Deutsche Bank
Markets Research

Sub-Saharan Africa
South Africa

Periodical
Elephant Book

Date
16 February 2015

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Blackouts, but not burnouts

The Elephant Book provides an overview of the economy and an analysis for 53 companies currently under coverage.

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DB House View: The oil shock will prove to be a relatively mild one. Positive effects on global growth will be limited, and the reprieve in inflation is seen as temporary

Global growth should rise slowly over the next two years, with emerging markets – the main growth engine – growing more or less at trend growth. Anaemic growth in the EU and slowing momentum in China should neutralise most of the upside stemming from lower oil prices and the US economy, in our view. Economic slack is seen reducing in advanced economies, mostly as fiscal drag in these regions eases. We see above-consensus growth in the US as improved household finances, a pick up in capex and increased housing formation takes shape. However, we are relatively more conservative on growth in the Eurozone. In China, weak property investment should drag growth below 7% in 1H15, before accommodative policy restores growth to above 7% in 2H15.

With the US appearing to make enough progress on the growth front, the Fed lift off should occur around mid-2015 in a gradual fashion. However, as many emerging markets are caught between the cross currents of lower oil prices and easing policies by the BoJ and ECB, central bank tightening would be delayed, or easing prolonged. Policy divergences will underpin a stronger US$, keeping EMFX on the back foot. Our global asset allocation team remains overweight in equities, underweight in bonds, cash and commodities, and long the US$.

South Africa's picture is somewhat mixed

Lower oil prices will benefit the economy, even though export prices have also shifted lower. Despite the weakness in the exchange rate, inflation pressures have diminished for now, so the SARB will probably pause hiking rates this year. The consumer will effectively see a huge injection in discretionary income from lower fuel costs, but this will be fleeting if oil prices back-up later this year. In a similar vein, the positive impact on inflation won't last. In turn, changing consumption patterns in China and further weakness in commodity prices could be a potential drag on the economy this year. Growth may disappoint on the back of electricity supply restrictions, while generally poor infrastructure and uncertain labour market relations, which have repeatedly surprised negatively in recent years, remain of concern to the outlook.

GDP growth should recover to 2.8% in 2015 driven by the consumer

Households should see the strongest balance sheets in four years, helped by low inflation, rising discretionary income, a stronger housing market and improved job prospects in trade and services sectors. Policy may also remain accommodative a little longer than previously expected. External vulnerability should ease for now, as the current account deficit improves given favourable terms of trade. Similarly, this backdrop is favourable for government's revenue outlook, providing much-needed support for fiscal consolidation.

On balance, this outlook is bond-market friendly (at least in the short-term), while from an equity perspective, good for retail, bank and property stocks.

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Global economy

Refuelling growth

Although global growth has fallen short of expectations since 2011, more optimism is warranted in 2015 as economic drags from recent years fade. Peak fiscal tightening in the US and the Eurozone is behind us, bank lending in Europe has stopped contracting, and the collapse in oil prices will effectively provide a tax cut for consumers across the globe. Ordinarily, markets would be licking their lips at the prospect of sustained low energy costs, robust growth and subdued inflation in the US, and further monetary stimulus in Europe. The drop in oil prices, however, has been such that any optimism is being tempered by concerns about exposures to over-levered oil producers and fears that low prices are symptomatic of global secular stagnation. While we think cheap energy will ultimately prove to be good for the global economy, and that credit risk in EM will remain contained, sentiment is unlikely to turn until the price of oil finds a floor and growth in oil-importing countries picks up.

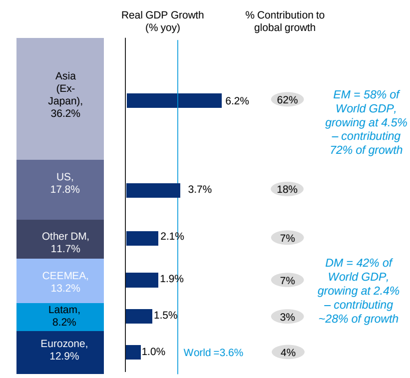
The global economy will gather pace in 2015 to 3.4% from 3.1% last year. Above-trend expansion in the US will far outpace the weak and uneven acceleration in Europe. Household spending, buoyed by lower energy prices and healthy balance sheets, stronger private sector capex and reduced fiscal drag continue to support the above-trend growth outlook in the US economy. The Eurozone is poised for a recovery but growth will remain anaemic, rising by 1% and 1.3% in 2015 and 2016 respectively. In turn, growth in China will turn sub-7% in 1H15, before bouncing back in the second half of the year.

For EM, the prospect of solid growth and continued low inflation in the US, further monetary stimulus in Europe, and sustained low energy prices, should prove to be a supportive one for most EM economies. The gradual transition to slower growth in China, the stronger US$, and the eventual increase in US rates, will create pressure points in some cases, especially in those pockets that have seen rapid increases in leverage, funded in US$. But overall, we see this as a relatively constructive backdrop, except, of course, for the major EM oil producers.

In the near term, cheap oil adds to deflationary pressures, enabling central banks to maintain their ultra supportive stance. However, the divergent global growth dynamics will be mirrored in central bank policy. Persistent concerns over low inflation in the Eurozone and Japan will see the ECB and BoJ continue to ease policy, with the ECB pursuing public QE. In contrast, the Fed, buoyed by a strengthening economy and rising wages, will raise rates. Monetary policy will however remain accommodative, with rates remaining low relative to previous cycles.

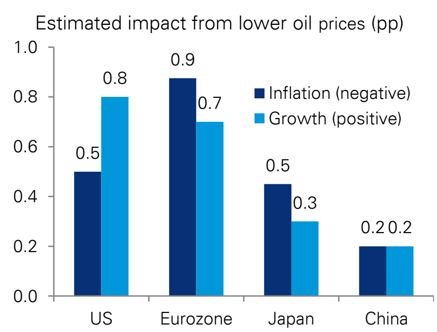
Central bank divergence will underpin further US$ strength. Equities remain our preferred asset class. However, with valuations having fully corrected from depressed post-crisis levels, sector allocation and stock picking will be crucial to investment performance. Returns in Credit will be low; however Europe should outperform the US on the back of ECB support and lower exposure to energy. Core sovereign bond yields should rise moderately over the year, although even lower rates are possible in the near term. We see limited further downside for oil, but any price recovery will be gradual.

Figure 1: EM still drives the bulk of global growth



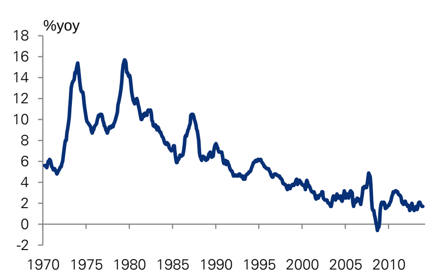
Source: Deutsche Bank, IMF, Bloomberg Finance LP

Figure 2: Impact from lower oil prices



Source: Deutsche Bank

Figure 3: Global inflation near 40-year lows



Source: Deutsche Bank, Haver Analytics, OECD

Key risks to our view include an escalation of the crisis in Europe such as the rise of anti-establishment parties, a more pronounced slowdown in China, a series of crises across EM and less predictable risks such as natural disasters or rising geopolitical tensions.

Figure 4: Summary of DB's GDP and inflation forecasts currently compared with the beginning of 2014

	Forecasts: January 2014				Forecasts: Current					
	GDP growth (%)		CPI inflation		GDP growth (%)			CPI inflation		
	2014F	2015F	2014F	2015F	2014E	2015F	2016F	2013E	2014F	2015F
US	3.5	3.8	2.2	2.0	2.5	3.7	3.1	1.6	0.9	2.7
Japan	0.7	1.3	2.5	2.3	0.3	1.3	1.7	2.9	1.3	0.9
Euroland	1.0	1.4	1.0	1.4	0.8	1.0	1.3	0.4	-0.1	1.2
G7	**2.3**	**2.7**	**2.2**	**2.0**	**1.8**	**2.5**	**2.4**	**1.5**	**0.8**	**2.0**
China	8.6	8.2	2.5	3.2	7.4	7.0	6.7	2.0	2.6	3.0
India	5.5	6.0	4.5	6.3	5.5	6.5	6.5	7.2	5.3	5.8
EM Asia	**6.9**	**6.8**	**3.9**	**3.9**	**6.1**	**6.2**	**6.1**	**3.5**	**3.4**	**3.7**
Russia	2.4	2.8	5.2	4.7	0.5	-5.2	-3.4	7.7	11.4	8.6
EMEA	**2.9**	**3.5**	**4.5**	**4.7**	**2.2**	**0.5**	**1.5**	**6.0**	**7.0**	**6.2**
Brazil	1.9	1.7	5.8	5.4	0.1	0.3	1.9	6.3	6.8	5.8
Latam	**2.6.**	**3.1**	**9.9**	**8.9**	**0.8**	**1.3**	**2.8**	**12.5**	**12.4**	**11.4**
Advanced economies	**2.2**	**2.6**	**2.0**	**1.9**	**1.7**	**2.4**	**2.3**	**1.4**	**0.7**	**1.9**
EM economies	**5.3**	**5.4**	**5.0**	**5.0**	**4.4**	**4.2**	**4.6**	**5.4**	**5.5**	**5.3**
World	**3.7**	**4.0**	**3.5**	**3.4**	**3.3**	**3.4**	**3.7**	**3.7**	**3.5**	**3.9**

Source: Deutsche Bank estimates

Domestic economy

Cautious optimism

We remain cautiously optimistic over growth prospects this year expecting an improvement to 2.8% and 2.9% in 2016 from 1.4% in 2014. Consumer demand will be central to this year's growth performance. We see at least 1% upside in household consumption growth from the slide in fuel prices. Inflation should fall to the lowest level in a decade this year, and house prices are also poised to show the strongest growth in eight years. From a policy perspective, we do not see any rate hikes or adjustments in VAT and PAYE taxes this year. Despite the challenging growth environment last year, business confidence improved marginally to above 50 index points. In the face of lingering electricity constraints, cautious optimism should prevail amid improving corporate profitability, a pick up in residential activity, and expectations of a recovery in consumer demand. Margin expansion should promote some employment growth this year as staffing levels in private sectors remain light compared with the 2008 peak. We see improving job prospects in construction, transport, trade and financial and business services sectors.

Growth in most trade partner countries is improving. This is a more important driver of export performance than the importance of relative prices (ie. a weak currency). Our research shows that exporters will begin to feel the impact from the sustained deprecation in the exchange rate over the last few years. Strong terms of trade, coupled with a rebound in export volumes, especially from strike-hit lows last year, should lead to the current account deficit printing near c.-4% this year from 5.5% in 2014. Fiscal metrics will receive a much needed lift from the additional revenue-multipliers stemming from lower oil prices. Overall, the concomitant reduction in external vulnerability and attractive backdrop for further rally in bonds should ease pressure off the rand exchange rate, at least on a trade weighted basis.

Our key economic forecasts are listed in Figure 5.

Figure 5: Key macro-economic forecasts

	2011	2012	2013	2014E	2015F	2016F
Real GDP	3.2	2.2	2.2	1.4	2.8	2.9
Private consumption	4.9	3.4	2.9	1.2	2.8	2.7
Government consumption	1.7	3.4	3.3	1.9	1.4	1.4
Investment	5.7	3.6	7.6	-0.5	2.6	3.4
Exports	4.3	0.1	4.6	1.5	3.3	2.5
Imports	10.5	6.0	1.8	-0.2	3.1	3.4
CPI (yoy%) average	5.7	5.8	5.3	6.1	4.2	5.8
Budget balance (% of GDP)	-4.2	-4.1	-4.1	-4.0	-3.1	-2.2
Current account balance (% of GDP)	-2.2	-5.0	-5.8	-5.5	-4.0	-4.7
FX rate (eop) ZAR/USD	8.06	8.39	10.35	11.63	11.0	10.5
FX rate (eop)ZAR/EUR	10.46	11.06	14.4	13.99	12.1	11

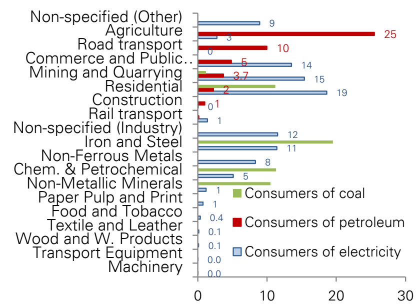
Financial markets (eop)	Current	1Q15	2Q15
Policy rate (repo rate)	5.75	5.75	5.75
3-month rate (Jibar)	6.08	6.10	6.10
10-yr bond yield	7.08	6.4	6.5

Source: Deutsche Bank, SARB, Bloomberg Finance LP

Risks to the outlook are omnipresent. Electricity supply could be a huge dampener on the business mood, and the willingness to invest in new capacity may be significantly impaired. Exporters face a considerable risk from weak growth in China and Europe and potential further declines in commodity prices. Labour markets may also be a source of contention this year, especially given that employment prospects in the mining and manufacturing sectors have deteriorated.

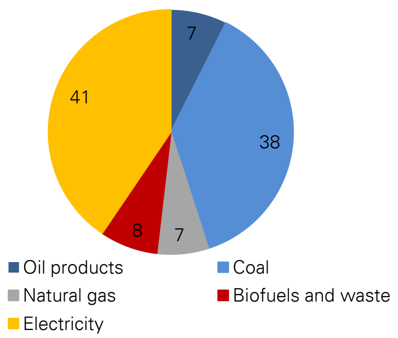
Overall, the net effect from falling export prices, much lower import costs and electricity constraints means that the winners will ultimately emerge in sectors geared to agriculture, middle- to high-end household demand, transport services and construction. Electricity constraints will take the wind out of the economy's sails and could be really damaging to growth this year. Power cuts will more negatively affect mining and quarrying and commerce sectors, which account for c.42% of GDP. However, lower coal prices will also support big industrial users thereof (eg. iron and steel, chemicals and non-metallic minerals) and the impact from lower oil may be minimal. Sectors gaining the most from lower oil prices (excluding aviation) are agriculture, road logistics, commerce and public services, mining and quarrying and lastly construction. There are no clear winners in industrial sectors (including mining and quarrying), where electricity constraints will be mostly felt. However, machinery and transport equipment, wood and wood products, textiles and leather, as well as food and tobacco sectors are less energy intensive than other manufacturing divisions.

