense	4,179	3,949	6,813	9,827	9,418	12,066
Minorities	1,875	1,829	3,966	4,827	4,376	4,958
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	7,208	6,975	14,323	17,101	17,504	19,832
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	7,208	6,975	14,323	17,101	17,504	19,832
Cash Flow (ZARm)						
Cash flow from operations	6,013	4,064	18,241	21,800	21,756	26,596
Net Capex	-2,563	-3,996	-4,723	-4,698	-3,400	-6,002
Free cash flow	3,450	68	13,518	17,102	18,356	20,594
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,076	-1,811	-6,714	-19,003	-3,682	-5,277
Net inc/(dec) in borrowings	328	56	-2,943	0	0	0
Other investing/financing cash flows	76	209	-10	5	0	0
Net cash flow	2,778	-1,478	3,851	-1,896	14,674	15,317
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,810	891	4,855	2,813	17,487	32,804
Tangible fixed assets	7,911	11,568	15,866	19,637	21,710	26,120
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	283	334	460	502	502	502
Other assets	4,699	5,014	6,694	8,702	11,035	11,137
Total assets	16,703	17,807	27,875	31,655	50,734	70,564
Interest bearing debt	3,858	3,914	3,185	3,197	3,197	3,197
Other liabilities	4,339	4,937	6,314	7,822	8,703	9,020
Total liabilities	8,197	8,851	9,499	11,019	11,900	12,217
Shareholders' equity	6,859	7,282	14,338	16,728	22,440	21,166
Minorities	1,647	1,674	4,038	-3,465	-2,771	-3,089
Total shareholders' equity	8,506	8,956	18,376	13,263	19,670	18,077
Net debt	*48*	*3,023*	*-1,670*	*384*	*-14,290*	*-29,607*
Key Company Metrics						
Sales growth (%)	85.8	9.6	65.3	22.3	9.1	12.7
DB EPS growth (%)	135.5	-3.3	104.3	19.3	2.4	13.3
EBITDA Margin (%)	64.7	57.1	66.9	66.4	62.6	62.7
EBIT Margin (%)	63.3	55.0	64.9	66.7	60.0	59.9
Payout ratio (%)	88.2	66.5	77.1	76.8	93.1	100.0
ROE (%)	151.5	98.7	132.5	110.1	89.4	91.0
Capex/sales (%)	12.0	17.1	12.2	9.9	6.6	10.3
Capex/depreciation (x)	8.1	8.2	6.2	nm	2.6	3.8
Net debt/equity (%)	0.6	33.8	-9.1	2.9	-72.6	-163.8
Net interest cover (x)	53.8	101.4	866.6	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (20 January 2012): 34603c | Target price: 39000c | Rating: Buy

AngloGold Ashanti Ltd

Anna Mulholland, CFA

Business description: AngloGold Ashanti is the most diversified of the South African listed gold miners, with operations in South Africa, Namibia, Tanzania, Ghana, Mali, Guinea, USA, Brazil, Argentina and Australia. Currently, around 40% of the group attributable production comes from South Africa, and AngloGold is therefore less geographically exposed to the region relative to its South African gold mining peers, Harmony and Gold Fields. On the whole, AngloGold is a lower-cost producer than its peers, and falls into the third quartiles of the global gold mining cost curve. This results in the company having more robust operating margins in a constant currency and gold price environment. The company is investing in new projects outside South Africa to maintain its diversification. Current projects in the pipeline include Kibali and Mongbwalu (both in the DRC), Tropicana in Australia and La Colosa and Gramalote in Colombia. The company completed the repurchase of its gold hedge book in October 2010 that resulted in cash flow being released and hence increasing (especially in the recent rising gold price environment). We believe AngloGold can now fund its projects from cash and it also has the ability to increase dividends, resulting in a significant rerating of the stock, in our view.

Drivers: Key value drivers for AngloGold include:

- The gold price;
- ZAR/USD exchange rate;
- Production growth;
- Wage and electricity cost inflation.

The following sensitivities apply to our FY12 earnings expectations: A 10% weakening in the ZAR/USD exchange rate would result in a c.24% increase in rand EPS. A 10% increase in the US$ gold price would result in a c.24% increase in rand EPS.

Outlook: We rate AngloGold Ashanti Buy. We believe the company will generate substantial free cash flow over the next 12 months. In our view, this means AngloGold can cash-fund its growth projects (in DRC, Australia and Colombia) and also return excess cash to shareholders. We believe the company has the ability to increase dividends, resulting potentially in a rerating of the stock. Buy.

Valuation: We value AngloGold based on a sum-of-the-parts DCF model of individual operations and projects, in line with the methodology used across our South African resources coverage. We apply a nominal WACC of 11.1% to cash flows from 2011e-17e that are driven by our assumption of nominal commodity prices. From 2018e to the end of life of each mine, we discount cash flows using a real WACC, to reflect our use of real commodity prices in our assumptions from then. We apply a 1x multiple to our DCF-derived net asset value for the company. We believe this is a conservative but sensible approach given our confidence that our therefore long-term gold price assumption and long-term ZAR9.58/USD rate reflect reasonable incentive pricing for the projects we expect AngloGold to develop for IRRs of 9-15% (on a real post-tax basis). We derive our one-year forward target price from rolling our DCF forward at the cost of equity (11.7%) less the expected dividend yield.

Risks: Downside risks to our target price include an increase in exploration, sustaining and development capex plans as operating cash flow increases, and slower-than-expected improvement in AngloGold's key Continental Africa mines, which have underperformed recently. In addition, AngloGold could choose to spend its growing net cash balance on M&A. Lower-than-expected gold prices; a stronger-than-expected ZAR/USD rate; and higher-than-expected mining inflation and costs are also downside risks to our target price.

Model updated:23 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Gold

AngloGold Ashanti

Reuters: ANGJ.J | Bloomberg: ANG SJ

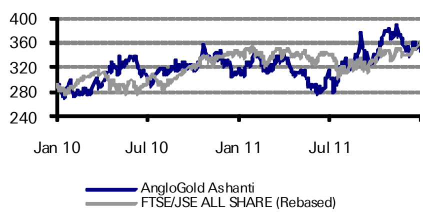
Buy

Price (20 Jan 12)	ZAR 346.03
Target Price	ZAR 390.00
52 Week range	ZAR 277.00 - 390.00
Market Cap (m)	ZARm 133,807
	USDm 16,827

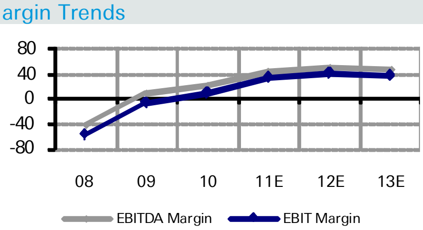
Company Profile

AngloGold Ashanti has 20 operations in four continents, and several exploration programmes in both the established and new gold-producing regions of the world.

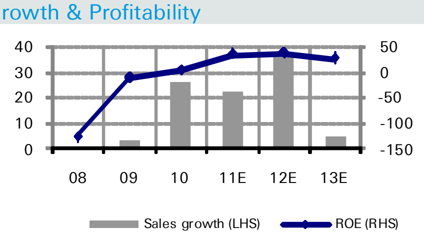
Price Performance



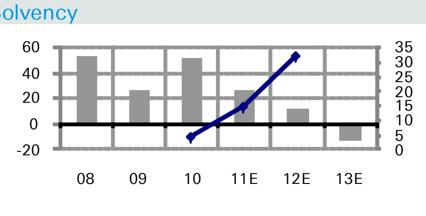
Margin Trends



Growth & Profitability



Solvency



Anna Mulholland, CFA
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Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	-52.09	0.49	2.58	25.13	45.81	45.57
Reported EPS (ZAR)	-50.77	-7.65	1.71	28.67	45.81	45.57
DPS (ZAR)	1.00	1.30	1.45	2.70	4.00	4.40
BVPS (ZAR)	72.4	59.7	70.5	105.1	148.6	205.1
Weighted average shares (m)	317	361	372	387	387	387
Average market cap (ZARm)	76,292	110,082	115,877	133,807	133,807	133,807
Enterprise value (ZARm)	81,712	109,976	126,582	140,002	134,642	116,546
Valuation Metrics						
PE (DB) (x)	nm	621.9	121.0	13.8	7.6	7.6
PE (Reported) (x)	nm	nm	182.7	12.1	7.6	7.6
P/BV (x)	3.48	5.13	4.64	3.29	2.33	1.69
FCF Yield (%)	nm	3.8	nm	6.8	5.3	10.0
Dividend Yield (%)	0.4	0.4	0.5	0.8	1.2	1.3
EV/Sales (x)	2.7	3.6	3.3	2.9	2.1	1.7
EV/EBITDA (x)	nm	39.9	14.4	6.6	4.0	3.5
EV/EBIT (x)	nm	nm	33.4	9.0	5.0	4.6
Income Statement (ZARm)						
Sales revenue	29,774	30,745	38,833	47,645	65,447	68,934
Gross profit	11,836	12,140	18,022	25,173	39,181	38,846
EBITDA	-12,089	2,756	8,808	21,054	33,512	32,876
Depreciation	4,620	4,615	5,022	5,456	6,667	7,507
Amortisation	0	0	0	0	0	0
EBIT	-16,709	-1,859	3,786	15,597	26,845	25,369
Net interest income(expense)	-390	-702	-892	-1,072	-842	327
Associates/affiliates	-1,177	785	467	631	1,239	1,305
Exceptionals/extraordinaries	198	0	0	0	0	0
Other pre-tax income/(expense)	218	603	-325	1,417	0	0
Profit before tax	-16,881	-1,958	2,569	15,943	26,004	25,695
Income tax expense	-2,078	1,172	2,018	4,826	8,321	8,223
Minorities	324	417	381	275	591	544
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-16,106	-2,762	637	11,472	18,330	18,234
DB adjustments (including dilution)	-416	-603	325	-1,417	0	0
DB Net profit	-16,522	-3,365	962	10,055	18,330	18,234
Cash Flow (ZARm)						
Cash flow from operations	-3,127	3,781	-5,730	18,526	22,665	25,114
Net Capex	-9,466	373	-6,608	-9,457	-15,603	-11,713
Free cash flow	-12,593	4,154	-12,338	9,069	7,062	13,400
Equity raised/(bought back)	13,592	2,384	5,656	23	0	0
Dividends paid	-455	-474	-846	-1,162	-2,010	-2,234
Net inc/(dec) in borrowings	1,968	749	4,340	-1,173	0	0
Other investing/financing cash flows	-320	-4,075	-955	-1,359	-842	327
Net cash flow	2,192	2,738	-4,143	5,399	4,211	11,493
Change in working capital	*506*	*-950*	*-1,537*	*-1,168*	*-3,382*	*679*
Balance Sheet (ZARm)						
Cash and other liquid assets	5,438	8,176	3,776	9,199	13,410	24,903
Tangible fixed assets	41,081	43,263	40,600	50,456	59,392	63,599
Goodwill/intangible assets	1,403	1,316	1,277	1,547	1,547	1,547
Associates/investments	8,202	7,251	4,097	5,859	7,098	8,403
Other assets	20,078	12,764	12,879	18,451	22,297	22,951
Total assets	76,202	72,770	62,629	85,512	103,744	121,403
Interest bearing debt	18,270	14,355	17,763	20,160	20,160	14,890
Other liabilities	34,186	35,891	17,843	23,632	24,952	26,067
Total liabilities	52,456	50,246	35,606	43,792	45,112	40,957
Shareholders' equity	22,956	21,558	26,208	40,627	57,450	79,291
Minorities	790	966	815	1,093	1,182	1,155
Total shareholders' equity	23,746	22,524	27,023	41,721	58,632	80,446
Net debt	*12,832*	*6,179*	*13,987*	*10,961*	*6,750*	*-10,013*
Key Company Metrics						
Sales growth (%)	nm	3.3	26.3	22.7	37.4	5.3
DB EPS growth (%)	na	na	425.7	875.5	82.3	-0.5
EBITDA Margin (%)	-40.6	9.0	22.7	44.2	51.2	47.7
EBIT Margin (%)	-56.1	-6.0	9.7	32.7	41.0	36.8
Payout ratio (%)	nm	nm	84.6	9.1	8.4	9.3
ROE (%)	-126.8	-12.4	2.7	34.3	37.4	26.7
Capex/sales (%)	33.1	28.2	18.3	20.0	23.8	17.0
Capex/depreciation (x)	2.1	1.9	1.4	1.7	2.3	1.6
Net debt/equity (%)	54.0	27.4	51.8	26.3	11.5	-12.4
Net interest cover (x)	nm	nm	4.2	14.6	31.9	nm

Source: Company data, Deutsche Bank estimates

South Africa – Gold

Price (20 January 2012): 12379c Target price: 10500c Rating: Hold

Gold Fields Ltd

Anna Mulholland, CFA

Business description: Gold Fields is a gold miner with operations in South Africa, Ghana, Peru and Australia, and with many exploration projects around the world. The South Deep mine, one of Gold Fields' larger mines, will be the company's last operating gold mine in South Africa. The company aims to grow its current gold equivalent production base of 3.5moz to 5moz by the end of 2015 from ounces in production and development. Gold Fields aims to maintain a 20% operating margin post capex (NCE margin) on its existing assets in the short-term and to increase this to 25% in the medium-term. Through organic growth and exploration, the company aims to increase the geographical diversification of its portfolio of assets.

Gold Fields has a large portfolio of future project options that will contribute to production growth once approved: its six major projects are the South Deep project, Chucapaca in Peru, the Damang super-pit in Ghana, Yanfolila in Mali, the Arctic platinum project in Finland and the Far South East project in the Philippines. At present, South Deep is ramping up and the other projects are unapproved. The Chucapaca project in Peru is the most advanced project and is likely to be approved by Gold Fields board in 1H12.

Gold Fields pays out 50% of its free cash flow after project capex to shareholders and the company seeks to remain one of the highest dividend payers in the industry. We see a risk to the level of dividends if Gold Fields implements its full project pipeline – at present, project capex is at low levels relative to peers.

Drivers: Key value drivers for Gold Fields include:

- The gold price;
- ZAR/USD exchange rate;
- Production growth;
- Wage and electricity cost inflation.

The following sensitivities apply to our FY12 earnings expectations (year to June): A 10% weakening in the ZAR/USD exchange rate would result in a c.23% increase in rand EPS. A 10% increase in the US$ gold price would result in a c.23% increase in rand EPS.

Outlook: Gold Fields' 2015 5moz target is unlikely to be met from current operations, in our view. We believe there is a risk that management initiates a large capex programme (build and purchase) to enable the target to be reached. In the meantime, we do not expect any significant value unlock until new projects are approved. Gold Fields' main South African project, South Deep, is a quality mine that will contribute significantly to group profitability; however, the asset has late life risks to costs and production that are not currently priced in. Downside to our valuation leads us to our Hold rating.

Valuation: We value Gold Fields based on a sum-of-the-parts DCF model of individual operations and projects. We apply a nominal WACC of 11.1% to cash flows from 2011e-17e that are driven by our assumption of commodity prices in nominal terms. From 2018e to the end of life of each mine, we discount cash flows using a real WACC, to reflect our use of real commodity prices in our assumptions from 2018e onward. We apply a 1x multiple to our DCF-derived net asset value for the company. We feel this is a conservative but sensible approach given our confidence that our long-term gold price assumption of US$1,025/oz and our long-term ZAR/USD rate of 9.58 are reflective of reasonable incentive pricing for the projects we expect Gold Fields to develop for IRRs of 9-15% (on a real post-tax basis). We derive our one-year forward target price from rolling our DCF forward at the cost of equity less the expected dividend yield.

Risks: Upside risks to our target price include current operations outperforming our expectations, sooner-than-expected approval and development of projects, higher-than-expected gold prices and a weaker-than-expected ZAR/USD rate. Downside risks to our target price include lower-than-expected gold prices and a stronger-than-expected ZAR/USD rate.

Model updated:06 December 2011

Running the numbers

Sub-Saharan Africa

South Africa

Gold

Gold Fields

Reuters: GFIJ.J Bloomberg: GFI SJ

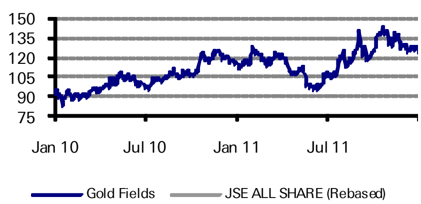
Hold

Price (20 Jan 12)	ZAR 123.79
Target Price	ZAR 105.00
52 Week range	ZAR 95.60 - 143.00
Market Cap (m)	ZARm 89,374
	USDm 11,239

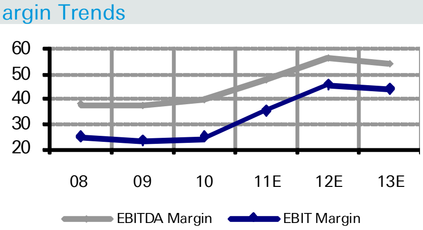
Company Profile

Gold Fields is the third largest gold miner globally. It has operations in South Africa, Peru, Ghana and Australia.

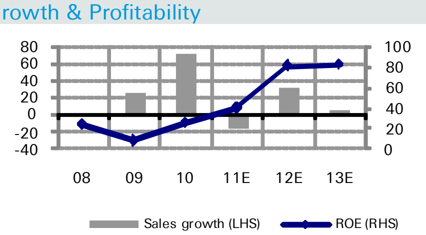
Price Performance



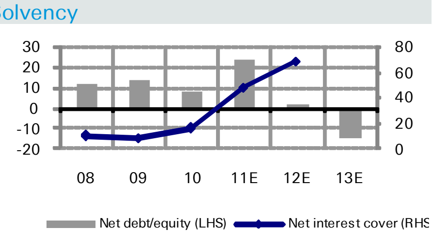
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	4.58	6.36	11.78	12.11	23.31	24.40
Reported EPS (ZAR)	6.15	2.27	6.22	9.90	20.78	21.77
DPS (ZAR)	1.85	1.10	1.90	2.20	2.45	2.55
BVPS (ZAR)	63.0	57.1	60.4	68.4	86.8	106.1
Weighted average shares (m)	653	670	711	722	723	723
Average market cap (ZARm)	60,020	68,349	73,119	89,374	89,495	89,495
Enterprise value (ZARm)	60,666	73,933	78,724	101,855	90,025	77,500
Valuation Metrics						
PE (DB) (x)	20.1	16.0	8.7	10.2	5.3	5.1
PE (Reported) (x)	14.9	45.0	16.5	12.5	6.0	5.7
P/BV (x)	1.46	1.72	2.00	1.81	1.43	1.17
FCF Yield (%)	nm	nm	4.6	6.4	16.0	16.7
Dividend Yield (%)	2.0	1.1	1.8	1.8	2.0	2.1
EV/Sales (x)	2.6	2.5	1.6	2.4	1.6	1.3
EV/EBITDA (x)	7.0	6.7	4.0	5.1	2.8	2.4
EV/EBIT (x)	10.7	10.9	6.5	6.9	3.5	3.0
Income Statement (ZARm)						
Sales revenue	23,010	29,087	49,873	41,945	56,001	59,612
Gross profit	9,041	11,463	20,734	20,867	32,755	33,419
EBITDA	8,713	10,955	19,774	20,116	31,801	32,403
Depreciation	3,026	4,142	7,613	5,440	6,299	6,456
Amortisation	0	0	0	0	0	0
EBIT	5,687	6,813	12,161	14,677	25,501	25,947
Net interest income(expense)	-587	-873	-742	-306	-371	291
Associates/affiliates	-9	-141	-88	8	31	32
Exceptionals/extraordinaries	1,282	-1,746	-2,328	-751	-486	-486
Other pre-tax income/(expense)	271	155	84	-1,545	-2,311	-2,431
Profit before tax	6,653	4,349	9,175	12,074	22,332	23,321
Income tax expense	1,938	2,354	3,530	4,102	6,700	6,996
Minorities	360	319	1,082	826	640	621
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,346	1,536	4,474	7,154	15,024	15,735
DB adjustments (including dilution)	-1,111	2,778	4,004	1,602	1,828	1,907
DB Net profit	3,235	4,314	8,478	8,756	16,852	17,642
Cash Flow (ZARm)						
Cash flow from operations	7,737	6,982	15,736	15,081	22,176	22,939
Net Capex	-8,972	-7,617	-12,336	-9,368	-7,851	-7,986
Free cash flow	-1,235	-635	3,400	5,713	14,325	14,953
Equity raised/(bought back)	841	97	95	30	0	0
Dividends paid	-1,045	-981	-1,735	-1,442	-1,735	-1,807
Net inc/(dec) in borrowings	-284	1,980	1,451	3,460	0	0
Other investing/financing cash flows	277	414	4,294	-6,926	-1,665	0
Net cash flow	-1,446	875	7,504	834	10,925	13,146
Change in working capital	*0*	*0*	*66*	*-531*	*-562*	*225*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,029	2,882	5,464	6,298	17,223	30,369
Tangible fixed assets	45,533	48,337	53,250	61,466	63,018	64,547
Goodwill/intangible assets	4,459	4,459	4,459	4,459	4,459	4,459
Associates/investments	5,760	2,971	1,450	1,302	2,968	2,968
Other assets	5,134	6,606	7,192	8,322	9,232	9,642
Total assets	62,916	65,255	71,814	81,848	96,899	111,985
Interest bearing debt	7,020	8,973	9,438	18,557	18,557	18,557
Other liabilities	13,334	13,612	15,754	18,328	19,451	19,988
Total liabilities	20,354	22,585	25,192	36,885	38,008	38,545
Shareholders' equity	41,146	40,206	43,542	49,477	62,766	76,694
Minorities	1,415	2,463	3,080	1,523	2,163	2,784
Total shareholders' equity	42,561	42,669	46,623	51,000	64,929	79,477
Net debt	*4,991*	*6,092*	*3,974*	*12,259*	*1,334*	*-11,812*
Key Company Metrics						
Sales growth (%)	nm	26.4	71.5	-15.9	33.5	6.4
DB EPS growth (%)	na	39.0	85.1	2.8	92.5	4.7
EBITDA Margin (%)	37.9	37.7	39.6	48.0	56.8	54.4
EBIT Margin (%)	24.7	23.4	24.4	35.0	45.5	43.5
Payout ratio (%)	27.8	48.0	30.2	22.2	11.8	11.7
ROE (%)	24.0	8.7	25.6	39.8	81.0	82.6
Capex/sales (%)	39.2	26.3	24.8	22.4	14.0	13.4
Capex/depreciation (x)	3.0	1.8	1.6	1.7	1.2	1.2
Net debt/equity (%)	11.7	14.3	8.5	24.0	2.1	-14.9
Net interest cover (x)	9.7	7.8	16.4	47.9	68.7	nm

Source: Company data, Deutsche Bank estimates

South Africa – Gold

Price (20 January 2012): 8995c | Target price: 12500c | Rating: Buy

Harmony Gold Mining Co Ltd

Anna Mulholland, CFA

Business description: Harmony Gold produces around 1.3m ounces of gold each year from a portfolio of 12 mines in South Africa and one mine in Papua New Guinea. The group aims to expand its production to 1.8-2.0m ounces by FY15 (year to June). Harmony has a 50% share in the Morobe Mining Joint Venture with Newcrest Mining – the JV is developing the Wafi-Golpu project in Papua New Guinea (PNG).

Harmony's South African operations account for >90% of the group's attributable production and, as such, Harmony is more geographically concentrated in South Africa than are its peers (Gold Fields and AngloGold Ashanti). Harmony's operations are sit currently in the upper quartile of the cost curve as it has several high-cost operations. As such, the company is seeking to increase its profitability by developing new lower-cost underground mines in South Africa (Doornkop and Phakisa) and investing in PNG. Harmony is highly exposed to a rising inflationary environment in South Africa. As a result, Harmony's operating margins may come under pressure before its South African exposure is reduced.

Wafi-Golpu has yielded positive drill results to date, with the resource measured to be 1bnt. The current concept for the project is to build a block-cave mining operation with an annual production level of 300-700koz gold and 200-300kt copper, and cash costs in the lowest quartile. The high-grade, low-cost mining potential of this deposit could prompt consolidation interest for other companies seeking exposure to Wafi-Golpu. This attention could come from either gold miners seeking low-cost gold production or, more likely, in our opinion, from a diversified miner seeking access to low-cost, relatively high-grade copper production.

Drivers: Key value drivers for Harmony include:

- The gold price;
- ZAR/USD exchange rate;
- Production growth;
- Wage and electricity cost inflation.

The following sensitivities apply to our FY12 earnings expectations (year to June): A 10% weakening in the ZAR/USD exchange rate would result in a c.16% increase in rand EPS. A 10% increase in the US$ gold price would result in a c.40% increase in rand EPS.

Outlook: We rate Harmony Buy based on the upside implied by our valuation. The company is increasing its margins and profitability by developing new lower-cost underground mines in South Africa (Doornkop and Phakisa) and investing in Papua New Guinea (PNG). In particular, the company's Wafi-Golpu project in PNG has yielded positive drill results to date. The Wafi-Golpu resource is measured to be 1bnt and at steady state the mine will be a large gold and copper producer with costs in the lowest quartile of the gold cost curve. Buy.

Valuation: We value Harmony based on a sum-of-the-parts DCF model of individual operations and projects, in line with our valuation of other South African resource companies. We apply a nominal WACC of 11.1% to cash flows from 2011e-17e that are driven by our assumption of nominal commodity prices. From 2018e to the end of life of each mine, we use a real WACC to reflect our use of real commodity prices in our assumptions. We apply a 1x multiple to our DCF-derived net asset value for the company. We regard this as a conservative but sensible approach given our confidence that our long-term gold price assumption and ZAR/USD rate (US$1,025/oz and 9.58, respectively) reflect reasonable incentive pricing for the projects we expect Harmony to develop for IRRs of 9-15% (on a real post-tax basis). We derive our one-year forward target price by rolling our DCF forward at the cost of equity (11.7%) less the expected dividend yield. We derive our WACC using DB's estimates of the market risk premium (4.5%) and risk-free rate (8%). Our cost of debt assumption (9% pre-tax) is determined by comparison with similarly risky companies in the US debt market. We assume a long-term debt weighting of 10% as Harmony seeks funding for projects. We estimate a beta of 0.7x based on a 10-year rolling monthly average beta on the JSE ALSI.

Risks: Downside risks include slippage in Harmony's strategy of targeting lower-cost South African ounces and the build-up of the PNG projects. It is highly exposed to a rising inflationary environment in South Africa and as a result, operating margins may come under pressure before its South African exposure is reduced. With regard to PNG, risks include the prospect of higher wage inflation (pressure margins); a change in government (could mean unfavourable changes to tax treatment); and logistics issues at Wafi-Golpu, specifically related to infrastructure and waste management. Other downside risks are lower-than-expected gold prices and a lower-than-expected ZAR/USD rate.

Model updated:01 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Gold

Harmony

Reuters: HARJ.J Bloomberg: HAR SJ

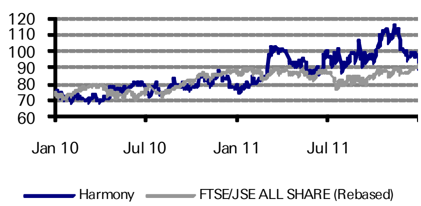
Buy

Price (20 Jan 12)	ZAR 89.95
Target Price	ZAR 125.00
52 Week range	ZAR 74.77 - 115.75
Market Cap (m)	ZARm 38,652
	USDm 4,861

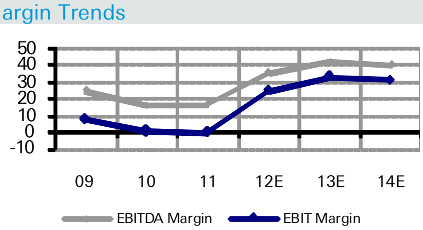
Company Profile

Harmony is the fifth largest gold producer in the world, with operations and projects in South Africa, Australasia and Papua New Guinea (PNG).

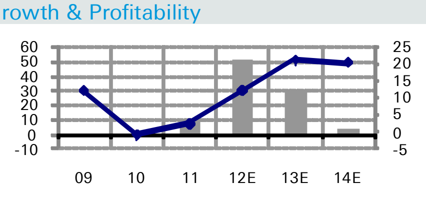
Price Performance



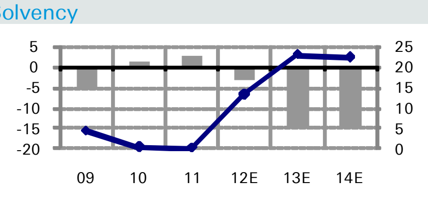
Margin Trends



Growth & Profitability



Solvency



Anna Mulholland, CFA
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	0.49	2.43	0.24	8.64	14.63	14.34
Reported EPS (ZAR)	7.07	-0.46	1.48	7.56	13.40	13.03
DPS (ZAR)	0.50	0.50	0.60	0.70	0.80	0.80
BVPS (ZAR)	71.3	70.0	70.2	77.1	89.8	102.1
Weighted average shares (m)	414	417	430	430	430	430
Average market cap (ZARm)	36,670	31,789	35,882	38,652	38,652	38,652
Enterprise value (ZARm)	34,696	31,812	36,563	37,443	32,712	32,046
Valuation Metrics						
PE (DB) (x)	180.8	31.4	350.6	10.4	6.1	6.3
PE (Reported) (x)	12.5	nm	56.5	11.9	6.7	6.9
P/BV (x)	1.12	1.16	1.28	1.17	1.00	0.88
FCF Yield (%)	nm	nm	nm	5.6	13.0	2.6
Dividend Yield (%)	0.6	0.7	0.7	0.8	0.9	0.9
EV/Sales (x)	3.0	2.8	2.9	2.0	1.3	1.2
EV/EBITDA (x)	12.1	18.0	17.8	5.5	3.1	3.1
EV/EBIT (x)	38.2	530.2	nm	7.9	4.0	4.0
Income Statement (ZARm)						
Sales revenue	11,496	11,284	12,445	18,885	24,645	25,669
Gross profit	3,611	2,506	2,870	7,497	11,324	11,189
EBITDA	2,859	1,766	2,055	6,749	10,512	10,341
Depreciation	1,467	1,375	1,776	2,023	2,296	2,351
Amortisation	484	331	264	0	0	0
EBIT	908	60	15	4,726	8,216	7,990
Net interest income(expense)	-212	-246	-288	-356	-356	-356
Associates/affiliates	12	56	-51	0	0	0
Exceptionals/extraordinaries	753	118	319	0	0	0
Other pre-tax income/(expense)	444	187	140	140	140	140
Profit before tax	1,905	175	135	4,510	8,000	7,774
Income tax expense	196	335	-480	1,263	2,240	2,177
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	1,218	-32	20	0	0	0
Net profit	2,927	-192	635	3,247	5,760	5,597
DB adjustments (including dilution)	171	1,205	-533	464	528	564
DB Net profit	3,098	1,013	102	3,711	6,288	6,161
Cash Flow (ZARm)						
Cash flow from operations	2,286	1,583	2,379	5,090	7,996	7,918
Net Capex	-2,995	-3,213	-3,110	-2,943	-2,964	-6,908
Free cash flow	-709	-1,630	-731	2,148	5,031	1,010
Equity raised/(bought back)	1,953	18	44	0	0	0
Dividends paid	0	-213	-214	-258	-301	-344
Net inc/(dec) in borrowings	-3,738	845	379	0	0	0
Other investing/financing cash flows	4,029	-200	445	0	0	0
Net cash flow	1,535	-1,180	-77	1,890	4,731	666
Change in working capital	*-551*	*-49*	*345*	*-580*	*-92*	*26*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,950	770	693	2,583	7,313	7,980
Tangible fixed assets	27,912	29,556	31,221	32,141	32,809	37,366
Goodwill/intangible assets	2,224	2,210	2,170	2,170	2,170	2,170
Associates/investments	386	397	185	185	185	185
Other assets	5,553	6,290	4,426	5,079	5,416	5,558
Total assets	38,025	39,223	38,695	42,158	47,894	53,259
Interest bearing debt	362	1,190	1,559	1,559	1,559	1,559
Other liabilities	8,138	8,824	6,976	7,450	7,726	7,838
Total liabilities	8,500	10,014	8,535	9,009	9,285	9,397
Shareholders' equity	29,525	29,209	30,160	33,149	38,608	43,862
Minorities	0	0	0	0	0	0
Total shareholders' equity	29,525	29,209	30,160	33,149	38,608	43,862
Net debt	*-1,588*	*420*	*866*	*-1,024*	*-5,754*	*-6,421*
Key Company Metrics						
Sales growth (%)	nm	-1.8	10.3	51.8	30.5	4.2
DB EPS growth (%)	na	395.1	-90.2	3,526.1	69.5	-2.0
EBITDA Margin (%)	24.9	15.7	16.5	35.7	42.7	40.3
EBIT Margin (%)	7.9	0.5	0.1	25.0	33.3	31.1
Payout ratio (%)	7.1	nm	40.6	9.3	6.0	6.1
ROE (%)	12.0	-0.8	2.4	12.0	21.2	20.3
Capex/sales (%)	26.1	28.5	25.0	15.6	12.0	26.9
Capex/depreciation (x)	2.0	2.3	1.8	1.5	1.3	2.9
Net debt/equity (%)	-5.4	1.4	2.9	-3.1	-14.9	-14.6
Net interest cover (x)	4.3	0.2	0.1	13.3	23.1	22.4

Source: Company data, Deutsche Bank estimates

South Africa – Platinum

Price (20 January 2012): 54500c | Target price: 52500c | Rating: Hold

Anglo American Platinum Ltd

Anna Mulholland, CFA / Grant Sporre

Business description: Anglo American Platinum (Amplats) is the world's largest platinum miner, with around 2.5m ounces of platinum refined each year from 12 wholly-owned mines, and four Joint Venture mines, supplemented by around 350koz from purchased concentrate from third parties and associates. Anglo American owns 79.6% of Amplats shares, with the remainder as free float on the Johannesburg Stock Exchange.

Amplats' wholly-owned mines are primarily more mature assets exploiting deeper reserves in the Rustenburg area of the Western Limb of the Bushveld complex. In addition, Amplats has 100% ownership of the large open-pit mine, Mogalakwena and has a small mine in Zimbabwe, Unki. The latter two mines are lower-grade but utilise mechanised mining methods resulting in lower-cost operations. This, along with Amplats' lower-cost partly-mechanised JV mines, mitigates the higher cost position of the group's Western Limb operations.

Amplats' main competitors include Impala (total platinum production of around 1.3m ounces) and Lonmin (total platinum production of around 0.75m 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. While platinum group metals (PGMs) can be substituted amongst each other, there are few, if any, viable substitute outside the PGM family in autocatalysis (PGMs' primary market), although given the relatively high pricing environment, auto manufacturers try very hard to thrift down the required amount of metal per vehicle.

Drivers: Key value drivers for Amplats include:

- ZAR/USD exchange rate;
- PGM prices, mainly platinum, palladium, and rhodium;
- Growth in platinum production;
- Wage and electricity cost inflation.

Although Amplats'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. Based on our FY12 forecasts (year to December), Amplats is likely to deliver a gross profit margin of around 15% (23% in FY11e). The following sensitivities apply to our FY12 earnings expectations: A 10% weakening in the ZAR/USD exchange rate would result in a c.115% increase in rand EPS. A 10% increase in the US$ platinum and palladium prices would result in a c.82% and c.10% increase in rand EPS respectively.

Outlook: We see a balance of potential positives and negatives catalysts for Amplats shares in 2012. With 52% of production from its wholly-owned Western Limb mines, Amplats is one of the most exposed PGM miners to the increased safety focus in the Rustenburg area. Until the further ramp-up of Mogalakwena, Unki and the group's Eastern Limb operations and projects, we believe Amplats will suffer more than peers in delivering production growth. On a more positive note, the next 12 months will likely see Amplats attempt to pursue a lower-cost strategy of growing medium-term production from high-volume, lower-grade operations Mogalakwena and Unki. Also, the market seems to be assigning zero value to Amplats' Unki mine. This is overly negative in our view but Unki is a small part of Amplats's fair value and production. Hold.

Valuation: We value Amplats on a sum-of-the-parts DCF basis, applying a nominal WACC of 13% to cash flows from 2011E-17E based on nominal commodity prices) and a real WACC of 8% to cash flows from 2018E onwards (based on real commodity prices). We apply a 1x DCF exit multiple to derive our target price. In the next 12 months, we use a platinum price forecast of $1875 per ounce and a ZAR/USD forecast of 7.74. Our target price includes 49% only of Amplats' Zimbabwean mine, Unki, to reflect the risk that the Zimbabwean government's push for indigenous ownership of 51% of the mine is effected this year.

Risks: Upside risks to our price target include a more benign than expected outcome in Zimbabwe regarding indigenisation and a quicker than expected ramp up of Mogalwekena. Downside risks include a more negative-than-expected outcome in Zimbabwe regarding indigenisation; further production interruptions from safety stoppages; and higher-than-forecast capex to sustain higher production levels in the longer term (our base case assumes a peak of R9.5bn in 2013).

Model updated:19 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Amplats

Reuters: AMSJ.J Bloomberg: AMS SJ

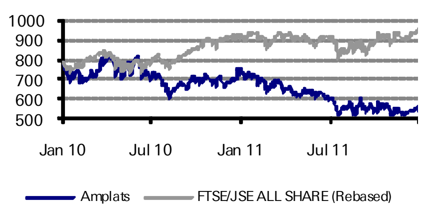
Hold

Price (20 Jan 12)	ZAR 545.00
Target Price	ZAR 615.00
52 Week range	ZAR 519.53 - 731.07
Market Cap (m)	ZARm 142,518
	USDm 17,922

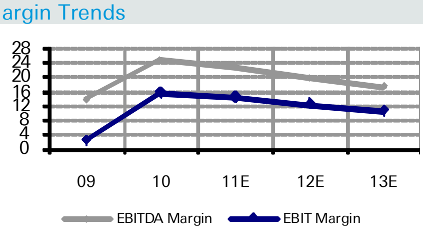
Company Profile

Anglo American Platinum (Amplats) owns and operates eight PGM mines and one tailings retreatment facility in South Africa, as well as one mine in Zimbabwe (all 100% owned). It partners with Aquaruis Platinum, ARM, and Xstrata in four 50:50 JV mines. Amplats owns 49% of the Bokoni mine (51% owned by Anooraq Resources) and 33% of the BRPM mine (67% owned by RBPlat). The company operates three smelters, one base metals refinery and one precious metals refinery. It also has a large pipeline of potential mining and processing projects. Anglo American owns 80% of Amplats' issued share capital.

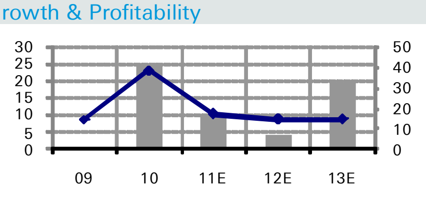
Price Performance



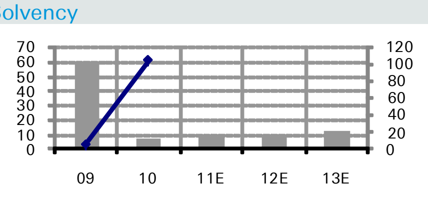
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
Financial Summary					
DB EPS (ZAR)	2.91	19.29	20.07	19.21	19.84
Reported EPS (ZAR)	12.36	38.96	20.43	19.21	19.84
DPS (ZAR)	0.00	6.83	8.12	7.77	8.02
BVPS (ZAR)	131.9	214.1	219.9	235.9	253.6
Weighted average shares (m)	244	255	262	262	262
Average market cap (ZARm)	141,808	183,530	142,518	142,518	142,518
Enterprise value (ZARm)	158,189	180,193	140,645	141,067	143,392
Valuation Metrics					
PE (DB) (x)	199.7	37.3	27.2	28.4	27.5
PE (Reported) (x)	47.1	18.5	26.7	28.4	27.5
P/BV (x)	6.01	3.24	2.48	2.31	2.15
FCF Yield (%)	nm	1.2	2.1	1.1	nm
Dividend Yield (%)	0.0	0.9	1.5	1.4	1.5
EV/Sales (x)	4.3	3.9	2.8	2.7	2.3
EV/EBITDA (x)	31.3	15.6	12.0	13.3	13.1
EV/EBIT (x)	171.8	24.8	19.0	21.3	20.9
Income Statement (ZARm)					
Sales revenue	36,687	46,025	50,858	52,957	63,397
Gross profit	6,098	12,355	12,153	11,373	11,754
EBITDA	5,047	11,574	11,712	10,597	10,978
Depreciation	4,126	4,321	4,305	3,981	4,126
Amortisation	0	0	0	0	0
EBIT	921	7,253	7,407	6,616	6,852
Net interest income(expense)	-236	-70	194	502	480
Associates/affiliates	-199	-426	-194	-91	-76
Exceptionals/extraordinaries	2,518	5,254	0	0	0
Other pre-tax income/(expense)	-29	302	198	0	0
Profit before tax	2,975	12,313	7,605	7,027	7,256
Income tax expense	-153	2,197	2,194	1,967	2,032
Minorities	116	157	69	35	36
Other post-tax income/(expense)	0	0	0	0	0
Net profit	3,012	9,959	5,342	5,024	5,188
DB adjustments (including dilution)	-2,302	-5,028	-95	0	0
DB Net profit	710	4,931	5,247	5,024	5,188
Cash Flow (ZARm)					
Cash flow from operations	4,697	10,231	9,634	9,776	9,258
Net Capex	-11,285	-7,961	-6,672	-8,138	-9,518
Free cash flow	-6,588	2,270	2,962	1,638	-260
Equity raised/(bought back)	28	12,422	0	0	0
Dividends paid	-6	0	-2,606	-2,032	-2,098
Net inc/(dec) in borrowings	6,464	-16,418	-374	0	0
Other investing/financing cash flows	670	727	-150	-27	32
Net cash flow	568	-999	-167	-422	-2,326
Change in working capital	*-517*	*-582*	*-1,326*	*-730*	*-1,644*
Balance Sheet (ZARm)					
Cash and other liquid assets	3,532	2,533	0	0	-1,732
Tangible fixed assets	35,283	37,438	38,815	42,972	48,364
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	3,379	7,908	7,512	7,512	7,512
Other assets	33,627	35,921	40,648	41,876	44,643
Total assets	75,821	83,800	86,975	92,360	98,788
Interest bearing debt	22,791	6,644	5,257	5,679	6,273
Other liabilities	20,397	22,139	23,836	24,606	25,807
Total liabilities	43,188	28,783	29,094	30,285	32,080
Shareholders' equity	32,138	54,557	57,499	61,693	66,326
Minorities	495	460	382	382	382
Total shareholders' equity	32,633	55,017	57,881	62,075	66,708
Net debt	*19,259*	*4,111*	*5,257*	*5,679*	*8,005*
Key Company Metrics					
Sales growth (%)	nm	25.5	10.5	4.1	19.7
DB EPS growth (%)	na	562.2	4.0	-4.3	3.3
EBITDA Margin (%)	13.8	25.1	23.0	20.0	17.3
EBIT Margin (%)	2.5	15.8	14.6	12.5	10.8
Payout ratio (%)	0.0	17.5	39.7	40.4	40.4
ROE (%)	14.2	38.4	17.2	14.7	14.8
Capex/sales (%)	30.8	17.4	13.1	15.4	15.0
Capex/depreciation (x)	2.7	1.8	1.5	2.0	2.3
Net debt/equity (%)	59.0	7.5	9.1	9.1	12.0
Net interest cover (x)	3.9	103.6	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (20 January 2012): 17799c | Target price: 20000c | Rating: Buy

Impala Platinum Holdings Ltd

Anna Mulholland, CFA / Grant Sporre

Business description: Impala Platinum is the world's second-largest platinum miner, with 1.3m ounces of platinum refined on a net basis in the year to June 2011. Its operations are in southern Africa (around 80% from its three South African mines and the Impala Refining Services (IRS), and 20% from its two mines in Zimbabwe). The group's flagship asset is the Impala Platinum mine in Rustenburg (also known as the Lease Area), which has a design capacity of 1moz refined platinum per year. The IRS operations process all metal from the group as well as around 400koz of concentrate from third-party, toll-refining and recycling contracts. Impala has holdings in Zimplats (87%), Marula (73%) and Two Rivers (45%), and is fully compliant with the 2014 Black Economic Empowerment (BEE) regulation, with the Royal Bafokeng Nation holding around 13% of Impala's issued shares.

Impala's managed mines are sitting in the second quartile of the 2012 cost curve, and its JVs with African Rainbow Minerals (the Two Rivers mine) and Aquarius Platinum (the Mimosa mine) are in the first quartile, on our estimates.

Impala's main competitors include Amplats (total platinum production of around 2.5m ounces) and Lonmin (total platinum production of around 0.75m 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. While platinum group metals (PGMs) can be substituted amongst each other, there are few, if any, viable substitute outside the PGM family in autocatalysis (PGMs' primary market), although given the relatively high pricing environment, auto manufacturers try very hard to thrift down the required amount of metal per vehicle.

Drivers: Key value drivers for Impala include:

- ZAR/USD exchange rate;
- PGM prices, mainly platinum, palladium, and rhodium;
- Growth in platinum production;
- Wage and electricity cost inflation.

Although Impala'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. Based on our FY12 forecasts (year to June), Impala is likely to deliver a gross profit margin of around 25% (35% in FY11). The following sensitivities apply to our FY12 earnings expectations: A 10% weakening in the ZAR/USD exchange rate would result in a c.31% increase in rand EPS. A 10% increase in the US$ platinum and palladium prices would result in a c.20% and c.4.5% increase in rand EPS respectively.

Outlook: Impala is our preferred stock in the sector. Impala's cash-rich balance sheet translates into a more defensive position in a more muted price environment, in our view. In addition, on our estimates, the company has the most defensive earnings Impala's 2012e EPS falls the least in the sector under a spot scenario due to its lower cost position versus peers in South Africa and higher exposure to US$-based costs in Zimbabwe. The market is pricing in a full exit from Zimbabwe which we see as overly punitive and we expect Impala shares will rally in relief upon any further progress in the current negotiations. Impala offers a significantly higher yield than peers, after accounting for its heavy capex programme on the next generation of vertical shafts at the Lease Area, and assuming a conservative cover of 2.7x over 1H12 earnings and a lower total dividend in FY12 vs. FY11. Buy.

Valuation: We value Impala on a sum-of-the-parts DCF basis, applying a nominal WACC of 13% to cash flows from 2011E-17E based on nominal commodity prices) and a real WACC of 8% to cash flows from 2018E onwards (based on real commodity prices). We apply a 1x DCF exit multiple to derive our target price, including 49% only of the NAV of Impala's Zimbabwean mines, Zimplats and Mimosa, to reflect the risk of 51% being ceded to indigenous owners. On a 12-month view, we use a platinum price forecast of $1875 per ounce and a ZAR/USD rate of 7.74.

Risks: Risks to our target price include a worse than expected outcome for indigenisation of Zimbabwean PGM assets; a deterioration in safety trends, leading to increased production stoppages; higher-than-expected mining cost inflation; and further delays to the roll-out of the Rustenburg mine projects (20, 16 and 17 shafts).

Model updated:19 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Impala Platinum

Reuters: IMPJ.J	Bloomberg: IMP SJ

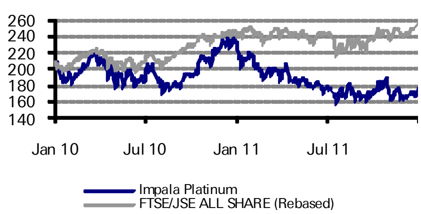
Buy

Price (20 Jan 12)	ZAR 177.99
Target Price	ZAR 200.00
52 Week range	ZAR 158.32 - 221.78
Market Cap (m)	ZARm 106,899
	USDm 13,443

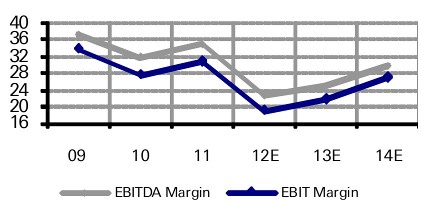
Company Profile

Impala Platinum owns and operates 100% of the Impala mine on the Western limb of South Africa's Bushveld Complex. The mine is ramping up to 1mozpa Pt by 2014. On the Eastern Limb, Impala owns and operates 73% of the Marula mine, currently running at 70kozpa Pt, and it owns 45% of Two Rivers, managed by its JV partner ARM. In Zimbabwe, Impala owns and operates 83% of the Zimplats mine, ramping up to 270kozpa Pt by 2014, and is in a 50:50 JV at the Mimosa mine with Aquarius Platinum. Impala also provides refining services for precious and base metal producers.