Figure 6: Consumers of oil and electricity



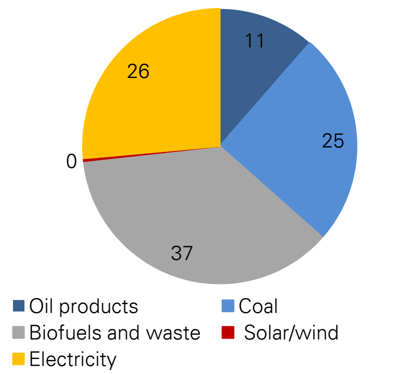
Source: Deutsche Bank, Department of Energy

Figure 7: Industry – energy consumption



Source: Deutsche Bank, IEA

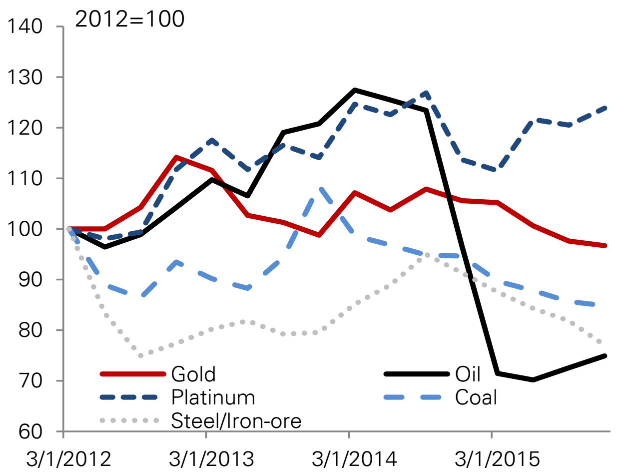
Figure 8: Residential, commerce and agriculture



Source: Deutsche Bank, IEA

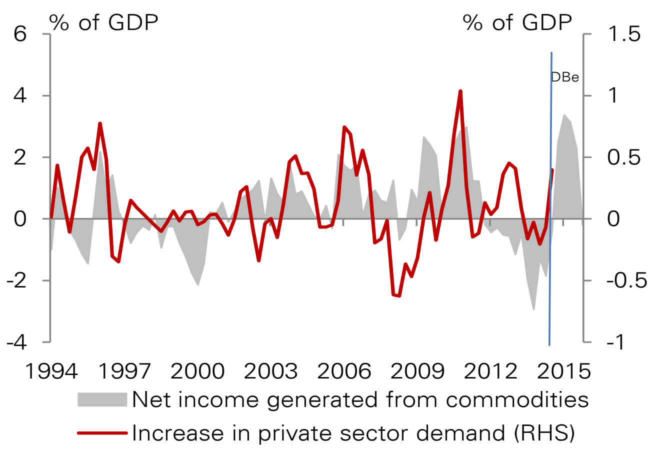
In the below section we briefly highlight a few of the important trends that shape the domestic outlook discussed above.

Figure 9: Main resource export prices holding up relative to falling oil prices



Source: Deutsche Bank, Bloomberg Finance LP

Figure 10: Largest boost in real income in 20 years

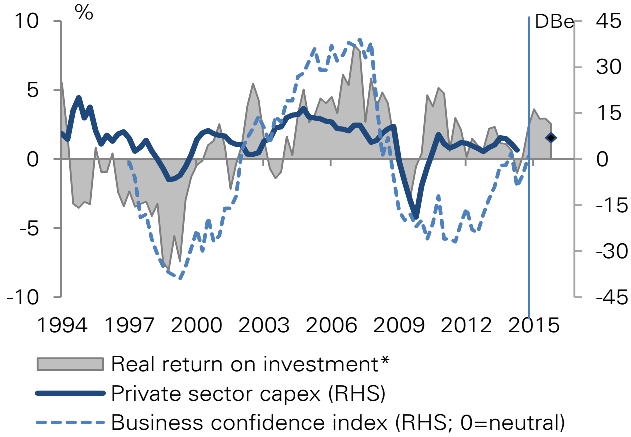


Source: Deutsche Bank, SARB

Net impact from falling export commodity prices and lower oil is still positive for the economy. Lower oil prices if sustained will provide a welcome boost to commodity income flows, which have declined by c.9% over the last few years on a net basis. Export prices are expected to decline 1.5% this year (modest support for platinum prices partly offset the decline in iron ore, gold and coal prices). But based on low global inflation and lower oil price in particular, import prices are expected to fall by 8%. As a result, exporters are able to purchase more with their returns, given the large decline in fuel, which will permeate goods prices in the economy. Terms of trade (export/import prices) should rise by 7.5% this year. Overall, however, the recovery in global demand is still stronger than last year, and will help to restore some growth in export volumes from strike-induced lows last year. Margin expansion and stronger global growth should alleviate some constraints to growth stemming from weak electricity supply conditions.

Net income generated from positive oil shock should boost private demand: Terms of trade (ToT) measures net income generated from the movement in export prices relative to import prices, and serves as a good proxy for profit margins, not only in export sectors. Stronger corporate balance sheets have positive repercussions for employment, dividend payments, wage growth and capital investment. Since the net improvement in this cycle is driven by a sharp decline in oil prices in particular, the impact will be more widespread across sectors, but particularly in agriculture, road logistics and other business services that are dominant users of fuel. Since markets have already anticipated future benefits for consumers and corporate margins, asset values have appreciated in some retail and industrial shares. In theory, this should be positive for confidence levels.

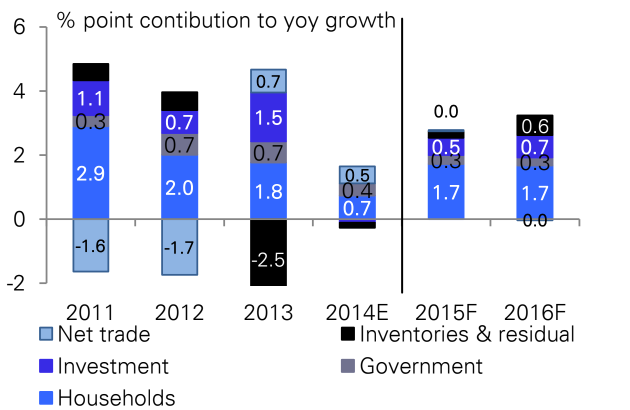
Figure 11: A positive incentive to invest, but much hinges on confidence levels



Source: SARB, Deutsche Bank

Improved real return on investment should provides a good incentive to invest .As illustrated in Figure 11, the incentive for the private sector to invest is often driven by improving real returns, proxied by the difference between nominal GDP growth and real short-term rates. From a borrowing cost perspective, short-term yields are likely to remain low for some time given much improved outlook for inflation and a steady monetary policy cycle. There is a negative relationship between oil prices and nominal GDP growth – ie. lower oil prices increase the GDP deflator and supports real growth in consumer demand. In turn, returns on investment should thus increase in periods of higher nominal growth. Much will, however, hinge on business confidence, and how this is shaped by the turn of events in electricity supply.

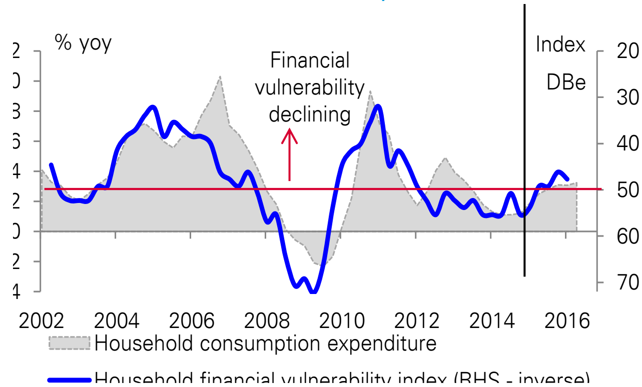
Figure 12: Contributions to growth in GDP: households the main source of energy



Source: SARB, Deutsche Bank

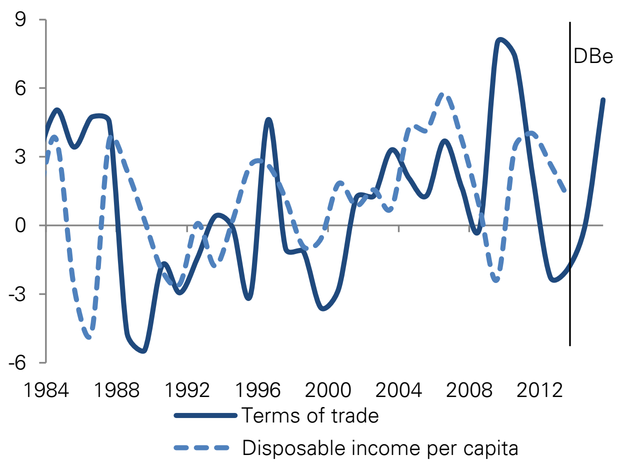
Growth to improve in 2015 based on a revival in consumer demand: The cumulative 30% drop in fuel prices since August last year injects around R35bn into consumers' pockets this year based on our estimates. This is equivalent to a 1.5% increase in disposable income. Inflation will also be the lowest in a decade, averaging near 4%, with high-income benefits seeing inflation of closer to 3.5% vs. 5% for low-income households. Following the contraction in investment spending last year, the low base coupled with efforts to fix supply constraints in energy and transport should help to shore up some investment activity. The focus is likely to be on renewal and maintenance (ie. machinery and equipment) rather than new capex generation. Finally, the contribution of net trade to growth should be neutral this year as we see similar import and export volume growth this year.

Figure 13: Households' financial vulnerability* to diminish for the first time in three years



** This financial vulnerability index is a diffusion index of key indicators that affect balance sheet health of consumers. Above 50 denotes rising financial vulnerability, and below 50 shows improved financial health.*
Source: Deutsche Bank, SARB

Figure 14: Welfare effects from improving ToT are positive



Source: Deutsche Bank, SARB, StatsSA

Household financial vulnerability on the rise: Our household financial vulnerability index (HFVI)[1] has been a reliable forward-looking barometer of household stress over the past few years, leading consumption by around two quarters. The HFVI index is seen increasing to the best levels in four years, falling below 50 index points (reduced financial vulnerability). This improvement is mainly attributed to envisaged lower inflation, real increases in house prices of 4-5%, increased debt affordability, and positive job prospects in trade, construction, services and transport sectors – where staffing levels are still well down from the peak at the turn of the crisis. Job cuts in export sectors are likely to be mild given still subdued staffing levels as manufacturers, in particular, have increasingly mechanised operations these last few years.

The circularity of terms of trade gains means that household income is also supported. As highlighted in previous research[2], there is a positive correlation between consumer confidence and income effects from commodity prices. Employment growth tends to hold up well given the general improvement in corporate balance sheets. The circularity argument also means that if it is not wages that adjust, households should at least be the beneficiaries of increased dividend receipts and real gains in equity holdings. Overall thus, the outlook for household per capita income growth has turned a little more positive.

[1] See EM Special (South Africa) of 18 September 2011 and 16 January 2012
[2] See Special Report (South Africa): Macro implications of deteriorating terms of trade, 24 September 2012.

Equity review: Forecast summary

	Price (cps)	TP (cps)	YE	EPS Historical	EPS FY1	EPS FY2	DPS Historical	DPS FY1	DPS FY2	P/E FY1	DY % FY1	Rating
Banks												
Barclays Africa Group	18600	15000	31-Dec	15.04	16.15	17.54	8.81	9.46	9.46	11.51	11.51	Sell
Capitec Bank	39700	20000	28-Feb	17.40	19.40	21.65	6.63	7.81	8.72	20.47	20.47	Hold
FirstRand	5249	4500	30-Jun	3.41	3.79	4.36	1.74	2.03	2.33	13.86	13.86	Hold
Investec**	57050	57000	31-Mar	35.85	39.83	50.11	19.00	21.84	26.63	14.31	14.31	Buy
Nedbank	26140	24500	31-Dec	20.35	22.77	26.50	10.20	12.00	13.97	11.48	11.48	Hold
RMB Holdings	6756	5700	30-Jun	4.48	4.92	5.58	2.27	2.65	3.00	13.74	13.74	Hold
Standard Bank	15403	15500	31-Dec	11.09	13.30	15.84	5.78	6.78	7.89	11.58	11.58	Buy
Financial Services												
Alexander Forbes	964	930	31-Mar	-0.52	0.64	0.70	0.00	0.00	0.46	14.49	0.00	Hold
Transaction Capital	844	850	30-Sep	0.57	0.66	0.77	0.16	0.19	0.24	12.76	12.76	Buy
Real Estate												
Attacq	2305	2430	30-Jun	1.51	3.46	4.13	0.00	0.00	0.00	6.86	0.00	Buy
Growthpoint	2965	2900	30-Jun	1.53	1.38	1.52	1.61	1.74	1.87	13.71	5.86	Hold
Hyprop	10705	11000	30-Jun	5.04	5.24	5.80	4.72	5.24	5.80	18.68	4.90	Buy
Redefine Properties	1181	1200	31-Aug	0.95	1.60	1.72	0.74	0.80	0.86	9.34	6.79	Buy
General Mining												
ARM	13061	17500	30-Jun	18.86	8.13	5.98	6.00	5.31	4.38	16.07	4.06	Buy
Anglo American*	21733	35000	31-Dec	1.67	1.65	1.89	0.85	0.85	0.81	11.18	4.60	Buy
BHP Billiton*	28165	37500	30-Jun	2.52	1.44	1.44	1.21	1.24	1.24	19.37	5.18	Buy
Glencore*	5160	6100	31-Dec	0.30	0.27	0.31	0.18	0.19	0.19	16.45	4.24	Hold
Kumba Iron Ore	23247	21000	31-Dec	33.99	14.00	14.70	24.77	9.34	10.50	16.60	4.02	Hold
Gold												
AngloGold Ashanti*	14460	17000	31-Dec	0.18	0.96	0.81	0.00	0.00	0.00	12.81	0.00	Buy
Gold Fields*	5770	4500	31-Dec	0.10	0.17	0.16	0.04	0.05	0.05	29.37	1.02	Hold
Harmony	3081	1600	30-Jun	0.26	-1.16	-1.00	0.50	0.00	0.00	nm	0.00	Hold
Sibanye Gold	3200	2100	31-Dec	2.20	1.77	-0.09	1.25	0.66	0.00	18.06	2.06	Hold
Platinum												
Amplats	37829	52000	31-Dec	2.99	25.62	26.20	0.00	0.00	8.77	14.76	0.00	Buy
Aquarius Platinum*	232	520	30-Jun	-0.01	-0.03	0.02	0.00	0.00	0.00	nm	0.00	Buy
Impala Platinum	7900	11500	30-Jun	0.86	1.21	5.46	0.00	0.00	0.00	65.41	0.00	Hold
Lonmin*	3000	5300	30-Sep	0.05	0.00	0.04	0.00	0.00	0.05	nm	0.00	Buy
Northam	4843	5500	30-Jun	0.02	-1.92	1.36	0.00	0.00	0.00	nm	0.00	Buy
RBPlat	5748	7000	31-Dec	2.37	1.83	1.98	0.00	0.00	0.00	31.38	0.00	Hold

*Price in ZAR; all other values in US$
** Price in ZAR; all other values in GBP
*** Price in GBP; all other values in EUR
**** Price in ZAR; all other values in EUR
All prices are as at Friday, 13 February 2015
Source: Company data, Deutsche Bank estimates

Equity review: Forecast summary, cont

	Price (cps)	TP (cps)	YE	EPS Historical	EPS FY1	EPS FY2	DPS Historical	DPS FY1	DPS FY2	P/E FY1	DY % FY1	Rating
Non-Mining Resources – Oil & Gas												
Sasol	47756	49000	30-Jun	59.64	36.54	28.50	21.50	21.50	21.50	13.07	4.50	Buy
Non-Mining Resources - Paper												
Mondi***	1257	1320	31-Dec	1.02	1.10	1.18	0.43	0.48	0.55	15.48	2.83	Buy
Industrials												
Aspen	43878	36000	30-Jun	10.64	13.67	15.67	1.88	2.42	2.77	32.10	0.55	Hold
Barloworld	8916	10700	30-Sep	8.52	8.26	11.70	3.23	2.99	4.50	10.79	3.35	Hold
Bidvest	9100	9400	30-Jun	17.23	19.56	21.12	8.34	9.15	9.89	16.16	2.90	Buy
Clicks	19500	19500	31-Aug	3.37	3.81	4.37	1.91	2.24	2.57	23.91	2.46	Hold
Foschini	9037	8600	31-Mar	9.03	10.74	10.53	5.36	6.00	7.02	16.67	3.35	Buy
Imperial	4470	4400	30-Jun	16.06	16.06	17.80	8.20	8.29	9.13	12.14	4.25	Hold
Lewis	16920	15200	31-Mar	9.13	8.69	9.65	5.17	5.17	5.36	10.40	5.72	Hold
Life Healthcare	12950	12500	30-Sep	1.68	1.95	2.20	2.41	1.46	1.65	22.94	3.27	Hold
Massmart	21629	22500	31-Dec	5.41	6.04	7.11	3.49	3.90	4.59	28.02	2.30	Hold
Mediclinic	4393	3800	31-Mar	3.69	4.63	5.55	0.96	1.50	1.80	27.99	1.16	Buy
MTN Group	161550	178500	31-Dec	14.17	14.48	15.86	11.39	12.52	13.78	14.94	5.79	Buy
Nampak	4085	4000	30-Sep	2.02	2.32	2.59	1.53	1.59	1.79	18.97	3.63	Hold
Naspers	5675	5000	31-Mar	21.25	29.67	53.74	4.25	5.30	6.32	54.46	0.33	Buy
Netcare	8200	7600	30-Sep	1.64	1.87	2.24	0.80	0.95	1.14	21.88	2.33	Buy
Pick n Pay Stores	62353	63000	28-Feb	1.13	1.69	2.06	0.92	1.12	1.37	33.63	1.97	Hold
Richemont****	10301	10085	31-Mar	3.68	3.04	4.08	1.17	1.47	1.54	23.58	1.91	Hold
SABMiller*	18385	20100	31-Mar	2.39	2.43	2.56	1.05	1.07	1.13	23.65	2.02	Hold
Shoprite	7690	6500	30-Jun	6.97	7.73	8.55	3.50	3.86	4.28	23.17	2.16	Buy
Spar	31600	32300	30-Sep	7.18	8.84	9.92	5.40	6.55	7.35	20.79	3.56	Buy
Telkom	17898	19300	31-Mar	8.47	5.44	4.92	0.00	2.00	3.50	14.14	2.60	Hold
Truworths	8684	9500	30-Jun	5.69	5.71	6.24	3.85	3.86	4.21	15.20	4.44	Buy
Vodacom	13663	12500	31-Mar	8.95	8.81	9.39	8.25	7.94	8.46	15.51	5.81	Hold
Woolworths	9050	8900	30-Jun	3.60	3.74	4.62	2.52	2.82	3.43	22.41	3.12	Buy

** Price in ZAR; all other values in US$*
*** Price in ZAR; all other values in GBP*
**** Price in GBP; all other values in EUR*
***** Price in ZAR; all other values in EUR*
All prices are as at Friday, 13 February 2015
Source: Company data, Deutsche Bank estimates

South Africa – Banks | Price (13 February 2015): 18600c | Target price: 15000c | Rating: Sell

Barclays Africa Group Ltd

Stefan Swanepoel / Bankole Ubogu

Business description: Barclays Africa Group 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 in 2005. 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. c.R18.3bn of Barclays' African operations were sold by Barclays to Absa in exchange for an additional c.15.3% shareholding in Absa. The sale also resulted in a restructuring where the holding company was rebranded to the Barclays Africa Group. Along with Standard Bank, Barclay Africa Group currently has one of the largest African exposures (ex-South Africa) of the South African banks.

Drivers: For the banking operations, retail constitutes the overwhelming majority of net advances relating mostly to mortgages (c.69% of total retail advances). We expect muted retail growth due to Barclays' conservative risk appetite and a slow growth in new vehicle sales. Corporate growth is expected to be in the low teens on the back of growth in renewable and corporate loan growth in the rest of Africa. Overall, we expect improved asset growth in FY15 (c.+8.5%) and FY16 (c.+10%) as the consumer and corporates benefit from the lower inflationary environment, as well as some contribution from Africa in due course. We anticipate margins will remain stable this year as marginally higher cost of funds is offset by the benefits from the endowment effect. We expect the credit loss ratio has bottomed; although the consumer has some reprieve, we anticipate the home loan NPLs decline is bottoming out and we therefore see a slight normalisation of the credit loss ratio. We anticipate some growth in non-interest revenue in the medium-term as retail fees improve post the revised retail banking strategy, supplemented by some growth in Absa Capital and Absa Financial Services (Barclays Africa's short-term and life insurance unit). Barclays Africa has focused on revising its problematic retail strategy, achieving relatively little to date in terms of bottom line profitability, but expected to show some improvement over the next two years. It remains a potential turnaround story in the interim. Cost management remains key in a lower growth environment and a possible differentiator when compared with its South African peers.

Outlook: Barclays Africa Group shows some prospects for earnings growth in the near term, however given our expectations of a rate hiking cycle the environment continues to be challenging. Although we expect Barclays Africa Group to gain traction in NIR, low asset growth expectations and the fact that it hedges out the endowment effect could place pressure on revenues Barclays Africa Group has adjusted its provisioning methodology and it has increased its impairment charge as a result. Barclays Africa Group remains exposed to higher levels of lending into the unsecured market which could result in additional provisions further down the line. The outlook for the company is dependent on its ability to generate growth in NIR, in an increasingly regulated environment which remains weak. We recommend a Sell.

Valuation: We value Barclays Africa Group on a sum-of-the-parts basis, applying a terminal price-to-book multiple to the three-year forward NAV of the banking operations (based on assumptions of ROE: 16%, COE: 13.9%, g: 6%). The above results in a terminal P/B multiple of 1.3x. For Absa Financial Services, we value the life insurance operations on multiple to EV and the short term and investment operations on P/E basis.

Risks: Upside risks: interest rates remain a differentiator given the hedging policy that Barclays Africa Group adopts should interest rates decline further; Barclays Africa Group will offer investors some margin protection. Barclays Africa Group could have a higher than anticipated dividend, resulting in further potential upside. Barclays may execute its turnaround strategy sooner than anticipated resulting in a better than expected uplift to ROEs.

Model updated:30 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Barclays Africa Group

Reuters: BGAJ.J Bloomberg: BGA SJ

Sell

Price (13 Feb 15)	ZAR 186.00
Target Price	ZAR 150.00
52 Week range	ZAR 130.30 - 199.50
Market Cap (m)	ZARm 157,874
	USDm 13,548

Company Profile

Barclays Africa 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	2011	2012	2013	2014E	2015E	2016E
Data Per Share						
EPS (stated)(ZAR)	13.50	12.30	13.98	15.08	16.23	17.62
EPS (DB) (ZAR)	13.50	12.28	13.97	15.04	16.15	17.54
Growth Rate - EPS (DB) (%)	21	-9	14	8	7	9
DPS (ZAR)	6.84	6.84	15.28	8.81	9.46	9.46
BVPS (stated) (ZAR)	86.92	91.01	91.25	97.45	105.66	113.36
Tang. NAV p. sh. (ZAR)	83.95	87.41	87.54	93.56	101.59	109.09
Market Capitalisation (ZARm)	94,122.08	135,686.07	112,062.13	157,874.40	157,874.40	157,874.40
Shares in issue (m)	719.91	848.70	848.00	851.27	854.08	855.53
Valuation Ratios & Profitability Measures						
P/E (stated)	9.7	13.0	9.5	12.3	11.5	10.6
P/E (DB)	9.7	13.0	9.5	12.4	11.5	10.6
P/B (stated)	1.5	1.8	1.4	1.9	1.8	1.6
P/Tangible equity (DB)	1.56	1.83	1.51	1.99	1.83	1.71
ROE(stated)(%)	16.39	14.95	15.34	16.00	15.99	16.10
ROTE (tangible equity) (%)	16.95	15.53	15.98	16.67	16.64	16.74
ROIC (invested capital) (%)	17.0	15.5	16.0	16.7	16.6	16.7
Dividend yield(%)	5.5	4.9	10.3	4.7	5.1	5.1
Dividend cover(x)	2.0	1.8	0.9	1.7	1.7	1.9
Profit & Loss (ZARm)						
Net interest revenue	24,429	29,302	32,351	35,576	37,785	41,166
Non interest income	21,403	25,674	27,055	28,330	30,511	32,863
Commissions	17,887	21,918	22,915	23,776	25,501	27,353
Trading Revenue	0	0	0	0	0	0
Other revenue	3,516	3,756	4,140	4,554	5,009	5,510
Total revenue	45,832	54,976	59,406	63,905	68,295	74,029
Total Operating Costs	26,529	31,185	34,453	37,391	39,782	42,534
Employee Costs	13,642	15,787	17,593	19,352	20,513	21,949
Other costs	12,887	15,398	16,860	18,039	19,268	20,585
Pre-Provision profit/(loss)	19,303	23,791	24,953	26,514	28,514	31,495
Bad debt expense	5,081	8,855	6,987	7,130	8,282	9,603
Operating Profit	14,222	14,936	17,966	19,384	20,231	21,893
Pre-tax associates	40	249	130	143	157	173
Pre-tax profit	14,262	15,185	18,096	19,527	20,389	22,066
Tax	4,026	4,439	5,222	5,819	5,607	5,958
Other post tax items	-562	-747	-893	-946	-1,026	-1,142
Stated net profit	9,719	10,419	11,843	12,802	13,796	15,006
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	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	9,719	10,419	11,843	12,802	13,796	15,006
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	424,489	438,216	560,933	603,789	657,271	724,986
Interest-earning assets	618,230	704,964	768,723	819,472	886,383	971,566
Customer Loans	503,503	566,262	605,337	656,204	717,903	795,840
Total Deposits	609,561	691,329	754,904	830,394	913,434	1,004,777
Stated Shareholder Equity	62,308	77,096	77,317	82,711	89,838	96,545
Equals: Tangible Equity	60,173.0	74,048.0	74,176.0	79,412.9	86,375.3	92,909.2
Tier 1 capital	54,976.0	57,017.0	67,885.0	75,001.9	81,776.0	88,150.8
Tier 1 ratio (%)	13	13	12	12	12	12
o/w core tier 1 capital ratio (%)	14	14	13	13	13	13
Credit Quality						
Gross NPLs/Total Loans(%)	7.06	5.56	4.84	3.60	3.59	3.59
Risk Provisions/NPLs(%)	34	50	55	76	74	74
Bad debt / Avg loans (%)	1.00	1.66	1.19	1.13	1.21	1.27
Bad debt/Pre-Provision Profit(%)	26.3	37.2	28.0	26.9	29.0	30.5
Growth Rates & Key Ratios						
Growth in revenues (%)	7	20	8	8	7	8
Growth in costs (%)	7	18	10	9	6	7
Growth in bad debts (%)	-15	74	-21	2	16	16
Growth in RWA (%)	0	3	28	8	9	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 (%)	82.60	81.91	80.19	79.02	78.59	79.21
ROTE Decomposition						
Revenue % ARWAs	10.82	12.75	11.89	10.97	10.83	10.71
Net interest revenue % ARWA	5.77	6.79	6.48	6.11	5.99	5.96
Non interest revenue % ARWA	5.05	5.95	5.42	4.86	4.84	4.76
Costs/income ratio (%)	57.9	56.7	58.0	58.5	58.2	57.5
Bad debts % ARWAs	1.20	2.05	1.40	1.22	1.31	1.39
Tax rate (%)	28.3	29.7	29.1	30.0	27.7	27.2
Adj. Attr. earnings % ARWA	2.28	2.36	2.34	2.17	2.16	2.15
Capital leverage (ARWA/Equity)	7.4	6.4	6.7	7.6	7.6	7.7
ROTE (Adj. earnings/Ave. equity)	16.9	15.2	15.8	16.5	16.5	16.5

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (13 February 2015): 39700c | Target price: 20000cc | Rating: Hold

Capitec Bank Holdings Ltd

Stefan Swanepoel / Bankole Ubogu

Business description: Capitec Bank, a retail bank, is a subsidiary of Capitec which is listed on the JSE. Capitec Bank provides accessible and affordable banking facilities to clients via the innovative use of technology in a manner that is convenient and personalised. Capitec obtained its banking licence in 2001 and was listed on the JSE during 2002. It started taking deposits in 2003, with good growth in the number of branches and transactional clients since its launch. Capitec competes with the major banking players as a value offering. Currently, it does not have a fully fledged credit card facility, nor does it offer secured asset finance. It offers transactional banking with a debit card product, various often attractively priced saving products, as well as unsecured lending. Focusing on building a low cost, paperless environment, its system and networks are very scalable and conducive to further growth.

Drivers: The key drivers for Capitec include its ability to continue generating strong loan growth in unsecured lending. Margins are under pressure, given the low interest rate environment and the continued extension of the average term of the unsecured loans sold. Funding costs are reliant on the availability and cost of long term institutional and retail funds. Non-interest revenue is generated from initiation and administration fees associated with new unsecured loans sold as well as transactional revenue from the use of transactional banking facilities. The cost of impairment is typically quite high as Capitec writes off all loans greater than 90 days; consequently, it does not have any non-performing loans. Capitec focuses on a low cost banking model and remains cost conscious with appropriate scalable alternatives, the primary cost drivers are staff costs and costs associated with technology.

Outlook: Capitec is a primary provider of personal loans in South Africa and also offers transaction banking products. It operates in an increasingly competitive banking and lending environment. Since the introduction of the National Credit Act in 2007 (NCA), the proliferation of unsecured credit has been strong allowing both Capitec and the industry to rapidly grow advances. However, this has led to intense competition and rapid asset growth rates, and fears that an unsecured lending bubble is developing. Capitec appears to have termed out (increased the average length of its loans) a large proportion of its clients in FY11 and FY12, and this is likely to strengthen asset growth headwinds, the most formidable of which is a highly penetrated South African market. By our calculations, the revenue generated from the retail transaction business as well as the cost savings through the deposit franchise imply that the retail business is no longer a drag on group earnings. Hold.

Valuation: We value Capitec using a two-stage Gordon Growth Model We multiply the expected year 3 book value by a terminal P/B multiple. We arrive at a terminal P/B multiple of 1.95x (assuming a sustainable ROE of 24%, COE of 15.5% and a sustainable growth rate of 6%, based on nominal GDP).

Risks: Key upside risks are the ability to grow assets faster than forecast resulting in higher top line growth. Capitec's credit card offering could also drive asset growth above our estimates. The potential to claim an even bigger market share of transaction clients and the ability to drive volumes of transactions on its platforms with the introduction of more products (such as credit cards) presents further upside risks. The bank may also be able to maintain current vintage curve trajectories ahead of our expectations, which will have a material impact on credit loss ratios and hence fundamental value. Capitec may achieve a better-than-expected impairment profile, potentially resulting in higher net income. Key downside risks are the potential emergence of a consumer lending bubble that could seriously impact asset quality and thus earnings. Capitec has granted a large amount of long-term (and presumably high-value) loans in the past two years, indicating a significantly higher risk tolerance than in prior periods, bucking the trend of a slowing industry. Competition for primary transaction banking relationships within retail banking has intensified, which may impair Capitec's ability to grow this form of income.

Model updated:28 March 2014

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Capitec Bank

Reuters: CPIJ.J Bloomberg: CPI SJ

Hold

Price (13 Feb 15)	ZAR 397.00
Target Price	ZAR 200.00
52 Week range	ZAR 182.00 - 397.00
Market Cap (m)	ZARm 45,773
	USDm 3,928

Company Profile

Capitec Bank, a retail bank, is a subsidiary of Capitec that is listed on the JSE Ltd. Capitec Bank provides accessible and affordable banking facilities to clients via the innovative use of technology in a manner, which is convenient and personalised.