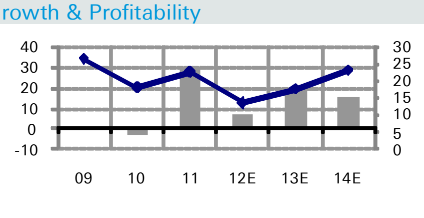
Price Performance



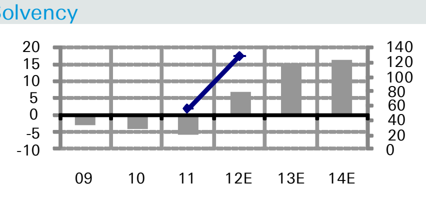
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	9.96	7.85	11.65	7.53	10.66	15.31
Reported EPS (ZAR)	10.00	7.85	11.04	7.53	10.66	15.31
DPS (ZAR)	3.20	3.90	5.70	5.75	7.50	8.00
BVPS (ZAR)	68.1	73.0	79.2	80.8	84.9	94.8
Weighted average shares (m)	601	600	601	601	601	601
Average market cap (ZARm)	97,183	114,040	119,278	106,899	106,899	106,899
Enterprise value (ZARm)	95,820	112,310	116,578	110,355	116,299	117,953
Valuation Metrics						
PE (DB) (x)	16.2	24.2	17.0	23.6	16.7	11.6
PE (Reported) (x)	16.2	24.2	18.0	23.6	16.7	11.6
P/BV (x)	2.50	2.47	2.30	2.20	2.10	1.88
FCF Yield (%)	nm	1.2	2.5	nm	nm	1.4
Dividend Yield (%)	2.0	2.1	2.9	3.2	4.2	4.5
EV/Sales (x)	3.7	4.4	3.5	3.1	2.7	2.4
EV/EBITDA (x)	9.8	13.8	10.1	13.7	10.8	8.0
EV/EBIT (x)	10.9	16.0	11.4	16.3	12.4	8.9
Income Statement (ZARm)						
Sales revenue	26,121	25,446	33,132	35,658	42,952	49,680
Gross profit	10,741	9,235	13,013	9,615	12,654	16,175
EBITDA	9,802	8,114	11,565	8,070	10,762	14,827
Depreciation	978	1,083	1,371	1,295	1,393	1,528
Amortisation	0	0	0	0	0	0
EBIT	8,824	7,031	10,194	6,776	9,369	13,300
Net interest income(expense)	794	2	-187	-54	-4	186
Associates/affiliates	41	95	238	218	249	294
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-265	97	-683	-145	-46	-47
Profit before tax	9,394	7,225	9,562	6,794	9,569	13,733
Income tax expense	3,389	2,431	2,752	2,038	2,871	4,120
Minorities	-16	79	172	229	295	415
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,021	4,715	6,638	4,528	6,403	9,199
DB adjustments (including dilution)	-29	0	368	0	1	1
DB Net profit	5,992	4,715	7,006	4,528	6,404	9,200
Cash Flow (ZARm)						
Cash flow from operations	6,507	5,918	8,286	4,328	6,827	9,907
Net Capex	-6,740	-4,542	-5,289	-6,994	-7,842	-8,404
Free cash flow	-234	1,377	2,997	-2,666	-1,015	1,503
Equity raised/(bought back)	-681	82	77	0	0	0
Dividends paid	-7,822	-1,920	-2,519	-3,574	-3,904	-3,303
Net inc/(dec) in borrowings	563	22	-602	0	0	0
Other investing/financing cash flows	1,014	942	812	83	99	267
Net cash flow	-7,160	502	765	-6,156	-4,820	-1,533
Change in working capital	*371*	*-1,184*	*-371*	*-1,422*	*-916*	*-674*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,348	3,858	4,542	86	266	732
Tangible fixed assets	30,518	33,940	37,431	43,130	49,579	56,455
Goodwill/intangible assets	1,018	1,018	1,018	1,018	1,018	1,018
Associates/investments	1,052	1,004	980	1,198	1,447	1,741
Other assets	21,744	22,751	23,633	25,486	27,647	29,470
Total assets	57,680	62,571	67,604	70,918	79,957	89,416
Interest bearing debt	1,985	2,128	1,842	3,542	8,542	10,542
Other liabilities	12,892	14,710	16,152	16,583	17,828	18,977
Total liabilities	14,877	16,838	17,994	20,125	26,370	29,519
Shareholders' equity	40,939	43,792	47,563	48,517	51,016	56,912
Minorities	1,864	1,941	2,047	2,276	2,571	2,985
Total shareholders' equity	42,803	45,733	49,610	50,793	53,587	59,897
Net debt	*-1,363*	*-1,730*	*-2,700*	*3,456*	*8,276*	*9,810*
Key Company Metrics						
Sales growth (%)	nm	-2.6	30.2	7.6	20.5	15.7
DB EPS growth (%)	na	-21.1	48.4	-35.4	41.4	43.7
EBITDA Margin (%)	37.5	31.9	34.9	22.6	25.1	29.8
EBIT Margin (%)	33.8	27.6	30.8	19.0	21.8	26.8
Payout ratio (%)	32.0	49.6	51.6	76.3	70.3	52.2
ROE (%)	26.5	18.3	22.5	13.6	17.5	22.9
Capex/sales (%)	26.0	17.9	16.0	19.6	18.3	16.9
Capex/depreciation (x)	6.9	4.2	3.9	5.4	5.6	5.5
Net debt/equity (%)	-3.2	-3.8	-5.4	6.8	15.4	16.4
Net interest cover (x)	nm	nm	54.5	126.1	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Platinum

Price (20 January 2012): 3177c | Target price: 4100c | Rating: Buy

Northam Platinum Ltd

Anna Mulholland, CFA / Grant Sporre

Business description: In its current form, Northam Platinum was created in 2000 when its majority shareholder, (Gold Fields) unbundled its Northam shares, making the company independent. This facilitated the entry of Amplats (which has since exited) and empowerment group Mvelaphanda Resources (Mvela), both of which were 22% shareholders in Northam at that stage. Currently, Mvela holds 11.5% of Northam's issued shares; Afripalm Resources holds 10.6% and European ferrochrome producer ENRC holds 13.5% and is represented on Northam's board with one seat.

Northam is a relatively small lease-bound PGM miner, producing just under 200kozpa of platinum from its Zondereinde mine in the northern part of the Western Limb of the Bushveld Complex. Northam operates the deepest vertical shaft in the platinum mining industry at Zondereinde, down to 2.2km, resulting in structurally higher operating costs and maintenance capex compared with peers. We estimate that Zondereinde will be in the fourth quartile of the industry cost curve in 2012, on a cash cost plus SIB capex basis. In the past 18 months, development and stoping has been hampered by difficult ground conditions at the mine and we forecast that Northam will therefore struggle to reach the mine's design capacity of 300kozpa of platinum in the medium-term – in 2012, we forecast production of 198koz of platinum.

Northam aims to increase group production by around 50% with the ramp-up of the Booysendal mine on the Eastern Limb. Booysendal will be low-cost, mechanised, shallow UG2 mine, producing around 100koz of platinum at steady-state (from FY14).

Drivers: Key value drivers for Northam include:

- ZAR/USD exchange rate;
- PGM prices, mainly platinum, palladium, and rhodium;
- Growth in platinum production;
- Wage and electricity cost inflation.

Although Northam'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. Based on our FY12 forecasts (year to June), Northam is likely to deliver an operating profit margin of around 14.8% (10.8% in FY11). The following sensitivities apply to our FY12 earnings expectations: A 10% weakening in the ZAR/USD exchange rate would result in a c.40% increase in rand EPS. A 10% increase in the US$ platinum and palladium prices would result in a c.29% and c.6% increase in rand EPS respectively.

Outlook: We see two major drivers of positive performance for Northam's shares in 2012: (i) progress on the Booysendal project, and (ii) steady progress at Zondereinde mine. Northam has a critical year ahead in terms of delivery of the low-cost UG2 R3.9bn Booysendal project. Northam management has provided a full list of difficult ground conditions to mine through and has an estimated 18 month turn-around for the mine. We ascribe a value of R23.5 per share to Zondereinde which has been struggling to reach its design capacity of 300kozpa PGMs in concentrate. We have assumed a conservative recovery of this mine, with production peaking at 288kozpa by FY14 with costs staying well above R1,400/tonne milled. Buy.

Valuation: We value Northam, on a sum-of-the-parts DCF basis, applying a nominal WACC of 13% to cash flows from 2011E-17E (based on nominal commodity prices) and a real WACC of 8% to cash flows from 2018E until end of life of the respective mine (based on real commodity prices). We use a 1x DCF exit multiple to derive our target price. For the next 12 months, we use a platinum price forecast of $1875/oz and a ZAR/USD rate of 7.74.

Risks: Risks to our target price include a deterioration in safety trends, leading to increased production stoppages; higher-than-expected mining cost inflation; a slower-than-expected ramp-up of the Booysendal project; and slower-than-expected recovery of the Zondereinde mine with regards to the current difficult geological conditions.

Model updated:19 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Northam

Reuters: NHMJ.J Bloomberg: NHM SJ

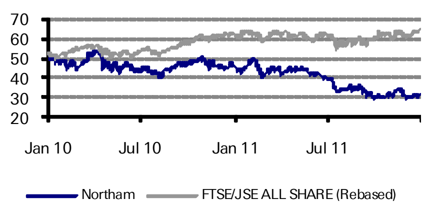
Buy

Price (20 Jan 12)	ZAR 31.77
Target Price	ZAR 41.00
52 Week range	ZAR 29.50 - 49.99
Market Cap (m)	ZARm 11,535
	USDm 1,451

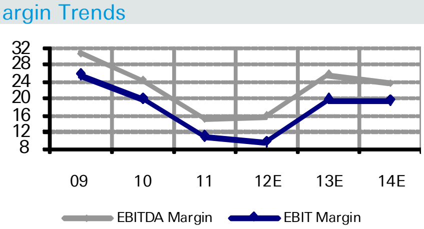
Company Profile

Northam Platinum owns and operates 100% of the Zondereinde Mine on the Western Limb of the South African Bushveld Complex. Zondereinde has a steady-state capacity of 300k pa PGM (4E) ounces. Northam is ramping up the R3.9bn Booysendal project, a UG2 mine on the Eastern Limb, which will ramp-up from 2H13, to produce around 160koz PGM (4E) ounces from 2014 onwards.

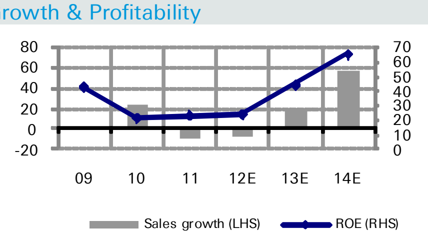
Price Performance



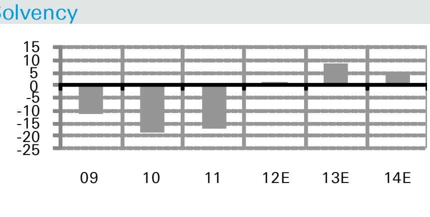
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	1.84	0.84	0.96	1.03	1.92	2.74
Reported EPS (ZAR)	1.84	0.84	0.96	1.03	1.91	2.74
DPS (ZAR)	0.78	0.40	0.15	0.10	0.25	0.55
BVPS (ZAR)	24.3	25.7	27.9	28.7	30.5	32.7
Weighted average shares (m)	343	381	363	363	363	363
Average market cap (ZARm)	11,390	16,343	16,361	11,535	11,535	11,535
Enterprise value (ZARm)	10,469	14,514	14,663	11,701	12,029	11,670
Valuation Metrics						
PE (DB) (x)	18.1	50.9	46.9	30.7	16.6	11.6
PE (Reported) (x)	18.1	50.9	46.9	30.7	16.6	11.6
P/BV (x)	1.24	1.77	1.52	1.11	1.04	0.97
FCF Yield (%)	3.1	1.1	nm	nm	nm	4.9
Dividend Yield (%)	2.3	0.9	0.3	0.3	0.8	1.7
EV/Sales (x)	3.3	3.7	4.1	3.5	3.0	1.9
EV/EBITDA (x)	10.7	15.2	27.5	22.3	11.8	7.9
EV/EBIT (x)	12.8	18.5	38.1	36.6	15.3	9.5
Income Statement (ZARm)						
Sales revenue	3,186	3,945	3,571	3,307	3,993	6,297
Gross profit	979	952	533	524	1,022	1,484
EBITDA	979	952	533	524	1,022	1,484
Depreciation	161	167	148	204	238	255
Amortisation	0	0	0	0	0	0
EBIT	818	785	385	320	785	1,229
Net interest income(expense)	130	232	86	204	204	204
Associates/affiliates	73	14	7	5	8	2
Exceptionals/extraordinaries	0	-372	0	0	0	0
Other pre-tax income/(expense)	-6	10	53	21	21	21
Profit before tax	1,015	668	531	550	1,018	1,456
Income tax expense	384	347	182	174	323	462
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	631	321	349	375	695	994
DB adjustments (including dilution)	0	0	0	0	1	1
DB Net profit	631	321	349	375	696	995
Cash Flow (ZARm)						
Cash flow from operations	718	556	785	575	998	1,258
Net Capex	-366	-372	-957	-2,384	-1,778	-693
Free cash flow	352	184	-172	-1,809	-779	565
Equity raised/(bought back)	4	16	0	0	0	0
Dividends paid	-802	-216	-90	-55	-54	-206
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-108	-24	0	0	0	0
Net cash flow	-555	-41	-262	-1,864	-834	359
Change in working capital	*357*	*1*	*182*	*-4*	*66*	*10*
Balance Sheet (ZARm)						
Cash and other liquid assets	921	1,829	1,698	834	501	860
Tangible fixed assets	7,455	8,010	8,499	10,679	12,219	12,657
Goodwill/intangible assets	147	181	172	172	172	172
Associates/investments	130	272	505	505	505	505
Other assets	695	840	1,055	987	1,108	1,726
Total assets	9,348	11,132	11,930	13,178	14,506	15,921
Interest bearing debt	0	0	0	1,000	1,500	1,500
Other liabilities	1,016	1,323	1,814	1,742	1,929	2,556
Total liabilities	1,016	1,323	1,814	2,742	3,429	4,056
Shareholders' equity	8,332	9,808	10,116	10,437	11,077	11,865
Minorities	0	0	0	0	0	0
Total shareholders' equity	8,332	9,808	10,116	10,437	11,077	11,865
Net debt	*-921*	*-1,829*	*-1,698*	*166*	*999*	*640*
Key Company Metrics						
Sales growth (%)	nm	23.8	-9.5	-7.4	20.8	57.7
DB EPS growth (%)	na	-54.1	14.3	7.5	85.3	43.0
EBITDA Margin (%)	30.7	24.1	14.9	15.8	25.6	23.6
EBIT Margin (%)	25.7	19.9	10.8	9.7	19.7	19.5
Payout ratio (%)	42.5	47.5	15.6	9.7	13.1	20.0
ROE (%)	42.6	21.6	23.0	24.1	44.5	65.1
Capex/sales (%)	11.5	9.6	26.8	72.1	44.5	11.0
Capex/depreciation (x)	2.3	2.3	6.5	11.7	7.5	2.7
Net debt/equity (%)	-11.1	-18.6	-16.8	1.6	9.0	5.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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South Africa – Platinum

Price (20 January 2012): 5939c Target price: 5800c Rating: Hold

Royal Bafokeng Platinum Ltd

Anna Mulholland, CFA

Business description: RBPlat is a black-owned, -controlled and -managed mid-tier platinum group metals producer. RBPlat owns 67% of the BRPM joint venture mine, with JV partner, Amplats. The BRPM JV is a well-established, shallow Merensky reef producer on the Western Limb of the Bushveld Complex. The company's strategy is to achieve operational excellence from its operating assets, to deliver organic growth from its Styldrift project, and to pursue selective M&A.

The company has one operating asset, the Boschkoppie mine, which we forecast will produce 192koz of platinum in concentrate form in the year to December 2011, which is then sold to JV partner Amplats for smelting and refining. Boschkoppie is in the first quartile of the 2012 cost curve, on a cash costs plus SIB capex basis. RBPlat aims to double its group production through the ramp-up of the Styldrift project – this Merensky mine is contiguous to Boschkoppie on the group's Western Limb property, and will deliver 200kozpa of platinum in concentrate from 2018. The mine should be in the lower half of the 2018 cost curve, in our view, given its relatively shallow, lower-cost, shaft (sunk to a depth of 740m) and the use of mechanised mining methods. RBPlat does not plan to pay a dividend until the completion of phase 1 of the Styldrift project in 2017.

Drivers: Key value drivers for RBPlat include:

- ZAR/USD exchange rate;
- PGM prices, mainly platinum, palladium, and rhodium;
- Growth in platinum production;
- Wage and electricity cost inflation.

Although RBPlat'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. Based on our FY12 forecasts (year to December), RBPlat is likely to deliver a gross profit margin of around 26% (25% in FY11e). The following sensitivities apply to our FY12 earnings expectations: A 10% weakening in the ZAR/USD exchange rate would result in a c.38% increase in rand EPS. A 10% increase in the US$ platinum and palladium prices would result in a c.29% and c.6% increase in rand EPS respectively.

Outlook: We see a balance of positive and negative catalysts for RBPlat's shares. We expect solid progress on the Styldrift project. Pre-Styldrift, Boschkoppie mine is struggling with development and cost control. In our view, until the operating environment improves in South Africa, particularly on the safety front, it will remain difficult to implement the far-reaching cost and productivity improvements that RBPlat is targeting. December 2012 could see a revival of a bid or bids for RBPlat, when the veto against an Impala bid expires that month. Also, RBPlat could see significant interest in its assets by the end of this year and the shares could reflect this potential tug-of-war. Hold.

Valuation: We value RBPlat using a DCF, applying a nominal WACC of 13% to cash flows from 2011E-17E (based on nominal commodity prices) and a real WACC of 8% to cash flows from 2018E onwards to the end of life of mine (based on real commodity prices). We use a 1x DCF exit multiple to derive our target price. On a 12 month view, we use a platinum price forecast of $1875 per ounce and a ZAR/USD rate of 7.74.

Risks: Upside risks to our price target are management success in saving capital costs (up to R1bn) at the R7.9bn Styldrift project; 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 acquisition interests (International Business Times, 8 March 2011). Downside risks include delays to the Styldrift project as a result of the current re-scoping of key project design elements and slower-than-expected improvement in Boschkoppie face availability, reducing flexibility in the face of more difficult operating conditions.

Model updated:19 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

RBPlat

Reuters: RBPJ.J	Bloomberg: RBP SJ

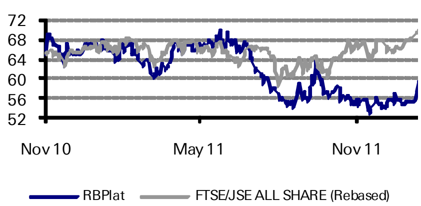
Hold

Price (20 Jan 12)	ZAR 59.39
Target Price	ZAR 58.00
52 Week range	ZAR 53.10 - 70.00
Market Cap (m)	ZARm 9,721
	USDm 1,222

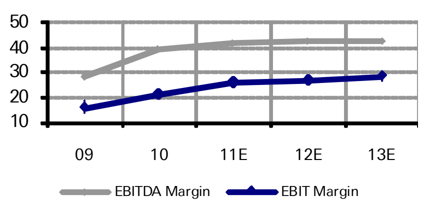
Company Profile

RBPlat is a black-owned, -controlled and -managed mid-tier platinum group metals producer. RBPlat owns 67% of the BRPM joint venture mine, with JV partner, Amplats. The BRPM JV is a well-established, shallow Merensky reef producer on the Western Limb of the Bushveld Complex. The company's strategy is to achieve operational excellence from its operating assets, to deliver organic growth from its Styldrift project, and to pursue selective M&A.

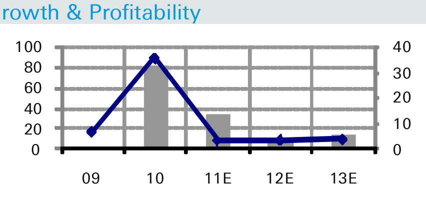
Price Performance



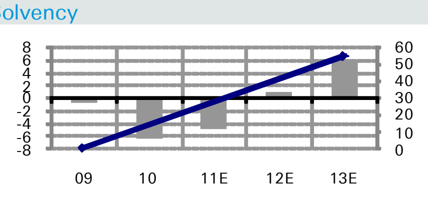
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
Financial Summary					
DB EPS (ZAR)	38.97	1.98	2.63	2.60	3.20
Reported EPS (ZAR)	38.90	22.46	2.35	2.50	2.99
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	592.0	77.5	69.5	72.0	75.0
Weighted average shares (m)	12	141	164	164	164
Average market cap (ZARm)	na	9,331	9,721	9,721	9,721
Enterprise value (ZARm)	na	11,588	12,630	13,732	14,780
Valuation Metrics					
PE (DB) (x)	na	33.3	22.5	22.8	18.5
PE (Reported) (x)	na	2.9	25.2	23.8	19.8
P/BV (x)	0.00	0.86	0.85	0.82	0.79
FCF Yield (%)	na	0.7	nm	nm	nm
Dividend Yield (%)	na	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	5.5	4.4	4.4	4.2
EV/EBITDA (x)	nm	14.1	10.6	10.5	9.9
EV/EBIT (x)	nm	25.9	17.3	16.7	14.8
Income Statement (ZARm)					
Sales revenue	1,155	2,107	2,853	3,101	3,534
Gross profit	361	882	1,272	1,384	1,572
EBITDA	330	821	1,187	1,310	1,497
Depreciation	101	347	406	439	447
Amortisation	45	26	50	50	50
EBIT	184	448	731	821	1,000
Net interest income(expense)	-303	3	0	0	-18
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	571	2,895	0	0	0
Other pre-tax income/(expense)	1	2	68	26	34
Profit before tax	-118	3,347	799	847	1,016
Income tax expense	5	172	224	237	285
Minorities	0	2	190	201	241
Other post-tax income/(expense)	0	0	0	0	0
Net profit	448	3,174	385	409	490
DB adjustments (including dilution)	1	-2,893	46	17	34
DB Net profit	449	280	432	426	525
Cash Flow (ZARm)					
Cash flow from operations	257	784	1,258	1,253	1,437
Net Capex	-419	-719	-1,527	-1,925	-1,941
Free cash flow	-161	66	-269	-672	-504
Equity raised/(bought back)	0	942	0	0	0
Dividends paid	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	200	2,200
Other investing/financing cash flows	49	-161	-9	0	0
Net cash flow	-113	847	-278	-472	1,696
Change in working capital	*-73*	*-57*	*51*	*-48*	*-69*
Balance Sheet (ZARm)					
Cash and other liquid assets	52	899	745	44	1,437
Tangible fixed assets	3,652	7,338	8,459	9,945	11,439
Goodwill/intangible assets	2,982	8,848	9,251	9,201	9,151
Associates/investments	0	251	258	258	258
Other assets	592	1,115	853	919	1,020
Total assets	7,278	18,451	19,565	20,367	23,305
Interest bearing debt	0	0	0	200	2,400
Other liabilities	462	4,100	4,274	4,265	4,271
Total liabilities	462	4,100	4,274	4,465	6,671
Shareholders' equity	6,816	10,944	11,380	11,789	12,279
Minorities	0	3,407	3,912	4,113	4,354
Total shareholders' equity	6,816	14,351	15,291	15,902	16,633
Net debt	*-52*	*-899*	*-745*	*156*	*963*
Key Company Metrics					
Sales growth (%)	nm	82.4	35.4	8.7	14.0
DB EPS growth (%)	na	-94.9	32.8	-1.3	23.1
EBITDA Margin (%)	28.5	39.0	41.6	42.2	42.4
EBIT Margin (%)	15.9	21.2	25.6	26.5	28.3
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	6.6	35.7	3.5	3.5	4.1
Capex/sales (%)	36.2	34.1	53.5	62.1	54.9
Capex/depreciation (x)	2.9	1.9	3.3	3.9	3.9
Net debt/equity (%)	-0.8	-6.3	-4.9	1.0	5.8
Net interest cover (x)	0.6	nm	nm	nm	55.0

Source: Company data, Deutsche Bank estimates

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South Africa – Oil & Gas | Price (20 January 2012): 40989 | Target price: 48000 | Rating: Buy

Sasol Ltd

Jarrett Geldenhuys

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

Drivers: Sasol's most important profit drivers include the levels of the ZAR/USD exchange rate, crude oil prices, refining margins, chemical prices and production levels. Sasol's South African domestic sales of fuel and chemical products are based on international fuel and chemical product prices.

The oil supply side concerns which began with the Libyan conflict seem set to continue into 2012, with tensions rapidly evolving in Iran, Iraq and more recently Nigeria outweighing the return of Libyan crude to markets. In our view, geopolitical risk will battle concerns about a slowing economy this year, with Europe at the epicentre. Ultimately, we believe the potential risk of supply disruptions will outweigh negative demand-side concerns keeping prices elevated. Inventories are relatively low and supply and demand fundamentals point to declining OPEC spare capacity over time. We are therefore maintaining our relatively bullish price forecast of US$115/bbl into 2012.

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 Lake Charles GTL 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 R525/bbl continue or weaken during the proposed projects' (Lake Charles GTL, Uzbekistan GTL and Canadian GTL) financing period.

Model updated:10 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

Oil & Gas Producers

Sasol

Reuters: SOLJ.J Bloomberg: SOL SJ

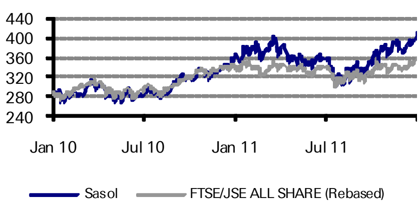
Buy

Price (20 Jan 12)	ZAR 409.89
Target Price	ZAR 470.00
52 Week range	ZAR 303.45 - 409.99
Market Cap (m)	ZARm 246,098
	USDm 30,948

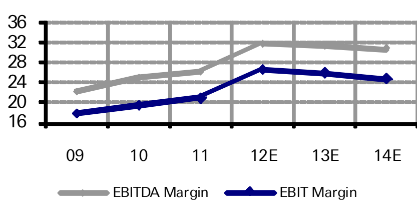
Company Profile

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.

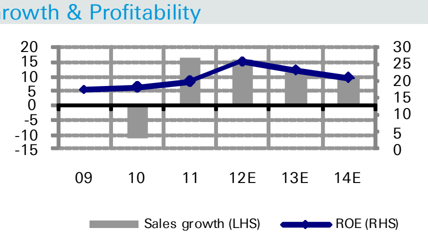
Price Performance



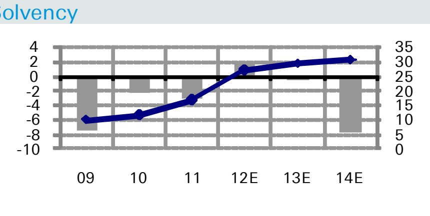
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	25.25	26.59	32.86	49.68	53.48	56.12
Reported EPS (ZAR)	22.80	26.59	32.86	49.68	53.48	56.12
DPS (ZAR)	8.50	10.50	13.00	14.69	16.31	17.94
BVPS (ZAR)	140.6	157.8	179.3	215.2	254.1	294.0
Weighted average shares (m)	596	600	600	600	600	600
Average market cap (ZARm)	182,182	173,973	201,427	246,098	246,098	246,098
Enterprise value (ZARm)	173,626	168,823	195,351	246,339	243,539	230,559
Valuation Metrics						
PE (DB) (x)	12.1	10.9	10.2	8.3	7.7	7.3
PE (Reported) (x)	13.4	10.9	10.2	8.3	7.7	7.3
P/BV (x)	1.92	1.74	1.99	1.90	1.61	1.39
FCF Yield (%)	12.7	2.8	5.9	1.1	5.1	9.5
Dividend Yield (%)	2.8	3.6	3.9	3.6	4.0	4.4
EV/Sales (x)	1.3	1.4	1.4	1.5	1.3	1.1
EV/EBITDA (x)	5.6	5.5	5.2	4.7	4.2	3.7
EV/EBIT (x)	7.0	7.1	6.5	5.6	5.1	4.6
Income Statement (ZARm)						
Sales revenue	137,836	122,256	142,436	165,152	183,699	200,913
Gross profit	49,328	43,073	51,969	66,953	71,985	75,684
EBITDA	30,896	30,637	37,348	52,704	57,499	61,837
Depreciation	6,230	6,700	7,398	8,616	9,761	11,906
Amortisation	0	0	0	0	0	0
EBIT	24,666	23,937	29,950	44,088	47,738	49,930
Net interest income(expense)	-2,531	-2,114	-1,817	-1,627	-1,627	-1,627
Associates/affiliates	270	217	292	310	310	310
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	1,790	1,332	991	892	952	1,016
Profit before tax	24,195	23,372	29,416	43,663	47,373	49,629
Income tax expense	10,480	6,985	9,196	12,831	14,048	14,806
Minorities	67	446	426	702	861	736
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	13,648	15,941	19,794	30,130	32,464	34,087
DB adjustments (including dilution)	1,854	400	400	400	400	400
DB Net profit	15,502	16,341	20,194	30,530	32,864	34,487
Cash Flow (ZARm)						
Cash flow from operations	38,031	20,889	32,430	31,194	40,083	43,488
Net Capex	-14,975	-16,056	-20,497	-28,528	-27,621	-19,999
Free cash flow	23,056	4,833	11,933	2,665	12,461	23,489
Equity raised/(bought back)	40	110	430	0	0	0
Dividends paid	-7,193	-5,360	-6,614	-8,590	-9,111	-10,084
Net inc/(dec) in borrowings	-1,056	628	244	0	0	0
Other investing/financing cash flows	1,410	-788	-4,781	0	0	0
Net cash flow	16,257	-577	1,212	-5,924	3,350	13,405
Change in working capital	*10,375*	*-3,424*	*-2,379*	*-8,226*	*-2,984*	*-3,157*
Balance Sheet (ZARm)						
Cash and other liquid assets	20,672	16,711	18,019	12,095	15,445	28,850
Tangible fixed assets	84,866	93,541	108,997	128,907	146,765	154,855
Goodwill/intangible assets	1,873	1,931	2,012	2,012	2,012	2,012
Associates/investments	4,378	5,494	5,343	5,653	5,963	6,273
Other assets	34,049	38,807	43,601	48,816	54,164	59,522
Total assets	145,838	156,484	177,972	197,482	224,348	251,513
Interest bearing debt	14,112	14,543	14,595	14,595	14,595	14,595
Other liabilities	45,509	44,699	53,037	50,305	52,956	55,382
Total liabilities	59,621	59,242	67,632	64,900	67,551	69,977
Shareholders' equity	83,835	94,730	107,649	129,189	152,543	176,546
Minorities	2,382	2,512	2,691	3,393	4,254	4,990
Total shareholders' equity	86,217	97,242	110,340	132,583	156,797	181,536
Net debt	*-6,560*	*-2,168*	*-3,424*	*2,500*	*-850*	*-14,255*
Key Company Metrics						
Sales growth (%)	nm	-11.3	16.5	15.9	11.2	9.4
DB EPS growth (%)	na	5.3	23.6	51.2	7.6	4.9
EBITDA Margin (%)	22.4	25.1	26.2	31.9	31.3	30.8
EBIT Margin (%)	17.9	19.6	21.0	26.7	26.0	24.9
Payout ratio (%)	37.1	39.5	39.4	29.3	30.2	31.6
ROE (%)	17.5	18.3	20.0	25.8	23.3	21.0
Capex/sales (%)	11.4	13.2	14.5	17.3	15.0	10.0
Capex/depreciation (x)	2.5	2.4	2.8	3.3	2.8	1.7
Net debt/equity (%)	-7.6	-2.2	-3.1	1.9	-0.5	-7.9
Net interest cover (x)	9.7	11.3	16.5	27.1	29.3	30.7

Source: Company data, Deutsche Bank estimates

UK – Paper

Price (20 January 2012): 504.5p | Target price: 560p | Rating: Buy

Mondi plc

Jussi Uskola

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: We like Mondi's position as an upstream/integrated producer for industrial packaging applications. With the support of Syktyvkar and its estimated lowest wood costs in the world, and low cost Swiecie mill, Mondi is well positioned to take benefit from the long term growth in the Eastern European packaging market. We also expect increase in dividend now as the company's net debt is just around 1x EBITDA. Buy.

Valuation: 2012 will likely be somewhat challenging for Mondi due to its cyclical exposure, but this offers a good entry point to its low-cost asset base, in our view. Our target price for Mondi implies 2012E EV/EBITDA of 6x. This is derived from a DCF with a WACC of 8.8% (RF rate of 4.5%, ERP of 6%) and a terminal growth rate of 1%, which is a mix of 0.5% growth for graphic papers and 2% growth in packaging.

Risks: The main risks relate to year-end price negotiations in industrial bags, and coatings, and Mondi's ability to secure wood in Russia. In the medium term, availability of recycled paper also becomes a risk particularly in Poland from 2013 onwards.

Model updated:14 December 2011

Running the numbers

Europe

United Kingdom

Paper & Forest Products

Mondi

Reuters: MNDI.L Bloomberg: MNDI LN

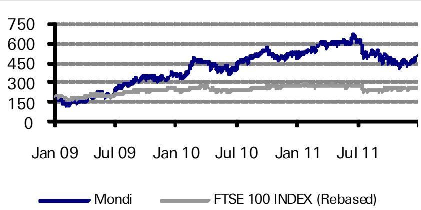
Buy

Price (20 Jan 12)	GBP 504.50
Target Price	GBP 560.00
52 Week range	GBP 413.50 - 664.00
Market Cap (m)	GBPm 2,495
	USDm 3,874

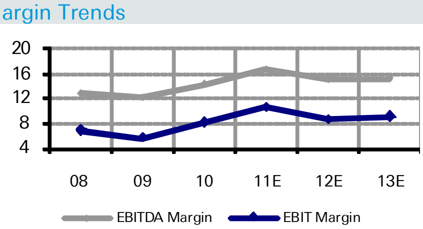
Company Profile

Mondi is an integrated packaging and business paper producer, with key operations in Europe and South Africa. Mondi is the second largest producer of kraftliner (0.7m tonnes) and the fifth largest producer of recycled containerboard in Europe (1.2m tonnes). The company is also the market leader for Industrial Bags with 1m tonnes of capacity. Within the printing and writing paper segment, Mondi is the fifth largest producer of uncoated fine papers in Europe. The recently concluded projects in Russia and Poland places Mondi as one of the lowest cost producers of recycled containerboard and uncoated fine paper in the industry.

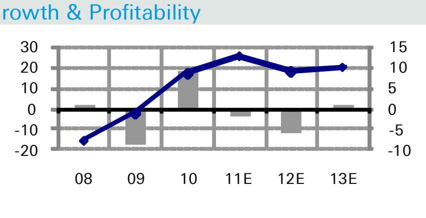
Price Performance



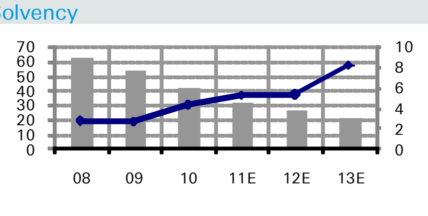
Margin Trends



Growth & Profitability



Solvency



Jussi Uskola
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Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (EUR)	0.32	0.23	0.47	0.69	0.50	0.58
Reported EPS (EUR)	-0.41	-0.05	0.44	0.70	0.50	0.58
DPS (EUR)	0.13	0.10	0.20	0.34	0.34	0.34
BVPS (EUR)	4.5	4.7	5.4	5.3	5.6	5.8
Weighted average shares (m)	514	508	508	495	481	481
Average market cap (EURm)	2,012	1,371	2,656	2,998	2,916	2,916
Enterprise value (EURm)	4,233	3,464	4,642	4,611	4,477	4,402
Valuation Metrics						
PE (DB) (x)	12.4	11.9	11.2	8.8	12.2	10.5
PE (Reported) (x)	nm	nm	12.0	8.7	12.2	10.5
P/BV (x)	0.47	0.80	1.10	1.14	1.08	1.04
FCF Yield (%)	0.8	26.3	15.2	19.4	11.9	12.2
Dividend Yield (%)	3.2	3.5	3.8	5.5	5.6	5.6
EV/Sales (x)	0.7	0.7	0.7	0.8	0.8	0.8
EV/EBITDA (x)	5.2	5.4	5.3	4.6	5.6	5.3
EV/EBIT (x)	9.6	11.5	9.1	7.2	9.8	8.9
Income Statement (EURm)						
Sales revenue	6,345	5,257	6,228	6,014	5,301	5,406
Gross profit	6,345	5,257	6,228	6,014	5,301	5,406
EBITDA	814	644	882	1,000	799	824
Depreciation	371	342	373	362	341	331
Amortisation	0	0	0	0	0	0
EBIT	443	302	509	637	458	493
Net interest income(expense)	-159	-114	-117	-121	-85	-60
Associates/affiliates	2	2	2	4	4	4
Exceptionals/extraordinaries	-387	-133	-22	4	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	-101	57	372	524	377	437
Income tax expense	78	52	87	105	83	96
Minorities	30	30	61	72	53	61
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-209	-25	224	347	241	279
DB adjustments (including dilution)	371	143	16	-4	0	0
DB Net profit	162	118	240	343	241	279
Cash Flow (EURm)						
Cash flow from operations	726	851	734	852	583	591
Net Capex	-710	-491	-329	-271	-235	-235
Free cash flow	16	360	405	581	348	356
Equity raised/(bought back)	-15	-1	-2	-7	0	0
Dividends paid	-138	-48	-72	-210	-162	-164
Net inc/(dec) in borrowings	329	-250	-165	-257	-100	-130
Other investing/financing cash flows	-168	-65	-179	-129	-85	-60
Net cash flow	24	-4	-13	-22	1	2
Change in working capital	*27*	*248*	*-109*	*-45*	*-144*	*-150*
Balance Sheet (EURm)						
Cash and other liquid assets	155	123	83	108	109	111
Tangible fixed assets	3,611	3,847	3,976	3,588	3,482	3,386
Goodwill/intangible assets	323	308	312	241	241	241
Associates/investments	24	33	50	45	49	53
Other assets	2,148	1,897	2,072	1,964	2,030	2,145
Total assets	6,261	6,208	6,493	5,946	5,911	5,936
Interest bearing debt	1,845	1,640	1,447	1,088	988	858
Other liabilities	1,720	1,744	1,822	1,759	1,693	1,671
Total liabilities	3,565	3,384	3,269	2,847	2,681	2,529
Shareholders' equity	2,323	2,399	2,763	2,617	2,696	2,812
Minorities	373	425	461	482	535	596
Total shareholders' equity	2,696	2,824	3,224	3,099	3,231	3,408
Net debt	*1,690*	*1,517*	*1,364*	*980*	*879*	*747*
Key Company Metrics						
Sales growth (%)	1.4	-17.1	18.5	-3.4	-11.9	2.0
DB EPS growth (%)	-31.1	-28.1	106.2	47.1	-27.7	15.9
EBITDA Margin (%)	12.8	12.3	14.2	16.6	15.1	15.2
EBIT Margin (%)	7.0	5.7	8.2	10.6	8.6	9.1
Payout ratio (%)	nm	nm	45.4	47.7	67.9	58.5
ROE (%)	-7.9	-1.1	8.7	12.9	9.1	10.1
Capex/sales (%)	11.6	10.6	7.1	4.7	4.4	4.3
Capex/depreciation (x)	2.0	1.6	1.2	0.8	0.7	0.7
Net debt/equity (%)	62.7	53.7	42.3	31.6	27.2	21.9
Net interest cover (x)	2.8	2.6	4.4	5.3	5.4	8.2

Source: Company data, Deutsche Bank estimates

South Africa – Paper

Price (20 January 2012): 2590c Target price: 2500c Rating: Hold

Sappi Ltd

Jussi Uskola

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 became 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 SA 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: Sappi is a tale of two different stories. i) Dissolving pulp has been a star performer, but it may now turn weaker with capacity additions and potentially increasing cotton harvests. Fortunately, thanks to Sappi's conservative long term pricing contracts, it is not exposed to the spot market, however. ii) Coated fine paper is struggling, and as the undisputed market leader Sappi is acting to cut capacity. The Chinese overcapacity and macroeconomic issues are diluting the effect in the short term, however. Hold.

Valuation: We value Sappi with a 10% discount to the fair value through DCF with WACC of 7.9% (RF rate of 4.5%, ERP of 7%) and 1% terminal growth (0.5% higher than paper sector growth due to dissolving pulp assets). This is equivalent to 2012E P/BV of 1x, which we see fair given the recent revaluation of the paper sector and is above its peers due to its high quality dissolving pulp assets.

Risks: Risks relate to the stabilisation in the pulp market and price hikes in softwood pulp that due to Sappi's contract structures affect the dissolving pulp capacity. Other upside/downside risks relate to volatile rand (10% change in USD/ZAR is US$50-60m in annual results), and the company's ability to pass on price hikes in coated fine paper. We also expect further capacity closures in the coated fine paper business.

Model updated:14 December 2011

Running the numbers

Sub-Saharan Africa

South Africa

Forestry & Paper

Sappi

Reuters: SAPJ.J Bloomberg: SAP SJ

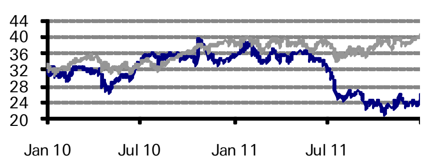
Hold

Price (20 Jan 12)	ZAR 25.90
Target Price	ZAR 25.00
52 Week range	ZAR 21.20 - 38.51
Market Cap (m)	ZARm 13,478
	USDm 1,695

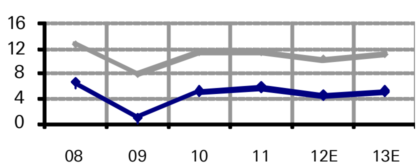
Company Profile

Sappi is the leading global coated fine paper and pulp producer that sells in over 100 countries, with paper production capacity of 6.8m tonnes p.a. The company is also the world's largest producer of chemical cellulose. Sappi fine paper contributed 84% of group sales in 2009, the majority from sales in Europe (64%) and North America (29%). Sappi's pulp production capacity is 3.3m tones p.a. Sappi forest products contributed 16% of sales 2009. Sappi aims to build on its leading position in the coated fine paper market and explore opportunities across the broad spectrum of coated paper, including growing its specialty business.

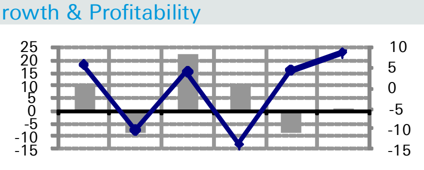
Price Performance



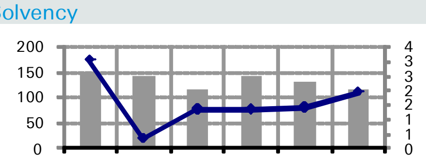
Margin Trends



Growth & Profitability



Solvency



Jussi Uskola
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Fiscal year end 30-Sep	2008	2009	2010	2011	2012E	2013E
Financial Summary						
DB EPS (USD)	0.48	-0.12	0.12	0.12	0.13	0.26
Reported EPS (USD)	0.28	-0.36	0.14	-0.45	0.13	0.26
DPS (USD)	0.10	0.00	0.00	0.00	0.15	0.20
BVPS (USD)	4.6	3.7	3.7	2.8	3.0	3.1
Weighted average shares (m)	349	483	517	520	520	520
Average market cap (USDm)	2,796	1,529	2,204	2,515	1,695	1,695
Enterprise value (USDm)	5,336	4,521	4,735	4,925	4,040	3,881
Valuation Metrics						
PE (DB) (x)	16.9	nm	34.7	40.6	25.8	12.5
PE (Reported) (x)	28.2	nm	30.4	nm	25.8	12.5
P/BV (x)	1.34	1.00	1.40	1.04	1.10	1.06
FCF Yield (%)	nm	nm	15.8	6.5	3.9	14.0
Dividend Yield (%)	1.3	0.0	0.0	0.0	4.6	6.1
EV/Sales (x)	0.9	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	7.1	10.5	6.3	6.0	5.9	5.2
EV/EBIT (x)	14.0	99.4	14.0	12.0	13.8	11.1
Income Statement (USDm)						
Sales revenue	5,863	5,369	6,572	7,286	6,667	6,722
Gross profit	847	101	751	832	595	709
EBITDA	747	431	751	826	685	742
Depreciation	366	385	413	416	392	393
Amortisation	0	0	0	0	0	0
EBIT	381	46	338	410	293	349
Net interest income(expense)	-125	-145	-255	-307	-210	-180
Associates/affiliates	-17	-11	1	-6	-2	-2
Exceptionals/extraordinaries	-52	-106	9	-318	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	187	-217	93	-221	81	167
Income tax expense	87	-41	20	11	15	32
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	100	-176	73	-232	66	136
DB adjustments (including dilution)	68	117	-9	294	0	0
DB Net profit	168	-59	64	62	66	136
Cash Flow (USDm)						
Cash flow from operations	404	486	536	406	365	537
Net Capex	-494	-762	-188	-243	-300	-300
Free cash flow	-90	-276	348	163	65	237
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-73	-37	0	0	0	-78
Net inc/(dec) in borrowings	49	707	-256	-296	-200	-200
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	-114	394	92	-133	-135	-41
Change in working capital	*1*	*152*	*-5*	*-98*	*-98*	*-4*
Balance Sheet (USDm)						
Cash and other liquid assets	274	770	792	639	504	463
Tangible fixed assets	3,992	4,545	4,347	3,815	3,723	3,631
Goodwill/intangible assets	7	0	27	27	27	27
Associates/investments	124	0	125	125	125	125
Other assets	1,712	1,982	1,893	1,702	1,852	1,866
Total assets	6,109	7,297	7,184	6,308	6,231	6,112
Interest bearing debt	2,653	3,327	3,013	2,739	2,539	2,339
Other liabilities	1,851	2,176	2,275	2,091	2,149	2,171
Total liabilities	4,504	5,503	5,288	4,830	4,688	4,510
Shareholders' equity	1,605	1,794	1,896	1,478	1,544	1,601
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,605	1,794	1,896	1,478	1,544	1,601
Net debt	*2,379*	*2,557*	*2,221*	*2,100*	*2,035*	*1,876*
Key Company Metrics						
Sales growth (%)	10.5	-8.4	22.4	10.9	-8.5	0.8
DB EPS growth (%)	-29.4	na	na	-3.1	6.0	106.3
EBITDA Margin (%)	12.7	8.0	11.4	11.3	10.3	11.0
EBIT Margin (%)	6.5	0.8	5.1	5.6	4.4	5.2
Payout ratio (%)	36.5	nm	0.0	nm	118.7	76.7
ROE (%)	5.8	-10.3	4.0	-13.8	4.4	8.6
Capex/sales (%)	8.4	3.2	3.1	3.5	4.5	4.5
Capex/depreciation (x)	1.3	0.4	0.5	0.6	0.8	0.8
Net debt/equity (%)	148.2	142.5	117.1	142.1	131.8	117.1
Net interest cover (x)	3.0	0.3	1.3	1.3	1.4	1.9

Source: Company data, Deutsche Bank estimates

South Africa – Steel

Price (20 January 2012): 6800c Target price: 7000c Rating: Buy

ArcelorMittal South Africa Ltd

Jarrett Geldenhuys

Business description: ArcelorMittal South Africa Ltd's core businesses are flat and long steel products combined with a coke and chemicals business and dominates c.75% of local steel capacity.

Drivers: Into 2012, we do not anticipate a recovery in local steel demand and remain cautions of AMSA's operational performance. While the market is pricing a recovery in EPS from effectively a zero expected FY11 base, uncertainties around developmental steel pricing, demand recovery and iron ore pricing leaves us unexcited with regard to a significant rerating in the first half of the year. We do, however, highlight that a return to a cost+3% iron ore supply agreement with Kumba would add c.30% to our current valuation. The arbitration is only set to begin post the appeal process surrounding the court's ruling in December 2011 to overturn the DMR decision to award ICT prospecting rights over 26% of Sishen.

Outlook: We acknowledge significant near term headwinds: Structural margin erosion relative to history; significant uncertainties surrounding iron ore supply agreements; and operational issues including planned stoppages, cold conditions and structural furnace failures. Additionally, potential carbon taxes, Competition Commission-related fines and a lack of required BEE credentials further weigh on investor sentiment.

These headwinds are fully priced, in our opinion. It is difficult to see how the outlook for AMSA could further significantly deteriorate, barring additional major operational failures. AMSA is at a low point operationally. We expect a normalisation despite a muted steel demand growth outlook, providing positive operating leverage.

Valuation risks resulting from the outcome of the Sishen Supply Agreement arbitration, mining right allocation and potential implementation of developmental steel pricing are neutral, on balance, for AMSA from our base case assumptions (a continual roll forward of the interim pricing agreement with inflationary escalations). We expect an outcome that allows returns in excess of the industry's cost of capital, in a compromise considering implications for employment, raw material beneficiation, the potential impact on balance of payments, local steel supply security and prices.

Barring investors seeking a high risk return around the potential mining right allocation and arbitration outcomes, a significant re-rating is only expected on greater clarity over inherent risks. While this may not be forthcoming over the next 12 months, the inclusion of a variety of risks in our valuation, still leaves upside relative to where AMSA is trading currently and leads us to rate AMSA a Buy.