Fiscal year end 28-Feb	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(ZAR)	11.22	15.19	17.52	19.53	21.80	27.89
EPS (DB) (ZAR)	10.99	14.98	17.40	19.40	21.65	27.70
Growth Rate - EPS (DB) (%)	50	36	16	11	12	28
DPS (ZAR)	4.25	5.74	6.63	7.81	8.72	11.16
BVPS (stated) (ZAR)	49.62	72.12	84.33	95.70	108.86	125.18
Tang. NAV p. sh. (ZAR)	48.92	70.93	82.58	93.87	106.93	123.16
Market Capitalisation (ZARm)	18,218.25	21,515.10	21,186.01	45,773.30	45,773.30	45,773.30
Shares in issue (m)	98.06	105.70	115.93	116.09	116.09	116.09
Valuation Ratios & Profitability Measures						
P/E (stated)	16.4	12.4	10.5	20.3	18.2	14.2
P/E (DB)	16.7	12.5	10.6	20.5	18.3	14.3
P/B (stated)	3.7	2.6	2.2	4.1	3.6	3.2
P/Tangible equity (DB)	3.75	2.65	2.22	4.23	3.71	3.22
ROE(stated)(%)	26.48	24.03	22.44	21.70	21.31	23.84
ROTE (tangible equity) (%)	26.89	24.41	22.87	22.14	21.71	24.24
ROIC (invested capital) (%)	26.5	24.0	22.4	21.7	21.3	23.8
Dividend yield(%)	2.4	2.8	3.3	2.0	2.2	2.8
Dividend cover(x)	2.6	2.6	2.6	2.5	2.5	2.5
Profit & Loss (ZARm)						
Net interest revenue	3,325	5,422	7,300	8,178	8,949	10,199
Non interest income	2,346	2,530	2,749	3,061	3,438	3,880
Commissions	2,307	2,502	2,768	3,081	3,459	3,902
Trading Revenue	0	0	0	0	0	0
Other revenue	39	29	-19	-20	-21	-22
Total revenue	5,671	7,953	10,049	11,240	12,386	14,079
Total Operating Costs	2,509	3,016	3,242	3,515	3,827	4,178
Employee Costs	1,391	1,536	1,710	1,806	1,915	2,030
Other costs	1,118	1,480	1,531	1,708	1,913	2,148
Pre-Provision profit/(loss)	3,162	4,936	6,807	7,725	8,559	9,901
Bad debt expense	1,604	2,659	3,976	4,559	5,030	5,397
Operating Profit	1,558	2,277	2,831	3,166	3,529	4,505
Pre-tax associates	0	0	2	2	2	2
Pre-tax profit	1,558	2,277	2,833	3,168	3,531	4,507
Tax	464	673	795	887	989	1,262
Other post tax items	-19	-21	-20	-29	-29	-29
Stated net profit	1,075	1,584	2,017	2,252	2,513	3,216
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	3	0	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	1,078	1,584	2,017	2,252	2,513	3,216
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	15,545	0	0	0	0	0
Interest-earning assets	22,613	37,101	44,476	50,110	54,621	61,326
Customer Loans	16,863	27,935	30,053	33,205	37,101	43,154
Total Deposits	17,692	29,000	35,449	39,237	39,237	39,237
Stated Shareholder Equity	4,926	8,254	9,723	11,034	12,551	14,434
Equals: Tangible Equity	4,857.1	8,117.6	9,521.8	10,822.5	12,329.0	14,200.5
Tier 1 capital	4,814.9	0.0	0.0	0.0	0.0	0.0
Tier 1 ratio (%)	31	na	na	na	na	na
o/w core tier 1 capital ratio (%)	31	nm	nm	nm	nm	nm
Credit Quality						
Gross NPLs/Total Loans(%)	0.00	0.00	0.00	0.00	0.00	0.00
Risk Provisions/NPLs(%)	nm	nm	nm	nm	nm	nm
Bad debt / Avg loans (%)	11.91	11.87	13.71	14.41	14.31	13.45
Bad debt/Pre-Provision Profit(%)	50.7	53.9	58.4	59.0	58.8	54.5
Growth Rates & Key Ratios						
Growth in revenues (%)	51	40	26	12	10	14
Growth in costs (%)	37	20	7	8	9	9
Growth in bad debts (%)	62	66	50	15	10	7
Growth in RWA (%)	64	nm	nm	nm	nm	nm
Net int. margin (%)	18	18	18	17	17	18
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	95.31	96.33	84.78	84.63	94.56	109.98
ROTE Decomposition						
Revenue % ARWAs	45.35	102.32	nm	nm	nm	nm
Net interest revenue % ARWA	26.59	69.76	nm	nm	nm	nm
Non interest revenue % ARWA	18.76	32.56	nm	nm	nm	nm
Costs/income ratio (%)	44.2	37.9	32.3	31.3	30.9	29.7
Bad debts % ARWAs	12.83	34.21	nm	nm	nm	nm
Tax rate (%)	29.8	29.5	28.1	28.0	28.0	28.0
Adj. Attr. earnings % ARWA	8.62	20.37	nm	nm	nm	nm
Capital leverage (ARWA/Equity)	3.1	1.2	0.0	0.0	0.0	0.0
ROTE (Adj. earnings/Ave. equity)	26.9	24.4	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (13 February 2015): 5249c | Target price: 4500c | Rating: Hold

FirstRand Ltd

Stefan Swanepoel / Bankole Ubogu

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 home loan 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. 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 low relative to long term average (albeit the highest within the sector). Overall, we expect asset growth in low double digits primarily supported by strong corporate growth. We expect net interest margin to be stable in FY15 as the benefits from the mix effect have largely played out, while picking up in FY16 due to positive endowment impact in a rising interest rate environment. FirstRand's asset mix (exposure to instalment finance rather than mortgages) results in an earlier impairment cycle than its peers. Due to this mix, FirstRand has led the recovery in credit loss ratios and conversely it is expected it will lead the cycle should consumers find themselves under further pressure. Non-interest revenue is impacted by the growth in fee and commission income, principally driven by higher volumes and price increases. Higher volumes are boosted as the bank gains more primary clients, with price increase subject to increased regulatory scrutiny remaining under pressure.

Outlook: FirstRand remains domestically focused, growing its asset base and seeing NII growth. 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 strong 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. Its ability to generate NIR growth should remain strong, supported by FNB and Wesbank as it is anticipated to gain further traction in terms of client numbers and new business volumes. Whilst the outlook is favourable, we believe it reflected in the current rating and recommend Hold.

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 2.1x (assuming an ROE: 23%, COE: 13.9%, g: 6%).

Risks: The following downside risks exist: 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. Risks to the upside include better than anticipated asset growth and as well as the potential to pay out additional dividends.

Model updated:30 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

FirstRand

Reuters: FSRJ.J Bloomberg: FSR SJ

Hold

Price (13 Feb 15)	ZAR 52.49
Target Price	ZAR 45.00
52 Week range	ZAR 31.80 - 52.50
Market Cap (m)	ZARm 287,396
	USDm 24,663

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).

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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(ZAR)	2.31	2.76	3.40	3.85	4.43	5.08
EPS (DB) (ZAR)	2.28	2.75	3.41	3.79	4.36	5.00
Growth Rate - EPS (DB) (%)	18	21	24	11	15	15
DPS (ZAR)	1.02	1.36	1.74	2.03	2.33	2.68
BVPS (stated) (ZAR)	10.77	13.10	14.94	16.83	19.18	22.84
Tang. NAV p. sh. (ZAR)	10.50	12.89	14.75	16.62	18.95	22.59
Market Capitalisation (ZARm)	144,159.56	158,132.13	223,524.05	287,396.07	287,396.07	287,396.07
Shares in issue (m)	5,576.06	5,563.46	5,543.00	5,566.54	5,569.54	5,577.54
Valuation Ratios & Profitability Measures						
P/E (stated)	11.4	10.5	12.0	13.6	11.9	10.3
P/E (DB)	11.6	10.5	12.0	13.9	12.0	10.5
P/B (stated)	2.4	2.2	2.7	3.1	2.7	2.3
P/Tangible equity (DB)	2.51	2.24	2.76	3.16	2.77	2.32
ROE(stated)(%)	21.48	23.17	24.31	24.21	24.61	24.22
ROTE (tangible equity) (%)	22.33	23.98	24.97	24.52	24.92	24.50
ROIC (invested capital) (%)	22.3	24.0	25.0	24.5	24.9	24.5
Dividend yield(%)	4.6	4.6	5.1	3.9	4.4	5.1
Dividend cover(x)	2.3	2.0	2.0	1.9	1.9	1.9
Profit & Loss (ZARm)						
Net interest revenue	21,882	24,715	29,878	33,524	37,915	42,675
Non interest income	29,494	31,614	36,150	39,934	44,041	48,783
Commissions	19,967	22,542	23,663	26,144	28,937	32,239
Trading Revenue	8,076	6,781	9,357	10,293	11,279	12,360
Other revenue	1,451	2,291	3,130	3,496	3,825	4,184
Total revenue	51,376	56,329	66,028	73,458	81,955	91,458
Total Operating Costs	28,973	32,131	36,326	39,416	43,154	46,916
Employee Costs	15,735	17,075	19,532	21,290	23,419	25,292
Other costs	13,238	15,056	16,794	18,126	19,736	21,623
Pre-Provision profit/(loss)	22,403	24,198	29,702	34,042	38,801	44,543
Bad debt expense	5,065	4,812	5,252	6,180	6,632	7,617
Operating Profit	17,338	19,386	24,450	27,862	32,169	36,926
Pre-tax associates	1,120	824	927	1,057	1,184	1,326
Pre-tax profit	18,458	20,210	25,377	28,918	33,353	38,251
Tax	4,089	4,532	5,591	6,411	7,495	8,596
Other post tax items	-1,173	-1,139	-1,346	-1,481	-1,629	-1,792
Stated net profit	12,642	15,114	18,671	21,076	24,280	27,915
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	88	209	230	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	12,730	15,323	18,901	21,076	24,280	27,915
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	471,468	519,960	572,446	609,166	682,266	764,138
Interest-earning assets	598,929	688,420	790,429	869,197	971,332	1,085,305
Customer Loans	524,507	598,975	685,926	754,059	842,816	943,954
Total Deposits	592,413	697,005	768,234	822,010	879,551	941,120
Stated Shareholder Equity	58,860	71,618	81,967	92,144	105,177	125,379
Equals: Tangible Equity	57,337.7	70,449.0	80,920.2	90,991.9	103,910.0	123,985.3
Tier 1 capital	65,489.0	77,212.0	84,647.0	95,487.5	107,960.7	122,286.2
Tier 1 ratio (%)	14	15	15	16	16	16
o/w core tier 1 capital ratio (%)	14	15	15	16	16	16
Credit Quality						
Gross NPLs/Total Loans(%)	3.56	2.84	2.37	3.27	3.37	3.37
Risk Provisions/NPLs(%)	60	74	85	63	61	61
Bad debt / Avg loans (%)	1.02	0.86	0.82	0.86	0.83	0.85
Bad debt/Pre-Provision Profit(%)	22.6	19.9	17.7	18.2	17.1	17.1
Growth Rates & Key Ratios						
Growth in revenues (%)	9	10	17	11	12	12
Growth in costs (%)	15	11	13	9	9	9
Growth in bad debts (%)	34	-5	9	18	7	15
Growth in RWA (%)	22	10	10	6	12	12
Net int. margin (%)	4	4	4	4	4	4
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	88.54	85.94	89.29	91.73	95.82	100.30
ROTE Decomposition						
Revenue % ARWAs	11.99	11.36	12.09	12.43	12.69	12.65
Net interest revenue % ARWA	5.11	4.99	5.47	5.67	5.87	5.90
Non interest revenue % ARWA	6.89	6.38	6.62	6.76	6.82	6.75
Costs/income ratio (%)	56.4	57.0	55.0	53.7	52.7	51.3
Bad debts % ARWAs	1.18	0.97	0.96	1.05	1.03	1.05
Tax rate (%)	23.6	23.4	22.9	23.0	23.3	23.3
Adj. Attr. earnings % ARWA	2.71	2.92	3.29	3.39	3.58	3.68
Capital leverage (ARWA/Equity)	7.5	7.8	7.2	6.9	6.6	6.3
ROTE (Adj. earnings/Ave. equity)	20.4	22.7	23.7	23.3	23.7	23.3

Source: Company data, Deutsche Bank estimates

United Kingdom – Banks | Price (13 February 2015): 570p | Target price: 570p | Rating: Buy

Investec plc

Bankole Ubogu / Stefan Swanepoel

Business description: Investec was formed in 1974 and has grown rapidly, both organically and by acquisition. It is now a major independent financial services group having established itself as a niche bank targeting high net-worth individuals and blue-chip corporate markets. Having divested from the US in FY03 (with the remainder sold in FY05), Israel in FY05 and the bulk of its Australian assets in FY14, key markets are now South Africa (69%) and the UK (31%) with smaller operations in Hong Kong, Canada, Channel Islands and Switzerland. In July 2002, Investec implemented a dual-listed company (DLC) structure and listed the offshore businesses on the LSE. In terms of the DLC, Investec Ltd and Investec plc form a single economic entity, with shareholders of each entity having equal voting and economic rights.

The UK presence was established through the acquisition of London-based Allied Trust Bank in 1992 (now Investec Bank UK). In April 1998, Investec purchased Guinness Mahon plc, including its 44% interest in Guinness Flight Asset Management (GFAM). Subsequently, Investec purchased the non-banking operations of Hambros plc (including private equity, property investments and trading operations). As a result of the Hambros acquisition, Investec acquired a further 44% in GFAM and bought the remaining interest from management for a 100% share. GFAM merged with Investec Asset Management and has created a better annuity stream. In 2005, Carr Sheppards Crosthwaite merged with listed Rensburg Plc, with Investec taking up its stake in the business to 100% in 2010, completing its UK Private Wealth offering.

To gain scale in Australia, Investec acquired Wentworth Associates, an independent advisory firm, and changed its investment banking licence to a full banking licence. Investec also acquired the Australian investment banking arm of NM Rothschild & Sons. However, the returns generated on the additional capital required by these investments were unable to exceed the cost of equity, and as a result, Investec disposed of the majority of its operations in the region during FY14.

Drivers: Investec is organised into four main business divisions: investment banking, private banking, asset management and wealth and investment. We believe the following are the most critical for the group over the medium term: the performance of global and local investment markets, growth in the domestic and UK economies, the ZAR/GBP exchange rate, and management's ability to increase the profitability and scale of the international businesses. Investec's areas of growth will be: continuing to shed suboptimal operations and develop its sub-scale operations in various geographies. We expect Investec will continue to make bolt-on acquisitions in areas where it believes it is sub-scale.

Outlook: Investec continues to be plagued by past market disappointments and the stock has not recovered to its CY07 high (c.748pps) even though we view the business as having changed fundamentally for the better since then. The contribution of "visible income" (NII and asset management income) has increased from c.45% in CY07 to c.65% of total income in 1H15 (but the forward P/E has compressed from c.14.7x to c.12.5x). Although EPS and ROE have come off from FY08 highs, we expect Investec to achieve earnings growth ahead of market expectations due to:

- The benefits from the recent rationalisation of operations are yet to flow.
- Continued roll-off of legacy assets that (in retrospect) were incorrectly priced in relation to today's onerous capital requirements.
- A re-deployment of capital as businesses turns the corner is likely to be earnings accretive.

Specialist banking faces challenges, but we believe management is turning the business around. Potential positive surprises exist, as management becomes more aggressive in competing in profitable areas (ie. transactional banking and HNW lending), reduces low-yielding Legacy assets (that hoard c.2x the capital of the profitable core assets) as well as from improved UK economic conditions. We like the aggressive approach in Australia, leaving a footprint for ad-hoc transactions but redeploying capital to areas with better prospects. Buy.

Valuation: We use a SOTP approach. We value the banking operations on a two-stage P/B basis, which bases the target price on a discounted terminal value and adds back the value of discounted dividends to account for all expected cash flows to investors over our explicit forecast period. We value the wealth/asset management businesses using a P/E.

Risks: Downside risks include dilutive M&A, cyclical downturn in economically sensitive activities (asset management) and continued rand weakness. Asset growth and margins may be at risk due to a competition as banks struggle for asset growth. The drive to become a full service bank in the UK may not gain traction whilst likely to incur significant cost.

Model updated:20 November 2014

Running the numbers

Europe

United Kingdom

Banks

Investec Plc

Reuters: INVP.L Bloomberg: INVP LN

Buy

Price (13 Feb 15)	GBP 570.50
Target Price	GBP 570.00
52 Week range	GBP 425.90 - 606.00
Market Cap (m)	GBPm 4,969
	USDm 7,649

Company Profile

Investec plc is an international, specialist bank and asset manager. It is an international specialist bank and asset manager that provides a range of financial products and services to a niche client base in two markets, the United Kingdom and South Africa, as well as certain other countries. The company operates in three businesses activities: Asset Management, Wealth and Investment, and Specialist Banking. Specialist Banking provides a range of services, such as advisory, transactional banking, lending, treasury and trading, and investment activities.

Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E
Data Per Share					
EPS (stated)(GBp)	25.75	32.52	34.36	32.51	49.98
EPS (DB) (GBp)	29.90	34.82	35.85	39.83	50.11
Growth Rate - EPS (DB) (%)	-27	16	3	11	26
DPS (GBp)	17.00	18.05	19.00	21.84	26.63
BVPS (stated) (GBp)	392.02	391.59	375.70	395.81	441.48
Tang. NAV p. sh. (GBp)	336.96	336.97	325.41	346.02	392.21
Market Capitalisation (GBPm)	3,249.55	3,923.07	4,178.98	4,968.58	4,968.58
Shares in issue (m)	855.83	909.55	914.40	918.82	928.31
Valuation Ratios & Profitability Measures					
P/E (stated)	14.8	14.1	14.1	17.5	11.4
P/E (DB)	12.8	13.2	13.5	14.3	11.4
P/B (stated)	1.0	1.2	1.3	1.4	1.3
P/Tangible equity (DB)	1.13	1.36	1.49	1.65	1.45
ROE(stated)(%)	6.50	8.34	9.00	8.43	11.93
ROTE (tangible equity) (%)	12.05	14.14	14.63	15.80	17.82
ROIC (invested capital) (%)	9.9	11.7	12.2	13.3	15.3
Dividend yield(%)	4.1	4.5	4.4	3.8	4.7
Dividend cover(x)	1.5	1.8	1.8	1.5	1.9
Profit & Loss (GBPm)					
Net interest revenue	699	703	652	638	704
Non interest income	1,233	1,304	1,289	1,329	1,531
Commissions	884	973	989	1,051	1,219
Trading Revenue	109	106	115	98	113
Other revenue	239	225	185	181	200
Total revenue	1,932	2,007	1,941	1,968	2,235
Total Operating Costs	1,259	1,319	1,312	1,291	1,425
Employee Costs	831	877	898	883	975
Other costs	428	442	414	408	450
Pre-Provision profit/(loss)	673	687	629	677	810
Bad debt expense	325	251	166	149	148
Operating Profit	348	436	463	528	661
Pre-tax associates	0	0	0	0	0
Pre-tax profit	348	436	463	528	661
Tax	55	73	72	131	118
Other post tax items	-84	-85	-94	-115	-106
Stated net profit	208	278	296	282	438
Goodwill	34	28	26	28	28
Extraordinary & Other items	14	10	5	56	0
Bad Debt Provisioning	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0
DB adj. core earnings	256	317	328	366	465
Key Balance Sheet Items (GBPm) & Capital Ratios					
Risk-weighted assets	28,506	29,825	27,836	25,444	29,020
Interest-earning assets	38,621	37,521	35,081	34,949	36,786
Customer Loans	18,226	18,415	17,157	17,704	20,492
Total Deposits	25,344	26,225	22,610	23,335	26,325
Stated Shareholder Equity	3,332	3,347	3,239	3,447	3,885
Equals: Tangible Equity	2,226.4	2,253.2	2,227.2	2,406.9	2,814.1
Tier 1 capital	3,304.2	3,247.9	2,985.6	3,154.6	3,569.9
Tier 1 ratio (%)	12	11	11	12	12
o/w core tier 1 capital ratio (%)	9	9	9	11	10
Credit Quality					
Gross NPLs/Total Loans(%)	4.80	4.30	3.84	4.14	4.05
Risk Provisions/NPLs(%)	31	37	40	38	0
Bad debt / Avg loans (%)	1.76	1.37	0.93	0.86	0.78
Bad debt/Pre-Provision Profit(%)	48.3	36.5	26.4	22.0	18.3
Growth Rates & Key Ratios					
Growth in revenues (%)	-1	4	-3	1	14
Growth in costs (%)	4	5	-1	-2	10
Growth in bad debts (%)	2	-23	-34	-10	0
Growth in RWA (%)	132	5	-7	-9	14
Net int. margin (%)	2	2	2	2	2
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	71.91	70.22	75.88	75.87	77.84
ROTE Decomposition					
Revenue % ARWAs	9.47	6.88	6.73	7.39	8.21
Net interest revenue % ARWA	3.43	2.41	2.26	2.40	2.58
Non interest revenue % ARWA	6.04	4.47	4.47	4.99	5.62
Costs/income ratio (%)	65.2	65.7	67.6	65.6	63.8
Bad debts % ARWAs	1.59	0.86	0.58	0.56	0.55
Tax rate (%)	15.7	16.7	15.5	24.9	17.8
Adj. Attr. earnings % ARWA	1.25	1.09	1.14	1.37	1.71
Capital leverage (ARWA/Equity)	9.6	13.0	12.9	11.5	10.4
ROTE (Adj. earnings/Ave. equity)	12.0	14.1	14.6	15.8	17.8

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (13 February 2015): 26140c | Target price: 24500c | Rating: Hold

Nedbank Ltd

Stefan Swanepoel / Bankole Ubogu

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; and later in 2014 it exercised its options to acquire a c.20% stake in Ecobank. Nedbank exposure in rest of Africa has grown significantly post acquisition of Ecobank. 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. Nedbank has been focused on achieving a turnaround in its retail banking business post 2007, with a great focus on achieving asset growth in higher margin products, such as unsecured lending. However, rising impairments in the unsecured loan portfolio has forced the bank to reduce its risk appetite. The bank has shifted its focus to rather growing its corporate loan portfolio. Nedbank has also been focused on growing its primary client base, boosting revenues from non interest income. Impairments have continued to improve over the last few years, largely driven by improvements in retail banking. We expect impairment to rise in FY15, however, as the mix shift has increased in favour of unsecured lending.

Outlook: Nedbank offers reasonable 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). Nedbank remains exposed to the endowment effect, despite not seeking to grow its assets materially and hence not expecting a massive uplift in NII. At the start of what is anticipated to be at a rate-hiking cycle, it should have greater scope to benefit from higher interest rates. Nedbank benefits from its good corporate franchise in its ability to attract longer-term funding. Nedbank is continuing to invest for growth. However, in our view, Nedbank does not have similar industry prospects of paying out excess capital. Hold, with the stock trading in proximity to our target.

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 to account for all expected cash flows to the investor. To calculate terminal value, we multiply expected year-three book value by a terminal price-to-book multiple of 1.6x (assuming an ROE: 19%, COE: 14.1%, g: 6%).

Risks: Nedbank is exposed to the following downside 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 bad debt charge, although anticipated, could be offset by 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. Nedbank is exposed to the following upside risks: Asset growth is higher than anticipated. Dividend cover could be lower than anticipated and therefore the dividends paid may well be higher than expectations.

Model updated:30 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Nedbank

Reuters: NEDJ.J Bloomberg: NED SJ

Hold

Price (13 Feb 15)	ZAR 261.40
Target Price	ZAR 245.00
52 Week range	ZAR 197.00 - 261.40
Market Cap (m)	ZARm 121,863
	USDm 10,458

Company Profile

Nedbank Group Ltd is a bank holding company that 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	2011	2012	2013	2014E	2015E	2016E
Data Per Share						
EPS (stated)(ZAR)	13.65	16.46	18.84	20.91	23.41	27.24
EPS (DB) (ZAR)	13.86	16.13	18.39	20.35	22.77	26.50
Growth Rate - EPS (DB) (%)	23	16	14	11	12	16
DPS (ZAR)	6.05	7.52	8.95	10.20	12.00	13.97
BVPS (stated) (ZAR)	107.52	117.97	131.44	141.26	153.28	166.21
Tang. NAV p. sh. (ZAR)	107.52	117.97	131.44	141.26	153.28	166.21
Market Capitalisation (ZARm)	66,008.08	85,973.02	96,850.63	121,862.97	121,862.97	121,862.97
Shares in issue (m)	460.09	470.57	474.12	477.47	482.47	487.47
Valuation Ratios & Profitability Measures						
P/E (stated)	10.6	11.4	11.1	12.5	11.2	9.6
P/E (DB)	10.5	11.7	11.4	12.8	11.5	9.9
P/B (stated)	1.3	1.6	1.6	1.9	1.7	1.6
P/Tangible equity (DB)	1.35	1.59	1.60	1.85	1.71	1.57
ROE(stated)(%)	13.29	14.60	15.14	15.33	15.89	17.05
ROTE (tangible equity) (%)	13.71	14.75	15.22	15.36	15.91	17.07
ROIC (invested capital) (%)	16.4	17.4	17.7	17.8	18.4	19.6
Dividend yield(%)	4.4	4.4	4.7	3.9	4.6	5.3
Dividend cover(x)	2.3	2.2	2.1	2.0	1.9	2.0
Profit & Loss (ZARm)						
Net interest revenue	18,034	19,680	21,220	22,961	26,085	28,321
Non interest income	15,412	17,324	19,361	19,822	21,613	24,034
Commissions	11,349	12,545	14,038	14,313	15,601	17,347
Trading Revenue	2,108	2,379	2,604	2,633	2,871	3,215
Other revenue	1,955	2,400	2,719	2,875	3,141	3,472
Total revenue	33,446	37,004	40,581	42,783	47,698	52,355
Total Operating Costs	19,424	21,089	23,012	24,850	26,802	28,918
Employee Costs	10,243	11,390	12,629	13,513	14,594	15,762
Other costs	9,181	9,699	10,383	11,337	12,208	13,156
Pre-Provision profit/(loss)	14,022	15,915	17,569	17,933	20,895	23,437
Bad debt expense	5,331	5,199	5,565	4,480	5,993	5,991
Operating Profit	8,691	10,716	12,004	13,453	14,902	17,446
Pre-tax associates	0	1	27	31	436	501
Pre-tax profit	8,691	10,717	12,031	13,484	15,338	17,947
Tax	2,174	2,875	3,016	3,430	3,991	4,669
Other post tax items	-327	-366	-370	-360	-376	-373
Stated net profit	6,184	7,510	8,670	9,694	10,971	12,905
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	194	78	49	22	13	12
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	6,378	7,588	8,719	9,716	10,984	12,917
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	331,980	359,658	392,926	426,328	460,563	486,374
Interest-earning assets	552,386	586,936	640,888	698,236	757,256	801,930
Customer Loans	496,048	527,166	579,372	630,810	681,651	718,003
Total Deposits	521,155	550,878	602,952	663,247	729,572	802,529
Stated Shareholder Equity	48,946	53,950	60,617	65,854	72,223	79,148
Equals: Tangible Equity	48,946.0	53,950.0	60,617.0	65,853.8	72,222.8	79,148.4
Tier 1 capital	39,519.0	45,519.0	53,605.0	58,544.5	63,859.2	70,111.4
Tier 1 ratio (%)	12	13	14	14	14	14
o/w core tier 1 capital ratio (%)	10	11	12	13	13	13
Credit Quality						
Gross NPLs/Total Loans(%)	4.65	3.66	3.01	2.86	2.73	2.68
Risk Provisions/NPLs(%)	50	56	66	63	66	66
Bad debt / Avg loans (%)	1.10	1.02	1.01	0.74	0.91	0.86
Bad debt/Pre-Provision Profit(%)	38.0	32.7	31.7	25.0	28.7	25.6
Growth Rates & Key Ratios						
Growth in revenues (%)	12	11	10	5	11	10
Growth in costs (%)	14	9	9	8	8	8
Growth in bad debts (%)	-14	-2	7	-19	34	0
Growth in RWA (%)	3	8	9	9	8	6
Net int. margin (%)	3	3	3	3	4	4
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	95.18	95.70	96.09	95.11	93.43	89.47
ROTE Decomposition						
Revenue % ARWAs	10.20	10.70	10.78	10.44	10.76	11.06
Net interest revenue % ARWA	5.50	5.69	5.64	5.61	5.88	5.98
Non interest revenue % ARWA	4.70	5.01	5.15	4.84	4.87	5.08
Costs/income ratio (%)	58.1	57.0	56.7	58.1	56.2	55.2
Bad debts % ARWAs	1.63	1.50	1.48	1.09	1.35	1.27
Tax rate (%)	25.0	26.8	25.1	25.5	26.8	26.8
Adj. Attr. earnings % ARWA	1.95	2.19	2.31	2.36	2.38	2.62
Capital leverage (ARWA/Equity)	7.0	6.7	6.6	6.5	6.4	6.3
ROTE (Adj. earnings/Ave. equity)	13.7	14.7	15.2	15.3	15.3	16.4

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (13 February 2015): 6756c | Target price: 5700c | Rating: Hold

RMB Holdings Ltd

Stefan Swanepoel / Bankole Ubogu

Business description: RMB Holdings is a focused investment company, holding a c.33.9% stake in FirstRand. FirstRand consists of a portfolio of leading financial services franchises. These are First National Bank (FNB), the retail and commercial and wholesale bank, Rand Merchant Bank (RMB), the investment bank, and Wesbank, the instalment finance business. The RMB Holdings group was constituted in 1987 post acquiring the insurance company Momentum; it was reverse listed in 1993. FirstRand was formed in 1998 as part of the boarder group structure. Remgro (the chief investment company for the Rupert family), acquired a stake of c.R1bn in RMB Holdings in 2001. In 2010, FirstRand's wholly-owned subsidiary, Momentum, merged with Metropolitan to form South Africa's third largest assurer, MMI Holdings. In 2011, RMB Holdings unbundled all of the interest in various insurance operations (including MMI, Discovery and OUTsurance) into RMI Holdings, leaving RMB Holdings only with the stake in banking through FirstRand.

Drivers: With FirstRand as its only investment, RMB Holdings' drivers are FirstRand's earnings and share price performance, as well as a small consideration of the portion of debt that it has leveraged against its investment and the cost of holding company structure. RMB Holdings has appointed Herman Bosman as its new CEO (former CEO of Deutsche Bank's South African franchise and previous head of Corporate Finance at RMB). We anticipate that with Herman's bias towards corporate finance, perhaps the business strategy may morph over time to include additional entities rather than an anticipated sale of the business.

Outlook: RMB Holdings' only material asset is its 33.9% stake in FirstRand. The domestic banking sector earnings continue to be driven by the low interest rate environment, as impairments have been steadily unwinding and continue to provide positive earnings momentum, overall asset growth remains muted. FirstRand, in our view, continues to offer a superior return relative to its peers in the domestic banking environment. Our expectations for a higher ROE relate to its ability to generate higher margins from having a lower exposure to the mortgage market and, by implication, greater exposure to higher yielding short-dated assets. RMB Holdings' outlook could include the potential sale of its underlying investment in FirstRand, in due course. In the interim, the shareholders could introduce additional assets into the structure or Royal Bafokeng may increase its stake. We recommend Hold, we prefer FirstRand.

Valuation: We continue to expect upside from the FirstRand share price, but given the leakage within the structure, we expect the discount to widen. As a minority investor one has rights only to the dividends, we have therefore arrived at our estimate of the appropriate discount using the difference in NPVs of the dividends that one would receive from RMB Holdings vs. FirstRand. Using our FirstRand target price, we apply a discount of c.3.5% to reach our target.