Valuation: Our valuation is based on DCF, discounted at a WACC of 13.9% (we use a risk free rate of 8.5%, equity risk premium of 4.5% and a beta of 1.2). Our target capital structure does not allow for any debt, as management is not comfortable leveraging the business given the cyclical nature of its cash flows. Rather management is likely to pay out surplus cash, should it arise, as a special dividend. We arrive at our price target by unwinding our NPV at our cost of equity less expected dividend yield. We believe this methodology allows us to take a much wider range of fundamental factors into consideration than would a comparable multiples-based valuation, which often fails to factor in differences related to capex plans, capital structure and long-term growth rates.

Risks: Risks include a weaker-than-forecast steel basket price and a stronger-than-forecast ZAR/USD exchange rate. We acknowledge both significant downside and upside valuation risks following the outcome of the Sishen Supply Agreement arbitration, Sishen mining right allocation and subsequent potential Imperial Crown Trading (Pty) Ltd (ICT) transaction. Additional valuation risks include potential carbon taxes, implementation of developmental steel pricing, BEE transaction dilution and competition commission fines in excess of our valuation discount.

Model updated:01 September 2011

Running the numbers

Sub-Saharan Africa

South Africa

Industrial Metals

ArcelorMittal South Africa

Reuters: ACLJ.J Bloomberg: ACL SJ

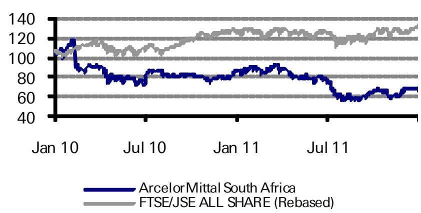
Buy

Price (20 Jan 12)	ZAR 68.00
Target Price	ZAR 70.00
52 Week range	ZAR 56.64 - 92.70
Market Cap (m)	ZARm 27,282
	USDm 3,431

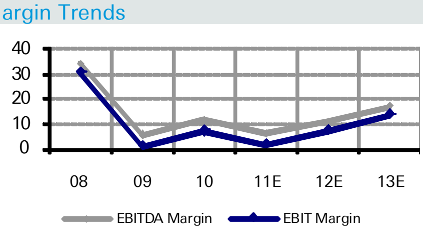
Company Profile

ArcelorMittal South Africa Ltd's core businesses are flat and long steel products combined with a coke and chemical business and dominates c.75% of steel capacity.

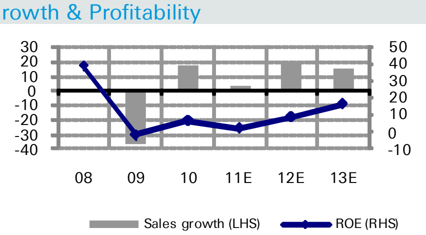
Price Performance



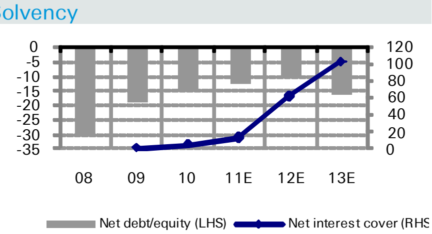
Margin Trends



Growth & Profitability



Solvency



Jarrett Geldenhuys
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Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	21.03	-1.13	3.35	0.99	5.17	10.64
Reported EPS (ZAR)	21.03	-1.13	3.35	0.99	5.17	10.64
DPS (ZAR)	7.07	0.00	1.50	0.55	1.74	3.62
BVPS (ZAR)	62.8	51.8	56.2	56.4	60.6	69.2
Weighted average shares (m)	446	423	401	401	401	401
Average market cap (ZARm)	74,138	40,527	34,760	27,282	27,282	27,282
Enterprise value (ZARm)	63,584	33,843	28,884	22,021	22,188	19,842
Valuation Metrics						
PE (DB) (x)	7.9	nm	25.8	68.9	13.2	6.4
PE (Reported) (x)	7.9	nm	25.8	68.9	13.2	6.4
P/BV (x)	1.41	1.99	1.41	1.21	1.12	0.98
FCF Yield (%)	8.2	5.9	0.6	nm	0.0	10.8
Dividend Yield (%)	4.3	0.0	1.7	0.8	2.6	5.3
EV/Sales (x)	1.6	1.3	1.0	0.7	0.6	0.5
EV/EBITDA (x)	4.7	22.3	8.2	11.4	5.3	2.7
EV/EBIT (x)	5.2	147.8	13.4	40.6	8.0	3.4
Income Statement (ZARm)						
Sales revenue	39,914	25,598	30,224	31,446	37,488	43,062
Gross profit	39,914	25,598	30,224	31,446	37,488	43,062
EBITDA	13,481	1,521	3,522	1,935	4,170	7,341
Depreciation	1,310	1,279	1,360	1,378	1,387	1,428
Amortisation	12	13	11	15	20	24
EBIT	12,159	229	2,151	542	2,763	5,889
Net interest income(expense)	717	-878	-436	-43	-45	-57
Associates/affiliates	370	206	122	64	187	215
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	13,246	-443	1,837	564	2,905	6,048
Income tax expense	3,865	35	492	168	831	1,778
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	9,381	-478	1,345	396	2,075	4,270
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	9,381	-478	1,345	396	2,075	4,270
Cash Flow (ZARm)						
Cash flow from operations	7,909	3,320	1,939	1,200	1,919	4,913
Net Capex	-1,832	-914	-1,714	-1,269	-1,906	-1,963
Free cash flow	6,077	2,406	225	-69	13	2,949
Equity raised/(bought back)	0	-3,918	0	0	0	0
Dividends paid	-2,398	-1,627	-602	-221	-368	-818
Net inc/(dec) in borrowings	-11	-58	-43	-195	0	0
Other investing/financing cash flows	727	-884	-422	55	0	0
Net cash flow	4,395	-4,081	-842	-430	-354	2,131
Change in working capital	*-3,391*	*2,878*	*-1,100*	*-978*	*-1,375*	*-593*
Balance Sheet (ZARm)						
Cash and other liquid assets	8,429	4,348	3,506	3,076	2,722	4,853
Tangible fixed assets	15,917	15,862	16,432	16,393	16,872	17,365
Goodwill/intangible assets	71	72	84	94	114	134
Associates/investments	2,171	2,556	2,594	2,406	2,594	2,809
Other assets	10,847	7,946	9,102	10,398	12,631	13,367
Total assets	37,435	30,784	31,718	32,368	34,933	38,527
Interest bearing debt	46	220	224	222	222	222
Other liabilities	9,394	8,639	8,938	9,523	10,382	10,525
Total liabilities	9,440	8,859	9,162	9,745	10,604	10,747
Shareholders' equity	27,995	21,925	22,556	22,623	24,329	27,781
Minorities	0	0	0	0	0	0
Total shareholders' equity	27,995	21,925	22,556	22,623	24,329	27,781
Net debt	*-8,383*	*-4,128*	*-3,282*	*-2,854*	*-2,500*	*-4,631*
Key Company Metrics						
Sales growth (%)	nm	-35.9	18.1	4.0	19.2	14.9
DB EPS growth (%)	na	na	na	-70.6	423.7	105.8
EBITDA Margin (%)	33.8	5.9	11.7	6.2	11.1	17.0
EBIT Margin (%)	30.5	0.9	7.1	1.7	7.4	13.7
Payout ratio (%)	33.6	nm	44.7	55.7	33.6	34.0
ROE (%)	38.6	-1.9	6.0	1.8	8.8	16.4
Capex/sales (%)	4.6	3.6	5.7	4.0	5.1	4.6
Capex/depreciation (x)	1.4	0.7	1.3	0.9	1.4	1.4
Net debt/equity (%)	-29.9	-18.8	-14.6	-12.6	-10.3	-16.7
Net interest cover (x)	nm	0.3	4.9	12.7	61.3	103.4

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Price (20 January 2012): 3450c | Target price: 3590 | Rating: Hold

Aveng Ltd

Roy Mutooni, CFA

Business description: Aveng Ltd 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. The group is structured along three business lines. In FY11, construction and engineering contributed 61% of operating earnings, while 53% revenues were generated in South Africa.

Four key segments:

- Construction South Africa and Africa (32% operating profit).
- Construction Australasia and Pacific (29% operating profit).
- Manufacturing and processing (22% operating profit).
- Open cast mining (18%).

Drivers: Aveng is involved in the building and infrastructure construction sectors as well as mining contracting in southern Africa. It also has operations in Australasia that 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 good exposure to private sector investment and mining in its order book while the large public sector projects wind down. The medium term outlook remains positive with the Australian government spending set to maintain momentum, while mining-related investment continues to provide opportunities.
- 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, currently on a gradual recovery. Since the group has secured long term contracts that, when combined with a weakening currency, and rising commodity prices, should prove positive for the group.

Outlook: Given the cyclical and country-specific risks, Aveng has sought to diversify geographically and across construction-related industries. Over the past year, the group has been severely affected by the substantial decline in steel prices and demand, as global fixed asset demand slowed on the back of the credit crisis. Execution issues and one-off costs also had a significant adverse effect on the recent FY11 results. We expect margins to remain under pressure over the short to medium term as weak public and private sector spending persists. However, notwithstanding the margin pressure, we believe that off this base, the short-term outlook remains stable to improving, while the solid balance sheet and improved order book offer a buffer to any potential slowdown. We forecast a three-year CAGR of 9% on HEPS. Hold on what we see as fair valuation.

Valuation: We assess the fundamental value of Aveng based on a DCF analysis, using a 13.5% WACC (ERP 4.5%, risk-free rate 8.5%, beta 1.1x) and a 4.5% perpetual growth rate (South African house stance). We derive our 12-month target by rolling forward the fair valuation derived from this DCF calculation by the cost of equity less dividend yield.

Risks: Upside risks include commodity prices rising significantly ahead of current levels.

Downside risks include any significant project cancellations, particularly government-related; currency fluctuations (c.35% operating earnings earned outside South Africa), and any further adverse findings from the Competition Commission investigation into the industry.

Model updated:06 September 2011

Running the numbers

Sub-Saharan Africa

South Africa

Construction & Building Materials

Aveng

Reuters: AEGJ.J Bloomberg: AEG SJ

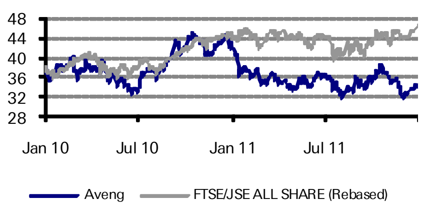
Hold

Price (20 Jan 12)	ZAR 34.50
Target Price	ZAR 35.90
52 Week range	ZAR 31.87 - 41.99
Market Cap (m)	ZARm 13,421
	USDm 1,688

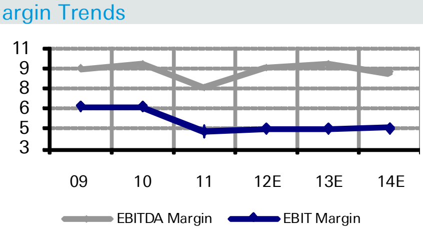
Company Profile

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.

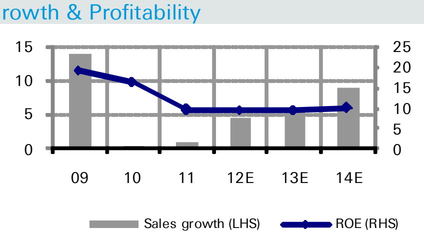
Price Performance



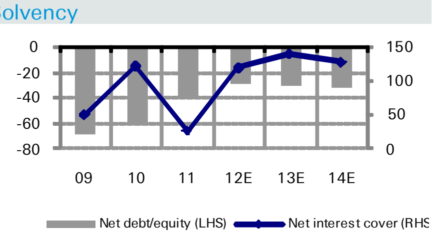
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	4.87	4.41	2.83	2.98	3.16	3.68
Reported EPS (ZAR)	4.78	4.44	2.86	2.98	3.16	3.68
DPS (ZAR)	1.45	1.45	1.45	0.75	0.79	0.92
BVPS (ZAR)	28.0	31.3	33.2	34.8	37.4	40.5
Weighted average shares (m)	388	390	389	389	389	389
Average market cap (ZARm)	15,373	14,968	14,890	13,421	13,421	13,421
Enterprise value (ZARm)	7,856	7,301	9,347	9,279	8,699	8,105
Valuation Metrics						
PE (DB) (x)	8.1	8.7	13.5	11.6	10.9	9.4
PE (Reported) (x)	8.3	8.6	13.4	11.6	10.9	9.4
P/BV (x)	1.25	1.10	1.08	0.99	0.92	0.85
FCF Yield (%)	0.8	4.5	nm	nm	6.7	6.9
Dividend Yield (%)	3.7	3.8	3.8	2.2	2.3	2.7
EV/Sales (x)	0.2	0.2	0.3	0.3	0.2	0.2
EV/EBITDA (x)	2.6	2.3	3.6	2.8	2.4	2.2
EV/EBIT (x)	3.8	3.5	6.3	5.7	5.0	4.3
Income Statement (ZARm)						
Sales revenue	33,772	33,981	34,324	35,868	38,039	41,442
Gross profit	3,032	3,171	2,615	3,257	3,572	3,606
EBITDA	3,032	3,171	2,615	3,257	3,572	3,606
Depreciation	935	1,063	1,101	1,611	1,811	1,672
Amortisation	17	17	24	24	27	29
EBIT	2,079	2,092	1,490	1,622	1,735	1,905
Net interest income(expense)	-42	-17	-59	-14	-12	-15
Associates/affiliates	67	61	-7	-7	-8	-8
Exceptionals/extraordinaries	8	0	0	0	0	0
Other pre-tax income/(expense)	757	472	347	249	249	400
Profit before tax	2,843	2,533	1,764	1,857	1,971	2,290
Income tax expense	809	722	584	615	652	758
Minorities	11	-1	-4	-4	-5	-5
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,051	1,886	1,191	1,239	1,315	1,529
DB adjustments (including dilution)	40	-13	-14	0	0	0
DB Net profit	2,091	1,873	1,177	1,239	1,315	1,529
Cash Flow (ZARm)						
Cash flow from operations	2,636	1,793	390	1,404	2,679	2,867
Net Capex	-2,515	-1,117	-1,730	-2,036	-1,785	-1,942
Free cash flow	121	677	-1,340	-631	894	925
Equity raised/(bought back)	-415	0	-117	0	0	0
Dividends paid	-1,138	-579	-565	-603	-310	-329
Net inc/(dec) in borrowings	-67	-90	-254	0	0	0
Other investing/financing cash flows	-107	23	45	-23	-24	-25
Net cash flow	-1,605	30	-2,231	-1,257	560	571
Change in working capital	*204*	*-1,026*	*-1,873*	*-1,624*	*-610*	*-527*
Balance Sheet (ZARm)						
Cash and other liquid assets	7,910	7,828	5,611	4,143	4,703	5,274
Tangible fixed assets	5,062	5,146	6,021	6,445	6,420	6,689
Goodwill/intangible assets	1,093	1,085	1,481	1,457	1,430	1,401
Associates/investments	108	211	223	239	255	272
Other assets	8,543	9,872	11,217	10,846	11,962	13,281
Total assets	22,715	24,142	24,553	23,130	24,770	26,918
Interest bearing debt	479	367	294	248	248	248
Other liabilities	11,350	11,555	11,344	9,403	9,935	10,765
Total liabilities	11,829	11,922	11,638	9,651	10,183	11,013
Shareholders' equity	10,865	12,215	12,918	13,554	14,560	15,760
Minorities	21	5	-3	-7	-12	-18
Total shareholders' equity	10,886	12,220	12,915	13,547	14,548	15,743
Net debt	*-7,431*	*-7,461*	*-5,317*	*-3,895*	*-4,455*	*-5,026*
Key Company Metrics						
Sales growth (%)	14.0	0.6	1.0	4.5	6.1	8.9
DB EPS growth (%)	-9.4	-9.4	-35.9	5.3	6.2	16.2
EBITDA Margin (%)	9.0	9.3	7.6	9.1	9.4	8.7
EBIT Margin (%)	6.2	6.2	4.3	4.5	4.6	4.6
Payout ratio (%)	27.4	30.0	47.4	23.4	23.4	23.4
ROE (%)	19.2	16.3	9.5	9.4	9.4	10.1
Capex/sales (%)	8.0	3.5	5.3	5.7	4.7	4.7
Capex/depreciation (x)	2.8	1.1	1.6	1.2	1.0	1.1
Net debt/equity (%)	-68.3	-61.1	-41.2	-28.8	-30.6	-31.9
Net interest cover (x)	50.0	121.6	25.3	119.7	139.9	128.0

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Price (20 January 2012): 4100c Target price: 3050c Rating: Hold

AVI Ltd

Warren Goldblum, CFA

Business description: AVI is a branded FMCG company operating primarily in South Africa. The company's brand portfolio includes more than 53 brands (33 owned and over 20 under licence) across food and beverage, and fashion brand categories. Leading brands include Five Roses, Freshpak, Ellis Brown, Frisco, House of Coffees, Bakers, Pyotts, Provita, Willards, I&J, Denny, Ciro, Yardley, Lentheric, Coty, Spitz, Carvela, Kurt Geiger, Tosoni, Lacoste, Geox, Nina Roche, Jimmy Choo, Gant.

Drivers:

- Food and beverage brands division: This division is the biggest contributor to profitability, contributing c.60% of FY11 group EBIT. Consumer spending and food inflation, as well as international agricultural commodity prices are the key drivers for this division.
- Fashion brands division: The fashion brands division comprises the group's personal care (Indigo) and footwear and apparel (Spitz) divisions and contributed c.33% of FY11 group EBIT. This division is driven by general economic conditions and consumer spending patterns.

Over the past five years the group has returned c.R2.1bn to shareholders, broadly evenly split between ordinary dividends (c.R1.1bn) and share repurchases/capital distributions (c.R1bn); a strong track record. Group gearing is at modest levels and we continue to believe that, in the absence of acquisitions, the potential exists for future positive upside surprises on distributions to shareholders.

Outlook: Over the past five years the group has returned c.R2.1bn to shareholders, broadly evenly split between ordinary dividends (c.R1.1bn) and share repurchases/capital distributions (c.R1bn); a strong track record. We believe the strong brands, robust margins and defensive nature of product demand across the sector justifies a greater use of debt in the capital structure of those food producers with low gearing levels. In the absence of acquisitions we believe potential upside exists to distributions over the near term. Hold.

Valuation: We value AVI on a DCF basis. Inputs into our five-year DCF include WACC of 12.9% (COE of 13.9%, 20% D:E, levered beta of 1.2x), risk-free rate of 8.5% (in line with our house long bond forecast), market risk premium of 4.5%, and terminal growth rate of 4.0% (lower than peers' 4.5% to reflect lower expected terminal growth from the fishing business, with scarce resources).

Risks:

Downside risks

- Continued weakness in the consumer environment,
- Greater-than-anticipated weakness in European demand (Spain and Italy are key export markets), and/or
- Continued rand strength negatively impacting export-driven fishing business.

Upside risks

- Stronger-than-anticipated consumer expenditure in South Africa and Europe,
- ZAR/EUR weakness,
- Corporate action.

Model updated:06 September 2011

Running the numbers

Sub-Saharan Africa

South Africa

Food Producers

AVI

Reuters: AVIJ.J Bloomberg: AVI SJ

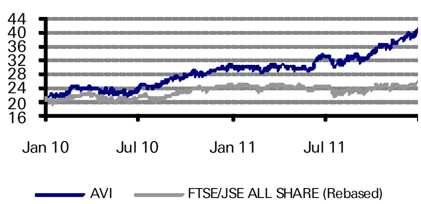
Hold

Price (20 Jan 12)	ZAR 41.00
Target Price	ZAR 30.50
52 Week range	ZAR 28.75 - 41.00
Market Cap (m)	ZARm 12,040
	USDm 1,514

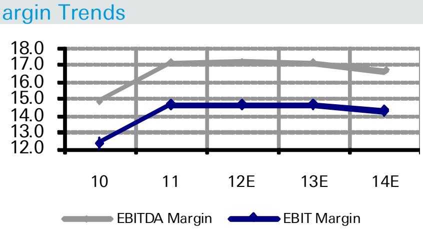
Company Profile

AVI Ltd is an industrial group which produces fast moving consumer goods. The group produces and distributes foods, frozen foods, food ingredients and cosmetics.

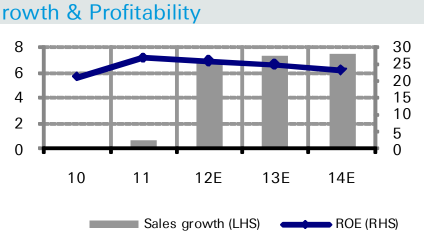
Price Performance



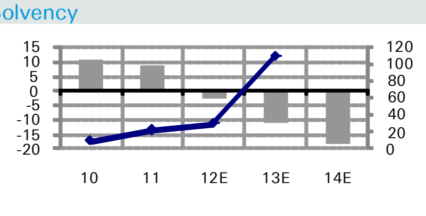
Margin Trends



Growth & Profitability



Solvency



Warren Goldblum, CFA
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Fiscal year end 30-Jun	2010	2011	2012E	2013E	2014E
Financial Summary					
DB EPS (ZAR)	1.92	2.52	2.66	2.93	3.11
Reported EPS (ZAR)	1.92	2.52	2.66	2.93	3.11
DPS (ZAR)	1.75	1.25	1.38	1.52	1.61
BVPS (ZAR)	9.9	9.6	11.4	13.0	14.7
Weighted average shares (m)	299	303	294	294	294
Average market cap (ZARm)	6,272	8,510	12,040	12,040	12,040
Enterprise value (ZARm)	6,142	8,177	11,611	11,282	10,940
Valuation Metrics					
PE (DB) (x)	10.9	11.2	15.4	14.0	13.2
PE (Reported) (x)	10.9	11.2	15.4	14.0	13.2
P/BV (x)	2.24	3.23	3.60	3.15	2.79
FCF Yield (%)	9.4	8.7	4.8	6.2	6.6
Dividend Yield (%)	8.4	4.4	3.4	3.7	3.9
EV/Sales (x)	0.8	1.1	1.4	1.3	1.2
EV/EBITDA (x)	5.4	6.2	8.2	7.5	6.9
EV/EBIT (x)	6.5	7.3	9.7	8.7	8.1
Income Statement (ZARm)					
Sales revenue	7,631	7,686	8,213	8,812	9,468
Gross profit	7,631	7,686	8,213	8,812	9,468
EBITDA	1,132	1,319	1,412	1,512	1,578
Depreciation	191	196	211	223	231
Amortisation	0	0	0	0	0
EBIT	941	1,123	1,200	1,290	1,347
Net interest income(expense)	-109	-53	-42	-12	12
Associates/affiliates	40	36	39	42	43
Exceptionals/extraordinaries	5	53	0	0	0
Other pre-tax income/(expense)	9	-8	12	12	12
Profit before tax	881	1,098	1,209	1,331	1,414
Income tax expense	287	363	399	439	467
Minorities	4	0	1	1	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	595	788	809	891	947
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	595	788	809	891	947
Cash Flow (ZARm)					
Cash flow from operations	916	1,051	891	1,031	1,095
Net Capex	-326	-315	-312	-284	-296
Free cash flow	590	737	578	747	799
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-272	-562	-382	-417	-457
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0
Net cash flow	317	174	197	330	343
Change in working capital	*103*	*144*	*-131*	*-84*	*-84*
Balance Sheet (ZARm)					
Cash and other liquid assets	589	380	555	686	1,028
Tangible fixed assets	1,340	1,460	1,560	1,621	1,685
Goodwill/intangible assets	923	759	759	759	759
Associates/investments	434	572	310	310	310
Other assets	2,168	2,126	2,292	2,472	2,660
Total assets	5,455	5,297	5,477	5,848	6,443
Interest bearing debt	913	639	456	256	256
Other liabilities	1,607	1,759	1,694	1,789	1,894
Total liabilities	2,520	2,398	2,149	2,045	2,150
Shareholders' equity	2,954	2,919	3,346	3,821	4,310
Minorities	-20	-20	-19	-18	-17
Total shareholders' equity	2,934	2,899	3,327	3,803	4,293
Net debt	*324*	*259*	*-99*	*-430*	*-772*
Key Company Metrics					
Sales growth (%)	nm	0.7	6.9	7.3	7.5
DB EPS growth (%)	na	31.3	5.7	10.1	6.3
EBITDA Margin (%)	14.8	17.2	17.2	17.2	16.7
EBIT Margin (%)	12.3	14.6	14.6	14.6	14.2
Payout ratio (%)	88.1	48.0	50.0	50.0	49.9
ROE (%)	21.1	26.8	25.8	24.9	23.3
Capex/sales (%)	4.3	4.1	3.8	3.2	3.1
Capex/depreciation (x)	1.7	1.6	1.5	1.3	1.3
Net debt/equity (%)	11.0	8.9	-3.0	-11.3	-18.0
Net interest cover (x)	8.6	21.3	28.5	108.4	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial | Price (20 January 2012): 8081c | Target price: 8000c | Rating: Buy

Barloworld Ltd

Roy Mutooni, CFA

Business description: Barloworld is a focused distribution company with an offering that includes integrated product support as well as rental and logistics solutions. The group's core divisions 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, US, Belgium, the Netherlands, Mozambique and South Africa. The group also has a strong position domestically in the transportation sector with motor vehicle retailing market share), car rental (through Avis Southern Africa), and logistics. Barloworld 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:

1) South African infrastructure and capital investment. Capital equipment and materials handling on behalf of principals like CAT and Hyster. The consolidation of the Siberian equipment division in FY11 will provide Barloworld with inroads to the Russian market.

2) South African consumer. Automobile retailing, car rental, and fleet leasing (under the Avis brand name).

3) European and US industrial production. Materials handling in the UK, Belgium and the US and capital equipment distribution in Spain and Portugal.

4) 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, power and marine, and civil engineering/construction sectors.

Outlook: We believe the primary drivers for Barloworld's earnings growth and rating are the outlook for mining equipment sales and services in southern Africa, which depends on the outlook for commodity prices and demand for commodities globally. We expect commodity prices and demand to continue to increase and remain ahead of incentive levels, i.e. the level required to ensure owners of mines are able to earn an appropriate return on their investment. In our opinion, this should underpin demand for equipment to develop new mines and increase extraction rates in current mines in southern Africa, and buoy group earnings growth over the medium term. Over the longer term we expect the group to benefit from the increased investment in its Russian business and a gradual recovery in the markets for agricultural and materials handling equipment. We rate the company a Buy on the back of this growth potential and the strong earnings momentum the stock is currently experiencing.

Valuation: We value Barloworld on a DCF sum-of-the-parts valuation methodology using a long-run growth rate of 4%, a WACC of 11% (equity risk premium of 4.5%, long-run pre-tax cost of debt of 8.5%). We derive the enterprise value of each division, add them all up, and deduct the debt at centre to calculate the fair valuation, which we then roll forward at the cost of equity (13.4%) to calculate our 12 month target price.

Risks:

Downside risks

- Inability to secure funding for the incremental working capital and capex requirements resulting from the acquisition of the Russian dealership.
- Inability to successfully turn around the weak businesses in the portfolio, such as logistics Europe, handling US and UK.

Model updated:14 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Barloworld

Reuters: BAWJ.J Bloomberg: BAW SJ

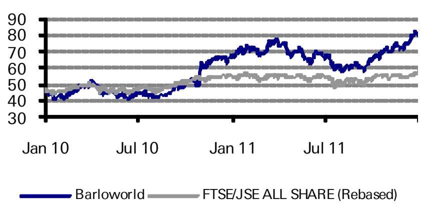
Buy

Price (20 Jan 12)	ZAR 80.81
Target Price	ZAR 80.00
52 Week range	ZAR 58.15 - 82.30
Market Cap (m)	ZARm 17,027
	USDm 2,141

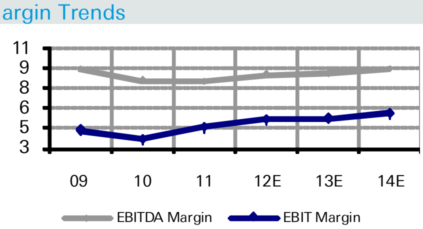
Company Profile

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.

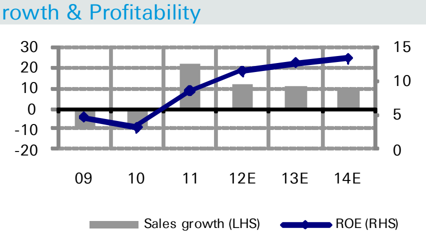
Price Performance



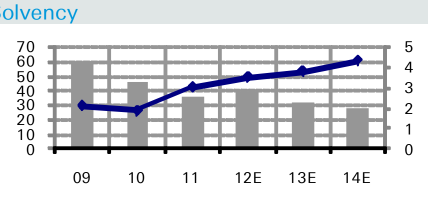
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Sep	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	2.81	1.70	4.61	6.98	8.41	9.75
Reported EPS (ZAR)	2.81	1.70	4.61	6.98	8.41	9.75
DPS (ZAR)	1.10	0.75	1.55	2.35	2.82	3.28
BVPS (ZAR)	56.8	50.6	58.8	64.0	70.0	76.8
Weighted average shares (m)	209	209	211	211	211	211
Average market cap (ZARm)	8,708	9,530	13,634	17,027	17,027	17,027
Enterprise value (ZARm)	13,782	12,378	16,042	20,274	19,719	19,477
Valuation Metrics						
PE (DB) (x)	14.9	26.7	14.0	11.6	9.6	8.3
PE (Reported) (x)	14.9	26.7	14.0	11.6	9.6	8.3
P/BV (x)	0.86	0.93	1.03	1.26	1.16	1.05
FCF Yield (%)	17.8	21.7	9.0	6.0	7.5	6.3
Dividend Yield (%)	2.6	1.6	2.4	2.9	3.5	4.1
EV/Sales (x)	0.3	0.3	0.3	0.4	0.3	0.3
EV/EBITDA (x)	3.4	3.7	4.0	4.2	3.7	3.2
EV/EBIT (x)	6.9	8.2	7.0	7.0	6.0	5.0
Income Statement (ZARm)						
Sales revenue	45,269	40,830	49,823	55,945	62,191	68,678
Gross profit	4,061	3,318	3,993	4,789	5,351	6,172
EBITDA	4,061	3,318	3,993	4,789	5,351	6,172
Depreciation	1,855	1,737	1,620	1,885	2,050	2,309
Amortisation	212	63	84	0	0	0
EBIT	1,994	1,518	2,289	2,903	3,301	3,863
Net interest income(expense)	-938	-809	-755	-827	-872	-892
Associates/affiliates	43	16	71	89	111	11
Exceptionals/extraordinaries	-142	-83	24	0	0	0
Other pre-tax income/(expense)	-52	-5	-3	105	139	170
Profit before tax	1,026	528	1,593	2,182	2,569	3,141
Income tax expense	248	228	584	720	822	1,005
Minorities	68	51	63	69	73	78
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	589	358	979	1,482	1,784	2,069
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	589	358	979	1,482	1,784	2,069
Cash Flow (ZARm)						
Cash flow from operations	2,284	2,565	1,915	3,486	4,044	4,252
Net Capex	-730	-497	-682	-2,467	-2,762	-3,180
Free cash flow	1,554	2,068	1,233	1,018	1,283	1,072
Equity raised/(bought back)	0	0	-21	0	0	0
Dividends paid	-434	-223	-257	-383	-531	-630
Net inc/(dec) in borrowings	51	-1,008	1,183	-1,516	68	72
Other investing/financing cash flows	-782	-536	-1,312	532	-141	-103
Net cash flow	389	301	826	-349	679	411
Change in working capital	*885*	*1,069*	*-27*	*-156*	*-228*	*-659*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,627	1,928	2,754	2,400	3,079	3,490
Tangible fixed assets	7,854	7,575	8,743	8,858	9,762	10,827
Goodwill/intangible assets	2,599	2,375	2,513	2,356	2,356	2,356
Associates/investments	2,361	2,434	2,344	2,484	2,558	2,655
Other assets	15,654	11,378	14,578	14,416	15,614	17,177
Total assets	30,095	25,690	30,932	30,515	33,370	36,505
Interest bearing debt	8,845	6,977	7,243	7,799	7,924	8,111
Other liabilities	9,180	7,887	11,037	9,055	10,087	11,073
Total liabilities	18,025	14,864	18,280	16,853	18,011	19,184
Shareholders' equity	11,853	10,593	12,389	13,487	14,741	16,179
Minorities	217	233	263	332	406	484
Total shareholders' equity	12,070	10,826	12,652	13,819	15,146	16,662
Net debt	*7,218*	*5,049*	*4,489*	*5,399*	*4,845*	*4,621*
Key Company Metrics						
Sales growth (%)	-9.7	-9.8	22.0	12.3	11.2	10.4
DB EPS growth (%)	-53.7	-39.3	170.8	51.3	20.4	15.9
EBITDA Margin (%)	9.0	8.1	8.0	8.6	8.6	9.0
EBIT Margin (%)	4.4	3.7	4.6	5.2	5.3	5.6
Payout ratio (%)	38.9	43.9	33.4	33.4	33.4	33.4
ROE (%)	4.8	3.2	8.5	11.5	12.6	13.4
Capex/sales (%)	2.0	1.4	1.8	4.4	4.4	4.6
Capex/depreciation (x)	0.4	0.3	0.5	1.3	1.3	1.4
Net debt/equity (%)	59.8	46.6	35.5	39.1	32.0	27.7
Net interest cover (x)	2.1	1.9	3.0	3.5	3.8	4.3

Source: Company data, Deutsche Bank estimates

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South Africa – Service

Price (20 January 2012): 16795c Target price: 17000c Rating: Hold

Bidvest Group Ltd

Roy Mutooni, CFA

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, Eastern Europe, the Benelux countries, Hong Kong, Singapore, China and Australasia. Within South Africa, the group remains acquisitive across a broad range of industries but restricting itself to low capital intensity businesses with strong management. Outside South Africa, the group is only active in the food service distribution industry having developed its international business into the largest foodservices group outside the US.

Drivers: Bidvest reports through 10 operational divisions in addition to a small corporate office based in South Africa. Its South African businesses include:

- Bidfreight (26% of South African trading profit). This represents the group's interest in a group of companies in freight forwarding port management and related industries, mostly in sub-Saharan Africa.
- Bidvest Services (6% of trading profit) offers hygiene services, textile rental and industrial workwear, security and laundry services, as well as contract cleaning services.
- Financial services (19%) This division carries Bidvest's interest in Bidvest Bank, which provides a range of financial, foreign exchange and travel services.
- BidOffice, industrial and electrical (14%), three divisions that deal in the manufacture and distribution of electrical products, appliances and cabling services, stationery and furniture to the southern Africa and the UK regions.
- Bidpaper Plus (10%) is a manufacturer, supplier, and distributor of commercial office products, printer products, services and stationery and packaging products under such brand names as Lithotech, and Silveray Statmark, through a wide network of outlets in South Africa.
- BidAutomotive (7%). This business operates over 116 dealerships across South Africa and is active in motor retailing, car auctions, financing and vehicle insurance brokering.
- Bidvest Namibia (9%). A Botswana-listed vehicle for the group's businesses in Namibia operating fishing vessels, freight and logistics, office consumables products, stationeries and travel solutions services..
- Bidvest Food Services: (36%) has operations in Australia, New Zealand, the UK, Netherlands and Belgium. Bidvest entered the Australasian market in 1995 and the UK in May 1999. The most recent acquisition was a food services company with operations in the Czech Republic, Slovakia and Poland. The business also incorporates the group's interest in the South African food service and equipment distribution industry.

Outlook: In our view, the key growth engine for the group over time will remain its global foodservices business, and in particular its Asia Pacific subsidiaries that operate in areas with a long track record of above-average GDP and consumer spending growth rates. The recent Eastern European acquisition offers entry into a solid longer term growth market, while smaller markets such as the Middle East and Namibia provide strong growth potential in the medium to long term. While our outlook for the stock offers solid earnings growth over the medium term, we believe this has been more than adequately reflected in its rating, which remains in line with its long-run historical, one and two-year forward averages. We therefore see little in the form of catalysts for an imminent rerating. Hold.

Valuation: We value Bidvest on a sum-of-the-parts valuation methodology. Our sum-of-the-parts 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:

Upside risks:

- A significant business combination concluded for the food services business, as proposed by management.
- A sooner-than-expected recovery in consumer spending domestically and in the international regions

Downside risks:

- Substantial appreciation of the currency beyond current levels.
- A sudden drop in export volumes.
- Sustained deflationary environment, in particular in food prices.
- The long-term effect of skill shortages in South Africa.

Model updated:06 December 2011

Running the numbers

Sub-Saharan Africa

South Africa

Service

Bidvest

Reuters: BVTJ.J | Bloomberg: BVT SJ

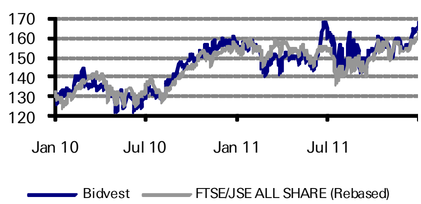
Hold

Price (20 Jan 12)	ZAR 167.95
Target Price	ZAR 170.00
52 Week range	ZAR 140.55 - 167.95
Market Cap (m)	ZARm 51,900
	USDm 6,527

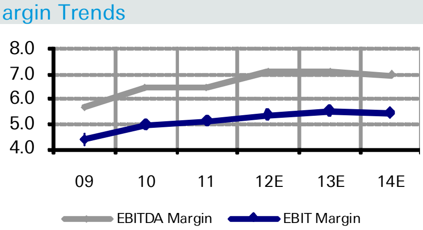
Company Profile

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, Eastern Europe, the Benelux countries, Hong Kong, Singapore, China and Australasia.

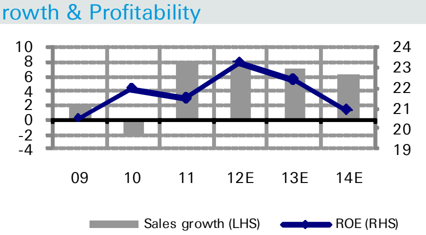
Price Performance



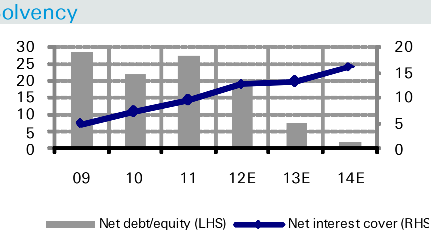
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	9.25	10.63	11.54	13.85	15.32	16.27
Reported EPS (ZAR)	9.25	10.63	11.54	13.85	15.32	16.27
DPS (ZAR)	3.80	4.32	4.80	5.76	6.37	6.77
BVPS (ZAR)	46.2	53.2	57.2	66.1	75.7	85.7
Weighted average shares (m)	301	315	309	309	309	309
Average market cap (ZARm)	28,867	38,881	45,446	51,900	51,900	51,900
Enterprise value (ZARm)	28,867	38,881	45,446	51,900	51,900	51,900
Valuation Metrics						
PE (DB) (x)	10.4	11.6	12.7	12.1	11.0	10.3
PE (Reported) (x)	10.4	11.6	12.7	12.1	11.0	10.3
P/BV (x)	2.09	2.29	2.63	2.54	2.22	1.96
FCF Yield (%)	7.6	8.5	6.6	4.9	8.1	6.5
Dividend Yield (%)	4.0	3.5	3.3	3.4	3.8	4.0
EV/Sales (x)	0.3	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	4.5	5.5	6.0	5.7	5.4	5.1
EV/EBIT (x)	5.8	7.1	7.5	7.6	6.9	6.6
Income Statement (ZARm)						
Sales revenue	112,428	109,789	118,483	127,301	136,305	144,968
Gross profit	22,945	23,011	24,552	26,379	28,245	30,040
EBITDA	6,411	7,063	7,618	9,039	9,690	10,102
Depreciation	1,476	1,600	1,556	2,210	2,175	2,230
Amortisation	0	0	0	0	0	0
EBIT	4,935	5,463	6,062	6,829	7,514	7,872
Net interest income(expense)	-1,029	-758	-644	-539	-563	-490
Associates/affiliates	49	41	98	113	120	127
Exceptionals/extraordinaries	0	0	-214	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	3,955	4,746	5,302	6,404	7,071	7,509
Income tax expense	1,046	1,301	1,528	1,729	1,909	2,027
Minorities	106	100	235	250	264	280
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,802	3,345	3,539	4,425	4,897	5,201
DB adjustments (including dilution)	1	20	149	0	0	0
DB Net profit	2,804	3,365	3,688	4,425	4,897	5,201
Cash Flow (ZARm)						
Cash flow from operations	4,501	6,158	6,051	6,491	8,097	7,414
Net Capex	-2,300	-2,855	-3,044	-3,963	-3,899	-4,041
Free cash flow	2,200	3,302	3,007	2,528	4,198	3,374
Equity raised/(bought back)	45	1,558	-1,439	0	0	0
Dividends paid	-1,178	-1,302	-1,560	-1,678	-1,933	-2,096
Net inc/(dec) in borrowings	-323	175	703	0	0	0
Other investing/financing cash flows	187	-2,068	-808	0	0	0
Net cash flow	931	1,666	-96	850	2,265	1,277
Change in working capital	*-131*	*685*	*406*	*-334*	*849*	*-190*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,212	4,139	4,437	5,287	7,552	8,829
Tangible fixed assets	9,410	10,368	11,603	13,356	15,080	16,890
Goodwill/intangible assets	4,479	6,360	7,027	7,027	7,027	7,027
Associates/investments	1,359	1,814	2,434	2,547	2,667	2,794
Other assets	20,024	20,664	22,329	23,289	23,673	25,050
Total assets	38,484	43,345	47,830	51,506	55,999	60,590
Interest bearing debt	7,285	8,002	9,468	9,468	9,468	9,468
Other liabilities	16,902	17,950	19,905	20,584	21,849	23,055
Total liabilities	24,187	25,952	29,373	30,052	31,316	32,522
Shareholders' equity	13,929	16,737	17,669	20,417	23,381	26,486
Minorities	368	656	788	1,037	1,302	1,582
Total shareholders' equity	14,298	17,393	18,457	21,454	24,683	28,068
Net debt	*4,072*	*3,863*	*5,030*	*4,180*	*1,916*	*638*
Key Company Metrics						
Sales growth (%)	1.8	-2.3	7.9	7.4	7.1	6.4
DB EPS growth (%)	-12.0	15.0	8.5	20.0	10.7	6.2
EBITDA Margin (%)	5.7	6.4	6.4	7.1	7.1	7.0
EBIT Margin (%)	4.4	5.0	5.1	5.4	5.5	5.4
Payout ratio (%)	40.9	40.6	41.9	40.2	40.2	40.2
ROE (%)	20.5	21.9	21.4	23.2	22.4	20.9
Capex/sales (%)	2.3	3.0	2.7	3.1	2.9	2.8
Capex/depreciation (x)	1.7	2.0	2.1	1.8	1.8	1.8
Net debt/equity (%)	28.5	22.2	27.3	19.5	7.8	2.3
Net interest cover (x)	4.8	7.2	9.4	12.7	13.3	16.1

Source: Company data, Deutsche Bank estimates

South Africa – Food Beverage & Tobacco

Price (20 January 2012): 36104c Target price: 33000c Rating: Hold

British American Tobacco plc

Warren Goldblum, CFA / Jonathan Fell

Business description: British American Tobacco (BAT) 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 four regions:

- Western Europe: In Western Europe profits increased by 1% in 1H11 on a 2% volume decline (lower volumes in Italy and Spain and the impact of the Gauloises agreement termination)
- Eastern Europe, Middle East and Africa: Strong 1H11 profit growth (+19%) was reported on price increases and stable volumes.
- Asia Pacific: Favourable exchange rates, along with strong performances in Japan and Indonesia resulted in operating profit growth of 18% in 1H11. Volumes increased by 1%, with lower volumes in Australia, Malaysia, South Korea and New Zealand, being offset by increases in Japan, Vietnam and Pakistan.
- Americas: Profits rose by 11% (1H11) driven by improved mix and favourable exchange, despite a 5% decline in volumes (with decline in Brazil, Mexico, Chile and Venezuela).

Outlook: BAT is a very high quality business with a strong earnings growth story driven by both top-line growth and cost-cutting programmes that 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 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 the stock is an excellent long-term investment but that relative performance may struggle this year given our positive views on equity markets. Hold.

Valuation: We base our price target on a DCF-model, the core assumptions behind which are a WACC of 8.4% (incorporating a levered beta of 0.79, net debt/EV ratio of 15%, risk free rate of 5.75% and 6% cost of debt), medium-term cash flow growth of 5% a year, and a post year-10 terminal growth rate of -1% (due to regulatory and social pressures on tobacco consumption).

Risks: Investing in tobacco carries sector-specific risks regulation, duty increases, volume declines in high-margin markets, etc.). In addition to these general sector downside risks, BAT is potentially exposed to adverse currency movements, unexpected adverse US litigation developments, Canadian litigation, and possible overpayment for an acquisition. Upside to our risk could come from a better-than-expected operating performance or more bullish investor sentiment towards emerging markets or tobacco stocks.

Model updated:22 November 2011

Running the numbers

Europe

United Kingdom

Tobacco

BAT

Reuters: BTIJ.J Bloomberg: BTI SJ

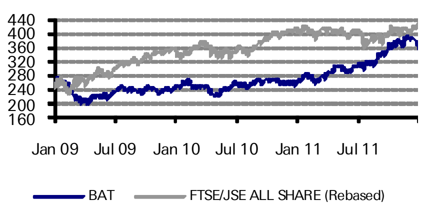
Hold

Price (20 Jan 12)	ZAR 361.04
Target Price	ZAR 330.00
52 Week range	ZAR 259.33 - 395.00
Market Cap (m)	ZARm 712,025
	USDm 89,540

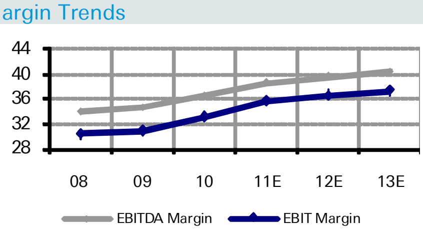
Company Profile

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.

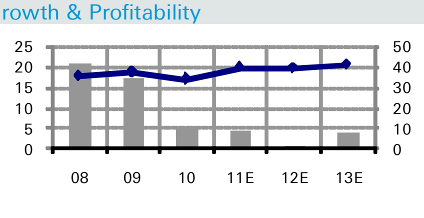
Price Performance



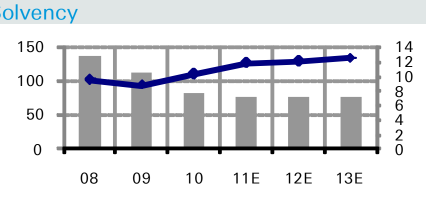
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (GBP)	128.78	152.99	175.73	195.43	206.64	223.84
Reported EPS (GBP)	122.54	136.06	144.38	190.31	200.73	217.83
DPS (GBP)	83.70	99.50	114.20	127.00	134.30	145.50
BVPS (GBP)	350.4	384.2	463.8	499.7	520.2	539.5
Weighted average shares (m)	1,993	1,980	1,983	1,972	1,942	1,908
Average market cap (GBPm)	33,889	35,734	44,376	57,667	56,774	55,787
Enterprise value (GBPm)	40,316	42,053	48,216	61,872	61,086	60,198
Valuation Metrics						
PE (DB) (x)	13.2	11.8	12.7	15.0	14.2	13.1
PE (Reported) (x)	13.9	13.3	15.5	15.4	14.6	13.4
P/BV (x)	5.27	5.30	5.35	5.76	5.62	5.42
FCF Yield (%)	7.3	7.0	7.1	5.9	6.1	6.8
Dividend Yield (%)	4.9	5.5	5.1	4.3	4.6	5.0
EV/Sales (x)	3.3	3.0	3.2	4.0	3.9	3.7
EV/EBITDA (x)	9.8	8.6	8.9	10.4	9.9	9.2
EV/EBIT (x)	10.9	9.6	9.8	11.2	10.7	9.9
Income Statement (GBPm)						
Sales revenue	12,122	14,208	14,883	15,522	15,679	16,306
Gross profit	7,059	8,086	8,789	9,389	9,500	10,038
EBITDA	4,123	4,907	5,426	5,978	6,183	6,566
Depreciation	406	446	442	395	408	420
Amortisation	24	62	62	62	62	62
EBIT	3,693	4,399	4,922	5,521	5,714	6,084
Net interest income(expense)	-391	-504	-480	-470	-475	-487
Associates/affiliates	503	483	550	656	683	720
Exceptionals/extraordinaries	-262	-304	-604	-100	-100	-100
Other pre-tax income/(expense)	141	2	0	0	0	0
Profit before tax	3,181	3,593	3,838	4,951	5,138	5,497
Income tax expense	1,025	1,124	1,248	1,539	1,597	1,708
Minorities	202	243	261	294	305	329
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,457	2,709	2,879	3,774	3,919	4,180
DB adjustments (including dilution)	125	337	625	102	116	116
DB Net profit	2,582	3,046	3,504	3,876	4,035	4,295
Cash Flow (GBPm)						
Cash flow from operations	2,954	3,029	3,661	3,993	4,041	4,373
Net Capex	-465	-515	-523	-582	-593	-604
Free cash flow	2,489	2,514	3,138	3,411	3,449	3,769
Equity raised/(bought back)	-400	0	0	-750	-1,000	-1,250
Dividends paid	-1,393	-1,798	-2,093	-2,354	-2,555	-2,619
Net inc/(dec) in borrowings	2,787	-406	-690	-32	107	100
Other investing/financing cash flows	-2,443	-551	-151	-276	0	0
Net cash flow	1,040	-241	204	0	0	0
Change in working capital	*398*	*79*	*90*	*91*	*-8*	*40*
Balance Sheet (GBPm)						
Cash and other liquid assets	2,309	2,161	2,329	2,329	2,329	2,329
Tangible fixed assets	3,076	3,010	3,117	3,220	3,320	3,419
Goodwill/intangible assets	12,318	12,232	12,458	12,690	12,645	12,598
Associates/investments	3,479	2,883	3,061	3,258	3,463	3,679
Other assets	6,369	6,328	6,895	7,041	7,107	7,300
Total assets	27,551	26,614	27,860	28,538	28,864	29,324
Interest bearing debt	12,161	11,082	10,250	10,188	10,295	10,395
Other liabilities	8,175	7,620	8,062	8,224	8,208	8,391
Total liabilities	20,336	18,702	18,312	18,413	18,503	18,785
Shareholders' equity	6,944	7,613	9,206	9,783	10,020	10,197
Minorities	271	299	342	342	342	342
Total shareholders' equity	7,215	7,912	9,548	10,125	10,362	10,539
Net debt	*9,852*	*8,921*	*7,921*	*7,859*	*7,966*	*8,066*
Key Company Metrics						
Sales growth (%)	21.0	17.2	4.8	4.3	1.0	4.0
DB EPS growth (%)	18.7	18.8	14.9	11.2	5.7	8.3
EBITDA Margin (%)	34.0	34.5	36.5	38.5	39.4	40.3
EBIT Margin (%)	30.5	31.0	33.1	35.6	36.4	37.3
Payout ratio (%)	67.9	72.7	78.7	66.4	66.5	66.4
ROE (%)	35.6	37.2	34.2	39.8	39.6	41.3
Capex/sales (%)	4.5	3.9	3.9	3.9	4.0	3.9
Capex/depreciation (x)	1.3	1.2	1.3	1.6	1.5	1.5
Net debt/equity (%)	136.5	112.8	83.0	77.6	76.9	76.5
Net interest cover (x)	9.4	8.7	10.3	11.7	12.0	12.5

Source: Company data, Deutsche Bank estimates

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Switzerland – Luxury Goods | Price (20/01/2012): CHF52.95c | Target price: CHF51.00 | Rating: Hold

Richemont

Francesca Di Pasquantonio / Warwick Okines

Business description: Richemont is a Switzerland-based luxury goods company. After the 2008 disposal of its significant stake in the London-listed British American Tobacco (BAT), it is now a 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 developed as Cartier but is rapidly growing its presence in the market. Specialist watchmakers include the watch focused brands like Vacheron Constantin, IWC, Panerai and Jaeger-LeCoultre. Most watch brands are positioned in the high-end/prestige segments and enjoy very high levels of profitability, with the exception of Baume & Mercier, which is currently going through a deep restructuring and repositioning phase. 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, the recently acquired online fashion retailer Net-a-Porter, as well the watch components business, which after a difficult couple of years should now enjoy the market-driven rebound.

Outlook: The strength of Richemont's business model is undisputed - with its unique portfolio of brands, strong balance sheet with ca E2bn of net cash, attractive EM exposure and strong focus on China, plus tight control of operations. Its high level of operational leverage has also allowed one of the best earning momentum in the industry and sequential upgrades. However clouds have converged on Richemont, and we therefore have a Hold rating, until the blue sky is back. In particular, we highlight: 1) the adverse FX given the CHF cost skew; 2) unfavourable capex cycle, and risk of bottlenecks with Richemont rushing to adequate production capacity amid increasing scarcity of watch components; 3) potential consensus downgrades from CHF. Although partly offset by the strength of the top line, these factors make sales momentum more key then ever, increasing exposure to macro risks.

Valuation: We value Richemont using a DCF valuation (WACC: 9.5%, risk free rate: 4.5%, equity risk premium: 4.5%, sustainable margin: 21%, 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 JPY or US$. A 10% move in USD/EUR 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. On the upside, the main risk is that top line growth remains in the double digit area underpinning a better-than-expected earnings momentum.

Model updated:14 October 2011

Running the numbers

Europe

Switzerland

Luxury Goods

Richemont

Reuters: CFR.VX Bloomberg: CFR VX

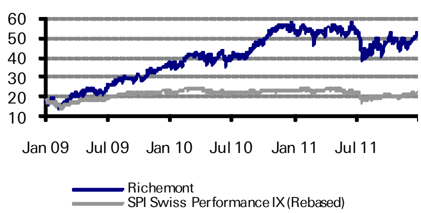
Hold

Price (20 Jan 12)	CHF 52.95
Target Price	CHF 51.00
52 Week range	CHF 38.51 - 57.40
Market Cap (m)	CHFm 29,726
	USDm 31,815

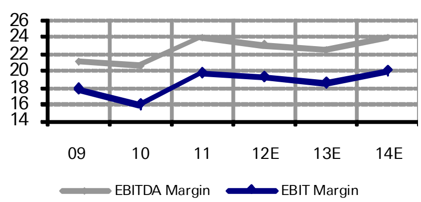
Company Profile

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.

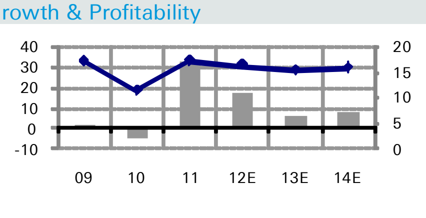
Price Performance



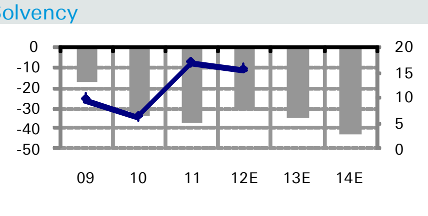
Margin Trends



Growth & Profitability



Solvency



Francesca Di Pasquantonio
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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (EUR)	1.29	1.07	1.93	2.15	2.34	2.74
Reported EPS (EUR)	1.90	1.07	1.93	2.15	2.34	2.74
DPS (EUR)	0.30	0.35	0.45	0.72	0.81	0.94
BVPS (EUR)	8.6	10.1	12.4	14.3	16.3	18.7
Weighted average shares (m)	561	561	561	561	561	561
Average market cap (EURm)	9,320	11,062	19,679	24,625	24,625	24,625
Enterprise value (EURm)	8,290	9,712	17,456	22,082	21,771	20,785
Valuation Metrics						
PE (DB) (x)	12.7	18.4	18.1	20.2	18.6	15.9
PE (Reported) (x)	8.8	18.5	18.2	20.4	18.7	16.0
P/BV (x)	1.37	2.84	3.29	3.06	2.69	2.35
FCF Yield (%)	6.4	8.9	5.0	0.1	3.5	6.0
Dividend Yield (%)	1.8	1.8	1.3	1.6	1.8	2.2
EV/Sales (x)	1.5	1.9	2.5	2.7	2.5	2.2
EV/EBITDA (x)	7.3	9.1	10.6	11.8	11.3	9.3
EV/EBIT (x)	8.6	11.7	12.9	14.2	13.7	11.2
Income Statement (EURm)						
Sales revenue	5,418	5,176	6,892	8,066	8,570	9,287
Gross profit	3,417	3,191	4,394	5,071	5,330	5,851
EBITDA	1,143	1,069	1,646	1,867	1,933	2,239
Depreciation	175	239	291	314	346	380
Amortisation	0	0	0	0	0	0
EBIT	968	830	1,355	1,553	1,588	1,859
Net interest income(expense)	-101	-133	-80	-100	0	0
Associates/affiliates	342	-3	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	867	697	1,275	1,453	1,588	1,859
Income tax expense	133	94	196	232	262	305
Minorities	1	1	-11	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,076	600	1,090	1,220	1,326	1,553
DB adjustments (including dilution)	-342	3	0	0	0	0
DB Net profit	734	603	1,090	1,220	1,326	1,553
Cash Flow (EURm)						
Cash flow from operations	890	1,163	1,306	553	1,513	1,946
Net Capex	-293	-175	-323	-524	-643	-464
Free cash flow	597	988	983	29	870	1,481
Equity raised/(bought back)	-84	-99	0	0	0	0
Dividends paid	-438	-110	-141	-161	-257	-290
Net inc/(dec) in borrowings	374	-495	77	0	0	0
Other investing/financing cash flows	447	0	0	0	0	0
Net cash flow	896	284	919	-132	613	1,191
Change in working capital	*-361*	*323*	*-64*	*-981*	*-159*	*12*
Balance Sheet (EURm)						
Cash and other liquid assets	2,032	2,597	3,381	3,312	4,001	5,280
Tangible fixed assets	1,169	1,160	1,267	1,477	1,774	1,858
Goodwill/intangible assets	386	389	755	755	755	755
Associates/investments	634	614	637	637	637	637
Other assets	3,203	2,983	3,653	4,830	5,114	5,236
Total assets	7,424	7,743	9,693	11,010	12,281	13,766
Interest bearing debt	1,210	715	792	792	792	792
Other liabilities	1,366	1,367	1,909	2,167	2,320	2,492
Total liabilities	2,576	2,082	2,701	2,959	3,112	3,284
Shareholders' equity	4,832	5,657	6,968	8,039	9,157	10,470
Minorities	3	2	12	12	12	12
Total shareholders' equity	4,835	5,659	6,980	8,051	9,169	10,482
Net debt	*-822*	*-1,882*	*-2,589*	*-2,520*	*-3,209*	*-4,488*
Key Company Metrics						
Sales growth (%)	2.2	-4.5	33.2	17.0	6.3	8.4
DB EPS growth (%)	-23.5	-17.2	79.7	11.9	8.6	17.2
EBITDA Margin (%)	21.1	20.7	23.9	23.1	22.6	24.1
EBIT Margin (%)	17.9	16.0	19.7	19.2	18.5	20.0
Payout ratio (%)	15.7	32.8	23.2	33.0	34.3	34.1
ROE (%)	17.2	11.4	17.3	16.3	15.4	15.8
Capex/sales (%)	5.4	3.4	4.7	6.5	7.5	5.0
Capex/depreciation (x)	1.7	0.7	1.1	1.7	1.9	1.2
Net debt/equity (%)	-17.0	-33.3	-37.1	-31.3	-35.0	-42.8
Net interest cover (x)	9.6	6.2	16.9	15.5	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (20 January 2012): 4210c | Target price: 4600c | Rating: Buy

Clicks Group Ltd

Nick Higham, CFA

Business description: The Clicks Group operates in the health and beauty and pharmacy retail industry in southern Africa. The current store base is in excess of 500. The company also wholesales and dispenses pharmaceuticals. Almost all of group revenue is southern Africa based.

Divisional FY11 EBIT breakdown estimates are as follows: Clicks including pharmacy (80%), UPD (14%), Musica (4%) and The Body Shop (2%). With slowing top line (no regulated drug price increases) and squeezing margins, UPD has shrunk significantly from c.24% of group EBIT in FY09. Clicks was boosted by the aggressive retail pharmacy rollout, consistently strong volume growth and improving gross margins, resulting in a significant increase in contribution to group EBIT (c.65% in FY09 to c.80%).

Clicks has strategically positioned itself as a high convenience specialist health and beauty retailer. The pharmacy market in South Africa is evolving. Corporates, who were previously not allowed to hold retail pharmacy licences pre-2003, are now expanding and capturing share from smaller independents whose business model has come under increasing pressure. Clicks currently operates the largest drugstore chain in South Africa with over 283 Clicks stores with integrated in-store dispensaries. Management is accelerating the roll-out of integrated dispensaries into this Clicks store network with a 100-150 additional integrated dispensaries targeted over the next three years. UPD is the pharmaceutical wholesale distribution division with a c.25% market share in the wholesale distribution market. It is currently growing the bulk drug distribution (agency) business to complement its existing wholesale (fine distribution) offering.

Drivers:

- Top-line growth underpinned by continued dispensary roll-out. Management is rolling out retail pharmacies into its existing Clicks store footprint at very little incremental cost, which drives higher front shop sales in addition to foot traffic through the stores. It is rolling out c.40-50 pharmacies per year with approximately five years of strong rollout remaining before all Clicks stores have a retail pharmacy.
- No inflation underpinning top line growth. Given no SEP drug price increases awarded and limited inflation across health and beauty (driven partly by the sustained rand strength), very low inflation is expected across the business in the near-term. The recent rand weakness will assist in lifting inflation in 2H12.
- Dispensary margin expansion. While we understand that retail pharmacy is still profitable, Clicks is following a price-leadership strategy and running low margins in retail pharmacy well below maximum allowable regulated dispensing margins to maintain a competitive pricing advantage. Given the four-year ramp up in maturity of dispensaries, the aggressive dispensary rollout should underpin dispensary margins into the future as the rollout eventually slows.
- Earnings accretive share buybacks. With strong and consistent normalised free cash flow and moderate capex levels, management has consistently utilised excess cash to buy back shares. Given the low interest rate environment, this has resulted in positive earnings accretion. We expect c.2.5% earnings accretion from buybacks in FY12.

The stock has a free-float of 94% with a diverse institutional investor base. Foreign shareholders comprise a significant c.63% of the shareholding.

Outlook: The performance of Clicks stores with integrated dispensaries significantly outpaces those without. The new executive has improved operational performance, lowering cost and investment in working capital and improving product availability over the last few years. We believe the business mix is more defensive than before. This has arisen from increased pharmaceutical (wholesaling/dispensing) revenue and profit exposure. Despite some near-term headwinds in the form of a muted consumer environment and low inflation, we expect c.17.2% three-year CAGR in earnings and a solid c.4.1% 12 month forward dividend yield supporting our Buy recommendation.

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

Risks: Key downside risks include: 1) Lack of qualified pharmacists constraining the pharmacy rollout; 2) Further regulatory interference through introduction of international benchmark pricing and finalisation of logistics fee capping impacting UPD profitability negatively; and 3) Increased competitive pressures in their key health and beauty market and other retail pharmacy chains.

Model updated:21 October 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Clicks Group Ltd

Reuters: CLSJ.J Bloomberg: CLS SJ

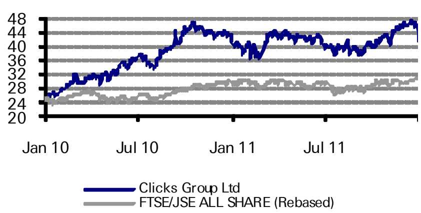
Buy

Price (20 Jan 12)	ZAR 42.10
Target Price	ZAR 46.00
52 Week range	ZAR 36.40 - 47.50
Market Cap (m)	ZARm 10,650
	USDm 1,339

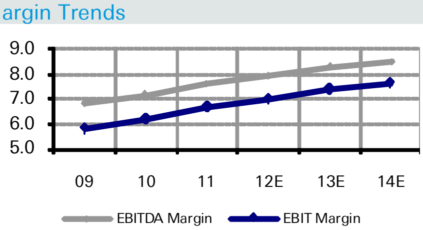
Company Profile

Clicks Group Ltd operates in the retail industry in South Africa with a core focus on health and beauty products and retail pharmacies. The company also wholesales and distributes pharmaceuticals in South Africa through its UPD operation.

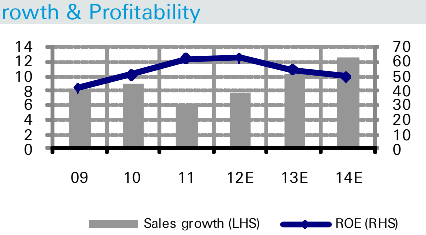
Price Performance



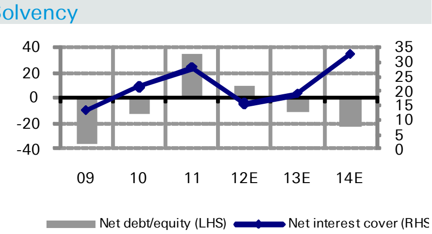
Margin Trends



Growth & Profitability



Solvency



Nick Higham, CFA
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Fiscal year end 31-Aug	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	1.66	2.11	2.49	2.86	3.37	4.02
Reported EPS (ZAR)	1.66	2.11	2.49	2.86	3.37	4.02
DPS (ZAR)	0.84	1.06	1.25	1.59	1.87	2.23
BVPS (ZAR)	3.9	4.2	3.7	5.3	7.1	9.2
Weighted average shares (m)	285	271	262	253	253	253
Average market cap (ZARm)	4,637	7,821	10,934	10,650	10,650	10,650
Enterprise value (ZARm)	4,237	7,677	11,274	10,792	10,457	10,128
Valuation Metrics						
PE (DB) (x)	9.8	13.6	16.7	14.7	12.5	10.5
PE (Reported) (x)	9.8	13.7	16.7	14.7	12.5	10.5
P/BV (x)	5.16	8.75	11.33	7.90	5.96	4.59
FCF Yield (%)	17.4	4.2	4.4	5.1	7.0	7.6
Dividend Yield (%)	5.2	3.7	3.0	3.8	4.4	5.3
EV/Sales (x)	0.3	0.6	0.8	0.7	0.6	0.5
EV/EBITDA (x)	5.1	8.1	10.5	8.9	7.5	6.3
EV/EBIT (x)	6.0	9.3	12.0	10.2	8.5	7.0
Income Statement (ZARm)						
Sales revenue	12,175	13,276	14,103	15,193	16,758	18,880
Gross profit	12,175	13,276	14,103	15,193	16,758	18,880
EBITDA	831	951	1,075	1,207	1,388	1,606
Depreciation	122	128	139	144	153	168
Amortisation	0	0	0	0	0	0
EBIT	709	823	936	1,063	1,234	1,439
Net interest income(expense)	-55	-39	-34	-70	-66	-45
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	6	10	5	0	0	0
Other pre-tax income/(expense)	-7	-14	-6	0	0	0
Profit before tax	647	770	896	993	1,168	1,394
Income tax expense	175	207	247	268	315	376
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	478	574	654	725	853	1,018
DB adjustments (including dilution)	1	2	0	0	0	0
DB Net profit	480	576	654	725	853	1,018
Cash Flow (ZARm)						
Cash flow from operations	1,022	513	677	753	956	1,118
Net Capex	-217	-187	-199	-212	-208	-304
Free cash flow	805	327	478	540	748	814
Equity raised/(bought back)	-338	0	0	0	0	0
Dividends paid	-191	-244	-296	-328	-413	-485
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	277	83	182	212	335	328
Change in working capital	*475*	*-228*	*-105*	*-116*	*-50*	*-68*
Balance Sheet (ZARm)						
Cash and other liquid assets	489	286	39	237	572	901
Tangible fixed assets	830	888	950	1,018	1,072	1,208
Goodwill/intangible assets	398	420	405	405	405	405
Associates/investments	0	0	0	0	0	0
Other assets	2,464	2,516	2,861	2,961	3,260	3,666
Total assets	4,181	4,110	4,255	4,622	5,310	6,180
Interest bearing debt	87	142	379	379	379	379
Other liabilities	2,969	2,827	2,911	2,895	3,144	3,481
Total liabilities	3,056	2,969	3,290	3,274	3,522	3,860
Shareholders' equity	1,123	1,141	964	1,347	1,787	2,319
Minorities	2	1	1	1	1	1
Total shareholders' equity	1,125	1,141	965	1,348	1,788	2,320
Net debt	*-402*	*-144*	*340*	*142*	*-194*	*-522*
Key Company Metrics						
Sales growth (%)	7.9	9.0	6.2	7.7	10.3	12.7
DB EPS growth (%)	26.2	27.0	17.8	14.8	17.7	19.3
EBITDA Margin (%)	6.8	7.2	7.6	7.9	8.3	8.5
EBIT Margin (%)	5.8	6.2	6.6	7.0	7.4	7.6
Payout ratio (%)	50.0	50.1	50.1	55.6	55.6	55.6
ROE (%)	42.2	50.7	62.1	62.7	54.4	49.6
Capex/sales (%)	1.8	1.4	1.4	1.4	1.2	1.6
Capex/depreciation (x)	1.8	1.5	1.4	1.5	1.4	1.8
Net debt/equity (%)	-35.7	-12.6	35.2	10.5	-10.8	-22.5
Net interest cover (x)	12.9	21.2	27.8	15.2	18.8	32.3

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Price (20 January 2012): 2383c Target price: 2920c Rating: Hold

Group Five Ltd

Roy Mutooni, CFA

Business description: Group Five is an investment holding company with interests in construction, engineering and property industries. The company builds commercial structures, public and private housing, roads and earthworks and has more than 30 years experience in the construction sector. It seeks to integrate its construction building materials and services businesses in such a way that it is able to generate multiple revenue streams from any given project, and, in doing so, reduce the inherent cyclicality of its component businesses. Group Five operates in South Africa, the rest of Africa, the Middle East and Eastern Europe. Around 82% of revenue is generated from southern African countries.

Key reporting segments:

- Construction: The group's primary reporting segment is construction, which accounted for 83% of FY11 revenue.
- The investments and concessions segment comprising infrastructure concessions and property developments accounted for 5% of FY10 revenue. This business undertakes a full range of toll road activities, including design, operation, and maintenance and concession investment.
- The manufacturing division contributing 8% of FY10 revenue, producing a wide range of fibre-cement building products used in building and industrial applications. The pipe factory specialises in large diameter spiral weld steel pipes. Construction materials contributes 4% to the revenue and is involved into contract mining activities, including mining and crushing of sand and aggregates and readymix and extenders.

Drivers: Like most construction-related companies, Group Five's earnings are mostly driven by the South African public, private sector infrastructure spending, and mining sector investment, while maintaining a small interest in Middle Eastern construction.

Outlook: Over FY11, group results showed a significant decline in returns and earnings, reflecting the weaker market conditions and the underperformance of the building materials businesses. While the group has made a significant effort to diversify into other markets, we only anticipate payback over the next 12-14 months. Despite our bleak outlook, we believe the current rating adequately reflects the risks inherent in the stock. Hold.

Valuation: We assess the fundamental value of Group Five based on a DCF analysis, using a 13.5% WACC (ERP 4.5%, risk-free rate 8.5%, beta 1.1x) and a 4.5% perpetual growth rate (South African house stance). We then derive our 12-month price target by rolling forward the fair valuation derived from this DCF calculation by the cost of equity less dividend yield.

Risks:

Downside risks:

- Sustained decline in global commodity prices below current levels.
- Greater-than-expected wage settlements.
- Significant disruptions from ongoing labour industrial action.
- Inability to transfer skills from building to civil engineering.

Upside risks:

- Any sooner-than-expected resurgence in government spending and contract awards issuance.
- Interest rates falling lower than current levels, coupled with increased appetite from banks to lend to developers.

Model updated:15 August 2011

Running the numbers

Sub-Saharan Africa

South Africa

Construction & Building Materials

Group 5 Ltd

Reuters: GRFJ.J Bloomberg: GRF SJ

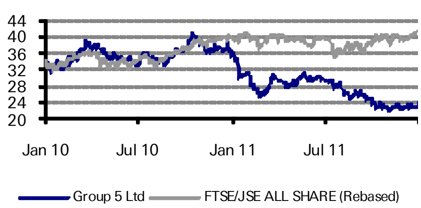
Hold

Price (20 Jan 12)	ZAR 23.83
Target Price	ZAR 29.20
52 Week range	ZAR 22.05 - 35.39
Market Cap (m)	ZARm 2,290
	USDm 288

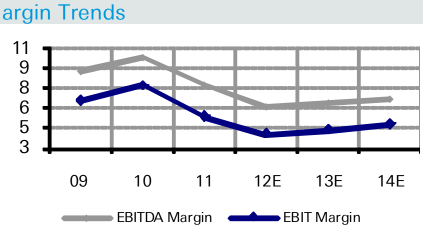
Company Profile

Group Five is an investment holding company with interests in construction, engineering and property industries. The company builds commercial structures, public and private housing, roads and earthworks and has more than 30 years' experience in the construction sector. It seeks to integrate its construction building materials and services businesses in such a way that it is able to generate multiple revenue streams from any given project, and, in doing so, reduce the inherent cyclicality of its component businesses. Group Five operates in South Africa, the rest of Africa, the Middle East and Eastern Europe.

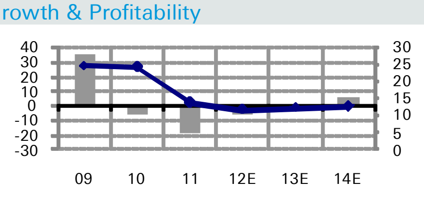
Price Performance



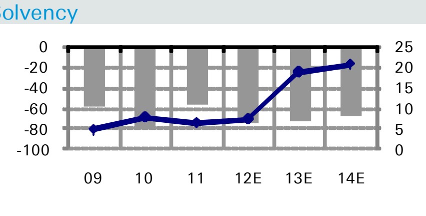
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	5.08	5.61	-1.99	2.59	2.97	3.41
Reported EPS (ZAR)	5.08	5.61	3.15	2.59	2.97	3.41
DPS (ZAR)	1.30	1.37	0.72	0.59	0.68	0.78
BVPS (ZAR)	25.1	26.1	22.3	24.3	26.8	29.7
Weighted average shares (m)	95	95	96	96	96	96
Average market cap (ZARm)	3,546	3,504	3,189	2,290	2,290	2,290
Enterprise value (ZARm)	2,178	1,474	1,986	522	413	372
Valuation Metrics						
PE (DB) (x)	7.4	6.5	nm	9.2	8.0	7.0
PE (Reported) (x)	7.4	6.5	10.5	9.2	8.0	7.0
P/BV (x)	1.38	1.32	1.34	0.98	0.89	0.80
FCF Yield (%)	40.9	27.0	nm	28.5	8.0	5.6
Dividend Yield (%)	3.5	3.7	2.2	2.5	2.8	3.3
EV/Sales (x)	0.2	0.1	0.2	0.1	0.0	0.0
EV/EBITDA (x)	2.1	1.3	2.8	1.0	0.7	0.6
EV/EBIT (x)	2.7	1.7	4.0	1.5	1.1	0.8
Income Statement (ZARm)						
Sales revenue	12,090	11,338	9,207	8,653	8,757	9,290
Gross profit	1,056	1,122	710	531	562	626
EBITDA	1,056	1,122	710	531	562	626
Depreciation	258	245	212	176	176	176
Amortisation	0	0	0	0	0	0
EBIT	797	877	499	355	386	450
Net interest income(expense)	-168	-115	-78	-50	-21	-22
Associates/affiliates	0	1	1	0	0	0
Exceptionals/extraordinaries	16	-16	18	0	0	0
Other pre-tax income/(expense)	137	143	96	80	77	79
Profit before tax	782	593	15	386	442	508
Income tax expense	225	258	158	110	126	145
Minorities	20	46	59	14	16	18
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	538	586	319	262	300	345
DB adjustments (including dilution)	0	0	-520	0	0	0
DB Net profit	538	586	-201	262	300	345
Cash Flow (ZARm)						
Cash flow from operations	1,669	1,063	-718	826	359	314
Net Capex	-219	-117	-68	-173	-175	-186
Free cash flow	1,449	946	-786	653	184	128
Equity raised/(bought back)	9	7	6	0	0	0
Dividends paid	-112	-129	-121	-73	-60	-69
Net inc/(dec) in borrowings	-228	-406	-102	-678	-46	-37
Other investing/financing cash flows	-196	-88	129	0	0	0
Net cash flow	923	331	-874	-98	78	22
Change in working capital	*685*	*58*	*-1,238*	*349*	*-155*	*-247*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,798	3,130	2,235	2,137	2,215	2,237
Tangible fixed assets	2,432	2,040	1,380	1,377	1,377	1,386
Goodwill/intangible assets	25	25	0	0	0	0
Associates/investments	19	36	45	45	45	45
Other assets	5,099	4,720	4,111	4,079	4,169	4,388
Total assets	10,373	9,950	7,771	7,638	7,805	8,056
Interest bearing debt	1,414	1,061	960	282	236	198
Other liabilities	6,551	6,328	4,500	4,842	4,799	4,793
Total liabilities	7,965	7,389	5,459	5,124	5,034	4,991
Shareholders' equity	2,373	2,486	2,148	2,337	2,578	2,854
Minorities	34	75	118	131	147	165
Total shareholders' equity	2,408	2,561	2,266	2,469	2,725	3,019
Net debt	*-1,384*	*-2,069*	*-1,275*	*-1,855*	*-1,979*	*-2,038*
Key Company Metrics						
Sales growth (%)	35.9	-6.2	-18.8	-6.0	1.2	6.1
DB EPS growth (%)	25.7	10.5	na	na	14.6	14.8
EBITDA Margin (%)	8.7	9.9	7.7	6.1	6.4	6.7
EBIT Margin (%)	6.6	7.7	5.4	4.1	4.4	4.8
Payout ratio (%)	22.9	22.3	21.7	21.7	21.7	21.7
ROE (%)	24.5	24.1	13.8	11.7	12.2	12.7
Capex/sales (%)	2.2	1.3	1.2	2.0	2.0	2.0
Capex/depreciation (x)	1.0	0.6	0.5	1.0	1.0	1.1
Net debt/equity (%)	-57.5	-80.8	-56.3	-75.1	-72.6	-67.5
Net interest cover (x)	4.7	7.6	6.4	7.2	18.6	20.7

Source: Company data, Deutsche Bank estimates

South Africa – Transport

Price (20 January 2012): 13350c Target price: 11700c Rating: Hold

Imperial Holdings Ltd

Roy Mutooni, CFA

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 (8% of operating profit). 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 other brands in this division.
- Motor retailing and distributorships (51% of group operating profit). Imperial has a c.25% market share of the car retail market in South Africa. This business imports and distributes Renault, Daihatsu, MG, Citroen, SsangYong, Rover and Kia vehicles and many such more brands. It also distributes and services International, Hino, DAF trucks, Isuzu, Renault and Fiat commercial vehicles.
- Logistics (25% of operating profit). This business comprises dedicated contracting, long-distance haulage of liquids and dry bulk products and truck hire services across 14 African countries and major European markets.
- Financial services (16% 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. It also now provides life assurance beyond the motor related sector.

Outlook: Over the short to medium term, we expect the high base set in the motor retail businesses, coupled with the slow growth nature of the balance of the operations, to mute the group's earnings growth profile, in aggregate. We continue to expect the group to run into headwinds over the medium term as the new vehicle replacement cycle winds down and the high base of vehicle sales affects growth. Over the longer term, we believe the group's key drivers remain the trends in new vehicle sales and acquisitive growth. At the current price the stock is currently trading at a 9.8x forward PE rating, in line with its long run rating. Hold.

Valuation: We value Imperial on a sum-of-the-parts DCF valuation, valuing each division on a DCF basis using its embedded debt/equity ratio, a beta of 1.1 (the long run Imperial beta relative to the FTSE/JSE Africa 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:

Upside risks:

- Equity markets continue to rise ahead of our expectations.
- Increased bank appetite for lending to consumers sooner than we expect.
- Currency remaining stronger than we forecast (makes vehicle importation cheaper, supporting margins and reducing pricing pressure)

Downside risks:

- Significant weakening of the currency.
- Sustained weakness in consumer income growth and spending on durables.

Model updated:25 August 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Imperial Holdings Ltd

Reuters: IPLJ.J   Bloomberg: IPL SJ

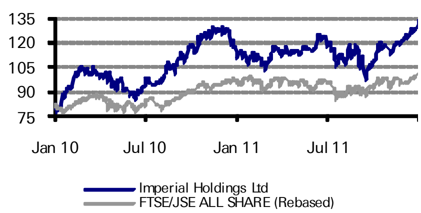
Hold

Price (20 Jan 12)	ZAR 133.50
Target Price	ZAR 117.00
52 Week range	ZAR 96.65 - 133.50
Market Cap (m)	ZARm 25,405
	USDm 3,195

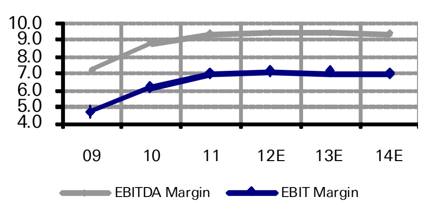
Company Profile

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.

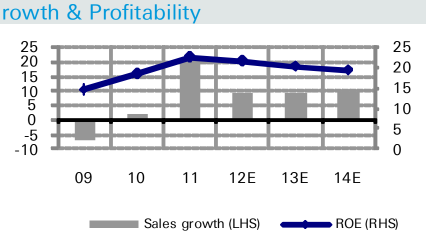
Price Performance



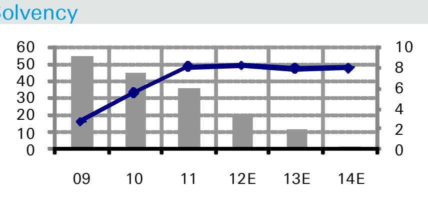
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	6.76	9.41	12.97	13.54	14.55	15.66
Reported EPS (ZAR)	6.76	9.41	12.89	13.54	14.55	15.66
DPS (ZAR)	2.00	3.50	4.80	5.04	5.42	5.83
BVPS (ZAR)	52.7	60.0	62.9	71.9	81.8	92.4
Weighted average shares (m)	186	186	190	190	190	190
Average market cap (ZARm)	9,853	15,840	21,337	25,405	25,405	25,405
Enterprise value (ZARm)	22,757	28,812	21,337	25,405	25,405	25,405
Valuation Metrics						
PE (DB) (x)	7.9	9.1	8.6	9.9	9.2	8.5
PE (Reported) (x)	7.9	9.1	8.7	9.9	9.2	8.5
P/BV (x)	1.11	1.43	1.93	1.86	1.63	1.44
FCF Yield (%)	24.1	7.7	13.0	nm	7.9	11.0
Dividend Yield (%)	3.8	4.1	4.3	3.8	4.1	4.4
EV/Sales (x)	0.4	0.5	0.3	0.4	0.3	0.3
EV/EBITDA (x)	6.0	6.2	3.5	3.8	3.5	3.2
EV/EBIT (x)	9.3	8.8	4.7	5.0	4.7	4.3
Income Statement (ZARm)						
Sales revenue	52,219	53,438	64,667	70,806	77,443	84,841
Gross profit	3,613	4,356	5,736	6,407	6,979	7,534
EBITDA	3,776	4,684	6,054	6,695	7,302	7,958
Depreciation	1,323	1,396	1,528	1,664	1,857	2,086
Amortisation	0	0	15	0	0	0
EBIT	2,453	3,288	4,511	5,031	5,445	5,872
Net interest income(expense)	-923	-597	-554	-611	-684	-733
Associates/affiliates	107	174	34	38	42	45
Exceptionals/extraordinaries	-544	-44	0	0	0	0
Other pre-tax income/(expense)	467	191	235	0	0	0
Profit before tax	1,673	3,114	4,180	4,458	4,802	5,185
Income tax expense	502	911	1,272	1,337	1,441	1,555
Minorities	161	241	346	381	419	461
Other post-tax income/(expense)	508	59	0	0	0	0
Net profit	1,405	1,919	2,608	2,740	2,943	3,169
DB adjustments (including dilution)	0	0	15	0	0	0
DB Net profit	1,405	1,919	2,623	2,740	2,943	3,169
Cash Flow (ZARm)						
Cash flow from operations	3,593	2,132	3,962	1,749	4,418	5,596
Net Capex	-1,217	-905	-1,197	-2,060	-2,414	-2,811
Free cash flow	2,376	1,227	2,765	-311	2,004	2,785
Equity raised/(bought back)	0	-200	-156	0	0	0
Dividends paid	-765	-653	-983	-1,036	-1,058	-1,138
Net inc/(dec) in borrowings	-137	-697	-217	1,691	626	72
Other investing/financing cash flows	1,497	-124	-659	2,513	41	44
Net cash flow	2,971	-447	750	2,857	1,613	1,764
Change in working capital	*1,429*	*30*	*-298*	*-2,809*	*-879*	*-232*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,655	3,199	3,531	6,798	8,411	10,175
Tangible fixed assets	11,112	11,619	12,234	11,842	12,469	13,283
Goodwill/intangible assets	901	1,006	1,823	1,818	1,818	1,818
Associates/investments	3,470	3,211	3,183	952	953	954
Other assets	13,177	15,188	15,762	18,101	19,810	21,311
Total assets	33,315	34,223	36,533	39,512	43,462	47,541
Interest bearing debt	10,392	8,586	8,272	9,921	10,547	10,619
Other liabilities	12,562	13,691	15,245	14,952	15,972	17,487
Total liabilities	22,954	22,277	23,517	24,873	26,519	28,106
Shareholders' equity	9,774	11,140	11,973	13,677	15,562	17,593
Minorities	587	806	1,043	1,424	1,842	2,303
Total shareholders' equity	10,361	11,946	13,016	15,100	17,404	19,896
Net debt	*5,737*	*5,387*	*4,741*	*3,123*	*2,136*	*443*
Key Company Metrics						
Sales growth (%)	-6.6	2.3	21.0	9.5	9.4	9.6
DB EPS growth (%)	-0.7	39.2	37.8	4.5	7.4	7.7
EBITDA Margin (%)	7.2	8.8	9.4	9.5	9.4	9.4
EBIT Margin (%)	4.7	6.2	7.0	7.1	7.0	6.9
Payout ratio (%)	26.4	33.9	35.0	35.0	35.0	35.0
ROE (%)	14.5	18.4	22.6	21.4	20.1	19.1
Capex/sales (%)	2.3	1.7	1.9	2.9	3.1	3.3
Capex/depreciation (x)	0.9	0.6	0.8	1.2	1.3	1.3
Net debt/equity (%)	55.4	45.1	36.4	20.7	12.3	2.2
Net interest cover (x)	2.7	5.5	8.1	8.2	8.0	8.0

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Price (20 January 2012): 5125c Target price: 5100c Rating: Hold

JD Group Ltd

Nick Higham, CFA

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, it acquired Absa Group Ltd's shareholding in Maravedi (increased stake from 42.7% to 90.5% in 2008). A recent deal has been announced between Steinhoff, JD Group and KAP (all separately listed in South Africa) that, if approved, would result in Steinhoff assuming control of both JD Group and KAP associate investments in exchange for certain assets. Steinhoff has indicated plans to organically roll out bigger box furniture stores through JD Group.

JD Group reports its business units to show furniture credit retail (988 stores), cash retail (96 stores), financial services (988 points of presence), and new business development (call centres and incubator platforms for the launch of new financial services products) separately. The group generated revenue of R 15.74bn in FY11.

JD Group focuses on differentiating its multiple brands in specific consumer segments, overwhelmingly in the LSM4-7 mass middle market. It plans to extend its financial services offering and follow a more centralised collections process.

Drivers: Primary earnings drivers in the business include Credit sales recovery, turnaround in Hi-Fi Corporation, bad debt roll-over, store expansion and the optimisation of retail efficiency metrics.

- **Credit sales growth showing cracks:** The 2010 recovery in credit sales was short-lived as credit sales growth slowed substantially into 2H11 (down c.7% yoy) with consumer balance sheets remaining stressed. The business remains highly leveraged to credit sales growth due to the associated ancillary insurance and other revenues.
- **Slow turnaround in Hi-Fi Corporation:** Hi-Fi Corporation makes up c.50% of the top line of the cash division (but marginal contribution 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. While a change in format, management and product offering was encouraging, the increased competition with Wal-Mart's entry into South Africa poses downside risk to the business's sales and margin recovery.
- **Continued focus on higher margin financial services** products that, in our view, should continue to yield good returns in the near term. While there has been recent pressure experienced on these yields the shortfall has been made up by other NCA-related fees. JD Group is focussing on growing unsecured personal loans and vehicle lease finance in its newly acquired Unitrans auto dealership business from Steinhoff.

At the FY11 results management indicated that the majority of key strategic changes to the business had been bedded down and it was confident that it could deliver 'very gratifying growth in earnings in the year ahead'. This should be viewed in the context of a low base for earnings with an R8 earnings base in 2006, reverting to c.R3 by 2010 (recovered to c.R4 by 2011).

Outlook: We expect a reasonable earnings recovery off an undemanding base after earnings/share collapsed from c.R8 in 2006 to c.R3 in 2010 into the recession. A rollover in bad debts should be supportive but a slow recovery in the historically underperforming Hi-Fi Corporation business given increased competition will likely increase friction. Despite an undemanding base, management continues to produce lacklustre results and visibility on future earnings is poor. In the absence of specific synergies, we believe the recent acquisition of retail assets from Steinhoff will prove value dilutive. A muted 12 month total return supports our Hold recommendation.

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

Risks: Key upside risks include 1) A stronger and more sustained credit sales growth; 2) Higher-than-expected synergies from the Steinhoff deal via procurement benefits in the core business and growing the auto retail product in financial services; and 3) Quicker-than-expected GP margin benefits from the rollout of centralised distribution and ERP system investments to date. 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:15 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

JD Group Ltd

Reuters: JDGJ.J | Bloomberg: JDG SJ

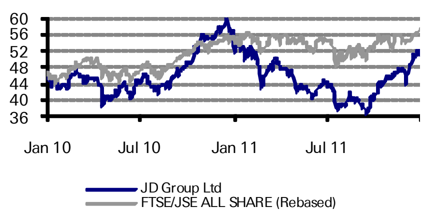
Hold

Price (20 Jan 12)	ZAR 51.25
Target Price	ZAR 51.00
52 Week range	ZAR 36.61 - 54.00
Market Cap (m)	ZARm 11,044
	USDm 1,389

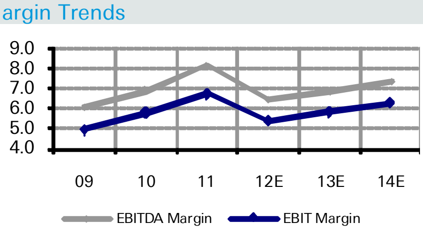
Company Profile

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.

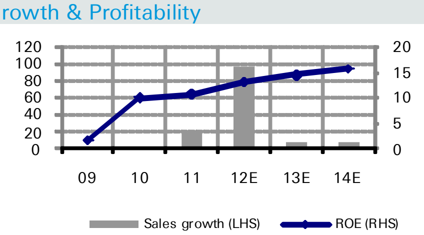
Price Performance



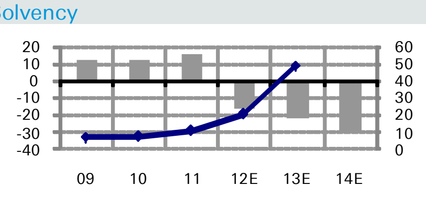
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Aug	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	0.44	2.99	4.03	5.12	6.17	7.32
Reported EPS (ZAR)	0.44	3.00	4.03	5.12	6.17	7.32
DPS (ZAR)	0.41	1.50	2.02	2.56	3.09	3.66
BVPS (ZAR)	29.4	31.0	46.6	40.7	44.4	48.9
Weighted average shares (m)	164	166	174	216	216	216
Average market cap (ZARm)	5,698	7,324	8,346	11,044	11,044	11,044
Enterprise value (ZARm)	6,271	7,999	9,411	9,398	8,705	7,793
Valuation Metrics						
PE (DB) (x)	78.8	14.7	11.9	10.0	8.3	7.0
PE (Reported) (x)	78.8	14.7	11.9	10.0	8.3	7.0
P/BV (x)	1.44	1.41	0.87	1.26	1.15	1.05
FCF Yield (%)	nm	4.1	3.9	23.5	10.6	13.4
Dividend Yield (%)	1.2	3.4	4.2	5.0	6.0	7.1
EV/Sales (x)	0.5	0.6	0.6	0.3	0.3	0.2
EV/EBITDA (x)	7.9	8.7	7.3	4.7	3.8	2.9
EV/EBIT (x)	9.8	10.4	8.9	5.6	4.4	3.4
Income Statement (ZARm)						
Sales revenue	12,922	13,224	15,741	30,920	33,533	36,352
Gross profit	3,589	3,992	4,672	5,716	6,413	7,174
EBITDA	792	915	1,288	1,993	2,318	2,670
Depreciation	149	146	229	321	356	392
Amortisation	0	0	0	0	0	0
EBIT	643	769	1,059	1,672	1,962	2,278
Net interest income(expense)	-88	-101	-95	-79	-40	0
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	1	1	0	0	0	0
Other pre-tax income/(expense)	-3	4	7	8	10	14
Profit before tax	555	675	972	1,601	1,932	2,291
Income tax expense	475	167	264	480	580	687
Minorities	5	7	5	17	22	26
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	72	499	702	1,104	1,330	1,578
DB adjustments (including dilution)	0	-2	0	0	0	0
DB Net profit	72	497	702	1,104	1,330	1,578
Cash Flow (ZARm)						
Cash flow from operations	-317	398	527	2,803	1,389	1,711
Net Capex	-197	-99	-198	-208	-218	-228
Free cash flow	-514	299	329	2,595	1,171	1,483
Equity raised/(bought back)	18	9	0	0	0	0
Dividends paid	-68	-182	-344	-437	-527	-625
Net inc/(dec) in borrowings	167	106	0	0	0	0
Other investing/financing cash flows	-117	-63	-638	553	50	54
Net cash flow	-514	169	-653	2,711	693	912
Change in working capital	*-325*	*-334*	*-403*	*1,378*	*-298*	*-259*
Balance Sheet (ZARm)						
Cash and other liquid assets	725	757	1,348	2,873	3,589	4,527
Tangible fixed assets	756	767	736	1,696	1,557	1,393
Goodwill/intangible assets	711	705	2,982	2,982	2,982	2,982
Associates/investments	97	26	308	308	308	308
Other assets	6,443	6,851	9,763	13,142	14,258	15,401
Total assets	8,732	9,106	15,137	21,001	22,695	24,611
Interest bearing debt	1,364	1,424	2,663	1,460	1,460	1,460
Other liabilities	2,506	2,494	5,382	10,692	11,561	12,498
Total liabilities	3,870	3,918	8,045	12,152	13,021	13,958
Shareholders' equity	4,831	5,154	8,107	8,773	9,577	10,530
Minorities	31	34	58	75	97	123
Total shareholders' equity	4,862	5,188	8,165	8,848	9,674	10,653
Net debt	*639*	*667*	*1,315*	*-1,413*	*-2,129*	*-3,067*
Key Company Metrics						
Sales growth (%)	2.5	2.3	19.0	96.4	8.5	8.4
DB EPS growth (%)	-85.2	578.5	35.0	27.0	20.5	18.6
EBITDA Margin (%)	6.1	6.9	8.2	6.4	6.9	7.3
EBIT Margin (%)	5.0	5.8	6.7	5.4	5.8	6.3
Payout ratio (%)	93.1	50.0	50.0	50.0	50.0	50.0
ROE (%)	1.5	10.0	10.6	13.1	14.5	15.7
Capex/sales (%)	1.7	1.4	1.3	0.7	0.7	0.6
Capex/depreciation (x)	1.5	1.3	0.9	0.6	0.6	0.6
Net debt/equity (%)	13.1	12.9	16.1	-16.0	-22.0	-28.8
Net interest cover (x)	7.3	7.6	11.2	21.2	49.0	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Price (20 January 2012): 7500c | Target price: 8800c | Rating: Buy

Lewis Group Ltd

Nick Higham, CFA

Business description: Lewis was founded in 1934 and has since become a significant player in the domestic furniture retail space, commanding an estimated low-teen market share (based on the size of the debtors' book). It operates through its three branded formats: Lewis (c.84% of sales), Best Electric (focussed on white and brown goods comprising c.13% 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's 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.60% of all sales) and a decentralised 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.

Primary drivers include:

- Continued top-line growth through aggressive store expansion. Management has highlighted an aggressive organic growth path given under-penetration of stores in certain targeted areas underpinning top line growth.
- More efficient smaller store format provides margin opportunities. Management has successfully piloted smaller store formats utilising 60% of the floor space of a regular store and often producing similar levels of turnover assisted by electronic sales catalogues. This provides EBIT margin opportunities.
- Continued growth in financial services income through the extension of credit, boosted by fees allowable under the NCA and high acceptance rates of ancillary high-margin insurance products driven by low claims rate and high acceptance rates.
- Debtors' costs continuing to roll, but slower: Bad debts should be slower to roll with the additional pressure from increased provisioning against the 'in duplum' ruling on insurance premiums. Management had previously guided to debtors' costs rolling over to 8% of net debtors by FY13 (from 10.2% in FY11), but admitted it may take a little longer to achieve these targeted levels given the current environment (likely FY14).
- Maintaining GP margin in the face of a weaker rand and increased competition: A strong rand and the introduction of new product ranging twice a year resulted in improving gross margins over the last few years. The recent weaker rand (boosting imported product inflation) and increased competition could result in greater pressure on GP margins into the future off a more demanding base.