Risks: The risks associated with this investment would include those that have been identified for FirstRand. Further downside risks would also include the risks associated with holding additional leverage, against an equity investment. Although RMB Holdings' debt to asset level is low at c 3% (based on current market prices), it does introduce additional risks associated with leverage. Upside risks with this investment include the potential for corporate action. Should the shareholding in FirstRand be sold, it may result in some upside for existing shareholders. Additional assets may also be introduced into the company that could give investors exposures to new asset classes or alternative industries.

Model updated:10 September 2014

Running the numbers

Sub-Saharan Africa

South Africa

Banks

RMB Holdings Ltd

Reuters: RMHJ.J | Bloomberg: RMH SJ

Hold

Price (13 Feb 15)	ZAR 67.56
Target Price	ZAR 57.00
52 Week range	ZAR 43.89 - 67.56
Market Cap (m)	ZARm 95,375
	USDm 8,185

Company Profile

RMB Holdings Ltd is an investment holding company. Through its equity investment in FirstRand Ltd, the company has activities that include life, group, pension and annuity assurance, merchant banking, asset and fund management, property management and other services. RMB Holdings holds investments in insurance and financial services companies.

Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(ZAR)	3.04	3.66	4.55	5.03	5.71	6.60
EPS (DB) (ZAR)	2.98	3.74	4.48	4.92	5.58	6.47
Growth Rate - EPS (DB) (%)	199.4	25.7	19.7	9.8	13.5	15.8
DPS (ZAR)	1.26	1.71	2.27	2.65	3.00	3.48
BVPS (stated) (ZAR)	18.29	20.77	22.82	25.61	28.72	32.34
Tang. NAV p. sh. (ZAR)	18.29	20.77	22.82	25.61	28.72	32.34
Market Capitalisation	49,240	55,621	74,241	95,375	95,375	95,375
Shares in issue	1,341	1,410	1,411	1,412	1,412	1,412
Valuation Ratios & Profitability Measures						
P/E (stated)	11.5	10.8	11.6	13.4	11.8	10.2
P/E (DB)	11.7	10.5	11.7	13.7	12.1	10.4
P/B (stated)	1.9	1.9	2.3	2.6	2.4	2.1
P/Tangible equity (DB)	1.9	1.9	2.3	2.6	2.4	2.1
ROE(stated)(%)	17.3	18.8	20.9	20.8	21.0	21.6
ROTE (tangible equity) (%)	16.1	19.1	20.5	20.3	20.6	21.2
ROIC (invested capital) (%)	16.1	19.1	20.5	20.3	20.6	21.2
Dividend yield(%)	4.4	4.3	4.9	3.9	4.4	5.1
Dividend cover(x)	2.4	2.1	2.0	1.9	1.9	1.9
Profit & Loss (ZARm)						
Net interest revenue	0	0	0	0	0	0
Non interest income	24	23	37	41	45	49
Commissions	0	0	0	0	0	0
Trading Revenue	0	0	0	0	0	0
Other revenue	24	23	37	41	45	49
Total revenue	24	23	37	41	45	49
Total Operating Costs	139	141	125	159	174	189
Employee Costs	11	12	13	15	16	18
Other costs	128	129	112	145	157	171
Pre-Provision profit/(loss)	-115	-118	-88	-119	-129	-140
Bad debt expense	0	0	0	0	0	0
Operating Profit	-115	-118	-88	-119	-129	-140
Pre-tax associates	4,618	5,088	6,426	7,219	8,187	9,463
Pre-tax profit	4,503	4,970	6,338	7,100	8,059	9,323
Tax	13	1	1	1	1	1
Other post tax items	0	0	0	0	0	0
Stated net profit	4,296	5,170	6,418	7,099	8,057	9,322
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	-304	91	-105	-158	-174	-192
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	15	5	1	0	0
DB adj. core earnings	3,992	5,276	6,318	6,942	7,883	9,130
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	0	0	0	0	0	0
Interest-earning assets	0	0	0	0	0	0
Customer Loans	na	na	na	na	na	na
Total Deposits	0	0	0	0	0	0
Stated Shareholder Equity	25,822	29,318	32,220	36,148	40,539	45,654
Equals: Tangible Equity	25,822	29,318	32,220	36,148	40,539	45,654
Tier 1 capital	0	0	0	0	0	0
Tier 1 ratio (%)	na	na	na	na	na	na
o/w core tier 1 capital ratio (%)	nm	nm	nm	nm	nm	nm
Credit Quality						
Gross NPLs/Total Loans(%)	na	na	na	na	na	na
Risk Provisions/NPLs(%)	nm	nm	nm	nm	nm	nm
Bad debt / Avg loans (%)	na	na	na	na	na	na
Bad debt/Pre-Provision Profit(%)	0.0	0.0	0.0	0.0	0.0	0.0
Growth Rates & Key Ratios						
Growth in revenues (%)	85	-4	61	10	10	10
Growth in costs (%)	-6	1	-11	27	9	9
Growth in bad debts (%)	nm	nm	nm	nm	nm	nm
Growth in RWA (%)	nm	nm	nm	nm	nm	nm
Net int. margin (%)	nm	nm	nm	nm	nm	nm
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	nm	nm	nm	nm	nm	nm
ROTE Decomposition						
Revenue % ARWAs	nm	nm	nm	nm	nm	nm
Net interest revenue % ARWA	nm	nm	nm	nm	nm	nm
Non interest revenue % ARWA	nm	nm	nm	nm	nm	nm
Costs/income ratio (%)	579.2	613.0	337.8	391.4	387.8	384.1
Bad debts % ARWAs	nm	nm	nm	nm	nm	nm
Tax rate (%)	-11.3	-0.8	-1.1	-0.9	-0.9	-1.0
Adj. Attr. earnings % ARWA	nm	nm	nm	nm	nm	nm
Capital leverage (ARWA/Equity)	0.0	0.0	0.0	0.0	0.0	0.0
ROTE (Adj. earnings/Ave. equity)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (13 February 2015): 15403c | Target price: 15500c | Rating: Buy

Standard Bank Group Ltd

Stefan Swanepoel / Bankole Ubogu

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. In 2014, Standard Bank sold its London-based business (Standard Bank Plc) to ICBC. The sale process is still ongoing and is expected to be concluded by 1Q15. 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 a substantial portion of its total profit from retail banking and is, along with Barclays Africa Group, 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, rising bad debts and net interest margin. We expect rate hikes to start supporting margins while bad debts are expected to rise slightly in the near term due to the mix effect of higher growth in unsecured lending. 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 such as equities. With domestic markets at a fairly mature stage, CIB is likely to be driven more by the African franchise.

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. NIR growth is supported by the levels of asset growth and the extent of the exposure of the operations in Africa. 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 expand in key African countries; we therefore caution against excessive dividend expectations. 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 1.7x (assuming an ROE: 19%, COE: 14.1%, g: 6%). Liberty (insurance operation) is valued on a multiple to embedded value.

Risks: The following risks to the downside need to be considered: There is a risk 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 it is 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:30 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Standard Bank

Reuters: SBKJ.J Bloomberg: SBK SJ

Buy

Price (13 Feb 15)	ZAR 154.03
Target Price	ZAR 155.00
52 Week range	ZAR 118.50 - 160.38
Market Cap (m)	ZARm 250,429
	USDm 21,490

Company Profile

Standard Bank Group Ltd 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 Ltd.

Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Data Per Share						
EPS (stated)(ZAR)	8.44	9.19	10.65	11.03	13.27	15.86
EPS (DB) (ZAR)	8.52	9.27	10.71	11.09	13.30	15.84
Growth Rate - EPS (DB) (%)	20	9	15	4	20	19
DPS (ZAR)	4.25	4.55	5.33	5.78	6.78	7.89
BVPS (stated) (ZAR)	64.60	70.92	84.52	90.86	100.23	110.16
Tang. NAV p. sh. (ZAR)	56.56	61.77	72.96	79.15	89.74	100.76
Market Capitalisation (ZARm)	156,721.19	190,937.45	209,381.37	250,428.75	250,428.75	250,428.75
Shares in issue (m)	1,595.60	1,608.51	1,630.21	1,634.18	1,642.18	1,650.18
Valuation Ratios & Profitability Measures						
P/E (stated)	11.7	12.9	12.2	14.0	11.6	9.7
P/E (DB)	11.6	12.8	12.1	13.9	11.6	9.7
P/B (stated)	1.5	1.7	1.5	1.7	1.5	1.4
P/Tangible equity (DB)	1.75	1.92	1.77	1.95	1.72	1.53
ROE(stated)(%)	13.87	13.55	13.72	12.57	13.89	15.07
ROTE (tangible equity) (%)	15.99	15.79	16.07	14.69	15.87	16.76
ROIC (invested capital) (%)	16.0	15.8	16.1	14.7	15.9	16.8
Dividend yield(%)	4.3	4.1	4.6	3.8	4.4	5.1
Dividend cover(x)	2.0	2.0	2.0	1.9	2.0	2.0
Profit & Loss (ZARm)						
Net interest revenue	28,827	34,015	39,225	44,754	50,947	59,048
Non interest income	29,725	34,499	36,669	40,299	44,984	51,064
Commissions	19,782	21,319	23,147	25,595	28,695	32,627
Trading Revenue	7,895	8,868	10,202	11,112	12,321	13,989
Other revenue	2,048	4,312	3,320	3,592	3,967	4,447
Total revenue	58,552	68,514	75,894	85,053	95,931	110,112
Total Operating Costs	34,725	39,998	44,862	50,024	55,672	61,784
Employee Costs	19,141	22,195	24,760	27,484	30,507	33,252
Other costs	15,584	17,803	20,102	22,540	25,166	28,531
Pre-Provision profit/(loss)	23,827	28,516	31,032	35,029	40,258	48,328
Bad debt expense	6,436	8,800	9,214	10,111	12,113	14,676
Operating Profit	17,391	19,716	21,818	24,919	28,145	33,652
Pre-tax associates	257	675	673	841	925	1,018
Pre-tax profit	17,648	20,391	22,491	25,760	29,071	34,670
Tax	5,398	5,773	6,197	6,951	7,845	9,357
Other post tax items	976	1,490	781	-968	367	613
Stated net profit	13,400	14,664	17,194	17,884	21,636	25,970
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	199	255	263	233	205	175
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	13,599	14,919	17,457	18,117	21,841	26,145
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	710,725	789,613	841,272	906,616	1,015,338	1,146,618
Interest-earning assets	803,052	847,006	975,736	1,035,101	1,170,752	1,334,095
Customer Loans	803,811	813,892	899,375	950,371	1,080,632	1,238,915
Total Deposits	888,968	930,153	999,854	1,099,839	1,209,823	1,330,806
Stated Shareholder Equity	102,523	113,905	136,741	147,729	163,760	180,859
Equals: Tangible Equity	89,769.0	99,218.0	118,033.2	128,691.2	146,626.9	165,439.0
Tier 1 capital	80,140.0	86,808.0	110,834.0	127,782.8	141,823.5	156,771.7
Tier 1 ratio (%)	11	11	13	14	14	14
o/w core tier 1 capital ratio (%)	11	10	13	14	13	13
Credit Quality						
Gross NPLs/Total Loans(%)	4.16	3.91	3.38	3.58	4.09	4.60
Risk Provisions/NPLs(%)	45	56	64	62	54	49
Bad debt / Avg loans (%)	0.85	1.09	1.08	1.09	1.19	1.27
Bad debt/Pre-Provision Profit(%)	27.0	30.9	29.7	28.9	30.1	30.4
Growth Rates & Key Ratios						
Growth in revenues (%)	0	17	11	12	13	15
Growth in costs (%)	-5	15	12	12	11	11
Growth in bad debts (%)	-14	37	5	10	20	21
Growth in RWA (%)	15	11	7	8	12	13
Net int. margin (%)	4	4	4	4	5	5
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	90.42	87.50	89.95	86.41	89.32	93.10
ROTE Decomposition						
Revenue % ARWAs	8.80	9.13	9.31	9.73	9.98	10.19
Net interest revenue % ARWA	4.33	4.53	4.81	5.12	5.30	5.46
Non interest revenue % ARWA	4.47	4.60	4.50	4.61	4.68	4.72
Costs/income ratio (%)	59.3	58.4	59.1	58.8	58.0	56.1
Bad debts % ARWAs	0.97	1.17	1.13	1.16	1.26	1.36
Tax rate (%)	31.0	29.3	28.4	27.9	27.9	27.8
Adj. Attr. earnings % ARWA	2.01	1.90	2.06	1.98	2.18	2.32
Capital leverage (ARWA/Equity)	7.8	7.9	7.5	7.1	7.0	6.9
ROTE (Adj. earnings/Ave. equity)	15.7	15.1	15.5	14.0	15.2	16.1

Source: Company data, Deutsche Bank estimates

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South Africa – Financial Services | Price (13 February 2015): 964c | Target price: 930c | Rating: Hold

Alexander Forbes Group Holdings Ltd

Bankole Ubogu / Stefan Swanepoel

Business description: Alexander Forbes is a specialised financial services company headquartered in South Africa. The group has its entrepreneurial roots in insurance brokerage services in 1935. Alexander Forbes has progressed to offering a broader array of financial services, including employee benefits consulting, risk services, multi-management and a growing short-term insurance element. The group aims to advise clients on achieving adequate resources for retirement and on managing risks before attaining retirement age.

In its over c.75-year history, Alexander Forbes has evolved from being an insurance broker to offering a client value proposition across the value chain. As a group, it has increased the integration of its distributing and consulting services with its product offering. Southern Africa remains the dominant income generator, with the two largest divisions (AF Financial Services and Investment Solutions) generating the lion's share of their incomes from Southern Africa. However, the group does offer somewhat of a rand hedge, with c.35% (c.22%) of net revenue (trading results) generated offshore.

Alexander Forbes initially listed on the Johannesburg Stock Exchange in 1996 and remained on the bourse until 2007, when it was acquired and delisted by a private equity consortium led by the Ontario Teachers' Pension Plan, Actis and Ethos Private Equity houses. Whilst privately held, Alexander Forbes went through a significant process of rationalising group operations where, from FY07-14, it disposed of a third of its revenue line and streamlined operations. Although the business became significantly debt laden during the private equity ownership period (debt/equity ratio of c.250%), the 2014 re-listing enabled management to restructure the business (debt/equity ratio of c.25%) in such a way that the strong cash generation of the business is likely to become more evident.

Drivers: Alexander Forbes is organised into three main business divisions: pension fund administration, asset management and short term insurance. We believe the following are the most critical for the group over the medium term: the rate of employment growth that directly impacts the wage bill for pension administration, changes in regulation affecting the retirement or insurance industries, the performance of global and local investment markets, growth in the domestic and UK economies and management's ability to increase scale in its smaller operations. Areas of growth include continuing to enhance the retail proposition to improve cross-sell across the value chain as well as seek to expand its operations in Africa, either organically or through acquisitions.

Outlook: Alexander Forbes Group Holdings Ltd. (AF) is involved in many aspects of the South African retirement fund industry. The core of the group's operations are capital-light, the full benefits of which were understated during the debt-laden holding period of the Private Equity consortium (FY08-14). The benefits of the cash-generating ability of the group after the restructuring of the balance sheet on 31 March 2014 should be clearer. In our view, the key investment highlights for the group are as follows:

- The steady nature of the group's earnings stream following the rationalisation of the operating structure, albeit with lower growth.
- After the restructuring of the balance sheet, we view the group as having the ability to be highly cash-generative.
- The group has low capital requirements and thus should be able to sustain its high dividend payout while simultaneously funding growth opportunities.