Lewis's customer focus differentiates it from its peers. While its primary market is still the middle market (LSM4-7), it also has a significantly higher low-end focus (LSM1-4) 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).

Outlook: Despite a slowdown in credit sales evidenced, we expect market share gains from a rapid store rollout programme to drive higher-than-expected top-line growth. Lewis has not experienced the same drop off in volumes and sharp increase in bad debts as middle-market peers, claiming that its customers are less impacted by interest rates. We rate the shares Buy supported by a reasonable c.13% three-year CAGR in earnings, attractive 12-month total return potential underpinned by a solid forward dividend yield.

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

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) Slower recovery in employment than anticipated driven by corporate cost-cutting and corporate failures in a tough inflationary environment and the knock-on effect on bad debts; and 3) Competitive pressures driving lower margins in financial services and insurance businesses, which comprise a material contribution to group EBIT.

Model updated:16 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Furniture & Appliances

Lewis Group Ltd

Reuters: LEWJ.J Bloomberg: LEW SJ

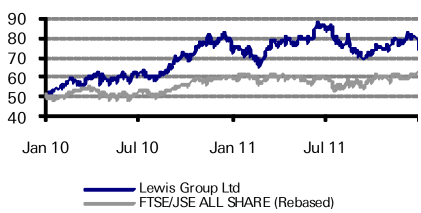
Buy

Price (20 Jan 12)	ZAR 75.00
Target Price	ZAR 88.00
52 Week range	ZAR 65.00 - 88.00
Market Cap (m)	ZARm 7,500
	USDm 943

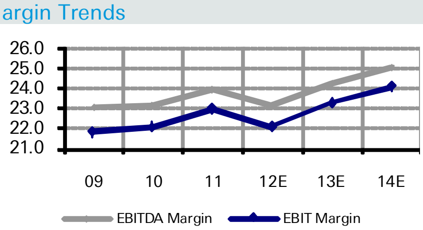
Company Profile

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

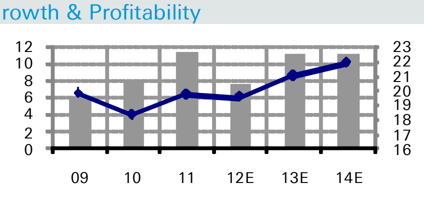
Price Performance



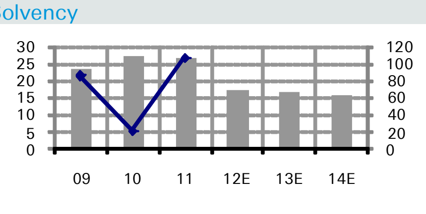
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	6.28	6.40	7.72	8.54	10.10	11.70
Reported EPS (ZAR)	6.28	6.40	7.72	8.54	10.10	11.70
DPS (ZAR)	3.23	3.23	3.63	4.01	4.75	5.50
BVPS (ZAR)	29.0	32.7	37.3	40.9	45.2	50.1
Weighted average shares (m)	100	100	100	100	100	100
Average market cap (ZARm)	3,858	5,102	6,745	7,500	7,500	7,500
Enterprise value (ZARm)	4,005	5,285	6,886	7,292	7,242	7,151
Valuation Metrics						
PE (DB) (x)	6.1	8.0	8.7	8.8	7.4	6.4
PE (Reported) (x)	6.1	8.0	8.7	8.8	7.4	6.4
P/BV (x)	1.47	1.73	2.00	1.83	1.66	1.50
FCF Yield (%)	1.9	0.8	2.3	6.0	6.3	7.6
Dividend Yield (%)	8.4	6.3	5.4	5.4	6.3	7.3
EV/Sales (x)	1.1	1.3	1.5	1.5	1.3	1.2
EV/EBITDA (x)	4.6	5.5	6.3	6.4	5.4	4.7
EV/EBIT (x)	4.8	5.8	6.5	6.7	5.7	4.9
Income Statement (ZARm)						
Sales revenue	3,807	4,111	4,578	4,925	5,483	6,101
Gross profit	1,576	1,720	1,942	2,067	2,351	2,654
EBITDA	880	953	1,099	1,139	1,331	1,532
Depreciation	47	46	47	51	56	62
Amortisation	0	0	0	0	0	0
EBIT	832	907	1,052	1,088	1,274	1,470
Net interest income(expense)	-10	-44	-10	29	47	59
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-5	-26	-23	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	823	864	1,043	1,117	1,321	1,529
Income tax expense	262	272	331	354	419	485
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	556	566	689	763	902	1,044
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	556	566	689	763	902	1,044
Cash Flow (ZARm)						
Cash flow from operations	228	-14	240	546	529	630
Net Capex	-153	55	-86	-93	-56	-62
Free cash flow	75	40	153	454	473	568
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-284	-284	-348	-397	-468	-542
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	169	53	119	0	0	0
Net cash flow	-41	-191	-77	57	5	26
Change in working capital	*-380*	*-652*	*-519*	*-267*	*-429*	*-476*
Balance Sheet (ZARm)						
Cash and other liquid assets	55	62	84	369	314	290
Tangible fixed assets	225	251	279	320	320	320
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	535	716	857	922	1,027	1,142
Other assets	3,321	3,816	4,332	4,642	5,140	5,693
Total assets	4,136	4,845	5,552	6,254	6,801	7,446
Interest bearing debt	737	961	1,083	1,083	1,083	1,083
Other liabilities	498	610	741	1,081	1,202	1,352
Total liabilities	1,235	1,571	1,824	2,164	2,285	2,435
Shareholders' equity	2,900	3,274	3,728	4,089	4,516	5,011
Minorities	0	0	0	0	0	0
Total shareholders' equity	2,900	3,274	3,728	4,089	4,516	5,011
Net debt	*682*	*899*	*999*	*714*	*769*	*793*
Key Company Metrics						
Sales growth (%)	5.9	8.0	11.4	7.6	11.3	11.3
DB EPS growth (%)	-8.8	2.0	20.6	10.6	18.3	15.8
EBITDA Margin (%)	23.1	23.2	24.0	23.1	24.3	25.1
EBIT Margin (%)	21.9	22.1	23.0	22.1	23.2	24.1
Payout ratio (%)	58.1	57.1	52.7	52.6	52.6	52.6
ROE (%)	19.8	18.3	19.7	19.5	21.0	21.9
Capex/sales (%)	4.0	-1.3	1.9	1.9	1.0	1.0
Capex/depreciation (x)	3.2	-1.2	1.9	1.8	1.0	1.0
Net debt/equity (%)	23.5	27.5	26.8	17.5	17.0	15.8
Net interest cover (x)	86.7	20.8	107.2	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare

Price (20 January 2012): 2147c | Target price: 2200c | Rating: Buy

Life Healthcare Group Holdings Ltd

Sean Ashton

Business description: Life Healthcare is the second largest owner and operator of acute care private hospitals in South Africa. In addition to the provision of hospital services, the group also offers occupational health, rehabilitation, and mental healthcare facilities. The group also operates the largest public-private partnership in South Africa, Life Esidimeni, which provides long-term care for state patients under contractual arrangements with the government.

Drivers: The key earnings drivers for the group are:

- Growth in private medical scheme beneficiaries: South Africa continues to experience 3-4% growth in medical scheme covered lives (8.5m as of end 2010), which is the key driver of patient volumes for private hospitals (90% of payment disbursements from medical schemes). In turn, this growth is being partially driven by strong uptake of the Government Employee Medical Scheme (GEMS), which now covers 1.5m lives. Life Healthcare has been particularly successful at gaining market share with the private medical schemes in South Africa largely due to its strategy of providing hospital services at a guaranteed set tariff (alternative reimbursement model, or ARMs) and taking the risk of managing its input costs effectively.
- Tariff escalations allowing for wage inflation pass-through: A general theme of the private hospital industry in South Africa is that tariff escalations in recent years have generally allowed for recovery of above-CPI cost escalations, principally nursing salaries. Tariffs are negotiated individually with the medical schemes by the private hospital groups. While we don't foresee an imminent change in this model, the greatest risk is that the government introduces unfavourable pricing legislation, or the concentrated nature of the private hospital industry (75% market share between three listed players) attracts a Competition Commission investigation with potentially adverse outcomes.
- Max Healthcare - a toe in the water in India: Life Healthcare's acquisition of a 26% stake in Max Healthcare does not appear a great value deal to us; the purchase consideration of R850m for its stake implies an estimated EV of R4.15bn for 100% of the business. Even with this business operating at its fully expanded bed capacity (1,900 beds) and the potential for Life Healthcare to bring cost savings expertise to bear on the business, we still estimate the purchase price is greater than 10x EBITDA. However, this deal should be placed in context – while the group is likely to seek ultimate joint control of this asset, the initial 26% stake represents 4% of the market cap of the group and does not alter what is fundamentally a very moderately geared group. We expect the Max Healthcare acquisition to be 2% earnings dilutive in FY12E, broadly neutral in FY13E and marginally accretive (c.1-1.5%) in FY14E.

Outlook: Life Healthcare has by far the most balance sheet flexibility of the three listed South African hospital groups and generates the strongest free cash flows (the result of superior margins), which has translated into higher dividend payments despite the group's recent announcement of an intended 26% investment in Max Healthcare in India. Our estimates project a forward dividend yield of 4.7% on the basis of 1.5x cover. We have a Buy recommendation on Life Healthcare.

Valuation: Life trades at a 12 month interpolated forward PE multiple of 14x, with a forward dividend yield of 4.7%. Our 12 month price target per share is derived by applying a PE multiple of 13.5x to our 24 month interpolated forward EPS estimate.

Risks: Downside risks to our outlook include sub-optimal tariff increases negotiated with the medical schemes, slowing growth in medical scheme beneficiary members and a potential inability to manage costs as successfully as in the past. In addition, the potential inability of Max Healthcare to extract cost synergies and achieve critical mass may prove earnings dilutive for Life Healthcare.

Model updated:19 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Life Healthcare

Reuters: LHCJ.J Bloomberg: LHC SJ

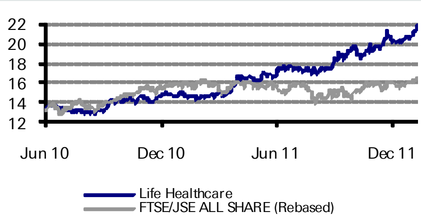
Buy

Price (20 Jan 12)	ZAR 21.47
Target Price	ZAR 22.00
52 Week range	ZAR 14.28 - 21.87
Market Cap (m)	ZARm 22,376
	USDm 2,814

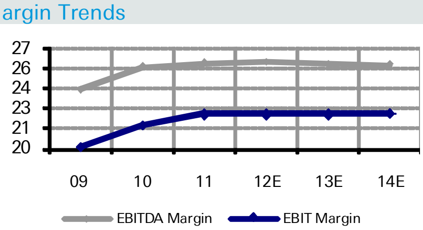
Company Profile

Life Healthcare is the second largest owner and operator of acute care private hospitals in South Africa. In addition to the provision of hospital services, the group also offers occupational health, rehabilitation, and mental healthcare facilities. The group also operates the largest public-private partnership in South Africa, Life Esidimeni, which provides long-term care for state patients under contractual arrangements with the government.

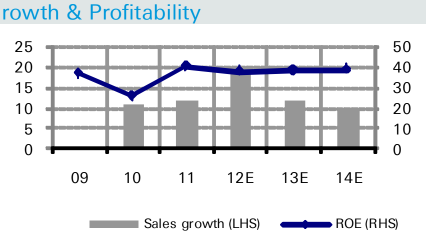
Price Performance



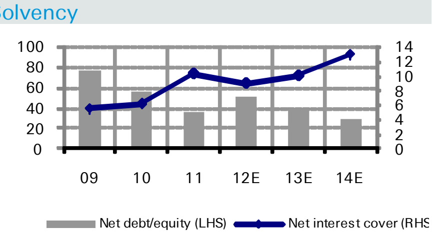
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Sep	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	0.73	0.93	1.27	1.43	1.62	1.82
Reported EPS (ZAR)	0.74	0.65	1.24	1.35	1.54	1.75
DPS (ZAR)	0.00	0.52	0.85	0.95	1.08	1.22
BVPS (ZAR)	2.3	2.8	3.4	3.8	4.2	4.8
Weighted average shares (m)	1,030	1,030	1,042	1,042	1,042	1,042
Average market cap (ZARm)	na	13,763	16,585	22,376	22,376	22,376
Enterprise value (ZARm)	na	16,136	18,788	25,565	25,305	25,035
Valuation Metrics						
PE (DB) (x)	na	14.4	12.5	15.0	13.3	11.8
PE (Reported) (x)	na	20.7	12.9	15.9	13.9	12.3
P/BV (x)	0.00	5.16	5.72	5.69	5.07	4.50
FCF Yield (%)	na	7.8	6.6	6.7	7.4	8.1
Dividend Yield (%)	na	3.9	5.3	4.4	5.0	5.7
EV/Sales (x)	nm	1.8	1.9	2.2	1.9	1.7
EV/EBITDA (x)	nm	7.2	7.4	8.4	7.5	6.7
EV/EBIT (x)	nm	8.6	8.6	9.8	8.7	7.8
Income Statement (ZARm)						
Sales revenue	7,930	8,786	9,812	11,753	13,131	14,445
Gross profit	7,930	8,786	9,812	11,753	13,131	14,445
EBITDA	1,900	2,253	2,548	3,057	3,393	3,718
Depreciation	223	263	299	347	375	405
Amortisation	123	122	110	110	110	110
EBIT	1,555	1,868	2,173	2,600	2,908	3,203
Net interest income(expense)	-283	-301	-213	-287	-292	-247
Associates/affiliates	101	100	115	65	88	110
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-63	-26	14	0	0	0
Profit before tax	1,309	1,640	2,089	2,378	2,704	3,065
Income tax expense	372	805	597	694	785	887
Minorities	178	171	205	276	315	359
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	759	665	1,287	1,408	1,605	1,820
DB adjustments (including dilution)	-4	290	36	79	79	79
DB Net profit	755	955	1,323	1,487	1,684	1,899
Cash Flow (ZARm)						
Cash flow from operations	1,128	1,567	1,818	2,199	2,455	2,723
Net Capex	-542	-497	-726	-700	-800	-900
Free cash flow	585	1,070	1,091	1,499	1,655	1,823
Equity raised/(bought back)	-100	73	0	0	0	0
Dividends paid	-257	-533	-625	-991	-1,123	-1,266
Net inc/(dec) in borrowings	-162	79	-497	500	-400	-400
Other investing/financing cash flows	-379	-198	-80	-170	-337	-185
Net cash flow	-312	491	-110	838	-205	-28
Change in working capital	*0*	*0*	*-35*	*-12*	*-8*	*-8*
Balance Sheet (ZARm)						
Cash and other liquid assets	101	482	400	-12	-64	-93
Tangible fixed assets	2,905	3,258	3,753	4,106	4,532	5,027
Goodwill/intangible assets	2,156	2,220	2,296	2,186	2,076	1,966
Associates/investments	251	285	287	316	348	383
Other assets	1,473	1,627	1,731	2,112	2,376	2,643
Total assets	6,887	7,872	8,468	8,708	9,267	9,926
Interest bearing debt	2,354	2,475	2,024	2,524	2,124	1,724
Other liabilities	1,603	1,882	2,059	1,281	1,638	2,007
Total liabilities	3,957	4,357	4,084	3,805	3,763	3,731
Shareholders' equity	2,320	2,849	3,518	3,934	4,417	4,971
Minorities	610	666	866	969	1,088	1,224
Total shareholders' equity	2,930	3,515	4,384	4,903	5,504	6,195
Net debt	*2,252*	*1,992*	*1,624*	*2,536*	*2,189*	*1,817*
Key Company Metrics						
Sales growth (%)	nm	10.8	11.7	19.8	11.7	10.0
DB EPS growth (%)	na	26.4	37.0	12.4	13.2	12.8
EBITDA Margin (%)	24.0	25.6	26.0	26.0	25.8	25.7
EBIT Margin (%)	19.6	21.3	22.1	22.1	22.1	22.2
Payout ratio (%)	0.0	80.6	68.8	70.4	70.0	69.6
ROE (%)	36.7	25.7	40.4	37.8	38.4	38.8
Capex/sales (%)	6.9	5.7	7.4	6.0	6.1	6.2
Capex/depreciation (x)	1.6	1.3	1.8	1.5	1.7	1.7
Net debt/equity (%)	76.9	56.7	37.0	51.7	39.8	29.3
Net interest cover (x)	5.5	6.2	10.2	9.1	10.0	13.0

Source: Company data, Deutsche Bank estimates

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South Africa – General Retailers | Price (20 January 2012): 18300c | Target price: 14000c | Rating: Sell

Massmart Holdings Ltd

Nick Higham, CFA

Business description: Massmart is a South African-based management company holding a portfolio of wholesale and retail investments in South Africa, and 12 African countries ex-SA (c.10% estimated turnover contribution from outside South Africa). It has four main operating divisions and 10 branded store formats that span the retail food, wholesale food, general merchandise and DIY markets. We estimate Massmart has the largest single market share in each of these core product categories domestically with the exception of the newer retail food market expansion. Massmart sells primarily branded goods for cash through large box format stores. The free float is c.49%, with Wal-Mart having acquired a 51% stake in the business. Given highly concentrated shareholding within the 49% by long-term shareholders, the 'true free float' could be as low as c.12%.

Drivers: Massmart has four operating divisions: 1) Masswarehouse (wholesale and retail food, liquor and general merchandise), 2) Massdiscounters (smaller format general merchandise, white and brown goods stores), 3) Masscash (retail food, wholesale food and the Shield buying organisation), and 4) Massbuild (DIY and building materials) – under 10 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.20%, and the remaining 50% relating to general merchandise through their flagship big-box Makro brand and Game formats. Within the Masscash division, the group also runs a buying organisation called Shield. This involves the agency sale of 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.
- Cyclical 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.5.1% levels.
- Aggressive food retail expansion. New food retail format Cambridge to be grown organically and acquisitively. In addition Food Co (c.600m^2 allocated space within a 3,500m^2 Game store) will be rolled out across the Game store footprint and a fresh produce offering will be rolled out to Makro's food offering.
- Potential Wal-Mart procurement and supply-based synergies. Potential benefit through procurement given increased buying power of the group with global suppliers (general merchandise focussed) resulting in market share gains. Further supply-chain based efficiencies through Wal-Mart best practice being implemented in the supply chain roll out.

Outlook: We expect normalisation of inflation and a recovery in comparable store sales growth in the general merchandise and food businesses into FY12 to drive a cyclical recovery in earnings. We expect the impact of Wal-Mart acquiring 51% of the group's equity to be acceleration in space expansion, a drive to increase market share underpinned by sacrificing GP margins and high investment in supply chain, all of which could soften near-term earnings. This should be viewed in the context of the upside potential of driving market share gains in general merchandise (where Massmart is the market leader) through aggressive pricing. Despite our premium rating for the group (on account of this upside optionality), the negative 12-month total return expectation supports our view that the stock is overpriced. Sell.

Valuation: We value Massmart using a PE-based methodology employing a normalised two-year forward PE of 12.2x to obtain fair valuation, representing one standard deviation above the historical normalised two-year forward PE of 9.5x (to reflect supply chain efficiencies, middle class growth and GM procurement). Rolling this forward at COE less dividend yield, we arrive at our 12-month price target.

Risks: Key upside risks include: 1)) Greater-than-expected synergies from the Wal-Mart acquisition resulting in higher sales growth and a faster margin recovery than expected; 2) Slower-than-expected capex programme to improve supply chain resulting in near-term value uplift; 3) Faster rollout of food retail stores through acquisitions resulting in better-than-expected margin evolution in the food division (retail is higher-margin than the typical wholesale formats); 4) Later-than-expected rate hikes providing continued support for credit - and discretionary sales spending; and 5) Credit impulse (stronger boost to sales than expected as banks and other credit providers loosen the reins) driving higher-than-expected top-line growth in discretionary general merchandise and DIY businesses.

Model updated:13 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Massmart

Reuters: MSMJ.J — Bloomberg: MSM SJ

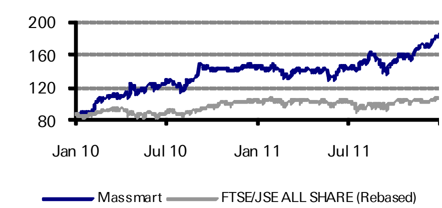
Sell

Price (20 Jan 12)	ZAR 183.00
Target Price	ZAR 140.00
52 Week range	ZAR 129.00 - 185.50
Market Cap (m)	ZARm 40,297
	USDm 5,067

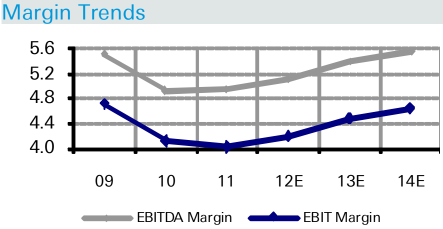
Company Profile

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.

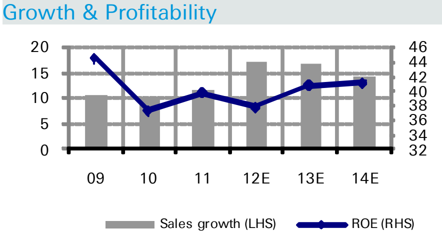
Price Performance



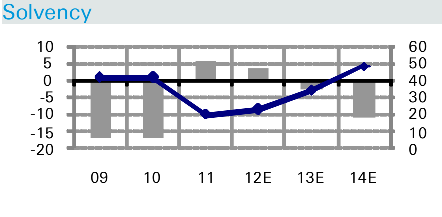
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	5.92	5.43	6.31	7.39	9.38	11.17
Reported EPS (ZAR)	6.32	5.80	6.83	7.39	9.38	11.17
DPS (ZAR)	3.86	3.86	3.86	4.46	5.65	6.73
BVPS (ZAR)	15.3	17.3	19.5	21.6	25.3	29.9
Weighted average shares (m)	204	210	216	220	221	222
Average market cap (ZARm)	15,660	19,730	29,791	40,297	40,443	40,626
Enterprise value (ZARm)	14,650	18,664	29,757	40,244	40,126	39,794
Valuation Metrics						
PE (DB) (x)	13.0	17.3	21.8	24.8	19.5	16.4
PE (Reported) (x)	12.1	16.2	20.2	24.8	19.5	16.4
P/BV (x)	5.23	6.83	7.17	8.45	7.23	6.12
FCF Yield (%)	6.1	6.2	0.4	1.9	3.5	4.8
Dividend Yield (%)	5.0	4.1	2.8	2.4	3.1	3.7
EV/Sales (x)	0.3	0.4	0.6	0.6	0.6	0.5
EV/EBITDA (x)	6.2	8.0	11.4	12.7	10.3	8.6
EV/EBIT (x)	7.2	9.5	14.0	15.5	12.4	10.3
Income Statement (ZARm)						
Sales revenue	43,129	47,451	52,950	62,173	72,697	82,982
Gross profit	6,142	6,482	7,168	8,174	9,409	10,649
EBITDA	2,374	2,341	2,617	3,173	3,912	4,608
Depreciation	345	387	486	571	668	762
Amortisation	0	0	0	0	0	0
EBIT	2,029	1,954	2,131	2,602	3,245	3,846
Net interest income(expense)	-49	-47	-107	-115	-96	-80
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	119	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,980	1,908	2,024	2,487	3,149	3,765
Income tax expense	620	608	585	796	1,008	1,205
Minorities	33	35	42	49	62	74
Other post-tax income/(expense)	-38	-47	-38	-14	-7	-7
Net profit	1,289	1,218	1,477	1,628	2,072	2,479
DB adjustments (including dilution)	-82	-79	-111	0	0	0
DB Net profit	1,207	1,139	1,366	1,628	2,072	2,479
Cash Flow (ZARm)						
Cash flow from operations	1,648	1,853	1,269	2,362	2,932	3,443
Net Capex	-686	-624	-1,148	-1,600	-1,500	-1,500
Free cash flow	963	1,229	121	762	1,432	1,943
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-854	-822	-823	-958	-1,219	-1,458
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-200	-322	-157	264	113	106
Net cash flow	-91	85	-858	68	326	590
Change in working capital	*64*	*293*	*-625*	*114*	*130*	*127*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,056	1,368	1,549	1,617	1,943	2,533
Tangible fixed assets	1,697	2,055	2,718	3,747	4,579	5,317
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	534	586	506	506	506	506
Other assets	8,492	10,020	11,121	12,647	14,389	16,091
Total assets	11,778	14,029	15,893	18,517	21,416	24,446
Interest bearing debt	539	766	1,805	1,805	1,805	1,805
Other liabilities	8,143	9,671	9,906	11,796	13,774	15,702
Total liabilities	8,682	10,437	11,712	13,601	15,579	17,507
Shareholders' equity	3,055	3,470	3,966	4,650	5,511	6,538
Minorities	42	122	216	265	327	401
Total shareholders' equity	3,097	3,592	4,182	4,915	5,837	6,940
Net debt	*-517*	*-602*	*256*	*188*	*-138*	*-728*
Key Company Metrics						
Sales growth (%)	10.7	10.0	11.6	17.4	16.9	14.1
DB EPS growth (%)	-4.4	-8.3	16.3	17.1	26.8	19.1
EBITDA Margin (%)	5.5	4.9	4.9	5.1	5.4	5.6
EBIT Margin (%)	4.7	4.1	4.0	4.2	4.5	4.6
Payout ratio (%)	61.1	66.5	56.5	60.3	60.3	60.3
ROE (%)	44.5	37.3	39.7	37.8	40.8	41.2
Capex/sales (%)	1.6	1.3	2.2	2.6	2.1	1.8
Capex/depreciation (x)	2.0	1.6	2.4	2.8	2.2	2.0
Net debt/equity (%)	-16.7	-16.8	6.1	3.8	-2.4	-10.5
Net interest cover (x)	41.7	41.9	19.9	22.7	33.8	48.0

Source: Company data, Deutsche Bank estimates

Nick Higham, CFA
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South Africa – Healthcare | Price (20 January 2012): 3485c | Target price: 3800c | Rating: Hold

Mediclinic International Ltd

Sean Ashton

Business description: Mediclinic owns and operates a network of 68 private hospitals in Southern Africa, Switzerland and the UAE. The group's 100% owned Hirslanden Group is the largest operator of private acute care hospitals in Switzerland, with 14 hospitals.

Drivers:

- **The most diversified hospital play:** While the drivers of growth for Mediclinic in South Africa remain similar to peers, the group's earnings mix suggests it is the least concentrated "emerging healthcare play" of the three hospital companies. Our estimates suggest that the group's South African operations will account for 55% of core earnings in FY13, with Hirslanden accounting for 36% and the remainder Emirates Healthcare.
- **Switzerland safer developed market exposure than UK:** Mediclinic has a similar balance sheet profile to Netcare (highly leveraged acquisition of property-underpinned offshore hospital assets 4-5 years ago), but we believe the group's Swiss hospital assets are operating in a more stable economic environment. While economic conditions could well tighten in Switzerland, we do not anticipate a similar fall-off in private medically insured patient volumes as has occurred in the UK. In addition, the group is in the process of expanding capacity in the Swiss operations by 10%, which is indicative of tight capacity in many of its hospitals.
- **Tax rate provides earnings kicker:** Mediclinic offers investors sector-leading EPS growth at c.20% CAGR FY11-14E. However, approximately 4.5% of this growth projection annually is attributable to the group achieving interest tax deductibility on CHF1.6bn worth of Swiss debt from November 2012, resulting in our projected group tax rate declining from 32% in FY11 to 24.5% in FY14e.

Outlook: Despite the patchy EPS growth track record of the past five years, we believe Mediclinic is poised for a sustained CAGR of 20% from FY11-14. The group's poor EPS CAGR since FY05 is principally due to heavily dilutive corporate activity, notably the Hirslanden acquisition, which has been transformational. In our view, similar levels of corporate activity are unlikely in the future, with the result that continued solid underlying operational growth should make the leveraged capital structure work heavily in the group's favour. Not only do we expect earnings growth to benefit from financial leverage, we also anticipate the group experiencing less of a refinancing issue with its Hirslanden debt burden than Netcare, for example. This is reflective of Mediclinic adopting a more prudent financing approach at the time of acquisition, concluding a rights issue to partially fund its deal. We do, however, highlight that the refinancing process may result in wider interest spreads, which provides some dilution risk to EPS from FY15 onwards. We have a Hold recommendation on Mediclinic.

Valuation: We reach our 12 month target price using a projected forward PE multiple of 13.5x applied to our 24 month forward EPS estimate, in line with its average consensus forward PE since the acquisition of Hirslanden in 2007. While our EPS CAGR of 20% from FY11-14E is attractive, our exit PE of 13.5x implies a de-rating, which we believe is fair given that our forecast growth profile includes the 4% annual benefit of a declining Swiss tax rate which will wash out of earnings growth post FY14.

Risks: Key downside risks to our view include adverse tariff legislation in South Africa. The group faces above-inflationary escalations in its key input costs and any regulation that seeks to cap hospital tariff increases will have a damaging effect on margins. In addition, the group has substantial financial leverage (interest cover = 2.4x), which will likely amplify any operational disappointments at the bottom line. As a guide, a 1% downgrade to our FY12E EBIT assumptions leads to a 1.7% EPS downgrade, all else equal. In Switzerland, changes to legislation effective 1 January 2012 pose some risk of revenue losses associated with the treatment of public patients; currently, public patients comprise 30% of Hirslanden's case load. Upside risks to our forecasts include better-than-expected cost efficiencies, and associated margin upside, as well as sustained strength in CHF impacting positively on EPS translation.

Model updated:09 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Mediclinic

Reuters: MDCJ.J Bloomberg: MDC SJ

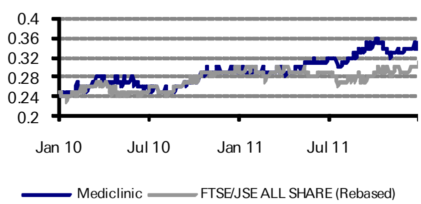
Hold

Price (20 Jan 12)	ZAR 34.85
Target Price	ZAR 38.00
52 Week range	ZAR 28.10 - 35.56
Market Cap (m)	ZARm 21,451
	USDm 2,698

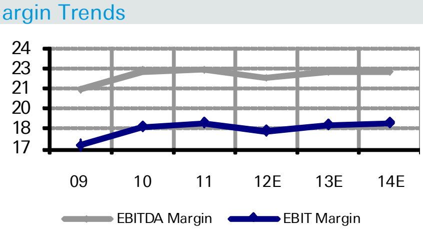
Company Profile

Mediclinic owns and operates a network of 68 private hospitals in Southern Africa, Switzerland and the UAE. The group's 100% owned Hirslanden Group is the largest operator of private acute care hospitals in Switzerland, with 14 hospitals.

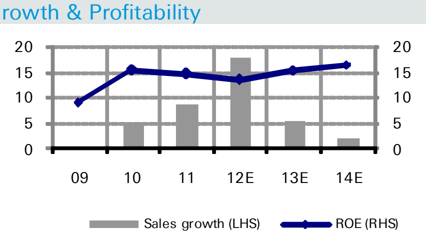
Price Performance



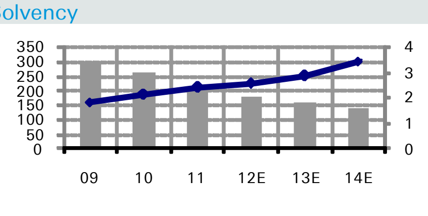
Margin Trends



Growth & Profitability



Solvency



Sean Ashton
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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	na	1.42	1.72	2.07	2.55	3.01
Reported EPS (ZAR)	0.00	1.77	1.87	2.07	2.55	3.01
DPS (ZAR)	0.00	0.73	0.73	0.73	0.85	1.00
BVPS (ZAR)	–	11.2	14.5	15.8	17.4	19.3
Weighted average shares (m)	0	593	593	616	619	622
Average market cap (ZARm)	na	13,349	16,334	21,451	21,565	21,679
Enterprise value (ZARm)	na	34,234	36,651	41,978	41,726	41,246
Valuation Metrics						
PE (DB) (x)	0.0	15.8	16.0	16.8	13.7	11.6
PE (Reported) (x)	nm	12.7	14.7	16.8	13.7	11.6
P/BV (x)	0.00	2.41	1.99	2.20	2.00	1.80
FCF Yield (%)	nm	5.1	5.6	2.0	5.2	6.8
Dividend Yield (%)	0.0	3.2	2.7	2.1	2.4	2.9
EV/Sales (x)	nm	2.0	2.0	1.9	1.8	1.7
EV/EBITDA (x)	nm	8.9	8.8	8.7	8.1	7.8
EV/EBIT (x)	nm	11.0	10.6	10.7	9.8	9.4
Income Statement (ZARm)						
Sales revenue	16,351	17,141	18,625	21,994	23,163	23,649
Gross profit	16,351	17,141	18,625	21,994	23,163	23,649
EBITDA	3,431	3,833	4,186	4,810	5,159	5,268
Depreciation	684	718	738	876	907	894
Amortisation	0	0	0	0	0	0
EBIT	2,747	3,115	3,448	3,935	4,252	4,374
Net interest income(expense)	-1,535	-1,483	-1,430	-1,546	-1,481	-1,282
Associates/affiliates	2	7	4	0	0	0
Exceptionals/extraordinaries	0	28	13	0	0	0
Other pre-tax income/(expense)	0	0	0	-29	0	0
Profit before tax	1,214	1,667	2,035	2,359	2,771	3,092
Income tax expense	502	481	654	759	801	756
Minorities	76	128	204	250	300	353
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	636	1,058	1,177	1,350	1,669	1,983
DB adjustments (including dilution)	-12	-206	-95	0	0	0
DB Net profit	624	852	1,082	1,350	1,669	1,983
Cash Flow (ZARm)						
Cash flow from operations	1,386	1,960	2,316	2,551	2,933	3,242
Net Capex	-1,384	-1,278	-1,399	-2,118	-1,814	-1,759
Free cash flow	2	682	917	433	1,119	1,483
Equity raised/(bought back)	0	0	1,331	0	0	0
Dividends paid	-339	-374	-398	-476	-556	-661
Net inc/(dec) in borrowings	547	-155	-208	0	-400	-700
Other investing/financing cash flows	-56	-127	-1,162	-65	-71	-78
Net cash flow	154	26	480	-108	91	43
Change in working capital	*0*	*0*	*-3*	*-262*	*-91*	*-38*
Balance Sheet (ZARm)						
Cash and other liquid assets	994	1,120	1,567	1,459	1,551	1,594
Tangible fixed assets	32,479	28,046	30,409	31,651	32,558	33,424
Goodwill/intangible assets	6,293	5,243	5,565	5,565	5,565	5,565
Associates/investments	12	26	1,435	1,431	1,431	1,431
Other assets	4,096	3,929	4,561	5,343	5,614	5,727
Total assets	43,874	38,364	43,537	45,449	46,719	47,741
Interest bearing debt	24,590	21,065	22,248	22,248	21,848	21,148
Other liabilities	11,295	9,683	10,729	11,669	12,100	12,350
Total liabilities	35,885	30,748	32,977	33,917	33,948	33,498
Shareholders' equity	7,091	6,650	9,489	10,363	11,476	12,798
Minorities	898	966	1,071	1,170	1,295	1,444
Total shareholders' equity	7,989	7,616	10,560	11,532	12,771	14,242
Net debt	*23,596*	*19,945*	*20,681*	*20,789*	*20,297*	*19,554*
Key Company Metrics						
Sales growth (%)	nm	4.8	8.7	18.1	5.3	2.1
DB EPS growth (%)	na	na	20.8	20.4	23.1	18.2
EBITDA Margin (%)	21.0	22.4	22.5	21.9	22.3	22.3
EBIT Margin (%)	16.8	18.2	18.5	17.9	18.4	18.5
Payout ratio (%)	nm	40.9	36.8	33.3	31.5	31.5
ROE (%)	9.0	15.4	14.6	13.6	15.3	16.3
Capex/sales (%)	8.8	7.6	7.6	9.6	7.8	7.4
Capex/depreciation (x)	2.1	1.8	1.9	2.4	2.0	2.0
Net debt/equity (%)	295.4	261.9	195.8	180.3	158.9	137.3
Net interest cover (x)	1.8	2.1	2.4	2.5	2.9	3.4

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications | Price (20 January 2012): 13489c | Target price: 17500c | Rating: Buy

MTN Group Ltd

Nik Kershaw

Business description: MTN is one of the largest MENA mobile operators with more than 160m subscribers across 21 African and the Middle Eastern countries. The company offers some of the best growth prospects in the MENA region with weighted mobile penetration at approximately 60%.

Nigeria, South Africa and Iran all had in excess of 20m subscribers at December 2011. MTN Nigeria and MTN South Africa and MTN Iran together account for almost 75% of MTN group EBITDA and the operations remain strongly free cash flow positive. MTN has more recently begun focussing on growing its data business across its operations; this 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 for 2012 as voice traffic growth slows in the medium term.

Drivers:

- Increased dividends. MTN group has consistently raised its dividend payout ratio over the past two years from 20% to 60% at the interim (1H11) period and we now expect it to increase its full year (2011) dividend pay out ratio to 65%. The continued strong cash flow generation will see stronger-than-expected full-year cash flow over the next few years. We believe the further raising of the dividend pay out ratio will be a key factor supporting the counter's rerating in 2012.
- Syrian license. MTN currently operates a build operate transfer (BOT) license in Syria and while the planned issue of a third mobile license has been delayed we still expect to see the conversion of the existing licenses during 2012. With this process we also expect to see a marked reduction in the 50% revenue share agreement that forms part of the current BOT license. We expect this process to be both earnings and value enhancing for MTN group and expect it to be well received by the market.
- Resolution of Iran. We have seen an escalation of the political uncertainty in Iran over the past few months and this has clearly placed pressure on the share price. A resolution of the current situation in some form would clearly be a positive driver for the stock.

Outlook: We rate MTN a Buy. We believe the medium-term growth prospects for the MTN group remain very strong. Furthermore the group's 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 management changes, we believe the group management structure with its regional VPs and experienced country heads allows for a depth of management to drive the group over the medium term. Our target price implies strong upside potential and supports our Buy recommendation.

Valuation: Our target price for MTN is 17500cps, based on an exit EV/EBITDA multiple of between 5.5x and 6.0x to December 2012E, an approximate 10% premium to the group's CEEMEA peer group. Given the superior growth prospects for MTN over the short to medium term, strong balance sheet and accelerating cash flow we believe a premium to the sector is justified.

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:17 October 2011

Running the numbers

Sub-Saharan Africa

South Africa

Telecommunications

MTN

Reuters: MTNJ.J   Bloomberg: MTN SJ

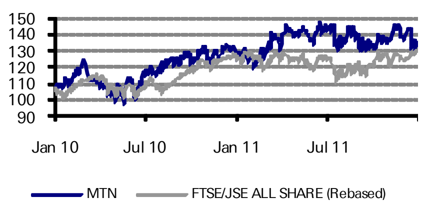
Buy

Price (20 Jan 12)	ZAR 134.89
Target Price	ZAR 175.00
52 Week range	ZAR 119.69 - 146.94
Market Cap (m)	ZARm 248,780
	USDm 31,285

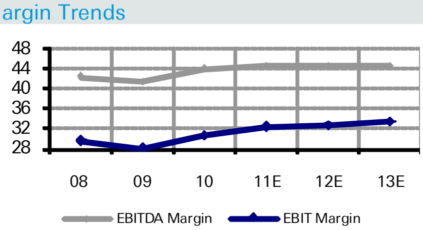
Company Profile

Mobile Telephone Networks

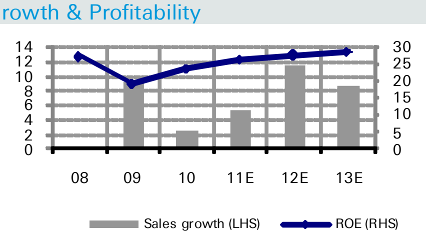
Price Performance



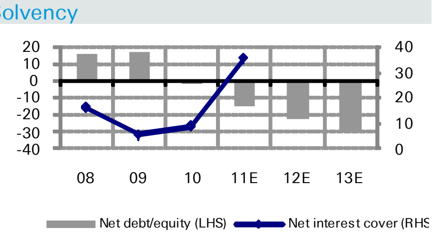
Margin Trends



Growth & Profitability



Solvency



Nik Kershaw
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Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	9.04	7.54	9.07	11.10	13.46	15.71
Reported EPS (ZAR)	9.04	7.54	9.07	11.10	13.46	15.71
DPS (ZAR)	1.81	1.92	5.00	7.30	9.51	11.09
BVPS (ZAR)	41.0	37.8	39.0	45.4	51.8	58.3
Weighted average shares (m)	1,865	1,851	1,844	1,844	1,844	1,844
Average market cap (ZARm)	224,863	211,851	214,596	248,780	248,780	248,780
Enterprise value (ZARm)	263,803	247,414	241,609	271,594	269,157	261,142
Valuation Metrics						
PE (DB) (x)	13.3	15.2	12.8	12.2	10.0	8.6
PE (Reported) (x)	13.3	15.2	12.8	12.2	10.0	8.6
P/BV (x)	2.65	3.12	3.45	2.97	2.60	2.31
FCF Yield (%)	4.4	5.6	12.0	8.5	9.7	11.7
Dividend Yield (%)	1.5	1.7	4.3	5.4	7.1	8.2
EV/Sales (x)	2.6	2.2	2.1	2.2	2.0	1.8
EV/EBITDA (x)	6.1	5.4	4.8	5.1	4.5	4.0
EV/EBIT (x)	8.7	7.8	6.9	7.0	6.1	5.3
Income Statement (ZARm)						
Sales revenue	102,526	111,947	114,684	120,716	134,718	146,545
Gross profit	43,391	46,230	50,510	53,780	59,968	65,186
EBITDA	43,391	46,230	50,510	53,780	59,968	65,186
Depreciation	10,164	11,974	13,280	13,004	14,006	14,200
Amortisation	2,820	2,668	2,120	1,759	1,896	1,991
EBIT	30,407	31,588	35,110	39,017	44,067	48,996
Net interest income(expense)	-1,917	-5,810	-4,094	-1,100	550	2,665
Associates/affiliates	0	-5	52	52	52	52
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	28,490	25,773	31,068	37,969	44,669	51,713
Income tax expense	11,355	8,612	11,268	14,049	15,969	18,358
Minorities	1,820	2,511	2,527	2,906	3,342	3,843
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	15,315	14,650	17,273	21,015	25,358	29,512
DB adjustments (including dilution)	1,555	-687	-539	-539	-539	-539
DB Net profit	16,870	13,963	16,734	20,476	24,819	28,973
Cash Flow (ZARm)						
Cash flow from operations	36,772	39,663	41,041	39,220	45,240	50,201
Net Capex	-26,896	-27,720	-15,343	-18,103	-21,217	-21,039
Free cash flow	9,876	11,943	25,698	21,117	24,023	29,162
Equity raised/(bought back)	41	-427	-1,539	0	0	0
Dividends paid	-2,536	-3,381	-6,313	-9,222	-13,472	-17,548
Net inc/(dec) in borrowings	3,877	2,290	1,430	-9,560	-8,100	-7,000
Other investing/financing cash flows	-1,208	-13,375	-6,015	52	52	52
Net cash flow	10,050	-2,950	13,261	2,387	2,504	4,666
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	28,739	24,741	36,232	38,647	41,183	45,883
Tangible fixed assets	64,193	67,541	63,361	68,460	75,671	82,510
Goodwill/intangible assets	45,786	36,064	30,266	28,507	26,611	24,621
Associates/investments	67	1,468	1,302	1,432	1,575	1,733
Other assets	31,321	26,423	23,625	26,001	28,314	30,652
Total assets	170,106	156,237	154,786	163,048	173,354	185,398
Interest bearing debt	41,590	36,917	35,328	25,768	17,668	10,668
Other liabilities	47,974	46,454	45,384	48,506	51,685	54,923
Total liabilities	89,564	83,371	80,712	74,274	69,353	65,591
Shareholders' equity	76,386	70,011	71,855	83,648	95,534	107,498
Minorities	4,156	2,855	2,219	5,125	8,467	12,310
Total shareholders' equity	80,542	72,866	74,074	88,773	104,001	119,808
Net debt	*12,851*	*12,176*	*-904*	*-12,879*	*-23,515*	*-35,215*
Key Company Metrics						
Sales growth (%)	nm	9.2	2.4	5.3	11.6	8.8
DB EPS growth (%)	na	-16.6	20.3	22.4	21.2	16.7
EBITDA Margin (%)	42.3	41.3	44.0	44.6	44.5	44.5
EBIT Margin (%)	29.7	28.2	30.6	32.3	32.7	33.4
Payout ratio (%)	22.0	24.3	53.4	64.1	69.2	69.3
ROE (%)	27.3	19.1	23.6	26.3	27.7	28.5
Capex/sales (%)	26.2	24.8	13.4	15.0	15.7	14.4
Capex/depreciation (x)	2.1	1.9	1.0	1.2	1.3	1.3
Net debt/equity (%)	16.0	16.7	-1.2	-14.5	-22.6	-29.4
Net interest cover (x)	15.9	5.4	8.6	35.5	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Construction | Price (20 January 2012): 2620c | Target price: 2600c | Rating: Hold

Murray & Roberts Holdings Ltd

Roy Mutooni, CFA

Business description: Murray & 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 including the Middle East, South East Asia, Australasia and the Americas.

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 & 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.

Outlook: Murray & Roberts' FY11 results were clouded by numerous impairments and charges primarily taken on account of poor contract execution and business reorganisation. While the group's diversified industry and regional portfolio proved resilient over this period, its financial base remained decidedly shaky, with working capital investment rising significantly as the unresolved status of uncertified revenue became more of a burden and the "cost to complete" cash outflows occur over the next 12 months. While new management has been well received in the market, it faces a significant task over the short to medium term that, in our view, revolves around the twin issues of addressing the execution shortfalls on big contracts and replacing the high margin order book, even as its working capital and associated debt burden increases. Hold.

Valuation: We assess the fundamental value of Murray & Roberts based on a DCF analysis, using a 13.5% WACC, a 5% perpetuity margin and a 4.5% perpetual growth rate (in keeping with our view on South Africa's long term economic growth). We then derive a 12-month target by rolling the fair valuation so derived forward by the cost of equity less dividend yield. On this basis, we calculate a 12-month price target of 2600c. The stock is currently trading at an 8x one-year forward multiple, a 20% discount to long run averages, a level we rate fair considering all of the stock's current head winds and outlook.

Risks:

Downside risks

- Sustained currency strength ahead of our forecasts (35% operating earnings earned outside 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 under way in certain large contracts such as Gautrain.

Model updated:12 September 2011

Running the numbers

Sub-Saharan Africa

South Africa

Construction & Building Materials

M&R Holdings Ltd

Reuters: MURJ.J Bloomberg: MUR SJ

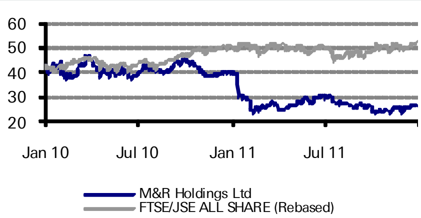
Hold

Price (20 Jan 12)	ZAR 26.20
Target Price	ZAR 26.00
52 Week range	ZAR 23.15 - 39.90
Market Cap (m)	ZARm 7,719
	USDm 971

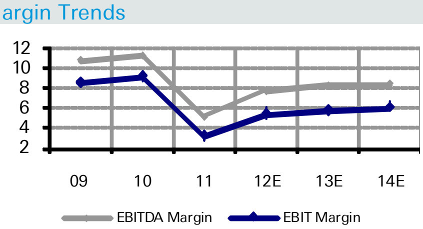
Company Profile

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.

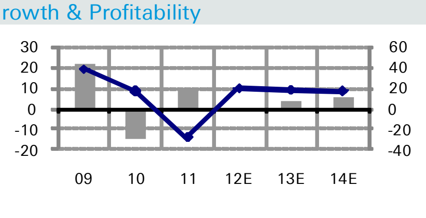
Price Performance



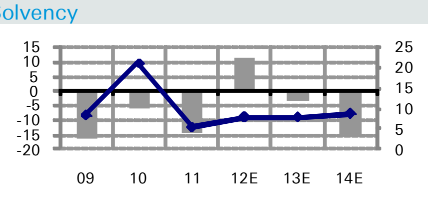
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	6.75	3.40	-5.03	3.11	3.44	3.86
Reported EPS (ZAR)	6.75	3.40	-5.03	3.11	3.44	3.86
DPS (ZAR)	2.18	1.05	0.00	0.00	0.69	1.29
BVPS (ZAR)	16.8	18.7	12.7	15.5	18.6	21.4
Weighted average shares (m)	294	295	295	295	295	295
Average market cap (ZARm)	17,661	13,853	10,415	7,719	7,719	7,719
Enterprise value (ZARm)	17,106	13,355	9,423	8,402	7,570	6,698
Valuation Metrics						
PE (DB) (x)	8.9	13.8	nm	8.4	7.6	6.8
PE (Reported) (x)	8.9	13.8	nm	8.4	7.6	6.8
P/BV (x)	2.97	2.08	2.36	1.69	1.41	1.22
FCF Yield (%)	nm	nm	3.1	nm	13.1	16.5
Dividend Yield (%)	3.6	2.2	0.0	0.0	2.6	4.9
EV/Sales (x)	0.5	0.5	0.3	0.3	0.2	0.2
EV/EBITDA (x)	4.9	4.2	5.9	3.6	2.9	2.4
EV/EBIT (x)	6.2	5.2	9.4	5.1	4.1	3.3
Income Statement (ZARm)						
Sales revenue	32,684	27,851	30,535	30,388	31,573	33,437
Gross profit	3,512	3,143	1,591	2,334	2,610	2,819
EBITDA	3,512	3,143	1,591	2,334	2,610	2,819
Depreciation	711	566	562	651	754	766
Amortisation	35	22	23	23	24	25
EBIT	2,766	2,555	1,006	1,660	1,832	2,028
Net interest income(expense)	-336	-122	-194	-211	-234	-234
Associates/affiliates	2	15	86	0	0	0
Exceptionals/extraordinaries	194	-897	-2,108	0	0	0
Other pre-tax income/(expense)	316	0	0	0	0	0
Profit before tax	2,754	1,413	-872	1,449	1,598	1,794
Income tax expense	612	414	196	362	400	448
Minorities	320	131	87	163	180	202
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,010	1,006	-1,493	924	1,019	1,144
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,010	1,006	-1,493	924	1,019	1,144
Cash Flow (ZARm)						
Cash flow from operations	1,560	691	334	-768	1,784	2,095
Net Capex	-2,263	-1,097	-6	-743	-772	-818
Free cash flow	-703	-406	328	-1,511	1,012	1,277
Equity raised/(bought back)	-250	19	20	0	0	0
Dividends paid	-697	-667	-274	0	0	-204
Net inc/(dec) in borrowings	688	377	529	0	0	0
Other investing/financing cash flows	-439	381	-136	0	0	0
Net cash flow	-1,401	-296	467	-1,511	1,012	1,074
Change in working capital	*-1,290*	*-931*	*232*	*-2,529*	*-192*	*-41*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,663	3,811	3,101	1,589	2,601	3,674
Tangible fixed assets	4,280	4,233	3,325	3,417	3,436	3,488
Goodwill/intangible assets	549	554	435	412	388	363
Associates/investments	512	1,035	1,333	1,333	1,333	1,333
Other assets	13,489	11,492	11,366	12,821	13,364	14,140
Total assets	23,494	21,125	19,560	19,573	21,122	22,998
Interest bearing debt	3,568	3,374	2,342	2,342	2,342	2,342
Other liabilities	13,292	10,574	11,897	10,823	11,174	11,909
Total liabilities	16,860	13,948	14,239	13,165	13,516	14,251
Shareholders' equity	5,581	6,203	4,221	5,145	6,164	7,103
Minorities	1,053	974	1,100	1,263	1,443	1,645
Total shareholders' equity	6,634	7,177	5,321	6,408	7,606	8,748
Net debt	*-1,095*	*-437*	*-759*	*753*	*-259*	*-1,332*
Key Company Metrics						
Sales growth (%)	22.6	-14.8	9.6	-0.5	3.9	5.9
DB EPS growth (%)	22.7	-49.6	na	na	10.3	12.3
EBITDA Margin (%)	10.7	11.3	5.2	7.7	8.3	8.4
EBIT Margin (%)	8.5	9.2	3.3	5.5	5.8	6.1
Payout ratio (%)	31.9	30.7	nm	0.0	19.9	33.1
ROE (%)	38.5	17.1	-28.6	19.7	18.0	17.2
Capex/sales (%)	7.2	3.4	2.4	2.4	2.4	2.4
Capex/depreciation (x)	3.2	1.6	1.3	1.1	1.0	1.0
Net debt/equity (%)	-16.5	-6.1	-14.3	11.7	-3.4	-15.2
Net interest cover (x)	8.2	20.9	5.2	7.9	7.8	8.7

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial | Price (20 January 2012): 2220c | Target price: 2100c | Rating: Hold

Nampak Ltd

Roy Mutooni, CFA

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 12 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.

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.

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. The group has seen a significant turnaround in the profitability of the Corrugated and Leeds businesses in recent results.
- **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). The group expects that the recent acquisition of a competitor in the UK market would help restore the volumes lost last year.

Drivers: The primary driver of earnings for Nampak is the rate of growth in personal consumption expenditure in South Africa, the level of the currency, and the price of tinplate, aluminium, petroleum, and glass, all of which are key raw materials used in the manufacturing process. Raw material costs represent over 50% of total costs.

Outlook: As a result of significant management action over the last three years, financial metrics have improved significantly, with operating margins improving from 5% in FY08 to 9.5% in FY11, RONA up from 12% in 2009 to 19% in 2011, while debt levels have declined significantly over this period. Over the short to medium term, we expect the key earnings drivers to include recovery of remaining underperformers, the weaker currency, and growing momentum in the Angolan business. On the downside the weak global macro economy (especially Europe, a significant market for some of the group's clients) and a soft South African consumer spending outlook will mitigate against significant earnings growth for the group, in our opinion. Hold.

Valuation: We value Nampak using a DCF methodology due to the slow growth, mature nature of this business and its industry. We use an 11.9% WACC based on an 8.5% risk free rate, a 4.5% ERP, beta of 1, 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

1) Significantly weaker currency than we currently forecast (stimulates packaged food and wine exports from South Africa, of which Nampak is one of the larger suppliers).
2) Earlier-than-expected recovery in consumer spending on non-durable items.

Downside risks

1) Sustained increases in commodity prices, particularly oil, tinplate and aluminium, the combination of which represents a significant proportion of Nampak's production costs.
2) Inability of management to further eliminate costs or dispose of businesses.

Model updated:24 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Service

Nampak Ltd

Reuters: NPKJ.J Bloomberg: NPK SJ

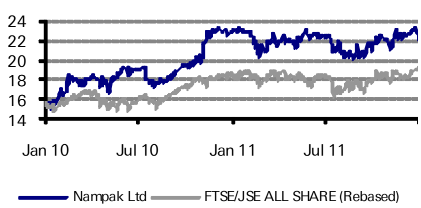
Hold

Price (20 Jan 12)	ZAR 22.20
Target Price	ZAR 21.00
52 Week range	ZAR 20.10 - 23.40
Market Cap (m)	ZARm 13,088
	USDm 1,646

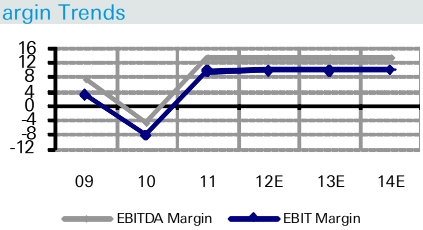
Company Profile

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 12 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.

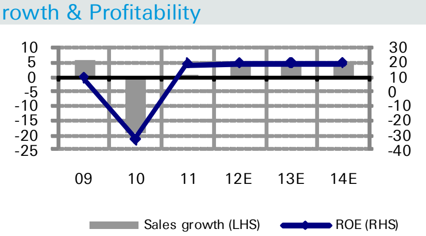
Price Performance



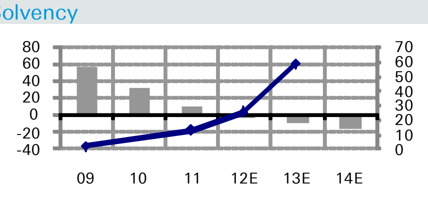
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	0.85	-2.80	1.64	1.86	2.00	2.18
Reported EPS (ZAR)	0.85	-2.80	1.64	1.86	2.00	2.18
DPS (ZAR)	0.42	0.83	1.08	1.22	1.31	1.43
BVPS (ZAR)	8.7	9.1	9.7	10.5	11.3	12.1
Weighted average shares (m)	586	588	590	590	590	590
Average market cap (ZARm)	8,123	10,185	12,758	13,088	13,088	13,088
Enterprise value (ZARm)	10,660	11,546	12,940	12,660	12,068	11,392
Valuation Metrics						
PE (DB) (x)	16.3	nm	13.2	12.0	11.1	10.2
PE (Reported) (x)	16.3	nm	13.2	12.0	11.1	10.2
P/BV (x)	1.95	2.09	2.15	2.12	1.97	1.83
FCF Yield (%)	3.7	18.3	6.9	9.8	10.2	11.3
Dividend Yield (%)	3.0	4.8	5.0	5.5	5.9	6.4
EV/Sales (x)	0.5	0.7	0.8	0.8	0.7	0.6
EV/EBITDA (x)	7.6	nm	6.1	5.7	5.2	4.6
EV/EBIT (x)	17.9	nm	8.4	7.6	6.9	6.2
Income Statement (ZARm)						
Sales revenue	19,586	15,774	15,819	16,479	17,382	18,200
Gross profit	9,447	6,581	7,654	8,240	8,691	9,100
EBITDA	1,407	-719	2,125	2,220	2,343	2,469
Depreciation	811	598	579	565	598	626
Amortisation	0	0	0	0	0	0
EBIT	595	-1,316	1,546	1,656	1,745	1,843
Net interest income(expense)	-328	-190	-120	-65	-30	23
Associates/affiliates	0	4	1	0	0	0
Exceptionals/extraordinaries	-110	-32	-13	0	0	0
Other pre-tax income/(expense)	6	6	-37	12	13	13
Profit before tax	272	-1,497	1,390	1,602	1,728	1,879
Income tax expense	70	269	457	481	519	564
Minorities	-3	9	-25	-27	-28	-29
Other post-tax income/(expense)	396	99	71	0	0	0
Net profit	491	-1,708	1,017	1,148	1,238	1,345
DB adjustments (including dilution)	23	0	0	0	0	0
DB Net profit	514	-1,708	1,017	1,148	1,238	1,345
Cash Flow (ZARm)						
Cash flow from operations	1,393	2,111	1,294	1,889	1,978	2,088
Net Capex	-1,095	-245	-412	-608	-641	-605
Free cash flow	298	1,866	882	1,281	1,337	1,483
Equity raised/(bought back)	14	20	0	0	0	0
Dividends paid	-529	-289	-543	-699	-773	-835
Net inc/(dec) in borrowings	-465	-628	0	0	0	0
Other investing/financing cash flows	-142	-1,103	786	0	0	0
Net cash flow	-824	-135	1,125	583	564	648
Change in working capital	*198*	*212*	*-548*	*-136*	*-116*	*-105*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,016	719	1,451	2,033	2,597	3,245
Tangible fixed assets	6,390	6,200	5,687	5,730	5,773	5,752
Goodwill/intangible assets	389	301	183	183	183	183
Associates/investments	399	409	363	363	363	363
Other assets	5,898	5,297	5,224	5,309	5,598	5,860
Total assets	14,092	12,925	12,908	13,618	14,514	15,403
Interest bearing debt	3,927	2,460	2,033	2,033	2,033	2,033
Other liabilities	5,036	5,097	5,180	5,467	5,926	6,335
Total liabilities	8,963	7,557	7,213	7,500	7,959	8,368
Shareholders' equity	5,105	5,341	5,733	6,183	6,647	7,157
Minorities	25	28	-38	-65	-93	-122
Total shareholders' equity	5,130	5,368	5,695	6,118	6,555	7,035
Net debt	*2,911*	*1,742*	*582*	*0*	*-564*	*-1,212*
Key Company Metrics						
Sales growth (%)	6.1	-19.5	0.3	4.2	5.5	4.7
DB EPS growth (%)	-51.2	na	na	12.9	7.8	8.7
EBITDA Margin (%)	7.2	-4.6	13.4	13.5	13.5	13.6
EBIT Margin (%)	3.0	-8.3	9.8	10.0	10.0	10.1
Payout ratio (%)	50.1	nm	62.6	62.6	62.6	62.6
ROE (%)	9.3	-32.7	18.4	19.3	19.3	19.5
Capex/sales (%)	5.8	1.6	2.6	3.7	3.7	3.3
Capex/depreciation (x)	1.4	0.4	0.7	1.1	1.1	1.0
Net debt/equity (%)	56.7	32.4	10.2	0.0	-8.6	-17.2
Net interest cover (x)	1.8	nm	12.9	25.3	58.6	nm

Source: Company data, Deutsche Bank estimates

South Africa – Media

Price (20 January 2012): 37689c Target price: 46500c Rating: Buy

Naspers Ltd

Nik Kershaw

Business description: The Naspers group is a well diversified media business with operations in pay TV, internet, technology and media. The pay TV business, with operations in South Africa and sub-Saharan Africa, is currently the biggest contributor to revenues and EBITDA.

The group's internet grouping, including the c.35% stake in Tencent (biggest on-line gaming and social networking business in China), has been the key growth engine for the business over the past few years. Measuring the internet associates on a proportional basis highlights the growing importance of the internet businesses to the overall group. The group's print media segment is declining and is no longer seen as a key growth area. Going forward, management has noted that ongoing investments will be driven by the core internet segment.

Drivers: An important driver for Naspers in the short term is likely to be revenue trends from the group's internet operations. Aside from the quarterly revenue data reported from the Tencent operations, investors are now focusing more on the group's other internet operations like Mail.ru and Tradus. The group has recently embarked on a strategy to rollout DTTV operations across Sub-Saharan Africa and this will require large upfront investment and investors will be keenly watching developments in this area.

Outlook: The Naspers group is a well diversified media business with operations in pay TV, internet, technology and media. The pay TV business, with operations in South Africa and sub-Saharan Africa, is the biggest contributor to revenues and EBITDA, while the Internet grouping, including the c.35% stake in Tencent, has been the key growth engine for the business over the past year. While the current macro environment is challenging, we believe the group's diversified business and exposure to the rapidly growing internet segment positions it well for continued growth over the next few years. We rate the counter Buy, underpinned by what we see as attractive valuation.

Valuation: We have valued Naspers using a sum-of-the-parts model. We value the listed investments at market value or underlying price targets and unlisted investments using a combination of PE relatives and acquisition price. Where valuing businesses on a PE basis, we have used our forward (September 2012E) EBITDA forecasts as a base. Our core value for the group is calculated after stripping out Tencent at market value, as well as some of the larger minority investments that do not contribute to operating profit, from the core business. Our price target builds in a 20% discount due to the holding company structure.

Risks: Tencent makes up a significant portion of our value for the Naspers group, and the business has continued to surprise on the upside over the past few years. A risk to our investment thesis would be a marked slowdown in the Chinese economy, which would limit the growth prospects for the Tencent business. A negative move in the Tencent share price would negatively impact Naspers. Another risk to our investment thesis would be that the group overpays for new acquisitions. There have been additional pay TV licenses issued in South Africa, and while to date we have yet to see any real competition in the domestic pay TV market, should we see new competitors this could place some pressure on the South African business. Another risk for the business would be continued strengthening in the rand.

Model updated:02 December 2011

Running the numbers

Sub-Saharan Africa

South Africa

Media

Naspers

Reuters: NPNJn.J | Bloomberg: NPN SJ

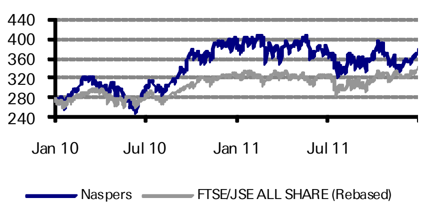
Buy

Price (20 Jan 12)	ZAR 376.89
Target Price	ZAR 465.00
52 Week range	ZAR 322.60 - 407.51
Market Cap (m)	ZARm 141,500
	USDm 17,794

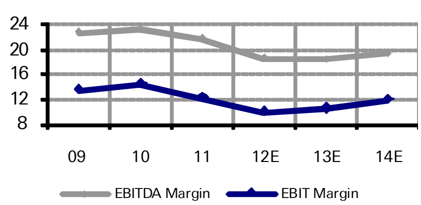
Company Profile

The Naspers group is a well diversified Media business with operations in Pay TV, Internet, Technology and Media. The Pay TV business, with operations in South Africa and sub-Saharan Africa, is the biggest contributor to revenues and EBITDA, while the Internet grouping, including the c.35% stake in Tencent, has been the key growth engine for the business over the past year. The group's print media segment is declining and no longer a key growth area for the group. Going forward management have noted that ongoing investments will be driven by the core internet segment.

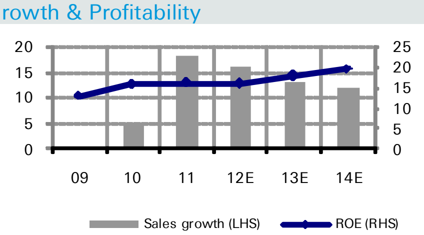
Price Performance



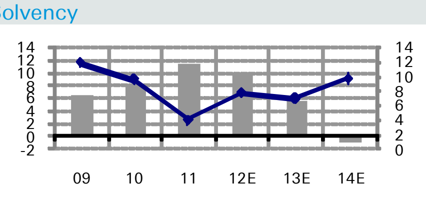
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	11.31	14.26	16.12	18.18	22.32	27.16
Reported EPS (ZAR)	11.31	14.26	16.12	18.18	22.32	27.16
DPS (ZAR)	2.07	2.35	2.70	3.05	3.75	4.56
BVPS (ZAR)	90.5	90.3	108.6	117.4	–	–
Weighted average shares (m)	371	373	375	375	375	375
Average market cap (ZARm)	61,043	93,417	126,608	141,500	141,500	141,500
Enterprise value (ZARm)	50,637	82,811	109,751	122,245	118,034	111,978
Valuation Metrics						
PE (DB) (x)	14.5	17.6	21.0	20.7	16.9	13.9
PE (Reported) (x)	14.5	17.6	21.0	20.7	16.9	13.9
P/BV (x)	1.77	3.51	3.35	3.21	0.00	0.00
FCF Yield (%)	4.4	4.2	2.9	2.8	3.1	3.8
Dividend Yield (%)	1.3	0.9	0.8	0.8	1.0	1.2
EV/Sales (x)	1.9	3.0	3.3	3.2	2.7	2.3
EV/EBITDA (x)	8.4	12.7	15.4	17.2	14.8	12.0
EV/EBIT (x)	14.0	20.5	27.1	32.0	25.9	19.4
Income Statement (ZARm)						
Sales revenue	26,690	27,998	33,086	38,371	43,391	48,573
Gross profit	6,026	6,496	7,149	7,126	7,954	9,363
EBITDA	6,026	6,496	7,149	7,126	7,954	9,363
Depreciation	1,086	1,049	1,311	1,458	1,555	1,740
Amortisation	1,334	1,406	1,782	1,850	1,850	1,850
EBIT	3,606	4,041	4,056	3,817	4,549	5,774
Net interest income(expense)	-303	-421	-1,018	-500	-650	-600
Associates/affiliates	1,473	2,058	3,290	3,966	5,386	6,979
Exceptionals/extraordinaries	-214	-62	-23	0	0	0
Other pre-tax income/(expense)	36	144	1,503	-150	0	0
Profit before tax	4,598	5,760	7,808	7,134	9,285	12,153
Income tax expense	1,436	1,808	1,861	1,756	2,012	2,458
Minorities	670	695	687	807	1,091	1,697
Other post-tax income/(expense)	3,092	0	0	0	0	0
Net profit	5,584	3,257	5,260	4,571	6,182	7,998
DB adjustments (including dilution)	-1,387	2,062	776	2,255	2,200	2,200
DB Net profit	4,197	5,319	6,036	6,826	8,382	10,198
Cash Flow (ZARm)						
Cash flow from operations	3,913	5,622	5,271	5,491	5,918	6,936
Net Capex	-1,251	-1,730	-1,580	-1,525	-1,525	-1,525
Free cash flow	2,662	3,892	3,691	3,966	4,393	5,411
Equity raised/(bought back)	17	0	0	0	0	0
Dividends paid	-669	-773	-1,011	-1,146	-1,408	-1,713
Net inc/(dec) in borrowings	-5,737	1,797	0	0	0	0
Other investing/financing cash flows	2,762	-4,815	-2,931	-1,000	-1,000	-1,000
Net cash flow	-965	101	-251	1,819	1,985	2,699
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	6,642	6,785	8,731	3,938	6,752	10,172
Tangible fixed assets	4,754	6,490	7,561	7,603	7,548	7,308
Goodwill/intangible assets	20,915	21,596	21,164	21,239	22,264	23,289
Associates/investments	14,276	15,442	24,068	26,475	29,122	32,035
Other assets	7,973	7,155	8,331	10,071	11,155	12,276
Total assets	54,560	57,468	69,855	69,325	76,842	85,080
Interest bearing debt	8,886	9,647	13,662	8,650	9,650	9,650
Other liabilities	10,457	12,187	13,251	14,081	15,572	17,249
Total liabilities	19,343	21,834	26,913	22,731	25,222	26,899
Shareholders' equity	33,591	33,660	40,662	44,087	48,861	55,146
Minorities	1,626	1,974	2,280	2,508	2,759	3,035
Total shareholders' equity	35,217	35,634	42,942	46,595	51,619	58,181
Net debt	*2,244*	*2,862*	*4,931*	*4,712*	*2,898*	*-522*
Key Company Metrics						
Sales growth (%)	nm	4.9	18.2	16.0	13.1	11.9
DB EPS growth (%)	na	26.1	13.0	12.8	22.8	21.7
EBITDA Margin (%)	22.6	23.2	21.6	18.6	18.3	19.3
EBIT Margin (%)	13.5	14.4	12.3	9.9	10.5	11.9
Payout ratio (%)	13.8	26.9	19.2	25.1	22.8	21.4
ROE (%)	12.8	15.8	16.2	16.1	18.0	19.6
Capex/sales (%)	4.8	6.4	4.8	4.0	3.5	3.1
Capex/depreciation (x)	0.5	0.7	0.5	0.5	0.4	0.4
Net debt/equity (%)	6.4	8.0	11.5	10.1	5.6	-0.9
Net interest cover (x)	11.9	9.6	4.0	7.6	7.0	9.6

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (20 January 2012): 1315c | Target price: 1460c | Rating: Hold

Netcare Ltd

Sean Ashton

Business description: Netcare is the largest owner and operator of private hospitals in South Africa and the United Kingdom. In South Africa, it also provides primary care facilities under the Medicross and Primecure brands, as well as emergency services through Netcare 911. In the UK, the group has a 50.1% share of the General Healthcare Group, operating hospitals under the BMI Healthcare brand.

Drivers:

- Growing medical scheme beneficiaries in South Africa: Despite ever-present regulatory risk, the fundamentals of the South African healthcare industry remain solid with continued growth in medical scheme lives in South Africa providing volume growth for the private hospital industry. Nonetheless, Netcare is currently experiencing below industry-trend growth in patient volumes in South Africa with 2.2% growth in the year ended 30 September 2011 – by comparison, Life Healthcare achieved organic patient volume growth of 4.5% during the same period.
- Sharp mix changes in UK operations: Netcare's 50%-held GHG group in the UK continues to experience substantial mix changes, with a sharp decline in private medically insured (PMI) volumes (c.4% yoy) being offset by continued volume gains of state patient business through the NHS's Choose & Book programme. This trend was reflected in the division's FY11 patient day growth of 4.2% and revenue growth of 3.8%, implying negative mix effects. We do not expect a recovery of PMI volumes in FY12, resulting in continued modest revenue and EBITDA growth for the UK operations for the year ahead. GHG accounts for 47% of our projected FY12 EBITDA for the group, pre-minority interests.
- Leverage introduces earnings volatility: Netcare is the most highly leveraged hospital stock of the listed operators in South Africa, with the group's net debt of c.R25bn dwarfing equity of R7.7bn. This leverage arises predominantly in the UK operations that are ring-fenced from the South African balance sheet. At interest cover of 2x, every 1% variation in operating performance at a group level influences PBT by 2%, which highlights the forecast risk inherent in the group.

Outlook: Netcare presents investors with a conundrum – the group's South African operations are in good shape, with sound operating fundamentals and moderate gearing; the value of these operations alone could justify the current share price. However, the group's overleveraged UK operations are struggling, faced with the difficulty of a sharp reduction in margins due to declining demand for private healthcare and the daunting task of a debt refinancing in two years' time with insufficient equity. Because of these risks, Netcare looks the cheapest stock of the three hospital groups under our coverage. Our target price exit rating implies 20% discount to Life Healthcare and Mediclinic. The stock trades at close to our target price: Hold.

Valuation: Netcare trades at a 12 month forward interpolated PE multiple of 11x, with a cash dividend yield of 4.5%. Our 12 month target price is derived by applying a forward PE multiple of 11x to our estimated 24 month interpolated forward EPS. This rating is below the average of its trading range over the past four years since the acquisition of GHG in the UK. We think the group's UK refinancing in October 2013 and associated risks of a capital-raising will remain an overhang on the group's rating until further clarity is gained in this regard.

Risks: In South Africa, sub-optimal tariff risks negotiated with the medical schemes represent the single largest risk to earnings and valuation. Nursing costs are a substantial component of expenses in the group's South African operations and tend to rise above inflation. These above-inflationary cost increases could impact negatively on margins. Given low levels of equity in the UK, the group's refinancing of GHG in October 2013 poses substantial valuation risks given uncertainty around willingness of banks to roll-over debt and what interest spreads will be achieved on refinancing. Upside risks to our view include a sharp improvement in capital market conditions globally and a faster-than-expected rebound in private medical scheme volumes in the group's UK operations. Downside risks include a further deterioration in private patient volumes in GHG and greater-than-expected increase in spreads on UK debt refinancing.

Model updated:08 December 2011

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Netcare Limited

Reuters: NTCJ.J Bloomberg: NTC SJ

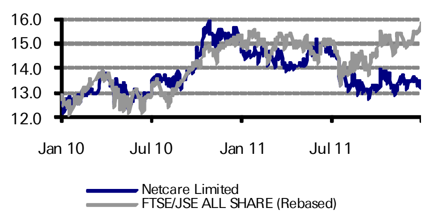
Hold

Price (20 Jan 12)	ZAR 13.15
Target Price	ZAR 14.60
52 Week range	ZAR 12.75 - 15.15
Market Cap (m)	ZARm 16,832
	USDm 2,117

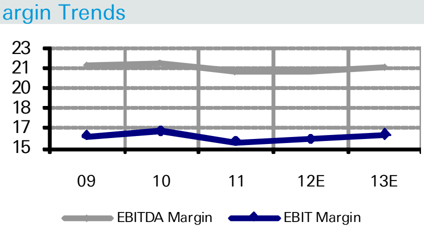
Company Profile

Netcare is the largest owner and operator of private hospitals in South Africa and the United Kingdom. In South Africa, it also provides primary care facilities under the Medicross and Primecure brands, as well as emergency services through Netcare 911. In the UK, the group has a 50.1% share of the General Healthcare Group, operating hospitals under the BMI Healthcare brand.

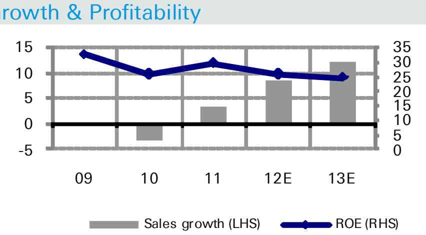
Price Performance



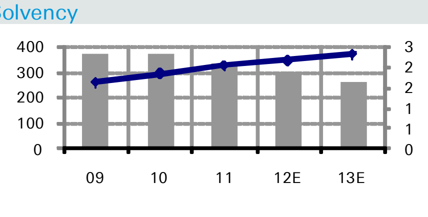
Margin Trends



Growth & Profitability



Solvency



Sean Ashton
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Fiscal year end 30-Sep	2009	2010	2011	2012E	2013E
Financial Summary					
DB EPS (ZAR)	0.74	0.94	1.14	1.21	1.30
Reported EPS (ZAR)	1.23	0.95	1.19	1.21	1.30
DPS (ZAR)	0.00	0.47	0.53	0.60	0.65
BVPS (ZAR)	–	3.8	4.5	5.2	5.8
Weighted average shares (m)	1,263	1,271	1,279	1,280	1,280
Average market cap (ZARm)	10,738	16,174	18,509	16,832	16,832
Enterprise value (ZARm)	39,353	41,874	45,590	43,442	42,993
Valuation Metrics					
PE (DB) (x)	11.5	13.5	12.7	10.9	10.1
PE (Reported) (x)	6.9	13.4	12.1	10.9	10.1
P/BV (x)	0.00	3.67	2.88	2.55	2.26
FCF Yield (%)	3.0	6.4	10.4	8.1	8.2
Dividend Yield (%)	0.0	3.7	3.7	4.6	5.0
EV/Sales (x)	1.7	1.9	2.0	1.7	1.5
EV/EBITDA (x)	8.0	8.7	9.5	8.3	7.2
EV/EBIT (x)	10.6	11.4	12.6	11.0	9.5
Income Statement (ZARm)					
Sales revenue	23,232	22,474	23,221	25,179	28,263
Gross profit	23,232	22,474	23,221	25,179	28,263
EBITDA	4,937	4,820	4,817	5,232	5,944
Depreciation	1,227	1,157	1,213	1,277	1,404
Amortisation	0	0	0	0	0
EBIT	3,710	3,663	3,604	3,955	4,539
Net interest income(expense)	-2,260	-1,978	-1,755	-1,813	-1,952
Associates/affiliates	27	24	23	25	25
Exceptionals/extraordinaries	-10	45	97	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	1,467	1,754	1,969	2,167	2,612
Income tax expense	350	294	114	438	772
Minorities	114	174	238	85	71
Other post-tax income/(expense)	561	-53	-47	-47	-47
Net profit	1,564	1,233	1,570	1,597	1,722
DB adjustments (including dilution)	-622	-7	-66	0	0
DB Net profit	942	1,226	1,504	1,597	1,722
Cash Flow (ZARm)					
Cash flow from operations	1,684	2,388	3,062	2,933	3,144
Net Capex	-1,367	-1,351	-1,139	-1,575	-1,764
Free cash flow	317	1,037	1,923	1,358	1,380
Equity raised/(bought back)	20	80	187	0	0
Dividends paid	-430	-521	-686	-798	-861
Net inc/(dec) in borrowings	-979	58	-1,067	0	0
Other investing/financing cash flows	826	-82	-47	-53	-53
Net cash flow	-246	572	310	507	466
Change in working capital	*0*	*0*	*658*	*-47*	*-76*
Balance Sheet (ZARm)					
Cash and other liquid assets	803	1,378	2,355	2,862	3,328
Tangible fixed assets	25,097	23,852	26,416	26,714	27,074
Goodwill/intangible assets	14,669	13,484	15,034	15,034	15,034
Associates/investments	184	225	494	543	598
Other assets	5,188	5,433	6,365	6,955	7,801
Total assets	45,941	44,372	50,664	52,108	53,834
Interest bearing debt	27,257	25,575	28,044	28,044	28,044
Other liabilities	11,551	12,268	14,935	15,496	16,289
Total liabilities	38,808	37,843	42,979	43,540	44,333
Shareholders' equity	4,788	4,801	5,799	6,597	7,458
Minorities	2,345	1,728	1,886	1,971	2,042
Total shareholders' equity	7,133	6,529	7,685	8,568	9,500
Net debt	*26,454*	*24,197*	*25,689*	*25,182*	*24,716*
Key Company Metrics					
Sales growth (%)	nm	-3.3	3.3	8.4	12.2
DB EPS growth (%)	na	27.4	21.4	5.9	7.8
EBITDA Margin (%)	21.3	21.4	20.7	20.8	21.0
EBIT Margin (%)	16.0	16.3	15.5	15.7	16.1
Payout ratio (%)	0.0	47.9	43.2	48.5	48.5
ROE (%)	32.7	25.7	29.6	25.8	24.5
Capex/sales (%)	6.1	6.1	4.9	6.3	6.2
Capex/depreciation (x)	1.2	1.2	0.9	1.2	1.3
Net debt/equity (%)	370.9	370.6	334.3	293.9	260.2
Net interest cover (x)	1.6	1.9	2.1	2.2	2.3

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (20 January 2012): 4719c | Target price: 3700c | Rating: Hold

Pick n Pay Stores Ltd

Nick Higham, CFA

Business description: Pick n Pay is a holding company with subsidiaries in South Africa, Australia and Zimbabwe. The founding members' family trust holds c.53% of the holding company shares. It is predominantly engaged in the mass retailing of food (second largest player domestically with c.30% market share), also retailing clothing, liquor and general merchandise. The group's core retail division houses all retail operations, including food, clothing, general merchandise, pharmaceuticals and liquor under the Pick n Pay and Boxer brands throughout southern Africa. Pick n Pay discontinued its Score brand in 2010 and successfully exited the unprofitable Australian business (Franklins) in 2011.

The group consists of 471 corporate-owned and 370 franchise stores. The 20 hypermarkets generate a substantial portion of group turnover (>20%). The balance of turnover is from 160 corporate supermarkets, 294 domestic franchise stores and 104 Boxer superstores. Excluding Boxer superstores, targeting lower-end customers, most formats target middle to upper income customers (LSM 8-10 core focus given premium footprint).

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), and financial services. The disposal of the unprofitable Franklins operation in Australia has provided the necessary liquidity to assist funding the substantial restructuring of the domestic business underway. The restructuring includes the continued rollout of centralised distribution, centralising buying and administration functions across the group and improving poor legacy employee cost efficiency.

The primary expansion plans/growth prospects are:

- **Recovering from market share losses in recent times:** In recent years management has attempted to curb market share losses by revisiting price perceptions through aggressive competitive pricing. While this hurt during a period of low food inflation, it has subsequently turned the corner with rising food inflation underpinning top line growth.
- **Significant margin expansion opportunity through wage containment.** Management settled a favourable three-year wage agreement a year ago with the labour unions, securing fairly benign y-o-y increases as inflation was starting to accelerate. It has also done away with restrictive legacy agreements with unions resulting in inherent legacy staff inefficiencies in new stores and has recently agreed on a flexible work week which will greatly improve efficiency.
- **A more aggressive approach to African (ex-SA) expansion:** The initial corporate store opening in Zambia in July 2010 has proceeded well with management guiding to breakeven within c.6 months and has already confirmed multiple further stores in Zambia. Management indicated that by 2014 it could have as many as 100 stores in Africa.
- **Recovery from high 'restructuring-related' cost base:** The substantial 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 margins improving boosted by a more favourable 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. The sale of Franklins to Metcash in Australia has recently been concluded (still subject to appeal by the ACCC), and the conversion of Score stores (to higher-equity Pick n Pay-branded formats, which we believe will boost volume growth) has been completed. Despite an improved food inflation outlook and focused cost cutting initiatives, a few headwinds still persist namely; concerns over continued market share losses, cost pressures from substantial space expansion and losses incurred rolling out central distribution. We expect muted total return supporting our Hold recommendation.

Valuation: We value Pick n Pay using a PE-relative methodology employing a normalised two-year forward PE of 12.1x to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 3700cps 12-month price target.

Risks: Key downside risks to our recommendation include 1) Slower volume recovery than anticipated through continued market share losses; 2) Higher capex requirements constraining cash generation; 3) Continued distribution losses; and 4) Lower-than-expected top line uplift from the Smart Shopper loyalty programme. Key upside risks to our recommendation include 1) Higher-than-expected food inflation; 2) Higher-than-expected cost savings from wage agreements secured, retrenchments and specific initiatives undertaken; and 3) Higher-than-expected GP margin benefits from supply chain efficiencies and refinement of buying processes.

Model updated:20 October 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Pick n Pay Stores

Reuters: PIKJ.J Bloomberg: PIK SJ

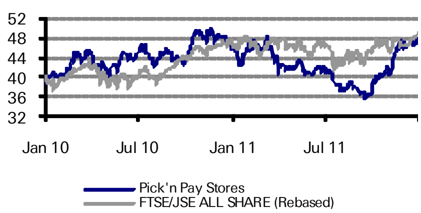
Hold

Price (20 Jan 12)	ZAR 47.19
Target Price	ZAR 37.00
52 Week range	ZAR 35.59 - 48.30
Market Cap (m)	ZARm 22,448
	USDm 2,823

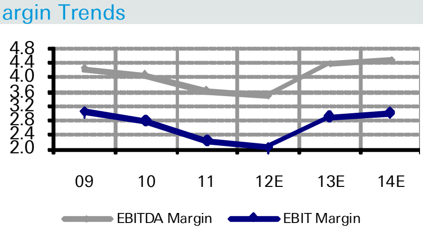
Company Profile

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.

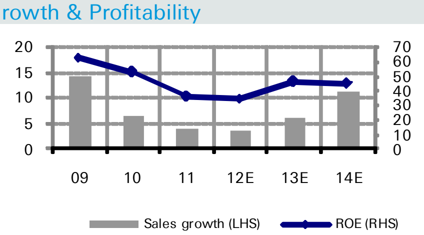
Price Performance



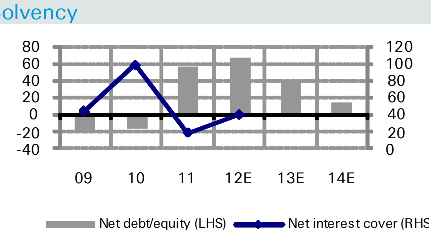
Margin Trends



Growth & Profitability



Solvency



Nick Higham, CFA
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Fiscal year end 28-Feb	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	2.07	2.11	1.60	1.61	2.56	2.98
Reported EPS (ZAR)	2.07	2.11	1.60	1.61	2.56	2.98
DPS (ZAR)	1.70	1.75	1.43	1.34	1.97	2.30
BVPS (ZAR)	3.6	4.5	4.5	5.0	6.0	7.2
Weighted average shares (m)	472	472	476	476	476	476
Average market cap (ZARm)	14,302	17,306	21,297	22,448	22,448	22,448
Enterprise value (ZARm)	13,945	16,960	22,511	24,106	23,631	22,984
Valuation Metrics						
PE (DB) (x)	14.7	17.3	28.0	29.4	18.4	15.8
PE (Reported) (x)	14.7	17.3	28.0	29.4	18.4	15.8
P/BV (x)	8.69	9.03	10.41	9.43	7.85	6.57
FCF Yield (%)	5.7	3.0	nm	nm	4.6	6.4
Dividend Yield (%)	5.6	4.8	3.2	2.8	4.2	4.9
EV/Sales (x)	0.3	0.3	0.4	0.4	0.4	0.3
EV/EBITDA (x)	6.3	7.5	10.8	11.6	8.6	7.3
EV/EBIT (x)	8.8	10.9	17.4	19.8	12.9	10.8
Income Statement (ZARm)						
Sales revenue	51,933	55,314	57,559	59,532	63,140	70,401
Gross profit	9,849	10,288	10,335	10,523	11,079	12,353
EBITDA	2,198	2,256	2,092	2,080	2,758	3,156
Depreciation	616	704	798	859	929	1,036
Amortisation	0	0	0	0	0	0
EBIT	1,582	1,552	1,294	1,220	1,829	2,120
Net interest income(expense)	-36	-16	-71	-31	17	35
Associates/affiliates	0	0	0	-2	-2	-2
Exceptionals/extraordinaries	4	9	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,546	1,536	1,223	1,188	1,844	2,153
Income tax expense	568	532	448	410	605	706
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	982	1,012	775	778	1,239	1,447
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	982	1,012	775	778	1,239	1,447
Cash Flow (ZARm)						
Cash flow from operations	1,815	1,708	728	1,676	2,239	2,626
Net Capex	-1,003	-1,194	-1,224	-1,900	-1,200	-1,200
Free cash flow	813	515	-496	-224	1,039	1,426
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-718	-815	-808	-510	-750	-874
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	312	281	-266	290	186	97
Net cash flow	407	-19	-1,570	-444	475	648
Change in working capital	*221*	*1*	*-845*	*39*	*71*	*143*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,073	1,055	353	-257	218	866
Tangible fixed assets	2,937	3,416	3,402	4,443	4,714	4,878
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	10	10	10	10
Other assets	6,466	6,630	7,584	7,752	8,060	8,678
Total assets	10,476	11,101	11,349	11,948	13,002	14,433
Interest bearing debt	716	710	1,577	1,411	1,411	1,411
Other liabilities	8,064	8,247	7,613	8,114	8,678	9,537
Total liabilities	8,781	8,956	9,190	9,526	10,090	10,948
Shareholders' equity	1,696	2,145	2,159	2,423	2,912	3,485
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,696	2,145	2,159	2,423	2,912	3,485
Net debt	*-356*	*-346*	*1,225*	*1,668*	*1,193*	*545*
Key Company Metrics						
Sales growth (%)	14.4	6.5	4.1	3.4	6.1	11.5
DB EPS growth (%)	9.6	2.1	-24.1	0.3	59.2	16.6
EBITDA Margin (%)	4.2	4.1	3.6	3.5	4.4	4.5
EBIT Margin (%)	3.0	2.8	2.2	2.1	2.9	3.0
Payout ratio (%)	81.6	81.3	87.5	82.0	75.6	75.5
ROE (%)	62.8	52.7	36.0	33.9	46.5	45.2
Capex/sales (%)	1.9	2.2	2.1	3.2	1.9	1.7
Capex/depreciation (x)	1.6	1.7	1.5	2.2	1.3	1.2
Net debt/equity (%)	-21.0	-16.1	56.7	68.9	41.0	15.7
Net interest cover (x)	43.7	98.8	18.1	39.8	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Construction & Building Materials | Price (20 January 2012): 2814c | Target price: 2750c | Rating: Hold

Pretoria Portland Cement Company Ltd

Roy Mutooni, CFA

Business description: PPC is the leading producer of cement and related products in southern Africa, principally producing 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 number of quarries that produces aggregates around Gauteng and in Botswana.

The group is the dominant producer of cement in the Western and Eastern Cape provinces, as well as Botswana, and Zimbabwe, while supplying small volumes of cement into the export markets of Mozambique and the Indian Ocean islands.

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 GDP, fixed capital formation, interest rate cycle and to growth in household incomes. Lime and aggregates division is impacted by the steel and alloy industry performance.

Outlook: While we believe the short term outlook for PPC is improving on the back of the recovering volumes and firming prices currently evident in its primary markets, we see potential headwinds over the medium term in the form of potential carbon taxes and the threat of new entrants over the medium term. On the positive side is the generous (6%) dividend yield the stock offers. On balance we are neutral on the shares. Hold.

Valuation: We value PPC on a DCF basis with a 12.1% WACC a 15% debt-to-capital ratio, and a long-run operating margin of 25%. The WACC is based on a fair cost of debt of 7.2%, a calculated beta of 1.1, and a market risk premium of 4.5%, in line with our house view.

Risks:

Upside risks

- Sustained delay (or cancellation) of market entry plans by new entrants.
- Interest rates declining substantially below current levels: this would stimulate activity in the residential market, which is the primary driver for cement demand.

Downside risks

- Sustained price based competition from both incumbent players or new entrants.
- Significantly stronger currency than we forecast: this encourages imported competition into PPC's key coastal markets.
- Further adverse findings by the Competition Commission.

Model updated:08 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Construction & Building Materials

PPC Ltd

Reuters: PPCJ.J Bloomberg: PPC SJ

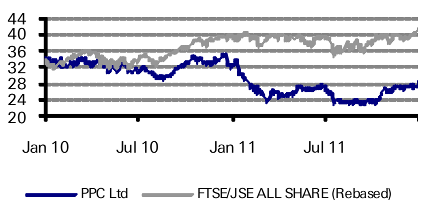
Hold

Price (20 Jan 12)	ZAR 28.14
Target Price	ZAR 27.50
52 Week range	ZAR 23.00 - 33.75
Market Cap (m)	ZARm 15,128
	USDm 1,902

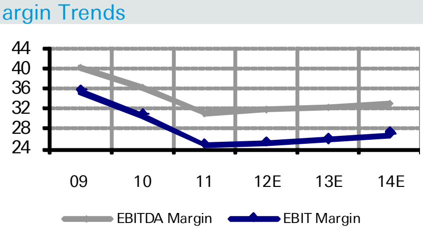
Company Profile

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

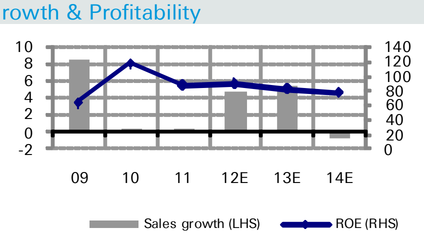
Price Performance



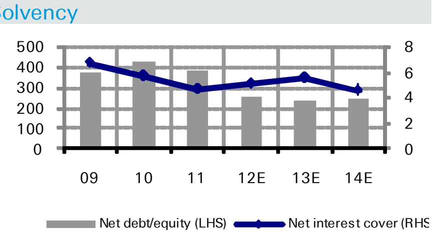
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Sep	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	1.29	2.21	1.64	1.99	2.18	2.35
Reported EPS (ZAR)	1.69	2.15	1.64	1.99	2.18	2.35
DPS (ZAR)	2.00	1.75	1.30	1.59	1.74	1.81
BVPS (ZAR)	1.7	1.6	1.8	2.2	2.5	2.9
Weighted average shares (m)	538	538	538	538	538	538
Average market cap (ZARm)	16,176	17,382	15,221	15,128	15,128	15,128
Enterprise value (ZARm)	19,523	20,965	18,816	18,451	19,029	19,594
Valuation Metrics						
PE (DB) (x)	23.3	14.6	17.2	14.1	12.9	12.0
PE (Reported) (x)	17.8	15.0	17.3	14.1	12.9	12.0
P/BV (x)	19.92	20.03	13.09	12.64	11.05	9.73
FCF Yield (%)	5.1	6.0	6.1	7.2	2.7	2.5
Dividend Yield (%)	6.6	5.4	4.6	5.7	6.2	6.4
EV/Sales (x)	2.9	3.1	2.8	2.6	2.5	2.6
EV/EBITDA (x)	7.1	8.5	8.8	8.1	7.9	7.9
EV/EBIT (x)	8.1	10.0	11.1	10.2	9.7	9.7
Income Statement (ZARm)						
Sales revenue	6,783	6,807	6,826	7,147	7,539	7,492
Gross profit	2,886	2,740	2,326	2,439	2,597	2,656
EBITDA	2,733	2,473	2,135	2,274	2,424	2,484
Depreciation	309	359	417	443	467	462
Amortisation	6	9	19	19	0	0
EBIT	2,418	2,105	1,699	1,812	1,957	2,022
Net interest income(expense)	-357	-366	-362	-351	-351	-439
Associates/affiliates	7	8	15	17	18	0
Exceptionals/extraordinaries	-479	-25	8	0	0	0
Other pre-tax income/(expense)	65	39	28	28	30	33
Profit before tax	1,850	1,734	1,385	1,505	1,654	1,616
Income tax expense	722	622	520	452	496	485
Minorities	104	102	80	96	110	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	828	1,037	788	958	1,048	1,131
DB adjustments (including dilution)	-196	27	3	0	0	0
DB Net profit	632	1,064	791	958	1,048	1,131
Cash Flow (ZARm)						
Cash flow from operations	1,728	1,689	1,435	1,901	1,607	1,580
Net Capex	-911	-650	-504	-816	-1,200	-1,200
Free cash flow	817	1,039	931	1,085	407	380
Equity raised/(bought back)	5	0	0	0	0	0
Dividends paid	-1,195	-1,062	-876	-716	-875	-945
Net inc/(dec) in borrowings	1,651	28	0	0	0	0
Other investing/financing cash flows	-1,254	-13	0	0	0	0
Net cash flow	24	-8	55	369	-468	-565
Change in working capital	*-133*	*-44*	*-25*	*223*	*-35*	*-9*
Balance Sheet (ZARm)						
Cash and other liquid assets	248	240	224	593	124	-441
Tangible fixed assets	3,941	4,175	4,287	4,660	5,393	6,131
Goodwill/intangible assets	53	78	94	94	94	94
Associates/investments	66	76	89	89	89	89
Other assets	1,511	1,543	1,725	1,486	1,561	1,552
Total assets	5,819	6,112	6,419	6,921	7,261	7,424
Interest bearing debt	3,661	3,899	3,908	3,908	3,908	3,908
Other liabilities	1,243	1,355	1,556	1,721	1,778	1,755
Total liabilities	4,904	5,254	5,464	5,629	5,686	5,663
Shareholders' equity	915	858	955	1,197	1,369	1,555
Minorities	0	0	0	96	206	206
Total shareholders' equity	915	858	955	1,293	1,575	1,761
Net debt	*3,413*	*3,659*	*3,684*	*3,315*	*3,784*	*4,349*
Key Company Metrics						
Sales growth (%)	8.6	0.4	0.3	4.7	5.5	-0.6
DB EPS growth (%)	-54.2	71.3	-25.7	21.1	9.4	7.9
EBITDA Margin (%)	40.3	36.3	31.3	31.8	32.1	33.2
EBIT Margin (%)	35.6	30.9	24.9	25.4	26.0	27.0
Payout ratio (%)	129.9	90.7	88.7	89.4	89.4	85.9
ROE (%)	63.0	117.0	86.9	89.0	81.7	77.3
Capex/sales (%)	13.6	9.7	7.4	11.4	15.9	16.0
Capex/depreciation (x)	2.9	1.8	1.2	1.8	2.6	2.6
Net debt/equity (%)	373.0	426.5	385.8	256.5	240.2	246.9
Net interest cover (x)	6.8	5.8	4.7	5.2	5.6	4.6

Source: Company data, Deutsche Bank estimates

South Africa – Beverage

Price (20 January 2012): 28624c   Target price: 28000c   Rating: Hold

SABMiller plc

Warren Goldblum, CFA / Jonathan Fell

Business description: After an aggressive acquisition trail, SABMiller 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 the manufacture, distribution and sale of beverages with the help of its wide portfolio of brands. The first transformational deal for the group was when SA Breweries plc acquired Miller Brewing Co for US$5.6bn 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 US$500m of synergies by year three (an 'extra' US$250m synergy target was recently announced for 2011/12). 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 and the recent acquisition of Foster's in December 2011.