Despite the positives above, we view the earnings outlook to be much more muted at c.12% pa CAGR over the next three years. As the business is the market leader in a mature environment, its earnings growth prospects are not that attractive. Hold.

Valuation: We value AF on a sum-of-the-parts basis, using a one-year-forward P/E multiple. We have valued the group on a blended one-year interpolated P/E multiple of c.13.7x. Our SOTP-based target price uses a one-year-forward multiple range of 10.5-15.5x. In determining reasonable valuation metrics, we compare each division to a comparable peer group.

Risks: Downside risks: reviews being performed by the Financial Services Board and National Treasury may introduce further margin pressure. The interdependence between Investment Solutions (IS) and AF Financial Services (AFFS) may come under regulatory scrutiny. The loss of client mandates and weak equity market performance in IS and AFFS are further downside risks. Upside risks: the same reviews that may lead to margin pressure may also lead to volume growth as the government tries to increase national savings. The group may be able to grow faster than we anticipate in Africa as those economies place greater emphasis on improving their national savings. There is some upside risk to the dividend payout ratio being ahead of our expectations.

Model updated:08 December 2014

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

Alexander Forbes

Reuters: AFHJ.J Bloomberg: AFH SJ

Hold

Price (13 Feb 15)	ZAR 9.64
Target Price	ZAR 9.30
52 Week range	ZAR 7.58 - 9.83
Market Cap (m)	ZARm 7,715
	USDm 662

Company Profile

Alexander Forbes is a specialised financial services company that operates predominantly in South Africa, the UK and Sub-Saharan Africa. The company's financial services include retirement fund administration, employee benefit consulting, software development, actuarial and other related services, personal financial planning, niche life and disability insurance facilities and multi-manager investment products.

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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	IV	IV	IV	IV	IV	IV
Reported EPS (ZAR)	IV	IV	IV	IV	IV	IV
DPS (ZAR)	IV	IV	IV	IV	IV	IV
BVPS (ZAR)	IV	IV	IV	IV	IV	IV
Valuation Metrics						
Price/Sales (x)	IV	IV	IV	IV	IV	IV
P/E (DB) (x)	IV	IV	IV	IV	IV	IV
P/E (Reported) (x)	IV	IV	IV	IV	IV	IV
P/BV (x)	IV	IV	IV	IV	IV	IV
FCF yield (%)	IV	IV	IV	IV	IV	IV
Dividend yield (%)	IV	IV	IV	IV	IV	IV
EV/Sales	IV	IV	IV	IV	IV	IV
EV/EBITDA	IV	IV	IV	IV	IV	IV
EV/EBIT	IV	IV	IV	IV	IV	IV
Income Statement (ZARm)						
Sales	IV	IV	IV	IV	IV	IV
EBITDA	IV	IV	IV	IV	IV	IV
EBIT	IV	IV	IV	IV	IV	IV
Pre-tax profit	IV	IV	IV	IV	IV	IV
Net income	IV	IV	IV	IV	IV	IV
Cash Flow (ZARm)						
Cash flow from operations	IV	IV	IV	IV	IV	IV
Net Capex	IV	IV	IV	IV	IV	IV
Free cash flow	IV	IV	IV	IV	IV	IV
Equity raised/(bought back)	IV	IV	IV	IV	IV	IV
Dividends paid	IV	IV	IV	IV	IV	IV
Net inc/(dec) in borrowings	IV	IV	IV	IV	IV	IV
Other investing/financing cash flows	IV	IV	IV	IV	IV	IV
Net cash flow	IV	IV	IV	IV	IV	IV
Change in working capital	*IV*	*IV*	*IV*	*IV*	*IV*	*IV*
Balance Sheet (ZARm)						
Cash and cash equivalents	IV	IV	IV	IV	IV	IV
Property, plant & equipment	IV	IV	IV	IV	IV	IV
Goodwill	IV	IV	IV	IV	IV	IV
Other assets	IV	IV	IV	IV	IV	IV
Total assets	IV	IV	IV	IV	IV	IV
Debt	IV	IV	IV	IV	IV	IV
Other liabilities	IV	IV	IV	IV	IV	IV
Total liabilities	IV	IV	IV	IV	IV	IV
Total shareholders' equity	IV	IV	IV	IV	IV	IV
Net debt	*IV*	*IV*	*IV*	*IV*	*IV*	*IV*
Key Company Metrics						
Sales growth (%)	IV	IV	IV	IV	IV	IV
DB EPS growth (%)	IV	IV	IV	IV	IV	IV
Payout ratio (%)	IV	IV	IV	IV	IV	IV
EBITDA Margin (%)	IV	IV	IV	IV	IV	IV
EBIT Margin (%)	IV	IV	IV	IV	IV	IV
ROE (%)	IV	IV	IV	IV	IV	IV
Net debt/equity (%)	IV	IV	IV	IV	IV	IV
Net interest cover (x)	IV	IV	IV	IV	IV	IV
DuPont Analysis						
EBIT margin (%)	IV	IV	IV	IV	IV	IV
x Asset turnover (x)	IV	IV	IV	IV	IV	IV
x Financial cost ratio (x)	IV	IV	IV	IV	IV	IV
x Tax and other effects (x)	IV	IV	IV	IV	IV	IV
= ROA (post tax) (%)	IV	IV	IV	IV	IV	IV
x Financial leverage (x)	IV	IV	IV	IV	IV	IV
= ROE (%)	IV	IV	IV	IV	IV	IV
annual growth (%)	*IV*	*IV*	*IV*	*IV*	*IV*	*IV*
x NTA/share (avg) (x)	IV	IV	IV	IV	IV	IV
= Reported EPS	IV	IV	IV	IV	IV	IV
annual growth (%)	*IV*	*IV*	*IV*	*IV*	*IV*	*IV*

Source: Company data, Deutsche Bank estimates

South Africa – Financial Services | Price (13 February 2015): 844c | Target price: 850c | Rating: Buy

Transaction Capital Ltd

Stefan Swanepoel / Bankole Ubogu

Business description: Transaction Capital provides specialist expertise in finance and financial services to the emerging mass market. It provides asset backed lending, mainly to small-medium enterprises in the minibus taxi industry. The credit and payment services business offer unique opportunities to invest in companies not present in other listed alternatives. It is a non-deposit taking independent financial services provider in Southern Africa. The group has its entrepreneurial roots in lending franchises focused on LSM groups 5-9. This has evolved to include the asset-backed lending business (SA Taxi Finance), the credit consulting business (MBD Services), payment services business (ATM Solutions) and the unsecured lending business (Bayport). The company was listed in 2012. In August 2013, it sold off its Paycorp business (including ATM Solutions and Drawcard) for c.R937m. Subsequently, in October 2013, it sold off Bayport (unsecured lending business) for c.R1.33bn. Now the company is left with two divisions: the asset-backed lending business (SA Taxi Finance) and the credit consulting business (MBD Services). Post sell off, Transaction Capital announced a special distribution of R2 per share to shareholders, amounting to c.R1.2bn of capital, leaving c.R900m cash in the business.

Drivers: Transaction Capital is reliant on asset growth in the lending business to support top line revenue. Some growth is also expected to come from an improvement in margins, as the post the recapitalisation the entity is geared at lower levels and is hence able to raise cheaper funds. Impairments are expected to improve as poorer quality entry level assets in the vehicle finance business works its way out of the existing non-performing loan base. The services businesses are expected to generate some growth through the collection of third party debt as well as improved collections of the purchase books.

Outlook: In our view, earnings will be driven over the next few years by a combination of growth in the level of advances in both secured and unsecured lending margin expansion from rising interest rates as well as benefits from the capitalisation of the group and the repayment of some of the more expensive debt. Our expectations for strong asset growth are funded by an easier and potentially cheaper funding environment as the group has recapitalised itself as well, as decent growth in its market share as a small player. We believe the group is in a position to deliver earnings growth in mid to high teens over the next three years on a CAGR basis, ahead of the general banking sector. Recommend Buy.

Valuation: We value TC on a sum-of-the-parts basis, using a fair P/B multiple for the lending business and a fair P/E multiple for the services business. We apply a P/B multiple of the year-three NAV of the lending operations of 1.7x (based on assumptions of ROE: 22%; COE: 14.8%, g: 4.5%). For the services operations we value the business based on a P/E multiple of 10.5x, on one year forward earnings – in line with the local market peers.

Risks: Closure of capital markets from a funding perspective could affect the cost of funding, and changing regulations may affect the revenue model. As well, impairment risks are present given the nature of the lending environments. Economic sensitivity bias towards customers with lower discretionary income implies that these consumers would have less manoeuvrability to absorb any shocks. A dynamic regulatory environment could affect the current business model. As the business grows, it may be forced to comply with additional regulatory requirements.

Model updated:25 November 2014

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

Transaction Capital

Reuters: TCPJ.J Bloomberg: TCP SJ

Buy

Price (13 Feb 15)	ZAR 8.44
Target Price	ZAR 8.50
52 Week range	ZAR 4.70 - 8.50
Market Cap (m)	ZARm 4,824
	USDm 414

Company Profile

Transaction Capital is an independent group of industry leading companies participating in non-deposit-taking financial services with a focus on Asset Backed Lending, Unsecured Lending, Credit Services and Payment Services in Southern Africa.

Fiscal year end 30-Sep	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(ZAR)	0.85	0.93	1.63	0.67	0.77	0.90
EPS (DB) (ZAR)	0.77	0.93	0.57	0.66	0.77	0.89
Growth Rate - EPS (DB) (%)	21	21	-39	16	16	17
DPS (ZAR)	0.09	0.21	0.16	0.19	0.24	0.30
BVPS (stated) (ZAR)	5.12	6.69	5.20	5.87	6.63	7.52
Tang. NAV p. sh. (ZAR)	3.47	5.63	4.83	5.46	6.19	7.04
Market Capitalisation (ZARm)	2,993.66	2,825.93	3,918.85	4,824.30	4,824.30	4,824.30
Shares in issue (m)	519.40	583.60	577.33	581.03	584.73	588.43
Valuation Ratios & Profitability Measures						
P/E (stated)	6.0	5.2	4.2	12.7	11.0	9.4
P/E (DB)	6.6	5.2	12.0	12.8	11.0	9.5
P/B (stated)	1.0	0.7	1.3	1.4	1.3	1.1
P/Tangible equity (DB)	1.48	0.86	1.42	1.54	1.36	1.20
ROE(stated)(%)	17.07	15.81	27.33	12.16	12.50	12.90
ROTE (tangible equity) (%)	29.05	20.51	10.94	13.09	13.41	13.81
ROIC (invested capital) (%)	17.1	15.8	9.6	12.2	12.5	12.9
Dividend yield(%)	1.7	4.3	2.8	2.2	2.8	3.5
Dividend cover(x)	9.5	4.4	10.2	3.5	3.3	3.0
Profit & Loss (ZARm)						
Net interest revenue	1,341	1,735	814	973	1,143	1,313
Non interest income	2,126	1,910	1,133	1,281	1,459	1,675
Commissions	2,126	1,910	1,133	1,281	1,459	1,675
Trading Revenue	0	0	0	0	0	0
Other revenue	0	0	0	0	0	0
Total revenue	3,467	3,645	1,947	2,255	2,602	2,988
Total Operating Costs	2,181	1,990	1,220	1,378	1,571	1,800
Employee Costs	0	0	0	0	0	0
Other costs	2,181	1,990	1,220	1,378	1,571	1,800
Pre-Provision profit/(loss)	1,286	1,655	727	876	1,032	1,188
Bad debt expense	740	1,038	322	390	452	507
Operating Profit	546	617	405	486	580	681
Pre-tax associates	0	4	4	0	0	0
Pre-tax profit	546	621	409	486	580	681
Tax	112	100	79	102	132	156
Other post tax items	-33	23	607	0	0	0
Stated net profit	401	544	937	384	448	525
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	-607	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	401	544	330	384	448	525
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	12,529	14,284	9,690	11,193	12,967	15,024
Interest-earning assets	8,780	10,185	6,386	7,404	8,621	10,039
Customer Loans	8,780	10,185	6,386	7,404	8,621	10,039
Total Deposits	0	0	0	0	0	0
Stated Shareholder Equity	2,988	3,895	2,963	3,355	3,806	4,331
Equals: Tangible Equity	2,025.0	3,280.0	2,752.0	3,123.1	3,550.5	4,049.7
Tier 1 capital	2,988.0	3,895.0	2,963.0	3,355.2	3,805.8	4,330.5
Tier 1 ratio (%)	24	27	31	30	29	29
o/w core tier 1 capital ratio (%)	24	27	31	30	29	29
Credit Quality						
Gross NPLs/Total Loans(%)	26.40	31.92	32.13	31.19	30.26	29.37
Risk Provisions/NPLs(%)	44	51	17	17	17	18
Bad debt / Avg loans (%)	9.55	10.95	3.89	5.66	5.64	5.43
Bad debt/Pre-Provision Profit(%)	57.5	62.7	44.3	44.5	43.8	42.7
Growth Rates & Key Ratios						
Growth in revenues (%)	23	5	-47	16	15	15
Growth in costs (%)	22	-9	-39	13	14	15
Growth in bad debts (%)	31	40	-69	21	16	12
Growth in RWA (%)	25	14	-32	16	16	16
Net int. margin (%)	17	18	10	14	14	14
Cap.-market rev. / Total revs (%)	0.00	0.00	0.00	0.00	0.00	0.00
Total loans / Total deposits (%)	nm	nm	nm	nm	nm	nm
ROTE Decomposition						
Revenue % ARWAs	30.70	27.19	16.24	21.59	21.54	21.35
Net interest revenue % ARWA	11.88	12.94	6.79	9.32	9.47	9.38
Non interest revenue % ARWA	18.83	14.25	9.45	12.27	12.08	11.97
Costs/income ratio (%)	62.9	54.6	62.7	61.1	60.4	60.3
Bad debts % ARWAs	6.55	7.74	2.69	3.73	3.74	3.62
Tax rate (%)	20.5	16.2	19.5	21.0	22.8	22.9
Adj. Attr. earnings % ARWA	3.55	4.03	2.72	3.68	3.71	3.75
Capital leverage (ARWA/Equity)	8.2	5.1	4.0	3.6	3.6	3.7
ROTE (Adj. earnings/Ave. equity)	29.1	20.4	10.8	13.1	13.4	13.8

Source: Company data, Deutsche Bank estimates

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South Africa – Property | Price (13 February 2015): 2305c | Target price: 2430c | Rating: Buy

Attacq Ltd

Ryan Eichstadt / Sean Holmes

Business description: Attacq (previously Atterbury Investment Holdings Ltd) was incorporated as a private company on 17 January 1997 and converted to a public company on 19 October 2006. Attacq listed on the JSE in October 2013. It is a leading South African capital growth fund in the real estate sector, consistently delivering growth to its investors through its strategic property holdings and developments. Gross assets have grown to R18.5bn at 30 June 2014 with an initial gross asset value of R600m at 30 June 2005. Attacq focuses on sustainable capital appreciation through the development and ownership of a balanced portfolio of properties with contractual income streams. Capital appreciation is supplemented by development and redevelopment profits made within the company

Drivers:

- Consolidation and integration of the newly structured AttAfrica Fund.
- It is critical for Attacq to maintain its healthy development pipeline and to do so, have the ability and flexibility to issue shares for cash to fund new and existing developments.
- Strain on existing retail tenants given slow growth forecasts and pressures on the South African consumer.

Outlook: We rate Attacq a Buy based on strong management credentials, sustainable earnings, a healthy pipeline of high-quality developments and our expectation of above-average sector growth in high-quality assets. Attacq, in contrast to listed REITs, is a development company with a 20-year track record that has built and developed most of its assets. Another fundamental difference is that while two-thirds of the assets are rent-generating assets, a third is development that is dominated by the Waterfall development. Attacq's strategy is to provide consistent capital growth, and as a result, it does not intend to seek REIT status in the near term. It has chosen not to pay out its distributable income, but to reinvest it in new and existing developments.