Drivers: Latin America is now the biggest country contributor to profits as a region (31% of FY11 EBITA) and we expect the relative contribution from this business to increase over time

SABMiller has a c.90% share of the beer market in South Africa. In FY11, the South African beer business contributed about 20% of group EBITA, with the rest of the contribution coming from a stake in South African hotel and gaming assets.

SABMiller in Europe (17% of FY11 EBITA) operates in the Czech Republic, Poland, Romania, Hungary, Slovakia, Russia, Canaries, Italy and now the Netherlands following the acquisition of Grolsch. This region is facing a reduced consumer spending due to tough economic conditions.

In Africa (12% of FY11 EBITA) and Asia (2% of FY11 EBITA), the group operates in over 30 African countries, China, India and recently Australia and Vietnam.

Outlook: SABMiller remains an emerging market play with around 80% (70% with the inclusion of Foster's) of its operating profit coming from these regions. That exposure should help the company to generate longer-term volume - and profit - growth that is higher than peers. In the near term, however, although profitability should be helped by some easing input cost comparisons, the company is struggling to produce much volume growth given the difficult consumer environment in many of its markets, and pricing is likely to remain subdued. The stock is trading close to our DCF value so we maintain our Hold stance.

Valuation: We base our price target on a DCF model, the core assumptions behind which are a WACC of 9.6% (incorporating a levered beta of 1.02, net debt/EV ratio of 15%, risk-free rate of 6.2% and 6% cost of debt), medium-term cash flow growth of 6% a year, and a post year-10 terminal growth rate of 1.5% (reflecting what we view as a conservative number a little below probable long-term inflation in its markets).

Risks: Key risks (both upside and downside) include macroeconomic and exchange rate volatility (SAB generates a significant portion of its income from emerging markets, and reports in US$ although its share price is quoted in sterling), potential overpayment for an acquisition target (downside) and an improved margin performance from cost-control initiatives and reducing input cost inflation (upside).

Model updated:12 December 2011

Running the numbers

Europe

United Kingdom

Beverage

SABMiller

Reuters: SABJ.J Bloomberg: SAB SJ

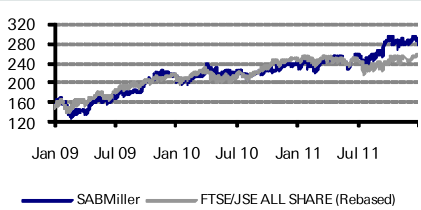
Hold

Price (20 Jan 12)	ZAR 286.24
Target Price	ZAR 280.00
52 Week range	ZAR 221.40 - 295.00
Market Cap (m)	ZARm 452,548
	USDm 56,910

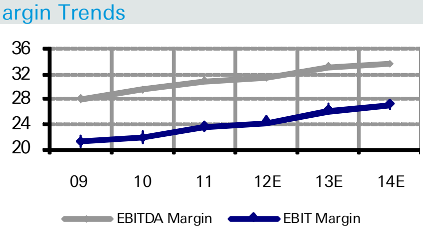
Company Profile

SABMiller is a global brewer with a strong bias towards emerging markets. From its South African roots, the group has expanded rapidly over the last two decades and now has leading positions in the US, Latin America, Africa, Europe and Asia. The group is also one of the largest Coca-Cola bottlers in world with significant operations in Africa. The group also owns some legacy hotel and gaming assets in South Africa.

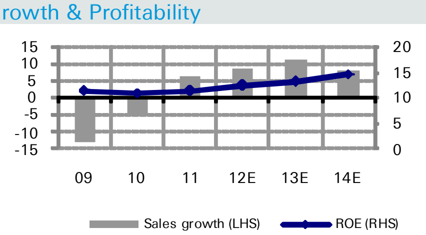
Price Performance



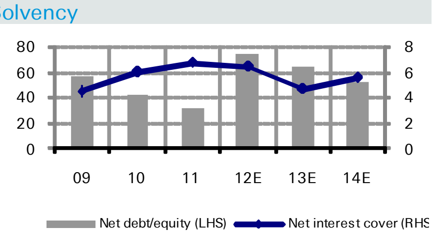
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (USD)	1.37	1.60	1.91	2.06	2.34	2.67
Reported EPS (USD)	1.25	1.22	1.52	1.81	2.08	2.47
DPS (USD)	0.58	0.68	0.81	0.88	0.99	1.13
BVPS (USD)	10.2	12.6	13.9	15.1	16.3	17.8
Weighted average shares (m)	1,502	1,558	1,576	1,581	1,585	1,587
Average market cap (USDm)	27,867	37,450	49,589	56,910	57,054	57,126
Enterprise value (USDm)	33,949	35,726	42,738	60,955	59,802	58,258
Valuation Metrics						
PE (DB) (x)	13.6	15.0	16.5	17.4	15.4	13.5
PE (Reported) (x)	14.9	19.7	20.7	19.8	17.3	14.5
P/BV (x)	1.45	2.31	2.57	2.38	2.20	2.02
FCF Yield (%)	1.8	6.5	5.3	4.2	5.2	6.1
Dividend Yield (%)	3.1	2.8	2.6	2.4	2.8	3.1
EV/Sales (x)	2.3	2.5	2.8	3.7	3.3	2.9
EV/EBITDA (x)	8.1	8.6	9.1	11.8	9.9	8.7
EV/EBIT (x)	10.8	11.6	12.0	15.2	12.4	10.8
Income Statement (USDm)						
Sales revenue	14,883	14,195	15,145	16,473	18,382	19,883
Gross profit	8,402	8,343	9,070	10,040	11,367	12,472
EBITDA	4,179	4,175	4,687	5,157	6,060	6,662
Depreciation	829	881	904	931	1,029	1,060
Amortisation	204	203	220	223	226	230
EBIT	3,146	3,091	3,563	4,003	4,805	5,372
Net interest income(expense)	-699	-512	-525	-618	-1,026	-956
Associates/affiliates	516	873	1,024	1,107	1,293	1,424
Exceptionals/extraordinaries	-5	-523	-436	-238	-300	-150
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,442	2,056	2,602	3,147	3,479	4,266
Income tax expense	801	848	1,069	1,157	1,229	1,487
Minorities	276	171	149	215	230	257
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,881	1,910	2,408	2,883	3,313	3,947
DB adjustments (including dilution)	184	599	610	399	408	309
DB Net profit	2,065	2,509	3,018	3,281	3,720	4,256
Cash Flow (USDm)						
Cash flow from operations	2,571	3,930	3,851	4,048	4,743	5,257
Net Capex	-2,072	-1,491	-1,242	-1,677	-1,752	-1,758
Free cash flow	499	2,439	2,609	2,371	2,990	3,499
Equity raised/(bought back)	-14	106	95	62	0	0
Dividends paid	-877	-924	-1,113	-1,318	-1,444	-1,633
Net inc/(dec) in borrowings	864	-604	-1,159	11,411	-1,296	-1,616
Other investing/financing cash flows	-555	-550	-208	-12,465	-250	-250
Net cash flow	-83	467	224	62	0	0
Change in working capital	*-497*	*542*	*40*	*35*	*193*	*38*
Balance Sheet (USDm)						
Cash and other liquid assets	422	779	1,067	1,129	1,129	1,129
Tangible fixed assets	7,406	8,915	9,330	10,629	11,214	11,768
Goodwill/intangible assets	12,458	15,938	16,313	27,477	27,363	27,251
Associates/investments	7,376	8,087	8,649	9,065	9,509	9,973
Other assets	3,966	3,785	3,749	4,626	4,726	5,015
Total assets	31,628	37,504	39,108	52,925	53,941	55,135
Interest bearing debt	9,618	9,414	8,460	19,683	18,386	16,770
Other liabilities	5,893	7,491	7,889	8,501	8,744	9,022
Total liabilities	15,511	16,905	16,349	28,184	27,131	25,792
Shareholders' equity	15,376	19,910	22,008	23,923	25,900	28,330
Minorities	741	689	751	837	929	1,032
Total shareholders' equity	16,117	20,599	22,759	24,760	26,829	29,362
Net debt	*9,196*	*8,635*	*7,393*	*18,554*	*17,257*	*15,641*
Key Company Metrics						
Sales growth (%)	-12.7	-4.6	6.7	8.8	11.6	8.2
DB EPS growth (%)	-3.9	17.2	18.8	8.4	13.1	14.3
EBITDA Margin (%)	28.1	29.4	30.9	31.3	33.0	33.5
EBIT Margin (%)	21.1	21.8	23.5	24.3	26.1	27.0
Payout ratio (%)	46.3	55.5	53.0	48.3	47.4	45.4
ROE (%)	11.4	10.8	11.5	12.6	13.3	14.6
Capex/sales (%)	14.4	10.8	8.7	10.2	9.5	8.8
Capex/depreciation (x)	2.5	1.6	1.4	1.7	1.6	1.6
Net debt/equity (%)	57.1	41.9	32.5	74.9	64.3	53.3
Net interest cover (x)	4.5	6.0	6.8	6.5	4.7	5.6

Source: Company data, Deutsche Bank estimates

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South Africa – General Retailers | Price (20 January 2012): 13151c | Target price: 9100c | Rating: Sell

Shoprite Holdings Ltd

Nick Higham, CFA

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. Supermarkets RSA, Supermarkets Non-RSA, furniture and other operating segments contribute 82.9%, 10.4%, 3.3% and 3.4% of EBIT respectively at FY11. The chairman of the company indirectly owns 17% of the company, but together with voting rights through a deferred share scheme, controls c.46% of the total voting rights.

Shoprite has subsidiaries in supermarket, produce distribution and property businesses, operating 1,236 supermarkets, hypermarkets and furniture stores. The retail supermarkets include 409 Shoprite stores and 158 Checkers stores. The target markets for Shoprite is middle to lower income and Checkers middle to upper income consumers. The 26 hypermarkets target middle to upper income groups, providing customers with a wide selection of food and general merchandise. Usave (223 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 (50 stores) and OK Furniture (232 stores), cater for the middle and middle to lower income groups respectively. In addition, 18 OK Power Express stores; 121 Medi-rite pharmacies, 120 liquor stores and 269 OK-branded franchise stores are serviced by 22 distribution centres. The group has 116 supermarkets, 30 furniture stores and 43 OK franchise stores in Non-RSA.

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 and 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.

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 organic store expansion domestically, particularly the Usave brand in rural areas,
- Further expansion into commodity-rich African countries (primarily Nigeria), and
- Growth of the financial services offering through their store distribution network.

Management went to great lengths at FY11 results to highlight the difficulty of new competitors gaining a foothold in South Africa (reference to Wal-Mart's entry into South Africa) having to compete with its significant historical investment in supply chain (R15bn to date highlighted) and continued aggressive store rollouts. Despite a fairly bland outlook statement released suggesting a continuation of the current trading environment, management appeared upbeat at results on the health of its core RSA supermarkets business and medium term growth prospects.

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 margins from aggressive space expansion in over-serviced metro areas. Continued margin weakness in the furniture business near term also contributes to our forecast three-year CAGR in diluted HEPS of c.16%, below typical historical earnings growth levels. Despite returning food inflation providing a tailwind, with a forward dividend yield of c.2.8% and negative 12-month total return expectation, we believe the stock is already pricing in the positive news. Sell.

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

Risks: Key upside risks include: 1) Possible corporate action with apparent increased interest by foreign players (evidenced by Wal-Mart's acquisition of 51% of Massmart); 2) Food inflation returning more quickly than expected, 3) Continued aggressive market share gains domestically in an environment favouring value-focussed retailers (with all three brands performing since Checkers has shown a significant improvement over the last reported year); 4) Continued margin expansion in African operations despite the impact of global demand erosion on the respective economies; and 5) Upside distribution risk with strong forecast cash generation and an ungeared balance sheet.

Model updated:07 October 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Shoprite

Reuters: SHPJ.J Bloomberg: SHP SJ

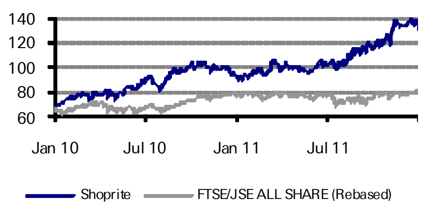
Sell

Price (20 Jan 12)	ZAR 131.51
Target Price	ZAR 91.00
52 Week range	ZAR 88.90 - 138.84
Market Cap (m)	ZARm 66,562
	USDm 8,370

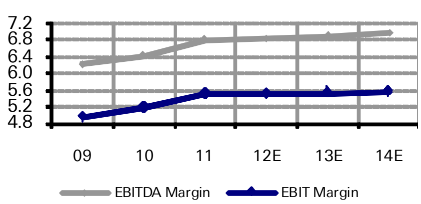
Company Profile

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

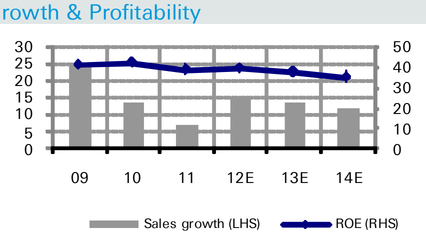
Price Performance



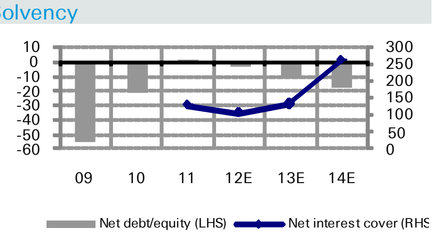
Margin Trends



Growth & Profitability



Solvency



Nick Higham, CFA
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	3.91	4.51	5.08	6.12	6.98	7.88
Reported EPS (ZAR)	3.86	4.51	4.96	6.12	6.98	7.88
DPS (ZAR)	2.00	2.27	2.53	3.05	3.48	3.93
BVPS (ZAR)	9.6	11.6	14.0	17.0	20.5	24.5
Weighted average shares (m)	504	504	506	506	506	506
Average market cap (ZARm)	24,734	34,347	48,727	66,562	66,562	66,562
Enterprise value (ZARm)	21,598	32,408	48,100	65,592	64,812	63,604
Valuation Metrics						
PE (DB) (x)	12.6	15.1	19.0	21.5	18.8	16.7
PE (Reported) (x)	12.7	15.1	19.4	21.5	18.8	16.7
P/BV (x)	5.74	7.12	7.27	7.71	6.41	5.38
FCF Yield (%)	2.7	nm	nm	2.9	3.9	4.8
Dividend Yield (%)	4.1	3.3	2.6	2.3	2.6	3.0
EV/Sales (x)	0.4	0.5	0.7	0.8	0.7	0.6
EV/EBITDA (x)	5.8	7.5	9.8	11.5	9.9	8.6
EV/EBIT (x)	7.3	9.3	12.1	14.3	12.4	10.8
Income Statement (ZARm)						
Sales revenue	59,319	67,402	72,298	83,052	94,527	105,727
Gross profit	11,440	13,255	14,673	16,777	19,000	21,251
EBITDA	3,695	4,330	4,920	5,680	6,524	7,378
Depreciation	754	839	934	1,102	1,300	1,495
Amortisation	0	0	0	0	0	0
EBIT	2,941	3,490	3,987	4,579	5,224	5,883
Net interest income(expense)	105	12	-31	-44	-40	-23
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-28	-78	-79	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	3,018	3,425	3,877	4,535	5,184	5,861
Income tax expense	999	1,112	1,347	1,406	1,607	1,817
Minorities	20	21	20	24	28	32
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,998	2,292	2,510	3,105	3,549	4,012
DB adjustments (including dilution)	23	0	59	0	0	0
DB Net profit	2,022	2,292	2,569	3,105	3,549	4,012
Cash Flow (ZARm)						
Cash flow from operations	2,416	2,114	2,285	4,412	5,070	5,727
Net Capex	-1,737	-2,409	-2,913	-2,500	-2,500	-2,500
Free cash flow	679	-295	-628	1,912	2,570	3,227
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-895	-1,073	-1,204	-1,544	-1,762	-1,988
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	-216	-1,367	-1,833	367	808	1,239
Change in working capital	*-28*	*-595*	*-1,324*	*142*	*151*	*148*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,811	1,345	-81	287	1,095	2,334
Tangible fixed assets	5,360	6,578	8,169	9,567	10,767	11,772
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	411	683	792	792	792	792
Other assets	7,865	8,224	9,455	10,845	12,329	13,778
Total assets	16,448	16,829	18,335	21,492	24,984	28,677
Interest bearing debt	17	22	26	26	26	26
Other liabilities	11,402	10,835	11,166	12,738	14,415	16,052
Total liabilities	11,418	10,857	11,192	12,764	14,441	16,078
Shareholders' equity	4,960	5,905	7,085	8,645	10,432	12,456
Minorities	69	67	59	83	111	143
Total shareholders' equity	5,029	5,972	7,143	8,728	10,543	12,599
Net debt	*-2,795*	*-1,323*	*107*	*-261*	*-1,069*	*-2,308*
Key Company Metrics						
Sales growth (%)	24.5	13.6	7.3	14.9	13.8	11.8
DB EPS growth (%)	30.9	15.5	12.5	20.6	14.1	12.8
EBITDA Margin (%)	6.2	6.4	6.8	6.8	6.9	7.0
EBIT Margin (%)	5.0	5.2	5.5	5.5	5.5	5.6
Payout ratio (%)	50.4	49.9	51.0	49.7	49.6	49.6
ROE (%)	41.1	42.2	38.6	39.5	37.2	35.1
Capex/sales (%)	2.9	3.6	4.0	3.0	2.6	2.4
Capex/depreciation (x)	2.3	2.9	3.1	2.3	1.9	1.7
Net debt/equity (%)	-55.6	-22.2	1.5	-3.0	-10.1	-18.3
Net interest cover (x)	nm	nm	127.2	104.3	130.0	260.7

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Price (20 January 2012): 11200c Target price: 9600c Rating: Hold

Spar Group Ltd

Nick Higham, CFA

Business description: Spar operates seven distribution centres (DCs) that service a network of 846 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 c.100% free float.

Drivers: As per the FY11 financial statements, the food store network consists of 275 SuperSpar stores (sized 1,500-3,000m^2), 446 Spar stores (700-1,500m^2) and 138 KwikSpar stores (250-750m^2). In addition, Spar has exposure to the DIY market through its fast-growing network of 269 Build-it stores. Build-it comprises c.10% of group turnover. Spar's TOPS format consists of small departments within existing Spar stores selling liquor comprising c.7% of group turnover. The TOPS format is expanding rapidly and management expects the contribution to 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 (c.75% of merchandise sourced from the group) is high. While management believes it is possible to increase the loyalty ratio, it is a gradual task. Loyalty levels in the TOPS brand are significantly lower at c.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. These formats have been growing faster than the rest of the group and a move to drop-shipment basis could improve margins.
- Continued organic expansion of domestic franchisees continues with c.3% additional estimated space growth per year, albeit at a slower rate than major peers.
- Significant capex already spent: Expansion plans undertaken from FY08- 10 have created sufficient capacity until well into 2014. Management has highlighted share buybacks will be undertaken to return excess cash to shareholders.
- Retail store portfolio stabilising: During the last few years' tough environment, Spar had to step in and take ownership of certain franchise stores. The loss of c.R30m in the retail stores division suggests badly under-performing stores and presents management with an opportunity to contain losses in these stores into future years. Management was clear that there are not a significant further number of stores that will be required to be taken over and that this did not constitute a departure from its core franchise business mode.

Despite management comments around a tough trading environment persisting into FY12, with food inflation picking up, cost efficiency improvements expected (limiting losses in the corporate store portfolio) and some margin benefits realising from increased throughput via Build-it DCs, FY12 earnings prospects have improved. The effective dividend cover will be maintained at 1.5x, and management indicated it will return excess cash to shareholders. Management highlighted that trading post FY11 was tracking above 2H11 levels (+11.6% yoy), not only driven by inflation.

Outlook: The near-term outlook has improved with increased food inflation and efficiencies starting to realise on recent supply chain investments in the DIY business. We highlight the defensive nature of the stock in terms of sensitivity to interest rates (product offering predominantly food for which demand is inelastic). In addition, we believe there is a high probability of increased shareholder distributions over the next three years before capex starts to increase again. We anticipate c.16.5% three-year CAGR in FD HEPS, but believe the market is already pricing this outlook. Our muted 12-month total return expectation supports our Hold.

Valuation: We value Spar using a PE-relative methodology employing a normalised two-year forward PE of 12.1x to obtain an estimated fair valuation. Rolling this forward at COE minus dividend yield we arrive at our 12-month price target.

Risks: Key upside risks include 1) Food inflation returning to above CPI levels sooner than expected; 2) Better GP margins through increased Build-it business on drop-shipment; and 3) Better-than-expected cost efficiencies from the investment in supply chain over the last few years. Key downside risks include 1) Weaker food volumes offsetting the benefit from increasing food inflation; 2) Slower recovery from unemployment than expected, particularly given the rural store footprint concentration and the number of dependants relying on income streams at the low end; 3) Lower distributions to shareholders than expected; and 4) Higher dilution from retail store underperformance.

Model updated:10 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Spar Group Limited

Reuters: SPPJ.J   Bloomberg: SPP SJ

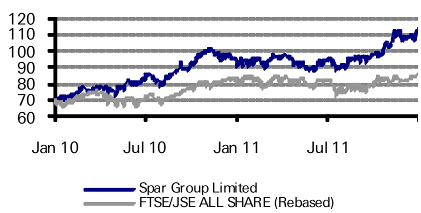
Hold

Price (20 Jan 12)	ZAR 112.00
Target Price	ZAR 96.00
52 Week range	ZAR 87.78 - 113.25
Market Cap (m)	ZARm 19,202
	USDm 2,415

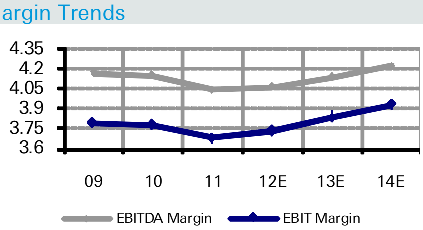
Company Profile

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.

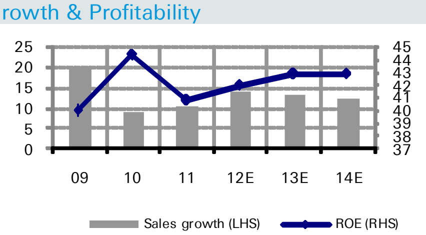
Price Performance



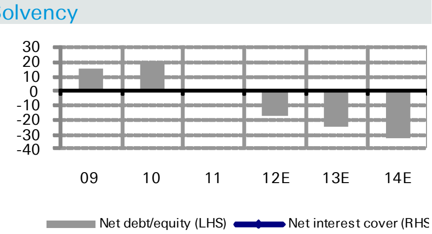
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	3.92	5.06	5.23	6.16	7.21	8.33
Reported EPS (ZAR)	3.92	5.06	5.23	6.16	7.21	8.33
DPS (ZAR)	3.22	3.62	3.77	4.37	5.12	5.92
BVPS (ZAR)	11.1	12.1	13.6	15.7	18.0	20.8
Weighted average shares (m)	170	171	171	171	171	171
Average market cap (ZARm)	9,404	12,853	16,093	19,202	19,202	19,202
Enterprise value (ZARm)	9,667	13,256	16,053	18,663	18,314	17,893
Valuation Metrics						
PE (DB) (x)	14.1	14.9	18.0	18.2	15.5	13.4
PE (Reported) (x)	14.1	14.9	18.0	18.2	15.5	13.4
P/BV (x)	5.83	7.68	7.07	7.15	6.21	5.38
FCF Yield (%)	3.2	4.7	7.4	6.2	6.4	7.4
Dividend Yield (%)	5.8	4.8	4.0	3.9	4.6	5.3
EV/Sales (x)	0.3	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	7.3	9.2	10.3	10.5	8.9	7.6
EV/EBIT (x)	8.0	10.1	11.3	11.4	9.6	8.1
Income Statement (ZARm)						
Sales revenue	31,962	34,844	38,459	43,866	49,654	55,876
Gross profit	2,569	2,761	3,122	3,561	4,056	1,673
EBITDA	1,331	1,447	1,554	1,783	2,055	2,357
Depreciation	117	131	137	144	152	159
Amortisation	0	0	0	0	0	0
EBIT	1,215	1,316	1,417	1,639	1,903	2,198
Net interest income(expense)	5	4	0	4	15	15
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-132	-13	-10	-13	-13	-13
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,220	1,320	1,418	1,643	1,917	2,212
Income tax expense	402	392	452	505	587	677
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	686	915	955	1,125	1,318	1,522
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	686	915	955	1,125	1,318	1,522
Cash Flow (ZARm)						
Cash flow from operations	646	808	1,347	1,400	1,423	1,630
Net Capex	-341	-204	-155	-200	-200	-200
Free cash flow	305	605	1,193	1,200	1,223	1,430
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-468	-579	-625	-753	-882	-1,018
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	72	-23	-17	0	0	0
Net cash flow	-90	3	551	447	341	412
Change in working capital	*-164*	*-258*	*204*	*158*	*-60*	*-64*
Balance Sheet (ZARm)						
Cash and other liquid assets	-283	-446	-19	480	829	1,250
Tangible fixed assets	1,426	1,521	1,550	1,688	1,736	1,777
Goodwill/intangible assets	246	300	382	382	382	382
Associates/investments	20	43	59	59	59	59
Other assets	4,600	5,402	6,045	6,736	7,619	8,568
Total assets	6,008	6,820	8,018	9,345	10,625	12,036
Interest bearing debt	0	0	0	0	0	0
Other liabilities	4,068	4,633	5,528	6,483	7,327	8,235
Total liabilities	4,068	4,633	5,528	6,483	7,327	8,235
Shareholders' equity	1,940	2,187	2,490	2,861	3,297	3,801
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,940	2,187	2,490	2,861	3,297	3,801
Net debt	*283*	*446*	*19*	*-480*	*-829*	*-1,250*
Key Company Metrics						
Sales growth (%)	19.5	9.0	10.4	14.1	13.2	12.5
DB EPS growth (%)	0.6	29.0	3.4	17.7	17.2	15.5
EBITDA Margin (%)	4.2	4.2	4.0	4.1	4.1	4.2
EBIT Margin (%)	3.8	3.8	3.7	3.7	3.8	3.9
Payout ratio (%)	79.5	67.6	67.7	66.7	66.7	66.7
ROE (%)	40.0	44.3	40.9	42.0	42.8	42.9
Capex/sales (%)	1.1	0.6	0.4	0.5	0.4	0.4
Capex/depreciation (x)	2.9	1.6	1.1	1.4	1.3	1.3
Net debt/equity (%)	14.6	20.4	0.7	-16.8	-25.1	-32.9
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (20 January 2012): 2515c | Target price: 3000c | Rating: Buy

Steinhoff International Holdings Ltd

Nick Higham, CFA

Business description: Steinhoff International Holdings Ltd is a South African-based company operating in retail, manufacturing and sourcing household goods and related raw materials, and logistical services. Its retail segment includes household goods, with exposure to building supplies and automotive through its associate investment in JSE-listed JD Group. The manufacturing/sourcing segment is engaged in timber operations, furniture manufacture and raw material supply. Logistics provide specialised distribution and warehousing services to the mining, manufacturing and industrial sectors.

Founded in Germany in 1964 as a trading company sourcing product in eastern Europe, on-selling it into western Europe's developed markets, today's multi-national Steinhoff remains focused on its original eastern and western European markets. Its vertically integrated supply chain incorporates the Pacific Rim and southern Africa. It listed on the JSE in 1998, forming part of the Top 40, Industrial 25 and Socially Responsible Investment indices. Steinhoff operates across several continents and countries – the UK, continental Europe, Africa, India, Asia, Australia and New Zealand.

Drivers: The key drivers of future profit growth include:

- Reasonable sales growth in UK and Europe despite poor outlook: While the outlook in these key territories is poor, Steinhoff has been capitalising on industry consolidation resulting in above-market growth. A number of competitors have collapsed during the recession, providing an advantage to a few established players with healthy balance sheets (like Steinhoff), supported by a resilient sales performance from key German-speaking territories.
- Further margin opportunities in core businesses through increased vertical integration, together with continued rationalisation in its manufacturing operations and closure of underperforming retail stores.
- Potential value accretion in Conforama deal. We believe the Conforama deal is substantially value accretive, with significant further upside potential through procurement and logistics synergies. Obtaining scale in its European operations has also moved the agenda along for a possible separate listing of European assets that could unlock further value, in our view.
- Organic growth in South Africa furniture retail via JD Group: The recently-announced deal with JD Group and KAP (both separately listed in South Africa) that, if approved, would result in these associate investments being incorporated as controlled subsidiaries of Steinhoff. Steinhoff has indicated it plans to organically roll out bigger box furniture stores via JD Group.

Outlook: Despite a bleak outlook for developed market durables growth as these economies recover from recession, significant consolidation in both the primary UK and continental European markets has resulted in above-market growth opportunities for the Steinhoff retail formats. Improved buying margins, rationalisation of underperforming stores and further integration of logistics into these retail businesses, provide opportunities for retail margin expansion (UK, Europe and Pacific Rim retail comprises c.27% of group EBIT). In addition, further rationalisation of operations, increased intra-group supply and migration towards an assembly model (vs. bottom-up manufacturing) result in solid revenue growth and positive EBIT margin evolution in the key higher margin manufacturing and sourcing division (c.40% of group EBIT). We do not believe the earnings and value accretion from the recent Conforama acquisition is being recognised, and further synergies from the deal that management has guided to provide further upside potential to our numbers. On balance, we expect a robust three year CAGR in diluted HEPS that together with an attractive valuation offering substantial potential upside supports our Buy recommendation.

Valuation: We have utilised a two-year normalised forward PE to value Steinhoff consistent with that used to value our retail universe. We believe this provides a more stable normalised PE on recovered two-year forward earnings post-recession. Applying an 8.0x two-year forward PE (10% premium to normalised levels reflecting above-average earnings growth profile) to obtain estimated fair value and rolling this forward at COE less 12 month forward dividend yield, we obtain our 3000cps price target.

Risks: Key downside risks to our recommendation include: 1) A stronger rand for longer resulting in weaker translated results and poor operational performance in the South African manufacturing and raw materials businesses; 2) Lower-than-expected market share gains in UK and Europe from significant consolidation of smaller competitors; 3) Primary inflationary pressure in Eastern Europe and China in addition to stronger Zloty and US$ vs. EUR and GBP, resulting in less competitive pricing on manufactured and sourced product; and 4) Over-reliance on internal group supply causing potential supply disruptions.

Model updated:20 September 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Steinhoff

Reuters: SHFJ.J   Bloomberg: SHF SJ

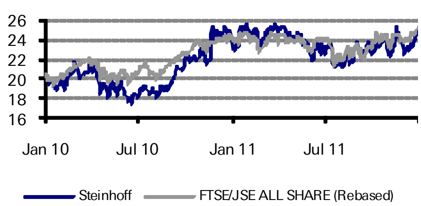
Buy

Price (20 Jan 12)	ZAR 25.15
Target Price	ZAR 30.00
52 Week range	ZAR 21.20 - 25.55
Market Cap (m)	ZARm 38,865
	USDm 4,887

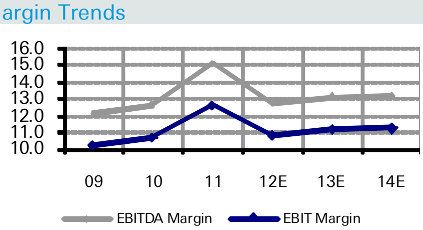
Company Profile

Steinhoff International Holdings Limited is a South African-based company. The Company operates in three segments: retail activities, manufacturing and sourcing of household goods and related raw materials, and logistical services. The Company's retail segment includes household goods, building supplies, and automotive. The manufacturing/sourcing segment is engaged in timber operations, the manufacturing of furniture, and the supply of raw materials. The logistics services segment provides specialised distribution and warehousing services to the mining, manufacturing and industrial sectors.

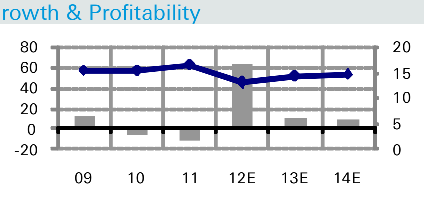
Price Performance



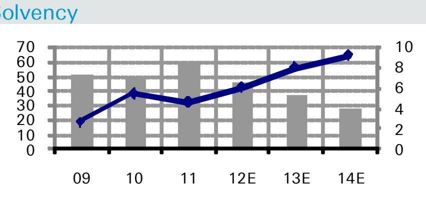
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	2.53	2.44	2.36	2.81	3.35	3.85
Reported EPS (ZAR)	2.65	2.47	2.90	2.61	3.14	3.67
DPS (ZAR)	0.60	0.63	0.65	0.88	1.06	1.21
BVPS (ZAR)	17.3	17.3	25.7	28.4	31.6	35.3
Weighted average shares (m)	1,276	1,376	1,454	1,545	1,545	1,545
Average market cap (ZARm)	16,121	25,495	32,599	38,865	38,865	38,865
Enterprise value (ZARm)	25,944	36,900	51,099	53,194	51,286	48,901
Valuation Metrics						
PE (DB) (x)	5.0	7.6	9.5	8.9	7.5	6.5
PE (Reported) (x)	4.8	7.5	7.7	9.6	8.0	6.9
P/BV (x)	0.77	1.03	0.89	0.89	0.80	0.71
FCF Yield (%)	9.1	15.0	nm	17.2	9.6	11.5
Dividend Yield (%)	4.7	3.4	2.9	3.5	4.2	4.8
EV/Sales (x)	0.5	0.8	1.2	0.8	0.7	0.6
EV/EBITDA (x)	4.2	6.1	7.9	5.9	5.0	4.3
EV/EBIT (x)	5.0	7.2	9.4	7.0	5.8	5.0
Income Statement (ZARm)						
Sales revenue	50,869	48,040	43,040	70,585	78,513	86,098
Gross profit	17,699	16,814	16,181	25,257	28,745	31,585
EBITDA	6,177	6,064	6,497	9,022	10,294	11,352
Depreciation	975	920	1,073	1,384	1,521	1,648
Amortisation	0	0	0	0	0	0
EBIT	5,202	5,144	5,424	7,638	8,773	9,704
Net interest income(expense)	-1,959	-953	-1,175	-1,248	-1,102	-1,053
Associates/affiliates	7	36	-9	377	480	582
Exceptionals/extraordinaries	0	0	1,526	0	0	0
Other pre-tax income/(expense)	959	7	13	5	5	5
Profit before tax	4,209	4,234	5,779	6,772	8,156	9,238
Income tax expense	581	481	435	1,314	1,577	1,771
Minorities	249	212	208	236	283	317
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,379	3,541	5,136	5,222	6,295	7,150
DB adjustments (including dilution)	-153	-37	-960	412	412	351
DB Net profit	3,226	3,504	4,175	5,634	6,708	7,501
Cash Flow (ZARm)						
Cash flow from operations	2,741	4,584	5,769	8,096	7,201	8,267
Net Capex	-1,273	-747	-6,230	-1,405	-3,453	-3,787
Free cash flow	1,468	3,837	-461	6,691	3,749	4,480
Equity raised/(bought back)	-22	2,294	6,293	0	0	0
Dividends paid	-157	-112	-93	-1,283	-1,558	-1,777
Net inc/(dec) in borrowings	2,452	-1,332	5,429	0	0	0
Other investing/financing cash flows	-3,999	-4,302	-9,968	-1,717	0	0
Net cash flow	-259	385	1,200	3,691	2,190	2,703
Change in working capital	*-1,083*	*-194*	*-4,344*	*1,188*	*-971*	*-929*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,939	5,121	6,321	10,012	12,202	14,905
Tangible fixed assets	9,808	14,853	29,696	29,717	31,649	33,788
Goodwill/intangible assets	18,875	17,675	35,930	35,859	35,781	35,695
Associates/investments	5,677	4,518	8,703	9,420	9,420	9,420
Other assets	15,989	15,014	20,269	22,621	25,002	27,280
Total assets	55,287	57,181	100,919	107,629	114,054	121,088
Interest bearing debt	17,579	18,348	30,499	30,499	30,499	30,499
Other liabilities	12,785	11,772	29,590	32,130	33,540	34,889
Total liabilities	30,364	30,120	60,089	62,629	64,039	65,388
Shareholders' equity	22,064	24,365	37,805	41,739	46,471	51,839
Minorities	2,860	2,696	3,025	3,261	3,545	3,862
Total shareholders' equity	24,924	27,061	40,830	45,000	50,016	55,700
Net debt	*12,640*	*13,227*	*24,178*	*20,487*	*18,297*	*15,594*
Key Company Metrics						
Sales growth (%)	12.9	-5.6	-10.4	64.0	11.2	9.7
DB EPS growth (%)	-4.0	-3.4	-3.4	19.2	19.1	15.0
EBITDA Margin (%)	12.1	12.6	15.1	12.8	13.1	13.2
EBIT Margin (%)	10.2	10.7	12.6	10.8	11.2	11.3
Payout ratio (%)	22.7	24.5	18.4	25.9	26.1	26.2
ROE (%)	15.4	15.3	16.5	13.1	14.3	14.5
Capex/sales (%)	3.8	1.6	14.5	2.0	4.4	4.4
Capex/depreciation (x)	2.0	0.8	5.8	1.0	2.3	2.3
Net debt/equity (%)	50.7	48.9	59.2	45.5	36.6	28.0
Net interest cover (x)	2.7	5.4	4.6	6.1	8.0	9.2

Source: Company data, Deutsche Bank estimates

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South Africa – General Retailers

Price (20 January 2012): 11020c | Target price: 9100c | Rating: Hold

The Foschini Group Ltd

Nick Higham, CFA

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 1,727 stores and produces annual sales of over R9.9bn.

Drivers: The key drivers of future profit growth include: organic store growth, GP margin improvements and a recovery in the RCS financial services business post a successful refinancing.

- Strong like-for-like sales growth ahead of peers. Despite some extended underperformance in the main Foschini brand over the last few years, over the last 12 months Foschini has produced robust like-for-like sales growth ahead of peers suggesting improved merchandising.
- Significant planned space expansion benefiting top line. Foschini has been following a counter-cyclical space growth strategy growing trading space in double digits throughout the last few years of a recession. It continues to forecast a further 7% trading space growth into FY12.
- Increasing GP margins despite product inflation increasing. A weaker rand and significant cotton price increases has resulted in high single digit product inflation. While this may typically place pressure on margins in a tough consumer environment, Foschini has been conservative over the last two years investing in price and is guiding to improved GP margins from here.
- RCS and FG financial services driving enhanced profitability and returns through the continued unwind of RCS debtors' costs, maintenance of overall yield on the book and stronger asset growth given RCS's recent recapitalisation.

Management remains fairly upbeat about 2H12 prospects despite a tougher sales base it is up against. The first five weeks of trading in 2H12 were highlighted as 'encouraging', with sales growth marginally ahead of the 18.5% recorded in the last six months, although volatile on a weekly basis. Management continues to target an aggressive c.7% space growth for FY12, with no apparent slowdown expected thereafter. Given a couple of hiccups over festive season trading in the past, management remained cautious on the next trading half.

Outlook: We expect a solid earnings recovery as Foschini continues to drive market share gains with improved merchandising in its key brands. Despite a number of supply chain initiatives under way, we expect only moderate increases to GP margins to result. With low-teen top line growth supported by c.7% space expansion, we expect a more leveraged solid three-year CAGR in earnings of 19%, but believe the stock is already discounting this. The muted total return potential to our target price over 12 months supports our Hold recommendation.

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

Risks: Key upside risks include 1) Lower inflation in non-discretionary categories than expected resulting in stronger discretionary spending; 2) Well-executed repositioning of the main Foschini brand causing higher-than-expected top line growth; and 3) Greater-than-expected margin benefits from supply chain projects undertaken to reduce lead times and increase stock turns in the business. Key downside risks include 1) Unemployment being slower to recover than expected, causing a drag on incomes of the middle class; 2) More aggressive rate hikes occurring earlier than expected dampening credit demand; and 3) Sluggish consumer credit demand resulting in lower book growth than expected.

Model updated:04 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

The Foschini Group Ltd

Reuters: TFGJ.J Bloomberg: TFG SJ

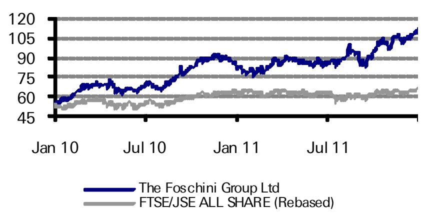
Hold

Price (20 Jan 12)	ZAR 110.20
Target Price	ZAR 91.00
52 Week range	ZAR 76.00 - 111.90
Market Cap (m)	ZARm 22,756
	USDm 2,862

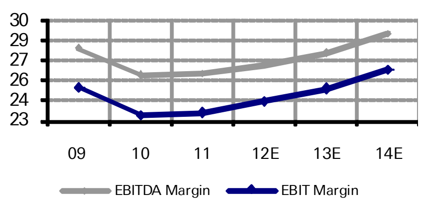
Company Profile

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.

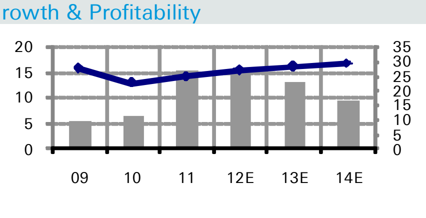
Price Performance



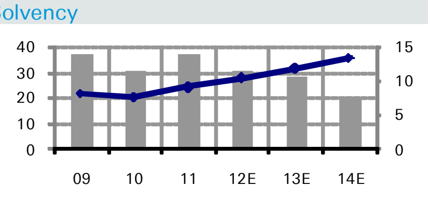
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	5.53	5.18	6.20	7.54	8.91	10.39
Reported EPS (ZAR)	5.53	5.18	6.20	7.54	8.91	10.39
DPS (ZAR)	2.88	2.88	3.50	4.26	5.03	5.86
BVPS (ZAR)	21.9	24.3	26.5	29.8	33.7	38.3
Weighted average shares (m)	206	208	207	207	207	207
Average market cap (ZARm)	8,121	11,719	15,783	22,756	22,756	22,756
Enterprise value (ZARm)	10,012	13,546	18,213	25,146	25,406	25,157
Valuation Metrics						
PE (DB) (x)	7.1	10.9	12.3	14.6	12.4	10.6
PE (Reported) (x)	7.1	10.9	12.3	14.6	12.4	10.6
P/BV (x)	2.01	2.76	3.20	3.70	3.27	2.88
FCF Yield (%)	12.9	5.2	3.1	4.4	6.0	8.1
Dividend Yield (%)	7.3	5.1	4.6	3.9	4.6	5.3
EV/Sales (x)	1.2	1.6	1.8	2.2	2.0	1.8
EV/EBITDA (x)	4.4	6.1	7.0	8.2	7.1	6.1
EV/EBIT (x)	4.9	6.9	7.9	9.1	7.8	6.7
Income Statement (ZARm)						
Sales revenue	8,090	8,605	9,936	11,517	13,018	14,250
Gross profit	3,937	4,052	4,550	5,197	5,878	6,605
EBITDA	2,257	2,237	2,590	3,079	3,592	4,136
Depreciation	231	264	289	317	349	381
Amortisation	0	0	0	0	0	0
EBIT	2,025	1,973	2,301	2,762	3,243	3,755
Net interest income(expense)	-250	-261	-250	-265	-273	-279
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	1,776	1,711	2,051	2,497	2,969	3,476
Income tax expense	564	549	662	817	971	1,137
Minorities	66	77	87	109	137	164
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,146	1,086	1,302	1,572	1,861	2,176
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,146	1,086	1,302	1,572	1,861	2,176
Cash Flow (ZARm)						
Cash flow from operations	1,408	885	853	1,536	1,919	2,254
Net Capex	-361	-270	-369	-540	-550	-400
Free cash flow	1,047	615	484	996	1,369	1,854
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-571	-594	-666	-887	-1,051	-1,229
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-604	121	-356	41	-442	-213
Net cash flow	-128	141	-538	150	-123	413
Change in working capital	*-34*	*-541*	*-824*	*-462*	*-428*	*-466*
Balance Sheet (ZARm)						
Cash and other liquid assets	296	284	339	488	365	777
Tangible fixed assets	981	996	1,087	1,310	1,510	1,530
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	295	285	279	279	279	279
Other assets	6,931	7,514	8,748	9,771	10,976	11,950
Total assets	8,504	9,079	10,453	11,847	13,130	14,536
Interest bearing debt	2,123	1,970	2,562	2,562	2,562	2,562
Other liabilities	1,525	1,624	1,942	2,544	2,879	3,174
Total liabilities	3,648	3,593	4,504	5,105	5,441	5,736
Shareholders' equity	4,496	5,058	5,463	6,147	6,958	7,905
Minorities	359	427	486	595	732	895
Total shareholders' equity	4,856	5,485	5,949	6,742	7,689	8,800
Net debt	*1,827*	*1,686*	*2,223*	*2,074*	*2,197*	*1,785*
Key Company Metrics						
Sales growth (%)	5.5	6.4	15.5	15.9	13.0	9.5
DB EPS growth (%)	2.8	-6.3	19.6	21.6	18.2	16.6
EBITDA Margin (%)	27.9	26.0	26.1	26.7	27.6	29.0
EBIT Margin (%)	25.0	22.9	23.2	24.0	24.9	26.4
Payout ratio (%)	51.7	55.2	55.5	55.9	55.8	55.7
ROE (%)	27.5	22.7	24.7	27.1	28.4	29.3
Capex/sales (%)	4.5	3.1	3.7	4.7	4.2	2.8
Capex/depreciation (x)	1.6	1.0	1.3	1.7	1.6	1.1
Net debt/equity (%)	37.6	30.7	37.4	30.8	28.6	20.3
Net interest cover (x)	8.1	7.5	9.2	10.4	11.9	13.5

Source: Company data, Deutsche Bank estimates

South Africa – Food Producers | Price (20 January 2012): 24745c | Target price: 24500c | Rating: Buy

Tiger Brands Ltd

Warren Goldblum, CFA

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. The 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.80% of FY11 group EBIT. Consumer spending and food inflation, as well as international agricultural commodity prices, are the key drivers for this division.
- **Home and personal care (HPC):** The HPC division contributes c.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 contributed a relatively small (c.6%) proportion of FY11 EBIT, acquisitions concluded in FY11 were only effective for 4-6 months of the reporting period. The full impact of acquisitions will be felt in FY12, where we expect EBIT to exceed R500m.
- **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.

Over the past year, Tiger Brands investors had little to look forward to in terms of near-term earnings growth from the group and had to contend with concerns over grains margins. This largely changes with the release of FY11 results (+6% normalised HEPS); investors now have reassurance on the FY11 earnings base and even after accounting for a further 3% compression in milling and baking margins, we believe investors can look forward to double-digit levels of earnings growth in FY12.

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 Tiger Brands' strong brands and highly diverse earnings stream position the company well, notwithstanding a challenging environment. Over the past year investors have had little to look forward to in terms of near-term earnings growth from the group. In our view, this largely changes with the release of FY11 results: investors now have reassurance on the FY11 earnings base and even after taking into account a further 3% forecast compression in the milling and baking division margin, we believe investors can look forward to double-digit levels of earnings growth in FY12. Buy.

Valuation: We value Tiger Brands on a DCF basis. 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 rate of 4.5% (mid-point inflation target; South Africa has 3-6% inflation targeting).

Risks: Risks include continued weakness in the consumer environment, greater-than-anticipated margin pressure in the face of upward pressure on key soft commodity input costs, as well as the risk that the company's African expansion strategy does not generate adequate returns.

Model updated:24 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Food Producers

Tiger Brands

Reuters: TBSJ.J Bloomberg: TBS SJ

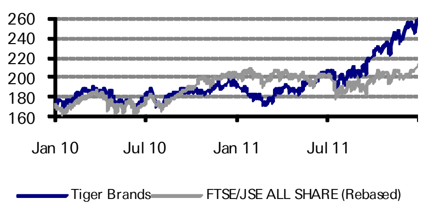
Buy

Price (20 Jan 12)	ZAR 258.50
Target Price	ZAR 245.00
52 Week range	ZAR 172.97 - 258.50
Market Cap (m)	ZARm 41,000
	USDm 5,156

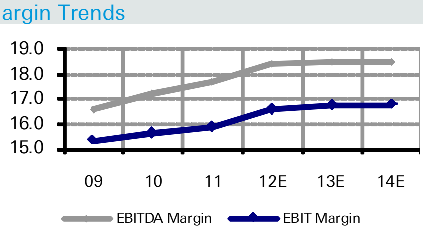
Company Profile

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.

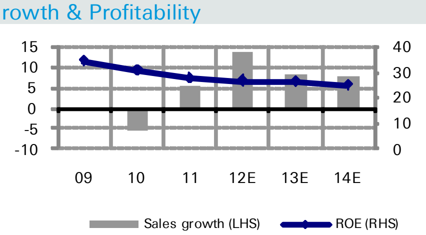
Price Performance



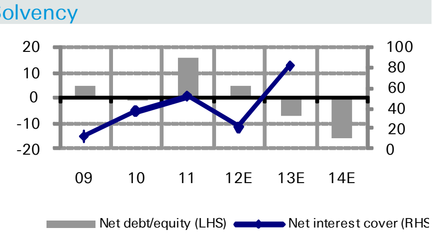
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	13.98	14.65	15.45	17.52	19.76	21.91
Reported EPS (ZAR)	13.98	14.65	15.45	17.52	19.76	21.91
DPS (ZAR)	7.04	7.46	7.91	8.93	10.07	11.17
BVPS (ZAR)	44.5	52.6	62.2	71.8	82.7	94.7
Weighted average shares (m)	157	158	159	159	159	159
Average market cap (ZARm)	22,034	27,450	30,283	41,000	41,000	41,000
Enterprise value (ZARm)	21,202	25,976	29,980	39,511	38,099	36,627
Valuation Metrics						
PE (DB) (x)	10.0	11.8	12.4	14.8	13.1	11.8
PE (Reported) (x)	10.0	11.8	12.4	14.8	13.1	11.8
P/BV (x)	3.38	3.61	3.38	3.60	3.12	2.73
FCF Yield (%)	9.1	5.5	5.0	6.1	7.1	7.8
Dividend Yield (%)	5.0	4.3	4.1	3.5	3.9	4.3
EV/Sales (x)	1.0	1.3	1.5	1.7	1.5	1.4
EV/EBITDA (x)	6.2	7.8	8.3	9.2	8.2	7.3
EV/EBIT (x)	6.8	8.6	9.2	10.3	9.1	8.0
Income Statement (ZARm)						
Sales revenue	20,430	19,316	20,430	23,222	25,114	27,126
Gross profit	20,430	19,316	20,430	23,222	25,114	27,126
EBITDA	3,395	3,325	3,618	4,277	4,648	5,006
Depreciation	262	310	373	430	443	456
Amortisation	0	0	0	0	0	0
EBIT	3,133	3,015	3,245	3,847	4,205	4,550
Net interest income(expense)	-255	-82	-64	-182	-52	71
Associates/affiliates	204	252	265	341	379	421
Exceptionals/extraordinaries	-221	164	-86	0	0	0
Other pre-tax income/(expense)	374	-169	146	21	23	25
Profit before tax	3,457	3,016	3,592	4,027	4,555	5,067
Income tax expense	978	840	1,014	1,162	1,316	1,466
Minorities	49	-17	-6	33	45	59
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,210	2,356	2,498	2,832	3,194	3,543
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,210	2,356	2,498	2,832	3,194	3,543
Cash Flow (ZARm)						
Cash flow from operations	1,841	2,615	2,607	3,092	3,420	3,783
Net Capex	172	-1,100	-1,104	-573	-499	-602
Free cash flow	2,013	1,514	1,503	2,518	2,922	3,182
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,259	-1,180	-1,230	-1,299	-1,465	-1,651
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	0	0	-2,531	-97	0	0
Net cash flow	754	335	-2,258	1,122	1,457	1,531
Change in working capital	*-471*	*-113*	*-433*	*-204*	*-262*	*-274*
Balance Sheet (ZARm)						
Cash and other liquid assets	506	921	506	1,488	1,445	2,975
Tangible fixed assets	2,203	2,586	3,317	3,460	3,516	3,662
Goodwill/intangible assets	1,669	1,986	3,826	3,826	3,826	3,826
Associates/investments	1,510	1,717	2,360	2,457	2,457	2,457
Other assets	5,800	5,774	6,187	6,897	7,459	8,056
Total assets	11,687	12,984	16,196	18,128	18,702	20,977
Interest bearing debt	884	880	2,177	2,037	537	537
Other liabilities	3,519	3,503	3,773	4,279	4,579	4,903
Total liabilities	4,403	4,383	5,950	6,316	5,116	5,440
Shareholders' equity	6,984	8,316	9,860	11,393	13,122	15,014
Minorities	301	286	386	419	464	522
Total shareholders' equity	7,285	8,601	10,246	11,812	13,586	15,536
Net debt	*377*	*-42*	*1,671*	*549*	*-908*	*-2,438*
Key Company Metrics						
Sales growth (%)	nm	-5.5	5.8	13.7	8.1	8.0
DB EPS growth (%)	na	4.8	5.4	13.4	12.8	10.9
EBITDA Margin (%)	16.6	17.2	17.7	18.4	18.5	18.5
EBIT Margin (%)	15.3	15.6	15.9	16.6	16.7	16.8
Payout ratio (%)	50.0	50.1	50.2	50.0	50.0	50.0
ROE (%)	34.6	30.8	27.5	26.7	26.1	25.2
Capex/sales (%)	-0.8	5.7	5.4	2.5	2.0	2.2
Capex/depreciation (x)	-0.7	3.6	3.0	1.3	1.1	1.3
Net debt/equity (%)	5.2	-0.5	16.3	4.6	-6.7	-15.7
Net interest cover (x)	12.3	36.7	50.7	21.1	80.7	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (20 January 2012): 7830c | Target price: 6000c | Rating: Sell

Truworths International Ltd

Nick Higham, CFA

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 small at c.3% of total group merchandise 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 and menswear CFT (clothing, footwear and textile) market in South Africa (c.20%). Its target market is predominantly LSM7-10 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. The group has 543 stores, with 508 retail stores in South Africa and 35 stores in Africa (17 corporate and 18 franchise).

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

- Continued organic expansion and resilient volumes to maintain share gains. While Truworths' top line has been defensive relative to peers throughout the last few years of recession, the offset to continued store expansion is the dilution of trading densities and hence returns and margin pressure from already high levels. Increased competition in the space will make it difficult to maintain market share.
- Selective acquisitions: Cash and cash equivalents of c.R1.5bn at year-end 2011 represents c.4.2% of current market cap. This provides the group with opportunities to assess potential acquisitions that compliment the core fashion business.
- Further African expansion: Management highlighted at FY11 results it planned on accelerating African expansion through a mix of franchise and corporate stores. With only 35 stores currently ex-South Africa and <3% of group sales outside South Africa, this will be a much longer-term growth avenue for the business.

Management's outlook post FY11 results was fairly muted citing a challenging trading environment with inflationary pressures emerging and possible monetary tightening in 2012 as a further headwind. Retail sales for first seven weeks slowed to 10.4% growth yoy (+11.6% yoy achieved in 2H11). Inflation is expected to be contained at high single digits in FY12 and management remains committed to rolling out a further 6% trading space growth in FY12.

Outlook: The continued rollout of 6% trading space yoy in FY12 could increase cost pressures and soften near-term margins. While this is not an exciting geared recovery play (low operational gearing historically), we see a reasonable performer producing 12% three-year CAGR in earnings (below its peer group), a very strong balance sheet with excess cash and a 12-month dividend yield of c.4%. However, the stock trades at a substantial premium to normalised levels while offering lower than historical earnings growth. Our negative 12 month total return expectation supports our Sell.

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 valuation. Rolling this value forward at COE-dividend yield we arrive at our 12-month price target.

Risks: Key upside risks to our forecast include 1) Faster-than-expected rollover in bad debts as credit consumers deleverage; 2) Stronger credit sales growth than anticipated; 3) Continued GP margin expansion with better product sourcing resulting in lower markdowns; and 4) Announcement of a special dividend or share buyback programme to deploy current excess cash.

Model updated:19 August 2011

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Truworths

Reuters: TRUJ.J Bloomberg: TRU SJ

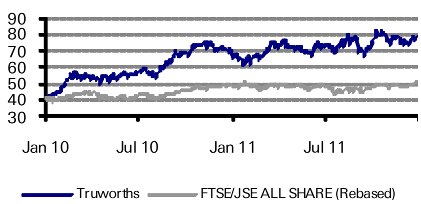
Sell

Price (20 Jan 12)	ZAR 78.30
Target Price	ZAR 60.00
52 Week range	ZAR 61.20 - 82.44
Market Cap (m)	ZARm 34,061
	USDm 4,283

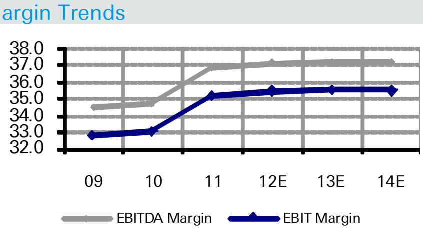
Company Profile

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).

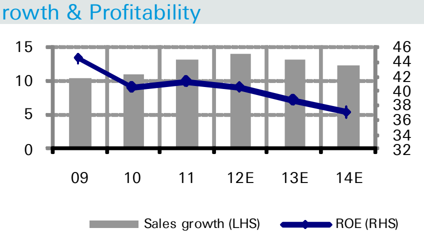
Price Performance



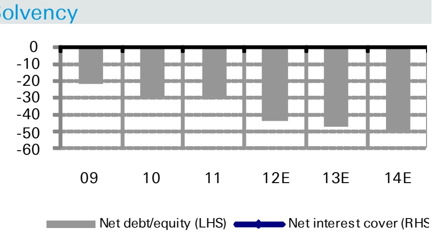
Margin Trends



Growth & Profitability



Solvency



Nick Higham, CFA
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	3.32	3.70	4.47	5.13	5.81	6.51
Reported EPS (ZAR)	3.31	3.70	4.47	5.13	5.81	6.51
DPS (ZAR)	1.71	2.00	2.62	3.01	3.41	3.83
BVPS (ZAR)	8.3	10.3	11.8	14.1	16.6	19.4
Weighted average shares (m)	433	433	435	435	436	436
Average market cap (ZARm)	13,867	19,836	29,152	34,061	34,100	34,139
Enterprise value (ZARm)	13,100	18,518	27,663	31,466	30,763	29,929
Valuation Metrics						
PE (DB) (x)	9.7	12.4	15.0	15.3	13.5	12.0
PE (Reported) (x)	9.7	12.4	15.0	15.3	13.5	12.0
P/BV (x)	4.43	5.21	6.19	5.57	4.72	4.03
FCF Yield (%)	8.1	6.5	4.7	5.3	6.2	7.0
Dividend Yield (%)	5.3	4.4	3.9	3.8	4.4	4.9
EV/Sales (x)	2.1	2.7	3.5	3.5	3.0	2.6
EV/EBITDA (x)	6.1	7.7	9.6	9.5	8.2	7.1
EV/EBIT (x)	6.4	8.1	10.0	9.9	8.5	7.4
Income Statement (ZARm)						
Sales revenue	6,248	6,937	7,858	8,952	10,124	11,378
Gross profit	3,199	3,588	4,193	4,778	5,388	6,036
EBITDA	2,158	2,413	2,895	3,327	3,771	4,236
Depreciation	109	121	129	149	170	193
Amortisation	0	0	0	0	0	0
EBIT	2,049	2,292	2,766	3,178	3,600	4,043
Net interest income(expense)	65	69	94	107	121	136
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	2,114	2,360	2,860	3,285	3,721	4,179
Income tax expense	680	756	917	1,053	1,193	1,340
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,434	1,604	1,943	2,232	2,528	2,839
DB adjustments (including dilution)	2	0	0	0	0	0
DB Net profit	1,436	1,604	1,943	2,232	2,528	2,839
Cash Flow (ZARm)						
Cash flow from operations	1,307	1,509	1,647	2,007	2,298	2,603
Net Capex	-191	-211	-275	-200	-200	-200
Free cash flow	1,116	1,298	1,372	1,807	2,098	2,403
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-683	-785	-968	-1,282	-1,452	-1,631
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-201	38	-233	581	97	101
Net cash flow	232	551	171	1,106	742	873
Change in working capital	*-236*	*-216*	*-425*	*-374*	*-401*	*-429*
Balance Sheet (ZARm)						
Cash and other liquid assets	767	1,318	1,489	2,595	3,337	4,210
Tangible fixed assets	618	694	724	775	804	811
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	3,073	3,364	3,972	4,468	4,999	5,568
Total assets	4,458	5,376	6,185	7,838	9,141	10,589
Interest bearing debt	0	0	0	0	0	0
Other liabilities	907	1,005	1,139	1,842	2,069	2,310
Total liabilities	907	1,005	1,139	1,842	2,069	2,310
Shareholders' equity	3,551	4,371	5,046	5,996	7,071	8,279
Minorities	0	0	0	0	0	0
Total shareholders' equity	3,551	4,371	5,046	5,996	7,071	8,279
Net debt	*-767*	*-1,318*	*-1,489*	*-2,595*	*-3,337*	*-4,210*
Key Company Metrics						
Sales growth (%)	10.6	11.0	13.3	13.9	13.1	12.4
DB EPS growth (%)	14.6	11.6	20.8	14.7	13.2	12.2
EBITDA Margin (%)	34.5	34.8	36.8	37.2	37.2	37.2
EBIT Margin (%)	32.8	33.0	35.2	35.5	35.6	35.5
Payout ratio (%)	51.6	54.0	58.6	58.6	58.7	58.8
ROE (%)	44.3	40.5	41.3	40.4	38.7	37.0
Capex/sales (%)	3.1	3.0	3.5	2.2	2.0	1.8
Capex/depreciation (x)	1.8	1.7	2.1	1.3	1.2	1.0
Net debt/equity (%)	-21.6	-30.2	-29.5	-43.3	-47.2	-50.8
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications

Price (20 January 2012): 9150c | Target price: 8750c | Rating: Hold

Vodacom Group Ltd

Nik Kershaw

Business description: Vodacom Group Ltd operates a cellular telephone network in South Africa. It 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.

Importantly with mobile penetration in South Africa in excess of 100% and new competition from Telkom's mobile business 8.ta, growth in this key region has started to slow. We are starting to see some encouraging trends from the international operations. In line with global trends Vodacom, is investing in more traditional fixed line areas like fibre to support the acceleration in data traffic that the group has seen across its network in recent months. We expect 2012 to be a period of continued focus on developing the core South African data business

Drivers:

- Growing the data revenue. While core voice revenues in South Africa remain under pressure, Vodacom has invested significantly in its domestic data network; we expect to see further strong growth in the group's data business in 2012. We also expect to see Vodacom compete head on with the fixed-line players in traditional fixed line data services where it has already made some progress. This growth in the data business in CY12, while expected by the market, should offer some support to the counter.
- Some changes in Africa. The group's African operations after a tough two years **have finally started to show clear signs of a turnaround. We expect to see a continuation of this positive momentum from the African mobile business during 2012 which** should offer some support to earnings growth for the business. While these changes in the African operations are small in the context of the group, we believe the market will be encouraged by an end to the negative trend.

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 the South African data market has increased and this will limit to some extent revenue growth in the medium term. The group's international operations have found the past six months to be show signs of improvement. Management remains committed to expanding the group's operations across the African continent and the current economic conditions may yet provide some good investment opportunities. The defensive nature of the domestic business, together with strong dividends, should limit downside risk for investors. We rate the shares Hold given the more competitive nature of the domestic business.

Valuation: While revenue growth is likely to remain muted, given the cuts in mobile termination rates, the group should nevertheless see margin expansion over the next few years. We believe an exit EV/EBITDA multiple of 6.0x is appropriate, reflecting the growing data opportunity; this still reflects a c10% discount to our assumption for the peers in a year's time, given the latter's exposure to higher growth prospects in undeveloped markets. This multiple yields a target price of 8750cps. Our valuation for the group is underpinned by the group's better-than-sector dividend yield (approximately 5%) and a business that, in our view, is defensive in nature in the current volatile markets.

Risks: The key risk facing Vodacom would be more aggressive data tariff reductions, which would limit top-line growth. Furthermore we assume some elasticity in the voice market and this poses some risk to our forecasts. 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 difficult 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 will continue to monitor acquisitions as the potential exists that the group makes an acquisition that is negatively perceived by the market. Key upside risk would be a faster turnaround in the African operations.

Model updated:08 November 2011

Running the numbers

Sub-Saharan Africa

South Africa

Telecommunications

Vodacom

Reuters: VODJ.J Bloomberg: VOD SJ

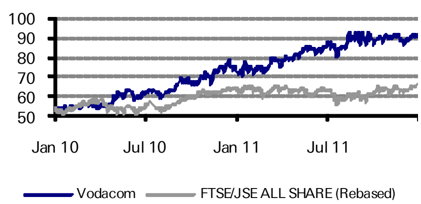
Hold

Price (20 Jan 12)	ZAR 91.50
Target Price	ZAR 87.50
52 Week range	ZAR 70.00 - 92.87
Market Cap (m)	ZARm 134,048
	USDm 16,857

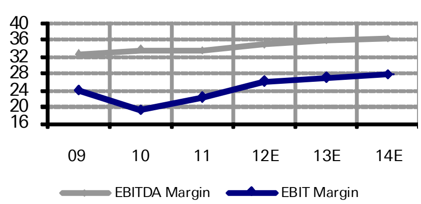
Company Profile

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.

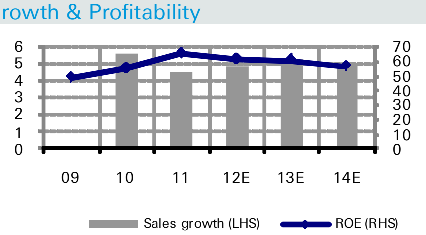
Price Performance



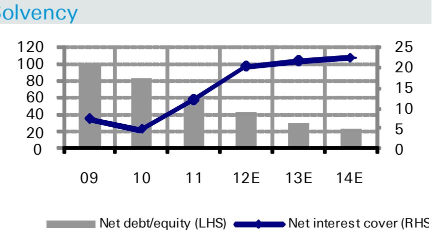
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	4.17	5.10	6.56	7.20	8.43	9.05
Reported EPS (ZAR)	4.17	5.10	6.56	7.20	8.43	9.05
DPS (ZAR)	3.49	2.85	4.60	5.80	7.50	8.05
BVPS (ZAR)	9.4	9.2	10.6	12.8	15.1	16.9
Weighted average shares (m)	1,488	1,486	1,468	1,465	1,465	1,465
Average market cap (ZARm)	na	82,353	97,311	134,048	134,048	134,048
Enterprise value (ZARm)	na	95,325	107,393	142,784	141,224	140,600
Valuation Metrics						
PE (DB) (x)	na	10.9	10.1	12.7	10.9	10.1
PE (Reported) (x)	na	10.9	10.1	12.7	10.9	10.1
P/BV (x)	0.00	6.02	7.46	7.18	6.06	5.42
FCF Yield (%)	na	10.6	10.1	7.1	8.4	9.0
Dividend Yield (%)	na	5.1	6.9	6.3	8.2	8.8
EV/Sales (x)	nm	1.6	1.8	2.2	2.1	2.0
EV/EBITDA (x)	nm	4.8	5.2	6.4	5.8	5.4
EV/EBIT (x)	nm	8.5	7.8	8.5	7.7	7.1
Income Statement (ZARm)						
Sales revenue	55,442	58,535	61,197	64,131	67,509	70,832
Gross profit	18,196	19,782	20,594	22,482	24,205	25,833
EBITDA	18,196	19,782	20,594	22,482	24,205	25,833
Depreciation	4,876	8,544	6,863	5,650	5,850	6,100
Amortisation	0	0	0	0	0	0
EBIT	13,320	11,238	13,731	16,832	18,355	19,733
Net interest income(expense)	-1,857	-2,396	-1,167	-831	-845	-883
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-1,226	103	74	121	127	131
Profit before tax	10,237	8,945	12,638	16,122	17,637	18,980
Income tax expense	4,045	4,745	4,659	5,602	5,291	5,694
Minorities	103	4	-266	-30	0	30
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,089	4,196	8,245	10,550	12,346	13,256
DB adjustments (including dilution)	121	3,383	1,381	0	0	0
DB Net profit	6,210	7,579	9,626	10,550	12,346	13,256
Cash Flow (ZARm)						
Cash flow from operations	10,386	14,947	16,403	16,707	18,730	19,858
Net Capex	-7,211	-6,222	-6,548	-7,150	-7,500	-7,850
Free cash flow	3,175	8,725	9,855	9,557	11,230	12,008
Equity raised/(bought back)	0	-385	-984	0	0	0
Dividends paid	-6,203	-3,908	-5,283	-7,911	-9,669	-11,354
Net inc/(dec) in borrowings	8,351	-4,255	-3,949	-935	-692	-497
Other investing/financing cash flows	-5,076	-310	-51	0	0	0
Net cash flow	247	-133	-412	711	869	157
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,104	1,061	870	1,250	2,119	2,276
Tangible fixed assets	21,844	21,383	21,577	23,077	24,727	26,477
Goodwill/intangible assets	11,794	6,673	5,215	5,476	5,750	6,037
Associates/investments	0	0	0	0	0	0
Other assets	12,617	12,574	13,773	14,433	15,194	15,941
Total assets	47,359	41,691	41,435	44,236	47,789	50,731
Interest bearing debt	16,211	13,135	10,394	9,459	8,767	8,270
Other liabilities	16,050	13,920	14,861	15,569	16,384	17,192
Total liabilities	32,261	27,055	25,255	25,028	25,151	25,462
Shareholders' equity	14,017	13,738	15,622	18,680	22,110	24,711
Minorities	1,081	898	558	528	528	558
Total shareholders' equity	15,098	14,636	16,180	19,208	22,638	25,269
Net debt	*15,107*	*12,074*	*9,524*	*8,209*	*6,648*	*5,994*
Key Company Metrics						
Sales growth (%)	nm	5.6	4.5	4.8	5.3	4.9
DB EPS growth (%)	na	22.2	28.6	9.8	17.0	7.4
EBITDA Margin (%)	32.8	33.8	33.7	35.1	35.9	36.5
EBIT Margin (%)	24.0	19.2	22.4	26.2	27.2	27.9
Payout ratio (%)	85.4	101.0	81.9	80.5	89.0	89.0
ROE (%)	48.9	54.6	65.6	61.5	60.5	56.6
Capex/sales (%)	13.0	10.6	10.7	11.1	11.1	11.1
Capex/depreciation (x)	1.5	0.7	1.0	1.3	1.3	1.3
Net debt/equity (%)	100.1	82.5	58.9	42.7	29.4	23.7
Net interest cover (x)	7.2	4.7	11.8	20.2	21.7	22.3

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Price (20 January 2012): 10995c Target price: 12100c Rating: Buy

Wilson Bayly Holmes-Ovcon Ltd

Roy Mutooni, CFA

Business description: Wilson Bayly Holmes-Ovcon Ltd (WBHO) is a focused civil engineering and building contracting business primarily operating in southern Africa. It also has a presence in Australia through its wholly-owned subsidiary Probuild, which operates out of Melbourne, Sydney, Brisbane, and Perth.

The combination of civil, building, roads, and earthworks related contracts contributes 83% of operating profit, while the building contracts division of Australia contributed 12% to the operating earnings. The remaining 5% of the operating profits was contributed by the other operations consisting of projects, property and industrial business units. 41% of revenues are generated from international operations primarily in Australia, Mozambique, Ghana, and Zambia.

Drivers: The group's strategy is to focus on the broader engineering and construction sphere, with a specific South African emphasis. The group has historically relied more on building activity (construction, property and concessions) than on roadworks and civil activity, but maintains a significant open cast mining contracting operation, as well as a fast recovering roads and earthworks division. The group prides itself on its versatility in redeploying workers between divisions.

From a regional perspective, we continue to expect WBHO's South African business to struggle over the medium term due to rising competition, static activity levels and excess industry capacity. In Australia, rising competition levels may negatively impact margins. Africa, in our view, represents the key opportunity for the group with its high margins, and gearing to the commodity cycle.

Outlook: WBHO focuses on building contracts, roads, and civil engineering projects in South Africa, the rest of Africa, and Australia. Over time, the company has maintained an above-average track record, growing earnings at a 10 year CAGR of 30% and maintaining ROCE and ROE both between 25% and 35%. Its quality of earnings and cash generation also remains above average. Over the past year, the group has broadened its focus to include large-scale civil engineering mining contracts, while maintaining its exposure to private sector work as the economy recovers. The short to medium term outlook continues to improve as demand from the mining sector grows and commodity prices strengthen. Our Buy recommendation reflects this improving medium-term earnings growth profile.

Valuation: We assess the fundamental value of WBHO based on a DCF analysis using a 13.5% WACC (ERP 4.5%, risk-free rate 8.5%, beta 1.1x) and a 4.5% perpetual growth rate (South African house stance). We then derive our 12 month price target by rolling forward the fair valuation derived from this DCF calculation by the cost of equity less dividend yield.

Risks:

Downside risks:

- Sustained decline in global commodity prices below current levels.
- Significant disruptions from ongoing labour industrial action.
- Inability to transfer skills from building to civil engineering.

Model updated:06 September 2011

Running the numbers

Sub-Saharan Africa

South Africa

Construction & Building Materials

WBHO

Reuters: WBOJ.J Bloomberg: WBO SJ

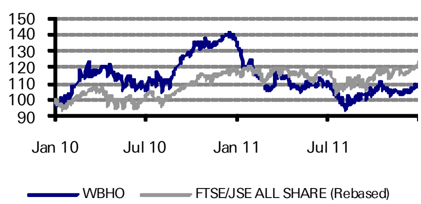
Buy

Price (20 Jan 12)	ZAR 109.95
Target Price	ZAR 121.00
52 Week range	ZAR 94.51 - 133.00
Market Cap (m)	ZARm 7,257
	USDm 913

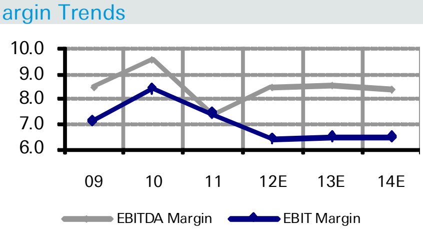
Company Profile

WBHO is the holding company for a group of companies which operate in a number of sectors including : building & contracting, civil engineering, roads and earthworks.

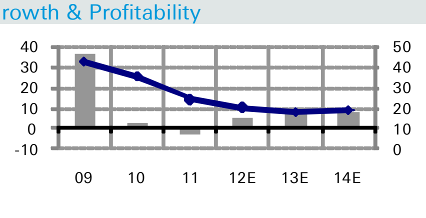
Price Performance



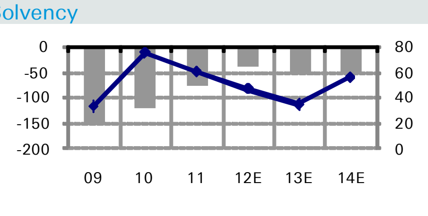
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	16.19	17.49	13.28	13.39	13.65	16.64
Reported EPS (ZAR)	16.05	17.54	14.03	13.39	13.65	16.64
DPS (ZAR)	3.00	3.30	3.30	3.15	3.21	3.91
BVPS (ZAR)	36.1	45.9	51.1	59.5	68.3	79.6
Weighted average shares (m)	66	66	66	66	66	66
Average market cap (ZARm)	7,112	7,409	7,884	7,257	7,257	7,257
Enterprise value (ZARm)	2,912	3,349	4,966	5,588	4,679	4,369
Valuation Metrics						
PE (DB) (x)	6.7	6.4	9.0	8.2	8.1	6.6
PE (Reported) (x)	6.7	6.4	8.5	8.2	8.1	6.6
P/BV (x)	2.94	2.38	2.15	1.85	1.61	1.38
FCF Yield (%)	25.7	9.7	nm	nm	15.7	7.6
Dividend Yield (%)	2.8	2.9	2.8	2.9	2.9	3.6
EV/Sales (x)	0.2	0.2	0.3	0.4	0.3	0.2
EV/EBITDA (x)	2.3	2.3	4.6	4.3	3.2	2.8
EV/EBIT (x)	2.8	2.6	4.6	5.6	4.2	3.7
Income Statement (ZARm)						
Sales revenue	14,769	15,201	14,767	15,538	16,981	18,299
Gross profit	1,250	1,458	1,090	1,314	1,445	1,534
EBITDA	1,250	1,458	1,090	1,314	1,445	1,534
Depreciation	202	184	0	316	341	348
Amortisation	0	0	0	0	0	0
EBIT	1,049	1,274	1,090	998	1,103	1,186
Net interest income(expense)	-32	-17	-18	-21	-32	-21
Associates/affiliates	31	-30	-51	0	0	0
Exceptionals/extraordinaries	-24	-9	-35	0	0	0
Other pre-tax income/(expense)	329	280	225	173	101	265
Profit before tax	1,329	1,524	1,220	1,150	1,172	1,429
Income tax expense	398	467	380	358	365	445
Minorities	73	66	55	52	53	65
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	882	965	775	740	754	919
DB adjustments (including dilution)	7	-3	-41	0	0	0
DB Net profit	890	961	733	740	754	919
Cash Flow (ZARm)						
Cash flow from operations	2,057	719	-99	-591	1,603	1,059
Net Capex	-230	0	0	-424	-467	-507
Free cash flow	1,827	719	-99	-1,015	1,136	552
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-173	-194	-225	-182	-174	-177
Net inc/(dec) in borrowings	-123	0	0	0	0	0
Other investing/financing cash flows	-275	0	0	0	0	0
Net cash flow	1,255	525	-323	-1,197	962	374
Change in working capital	*843*	*-1,077*	*-888*	*-1,698*	*454*	*-272*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,033	3,891	2,883	1,685	2,647	3,022
Tangible fixed assets	1,114	1,204	1,433	1,542	1,667	1,827
Goodwill/intangible assets	206	293	390	390	390	390
Associates/investments	438	417	401	401	401	401
Other assets	3,816	3,553	4,384	4,828	5,021	5,141
Total assets	9,608	9,358	9,492	8,847	10,127	10,781
Interest bearing debt	76	51	107	107	107	107
Other liabilities	6,952	6,079	5,755	4,500	5,147	4,994
Total liabilities	7,028	6,130	5,862	4,607	5,254	5,101
Shareholders' equity	2,385	3,032	3,372	3,929	4,509	5,251
Minorities	195	196	258	310	364	428
Total shareholders' equity	2,580	3,228	3,630	4,240	4,873	5,679
Net debt	*-3,957*	*-3,840*	*-2,776*	*-1,578*	*-2,540*	*-2,915*
Key Company Metrics						
Sales growth (%)	37.0	2.9	-2.9	5.2	9.3	7.8
DB EPS growth (%)	24.6	8.0	-24.1	0.9	1.9	21.9
EBITDA Margin (%)	8.5	9.6	7.4	8.5	8.5	8.4
EBIT Margin (%)	7.1	8.4	7.4	6.4	6.5	6.5
Payout ratio (%)	22.4	22.6	28.1	28.1	28.1	28.1
ROE (%)	42.9	35.6	24.2	20.3	17.9	18.8
Capex/sales (%)	2.0	0.0	0.0	2.7	2.7	2.8
Capex/depreciation (x)	1.5	0.0	nm	1.3	1.4	1.5
Net debt/equity (%)	-153.4	-118.9	-76.5	-37.2	-52.1	-51.3
Net interest cover (x)	32.9	74.9	60.3	46.7	34.4	55.4

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Price (20 January 2012): 4269c | Target price: 3800c | Rating: Hold

Woolworths Holdings Ltd

Nick Higham, CFA

Business description: Woolworths operates 438 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.

The company also operates c.145 franchise stores, and operates a joint venture with Absa offering consumer finance through store cards, Visa cards and personal loans. At an EBIT level, clothing and home contributes c.63%, food 30%, Country Road contributes c.7%.

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

- **Increasing food inflation underpinning top line.** Upward pressure on food inflation should underpin the food businesses' top line (c.53% of group turnover).
- **Focus on driving better cost efficiency.** With top line just growing in early double digits and GP margins remaining stable, better cost efficiency is critical to generating positive operating leverage. With inflation increasing across both food and clothing, and savings on head office costs, we expect cost efficiency to improve.
- **Repositioning the clothing business and inflation underpin.** Repositioned as a more accessible fashionable retailer growing market shares and potentially enhancing trading margins further in the format post a successful turnaround in the division over 2010-11. Rand weakness and cotton price increases are resulting in high single digit product inflation rates.
- **Earnings accretion from purchase of franchisee operations:** Management has purchased a significant number of franchise stores that it feels can generate better profits running as corporate stores. We anticipate as much as c.6.5% earnings accretion in FY12 as a result).
- **Launch of loyalty card.** Management highlighted the big opportunity that exists in launching a loyalty card programme for customers and mining the data from card sales to better learn the behaviour of its core customers (similar to successful Clicks group programme).

Despite management acknowledging the weak macro trends persisting globally and concerns over the possible impact domestically, it is clear from the early trading in FY12 that Woolworths' core customer remains resilient. Management indicated it will be important to wait for the summer season sales to reflect the consumers' appetite with increased product inflation pushing through in the season. The 20 week trading update issued towards the end of 2011 showed signs of slower clothing growth with c.5.9% like-for-likes reported (vs. 9.5% in 2H11).

Outlook: With consistent market share gains in key categories throughout 2010-11 and with continued positive surprises on the clothing GP margin, we believe the outlook for Woolworths has improved. We expect robust three-year CAGR in earnings of c.18% (higher than historical growth rates), assisted by exposure to a healthy upper-income consumer, and a supportive c.4.5% 12 month forward dividend yield with prospects of further buybacks. Despite this, the stock has rallied and is currently offering muted 12 month total return supporting our Hold.

Valuation: We value Woolworths using a PE-relative methodology employing a normalised two-year forward PE of 10.7x. Rolling our estimated fair value forward at COE-dividend yield we arrive at our 12 month price target.

Risks: Key upside risks include 1) Delayed interest rate hikes assisting discretionary spending; 2) Further operational efficiencies through a recovery in sales underpinned by inflation and tight cost control; and 3) Higher-than-expected food inflation. Key downside risks include 1) Severe product inflation driven by primary, commodity-based and or rand-related factors causing volume weakness; 2) Increased competitive pressures with continued aggressive trading space rollout, particularly in food that could result in margin pressure longer-term; and 3) Weaker volume growth as a result of a slower global growth scenario and weaker real income outlook.

Model updated:18 January 2012

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Woolworths Holdings Ltd

Reuters: WHLJ.J Bloomberg: WHL SJ

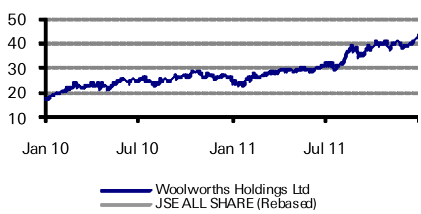
Hold

Price (20 Jan 12)	ZAR 42.69
Target Price	ZAR 38.00
52 Week range	ZAR 23.01 - 42.90
Market Cap (m)	ZARm 32,797
	USDm 4,124

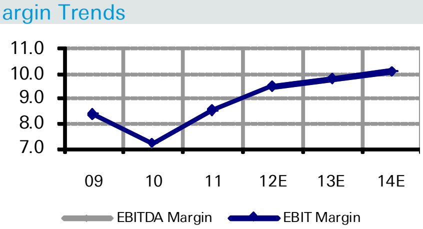
Company Profile

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 consessions in large department stores in Australia and New Zealand.They have a joint venture offering consumer finance through store cards, visa and personal loans.

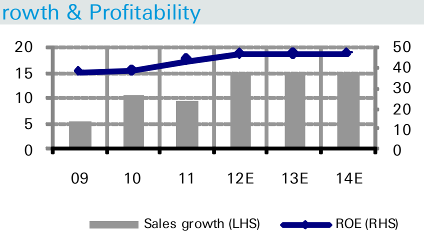
Price Performance



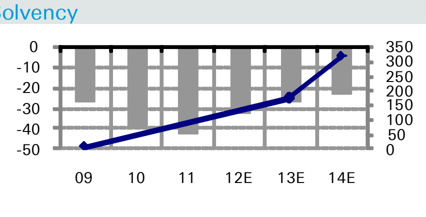
Margin Trends



Growth & Profitability



Solvency



Nick Higham, CFA
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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	1.07	1.59	2.10	2.64	3.12	3.71
Reported EPS (ZAR)	1.55	1.57	2.07	2.64	3.12	3.71
DPS (ZAR)	0.85	1.05	1.44	1.76	2.08	2.47
BVPS (ZAR)	3.9	4.4	5.3	6.3	7.4	8.7
Weighted average shares (m)	801	777	778	768	767	767
Average market cap (ZARm)	9,511	14,633	20,704	32,797	32,733	32,733
Enterprise value (ZARm)	9,511	14,633	20,704	32,797	32,733	32,733
Valuation Metrics						
PE (DB) (x)	11.0	11.8	12.7	16.2	13.7	11.5
PE (Reported) (x)	7.7	12.0	12.8	16.2	13.7	11.5
P/BV (x)	3.30	5.42	5.64	6.79	5.76	4.88
FCF Yield (%)	3.3	6.3	6.7	2.4	4.5	5.7
Dividend Yield (%)	7.2	5.6	5.4	4.1	4.9	5.8
EV/Sales (x)	0.4	0.6	0.8	1.1	1.0	0.8
EV/EBITDA (x)	5.4	8.7	9.5	11.8	9.9	8.4
EV/EBIT (x)	5.4	8.7	9.5	11.8	9.9	8.4
Income Statement (ZARm)						
Sales revenue	21,175	23,393	25,582	29,347	33,722	38,686
Gross profit	4,590	4,783	5,587	6,533	7,426	8,440
EBITDA	1,772	1,682	2,177	2,782	3,300	3,901
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	1,772	1,682	2,177	2,782	3,300	3,901
Net interest income(expense)	-360	24	48	9	-19	-12
Associates/affiliates	70	81	136	158	181	206
Exceptionals/extraordinaries	316	-66	-74	-74	-74	-74
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,411	1,707	2,225	2,791	3,280	3,889
Income tax expense	546	491	659	837	984	1,167
Minorities	12	10	16	12	11	10
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,239	1,221	1,612	2,025	2,393	2,845
DB adjustments (including dilution)	-378	17	20	0	0	0
DB Net profit	861	1,238	1,632	2,025	2,393	2,845
Cash Flow (ZARm)						
Cash flow from operations	932	1,431	1,943	2,030	2,385	2,823
Net Capex	-614	-514	-564	-1,250	-900	-950
Free cash flow	318	917	1,379	780	1,485	1,873
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-654	-689	-797	-1,318	-1,557	-1,851
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	4,973	290	0	0	0	0
Net cash flow	4,637	518	582	-539	-72	21
Change in working capital	*67*	*215*	*377*	*76*	*89*	*101*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,391	2,917	2,293	2,120	2,047	2,086
Tangible fixed assets	1,937	1,991	2,046	3,296	4,196	5,146
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	3,586	3,733	4,161	4,706	5,337	6,054
Total assets	7,914	8,642	8,500	10,122	11,580	13,286
Interest bearing debt	1,547	1,555	530	530	530	530
Other liabilities	3,295	3,634	3,877	4,780	5,392	6,094
Total liabilities	4,842	5,189	4,407	5,310	5,922	6,624
Shareholders' equity	3,025	3,396	4,008	4,715	5,551	6,544
Minorities	47	57	85	97	108	118
Total shareholders' equity	3,072	3,453	4,093	4,812	5,659	6,662
Net debt	*-844*	*-1,362*	*-1,763*	*-1,590*	*-1,517*	*-1,556*
Key Company Metrics						
Sales growth (%)	5.5	10.5	9.4	14.7	14.9	14.7
DB EPS growth (%)	-4.7	48.2	31.7	25.7	18.4	18.9
EBITDA Margin (%)	8.4	7.2	8.5	9.5	9.8	10.1
EBIT Margin (%)	8.4	7.2	8.5	9.5	9.8	10.1
Payout ratio (%)	55.0	66.8	69.2	66.7	66.7	66.7
ROE (%)	37.8	38.0	43.5	46.4	46.6	47.0
Capex/sales (%)	2.9	2.2	2.2	4.3	2.7	2.5
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-27.5	-39.5	-43.1	-33.0	-26.8	-23.4
Net interest cover (x)	4.9	nm	nm	nm	170.2	314.9

Source: Company data, Deutsche Bank estimates

Stocks by market capitalisation

Rank	Stock	Sector	Market cap (Rm)	Annual value traded (Rm)	Market cap (US$m)	Annual value traded (US$m)
1	BAT	Personal Goods	710,883	52,609	89,512	7,118
2	Billiton	General Mining	558,748	233,311	70,355	31,566
3	SABMiller	Beverages	455,264	106,153	57,325	14,362
4	Anglo American	General Mining	432,107	334,648	54,409	45,277
5	Sasol	Oil & Gas	264,014	196,851	33,244	26,633
6	MTN Group	Mobile Telecommunications	254,242	108,925	32,013	14,737
7	Richemont	Prior: Buy	235,996	104,027	29,716	14,074
8	Kumba Iron Ore	General Mining	170,530	62,811	21,472	8,498
9	Standard Bank	Banks	168,443	100,367	21,210	13,579
10	Naspers	Media	154,729	114,421	19,483	15,481
11	Amplats	Platinum & Precious Metals	146,977	64,545	18,507	8,733
12	Vodacom	Mobile Telecommunications	136,148	37,710	17,143	5,102
13	AngloGold Ashanti	Gold Mining	132,269	97,412	16,655	13,179
14	FirstRand	Banks	128,545	61,538	16,186	8,326
15	Impala	Platinum & Precious Metals	112,439	103,068	14,158	13,945
16	ABSA	Banks	108,737	45,169	13,692	6,111
17	Gold Fields	Gold Mining	89,651	64,534	11,288	8,731
18	Nedbank	Banks	79,666	29,687	10,031	4,017
19	Shoprite	Food & Drug Retailers	71,473	54,682	9,000	7,398
20	Exxaro Resources	General Mining	66,773	51,974	8,408	7,032
21	Sanlam	Life Insurance	64,239	31,890	8,089	4,315
22	Bidvest	Support Services	55,043	44,090	6,931	5,965
23	Tiger Brands	Food Producers	49,285	30,338	6,206	4,105
24	Steinhoff	Household Goods	42,897	31,604	5,401	4,276
25	Massmart	General Retailers	39,487	20,627	4,972	2,791
26	African Rainbow Minerals	General Mining	39,127	23,095	4,927	3,125
27	Harmony	Gold Mining	38,799	36,586	4,885	4,950
28	Truworths	General Retailers	36,086	29,559	4,544	3,999
29	Woolies	General Retailers	35,662	29,554	4,490	3,998
30	Growthpoint	Real Estate	33,993	16,038	4,280	2,170
31	ArcelorMittal SA	Industrial Metals	30,311	13,081	3,817	1,770
32	Imperial	Industrial Transportation	28,014	27,346	3,527	3,700
33	Discovery	Life Insurance	27,374	8,625	3,447	1,167
34	MMI Holdings	Life Insurance	27,222	10,141	3,428	1,372
35	Foschini	General Retailers	26,503	25,566	3,337	3,459
36	Liberty	Life Insurance	24,327	7,817	3,063	1,058
37	Mediclinic	Healthcare	22,733	2,674	2,862	362
38	Pick 'n Pay	Food & Drug Retailers	22,670	12,822	2,855	1,735
39	Life Healthcare	Healthcare	22,376	19,543	2,818	2,644
40	Redefine	Real Estate	20,499	8,319	2,581	1,126
41	Spar	Food & Drug Retailers	19,258	11,486	2,425	1,554
42	Netcare	Healthcare	19,043	10,057	2,398	1,361
43	Barloworld	General Industrials	18,662	20,059	2,350	2,714
44	PPC Cement	Construction & Materials	16,495	8,502	2,077	1,150
45	Nampak	General Industrials	15,435	5,683	1,943	769
46	AVI	Food Producers	14,028	8,397	1,766	1,136
47	Sappi	Forestry & Paper	13,911	15,072	1,752	2,039
48	Aveng	Construction & Materials	13,855	13,570	1,745	1,836
49	Northam Platinum	Platinum & Precious Metals	12,149	11,361	1,530	1,537
50	Clicks	Food & Drug Retailers	11,625	19,120	1,464	2,587
51	JD Group	General Retailers	11,266	10,450	1,419	1,414
52	Royal Bafokeng	Platinum & Precious Metals	9,807	2,177	1,235	295
53	Murray & Roberts	Construction & Materials	8,696	11,953	1,095	1,617
54	Lewis	General Retailers	7,354	6,108	926	826
55	Mondi	Prior: No Rec	7,335	8,428	924	1,140
56	WBHO	Construction & Materials	7,257	4,426	914	599
57	Group Five	Construction & Materials	2,897	1,236	365	167

Source: Deutsche Bank

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. 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
A$	Australian dollar
ALSI	FTSE/JSE Africa All Share Index
Anglo	Anglo American plc
Amplats	Anglo American Platinum Ltd
ARM	African Rainbow Minerals Ltd
ARMgold	African Rainbow Minerals Gold
ARMI	African Rainbow Minerals Investments
CEEMEA	Central Eastern Europe, Middle East and Africa
E	Euro
bnt	billion tonnes
BAT	British American Tobacco plc
BEE	Black Economic Empowerment
BHP	BHP Billiton
bn	billion
BOT	Build Operate Transfer
bps	basis points
c	South African cents
c.	circa
Capex	Capital expenditure
CAPM	Capital Asset Pricing Model
CAT	Caterpillar
CHP	Chilean Peso
CEO	Chief Executive Officer
CIB	Corporate & Investment Banking
cps	South African cents per share
CSG	Consumer Sector Group
CTL	Coal-to-Liquids
DB	Deutsche Bank
DC	Distribution Centre
DCF	Discounted Cash Flow
DIY	Do-it-yourself
EMU	European Monetary Unit
DRC	Democratic Republic of the Congo
EBIT	Earnings Before Interest & Taxation
EBITDA	Earnings before Interest, Taxation, Dividends and Amortisation
EM	Emerging Markets
EMEA	Europe, the Middle East and Africa
EUR	Euro
EV	Enterprise Value
EY	Earnings Yield
Fed	US Federal Reserve

Abbreviation	Explanation
FMCG	Fast Moving Consumer Goods
GBP	British pound
GDP	Gross Domestic Product
GTL	Gas-to-Liquids
HPC	Home & Personal Care
IRS	Impala Refining Services
ISP	Internet Service Provider
IT	Information Technology
JPY	Japanese yen
JSE	JSE Stock Exchange South Africa
JV	Joint Venture
Kumba	Kumba Iron Ore
m	million
moz	million ounces
NAV	Net Asset Value
NCA	National Credit Act
p	British pence
P/B	Price/Book
pa	per annum
PCE	Private Consumption Expenditure
PE	Price/Earnings
PGM	Platinum Group Metals
PMI	Purchasing Managers Index
PPC	Pretoria Portland Cement Company Ltd
RSA	Republic of South Africa
PSCE	Private Sector Credit Extension
RBCT	Richards Bay Coal Terminal
RCS	Retail Credit Solutions
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
SA	South Africa
SARB	South African Reserve Bank
SIOC	Sishen Iron Ore Company
US$	US dollar
US¢	US cents
USD	US dollar
WACC	Weighted Average Cost of Capital
WBHO	Wilson Bayly Holmes-Ovcon Ltd
ZAR	South African rand

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.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
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Notes:

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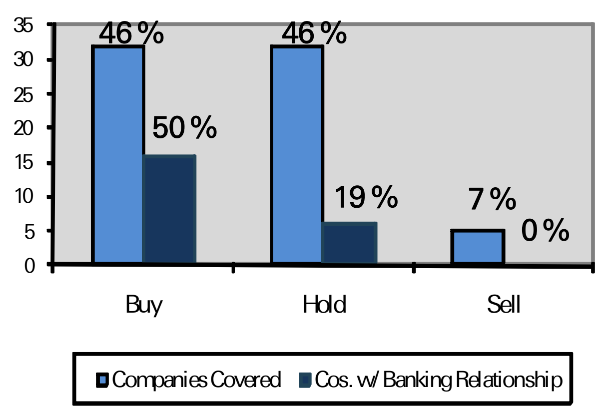
2. Ratings definitions prior to 27 January, 2007 were:

    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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