Valuation: Unlike listed South African REITs, which are valued on a yield basis, Attacq's NAV will be the main share-price driver. Our 12m target price is calculated by applying a 1.1x P/NAV multiple to our adjusted 24m fwd rolling NAV per share. We do not exclude deferred tax liability as we believe ATT will not seek REIT status in the near term. ATT has generated NAVPS CAGR of 21% over eight years. We believe it will continue to deliver similar growth for the next three years given the healthy development pipeline and its strategic holding in Atterbury Property Development Company (25%), which should provide an additional source to increase the development pipeline. ATT has traded at c.1.3x average 12m fwd P/NAV since listing (October 2013). We believe it will continue to trade at a premium to its peers in light of the factors above.

Risks: Downside risks include limitations to debt financing requirements relating to the Waterfall Business Estate and other future developments, continued office vacancies, lower reversions and increasing operating costs (including rates and taxes). Downside risks general to the sector are GDP growth below forecasts and a slowdown in consumer spending.

Model updated:20 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Attacq

Reuters: ATTJ.J Bloomberg: ATT SJ

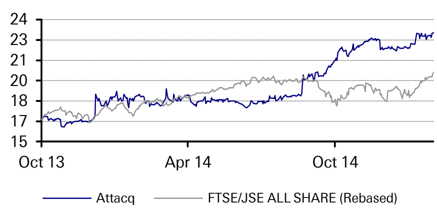
Buy

Price (13 Feb 15)	ZAR 23.05
Target Price	ZAR 24.30
52 Week range	ZAR 17.50 - 23.05
Market Cap (m)	ZARm 15,466
	USDm 1,327

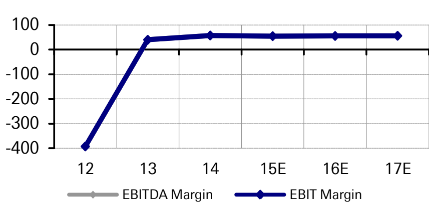
Company Profile

Attacq (previously Atterbury Investment Holdings Ltd) was incorporated as a private company on 17 January 1997 and converted to a public company on 19 October 2006. Attacq listed on the JSE in October 2013. It is a leading South African capital growth fund in the real estate sector, consistently delivering growth to its investors through its strategic property holdings and developments. Gross assets have grown to R13.35bn at 30 June 2013 with an initial gross asset value of R600m at 30 June 2005.

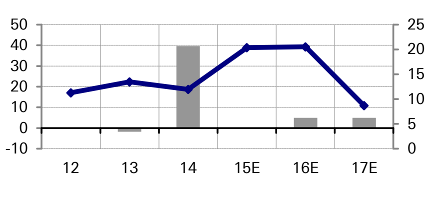
Price Performance



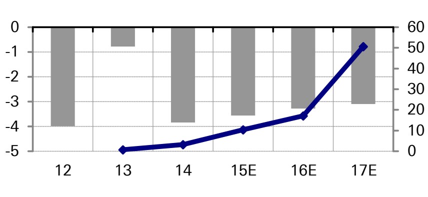
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	1.18	1.67	1.51	3.46	4.13	2.11
Reported EPS (ZAR)	1.13	1.61	1.41	3.36	4.03	2.01
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	10.6	12.7	15.1	17.9	21.4	25.0
Weighted average shares (m)	474	449	671	671	671	671
Average market cap (ZARm)	na	na	11,828	15,466	15,466	15,466
Enterprise value (ZARm)	na	na	7,964	11,327	11,030	10,466
Valuation Metrics						
P/E (DB) (x)	na	na	11.7	6.7	5.6	10.9
P/E (Reported) (x)	na	na	12.5	6.9	5.7	11.4
P/BV (x)	0.00	0.00	1.17	1.29	1.08	0.92
FCF Yield (%)	na	na	2.3	nm	nm	3.9
Dividend Yield (%)	na	na	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	nm	9.1	12.9	12.0	10.8
EV/EBITDA (x)	nm	nm	15.7	23.4	21.4	19.1
EV/EBIT (x)	nm	nm	15.7	23.4	21.4	19.1
Income Statement (ZARm)						
Sales revenue	640	629	877	877	921	967
Gross profit	399	416	647	614	644	677
EBITDA	-2,508	254	507	485	515	547
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	-2,508	254	507	485	515	547
Net interest income(expense)	2,299	-352	-157	-47	-30	-11
Associates/affiliates	-43	94	-58	94	94	94
Exceptionals/extraordinaries	997	965	939	2,130	2,574	1,065
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	745	962	1,230	2,662	3,153	1,695
Income tax expense	185	209	218	342	381	277
Minorities	26	29	66	66	66	66
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	535	723	946	2,254	2,706	1,352
DB adjustments (including dilution)	26	29	66	66	66	66
DB Net profit	560	752	1,012	2,321	2,772	1,418
Cash Flow (ZARm)						
Cash flow from operations	-147	-19	277	-491	-617	604
Net Capex	1,855	152	0	0	0	0
Free cash flow	1,707	133	277	-491	-617	604
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	-1,531	547	3,751	1,166	1,460	471
Other investing/financing cash flows	-59	-789	-3,971	0	0	0
Net cash flow	118	-109	57	675	843	1,075
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	201	44	389	428	471	518
Tangible fixed assets	8,497	8,922	12,829	15,374	18,508	20,100
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	1,634	1,204	3,474	3,710	3,965	4,481
Other assets	1,256	2,606	1,772	2,301	2,987	3,880
Total assets	11,587	12,775	18,465	21,812	25,932	28,980
Interest bearing debt	0	0	0	0	0	0
Other liabilities	6,554	7,070	8,338	9,790	11,576	12,231
Total liabilities	6,554	7,070	8,338	9,790	11,576	12,231
Shareholders' equity	5,033	5,705	10,127	12,022	14,356	16,749
Minorities	0	0	0	0	0	0
Total shareholders' equity	5,033	5,705	10,127	12,022	14,356	16,749
Net debt	*-201*	*-44*	*-389*	*-428*	*-471*	*-518*
Key Company Metrics						
Sales growth (%)	nm	-1.8	39.5	0.0	5.0	5.0
DB EPS growth (%)	na	41.5	-9.9	129.2	19.4	-48.8
EBITDA Margin (%)	-391.9	40.5	57.8	55.3	55.9	56.6
EBIT Margin (%)	-391.9	40.5	57.8	55.3	55.9	56.6
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	11.3	13.5	12.0	20.4	20.5	8.7
Capex/sales (%)	14.6	50.0	0.0	0.0	0.0	0.0
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-4.0	-0.8	-3.8	-3.6	-3.3	-3.1
Net interest cover (x)	nm	0.7	3.2	10.4	17.1	50.6

Source: Company data, Deutsche Bank estimates

South Africa – Property | Price (13 February 2015): 2965c | Target price: 2900c | Rating: Hold

Growthpoint Properties Ltd

Ryan Eichstadt / Sean Holmes

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, 24% is generated from retail, 29% from office, 17% from industrial, 24% from Growthpoint Australia (GOZ) and 6% from the V&A.

Growthpoint is the largest local property stock, with a market capitalisation of R62bn. The current value of the South African physical portfolio is R49bn, with the consolidated holding in GOZ equating to R21bn. The valuation of the 50% interest in the V&A is R5.6bn. 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 is earlier years of a controlling stake in Orchard Industrial Fund (now renamed Growthpoint Australia, commonly referred to as GOZ). 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. In the shorter term, property fundamentals for GRT are expected to remain stable, with a good performance evident in cost/income control and rental growth achieved ahead of our expectations, even with a worsening in office vacancies materialising. Arrears remain negligible, as do bad debt write-offs. Growthpoint has indicated it intends to bring the Australian operations up to scale and further increase liquidity in GOZ. We note, however, that increased global investment in Australian property is reducing the ability to identify opportunities that are materially yield enhancing, given increased competition for property assets. The South African development pipeline has been largely non-existent in recent months, with disposals largely offsetting developments and capex spend. 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 be 7-8% range with new and expiring leases negotiated at upwards reversions that, while overall 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 FY15. Growthpoint has continued to surprise us with relatively strong rental growth and good cost control resulting in a lower cost/income ratio emerging than we had anticipated. Continued strong cost control is a key driver in FY15 of above inflation distribution growth.

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. Expected focus areas for the medium term are ongoing extensions, tenant retention, refurbishments, and bedding down the V&A acquisition On GOZ (Growthpoint Properties Australia), further acquisitive opportunities are likely to be pursued. The prospect statement provided by management suggests distribution growth of 7-7.5% for FY15E, in line with that achieved in the previous period. We believe that given this stock's liquidity and its significant weighting in the sector, it will likely always trade at a premium relative to the sector. We believe management credibility to be exceptional, and anticipate the stock could continue to be a solid performer on a long-term basis. We rate the shares Hold on valuation.

Valuation: We apply a DCF to ensure our bond yield-derived price target is reasonably supported by distributable cash flows. In our DCF, we use a 1x beta, a risk free rate of 8.5%, a terminal growth rate that reflects relative growth that we project the company to achieve and standard ERP for SA stocks of 4.5% based in line with our Deutsche Bank official view. We derive our 12-month official bond yield relative price target by capitalising our interpolated F2 DPS. Our 12-month target price is calculated using our distribution per share (or linked unit) forecasts and a 12-month forward dividend yield multiple. We calculate our target price DY multiple using the Gordon Growth dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk-free rate of 8.5% (based on the 10-year SA bond yield) and an equity risk premium of 4.5% to calculate the company's cost of equity. Our terminal growth assumption is based on the relative growth that we project the company to achieve in the sector.

Risks: Specific downside risks, apart from office vacancies and negative reversions and given GRT's broad exposure to all property subsectors are higher inflation, slower GDP growth, labour unrest, increased unemployment, weak manufacturing output and weak retail sales. Upside risks include better than expected distribution growth from GOZ, continued cost containment and successful integration of new acquisitions.

Model updated:20 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Growthpoint

Reuters: GRTJ.J   Bloomberg: GRT SJ

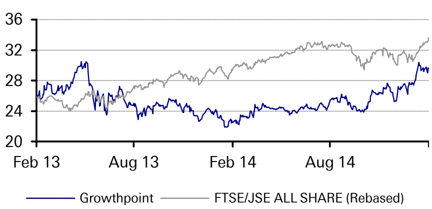
Hold

Price (13 Feb 15)	ZAR 29.65
Target Price	ZAR 29.00
52 Week range	ZAR 22.25 - 30.40
Market Cap (m)	ZARm 66,787
	USDm 5,731

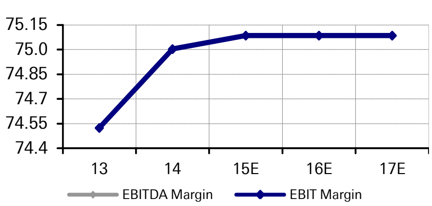
Company Profile

Growthpoint is a Real Estate Investment Trust (REIT) that converted from a PLS on 1 July 2013. It has a balanced diversified portfolio spread across retail, office and industrial properties. Its strategy is to remain diversified while maintaining its position as the biggest local property stock (market capitalisation of c.R50bn) with the highest liquidity. Growthpoint's rental contribution of 23.4% retail, 27.9% office, 16.2% industrial, 6.6% V&A Waterfront, and 25.9% GOZ, is evidence of a high quality portfolio.

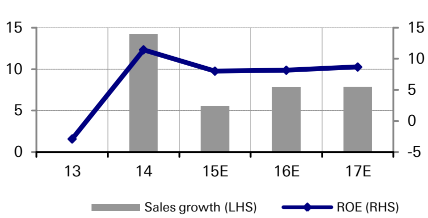
Price Performance



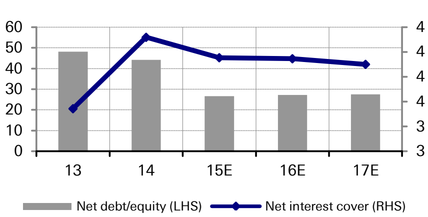
Margin Trends



Growth & Profitability



Solvency



Ryan Eichstadt
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Fiscal year end 30-Jun	2013	2014	2015E	2016E	2017E
Financial Summary					
DB EPS (ZAR)	1.39	1.53	1.38	1.52	1.66
Reported EPS (ZAR)	-0.53	2.78	2.16	2.39	2.76
DPS (ZAR)	1.49	1.61	1.74	1.87	2.01
BVPS (ZAR)	20.7	29.2	28.0	30.4	33.2
Weighted average shares (m)	1,892	1,997	2,253	2,253	2,253
Average market cap (ZARm)	48,853	48,300	66,787	66,787	66,787
Enterprise value (ZARm)	61,757	68,072	77,612	79,230	80,928
Valuation Metrics					
P/E (DB) (x)	18.6	15.8	21.4	19.5	17.9
P/E (Reported) (x)	nm	8.7	13.7	12.4	10.7
P/BV (x)	1.27	0.85	1.06	0.97	0.89
FCF Yield (%)	nm	nm	13.4	nm	nm
Dividend Yield (%)	5.8	6.7	5.9	6.3	6.8
EV/Sales (x)	10.7	10.3	11.1	10.5	10.0
EV/EBITDA (x)	14.3	13.7	14.8	14.0	13.3
EV/EBIT (x)	14.3	13.7	14.8	14.0	13.3
Income Statement (ZARm)					
Sales revenue	5,782	6,605	6,973	7,520	8,111
Gross profit	4,545	5,221	5,517	5,950	6,418
EBITDA	4,309	4,954	5,236	5,646	6,090
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	4,309	4,954	5,236	5,646	6,090
Net interest income(expense)	-1,216	-1,203	-1,324	-1,431	-1,561
Associates/affiliates	326	91	0	0	0
Exceptionals/extraordinaries	-3,668	2,295	1,263	1,702	2,249
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	-249	6,137	5,175	5,917	6,777
Income tax expense	460	160	-93	143	162
Minorities	297	398	398	398	398
Other post-tax income/(expense)	0	0	0	0	0
Net profit	-1,006	5,579	4,870	5,376	6,217
DB adjustments (including dilution)	3,629	-2,499	-1,754	-1,957	-2,484
DB Net profit	2,623	3,080	3,115	3,419	3,733
Cash Flow (ZARm)					
Cash flow from operations	-166	-34	-526	-521	-516
Net Capex	-1,550	-14,348	9,509	-1,334	-1,430
Free cash flow	-1,716	-14,382	8,983	-1,855	-1,946
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	3,228	12,837	-8,945	1,897	1,991
Net cash flow	1,512	-1,545	38	41	45
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	1,912	375	413	454	499
Tangible fixed assets	53,686	69,648	65,351	72,363	80,322
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	5,989	5,987	5,951	6,189	6,436
Other assets	2,567	7,234	7,522	7,824	8,138
Total assets	64,154	83,244	79,237	86,830	95,395
Interest bearing debt	20,805	26,134	17,189	19,086	21,076
Other liabilities	4,119	-1,145	-1,077	-757	-400
Total liabilities	24,924	24,989	16,112	18,329	20,677
Shareholders' equity	39,230	58,255	63,125	68,501	74,718
Minorities	0	0	0	0	0
Total shareholders' equity	39,230	58,255	63,125	68,501	74,718
Net debt	*18,893*	*25,759*	*16,776*	*18,632*	*20,577*
Key Company Metrics					
Sales growth (%)	nm	14.2	5.6	7.8	7.9
DB EPS growth (%)	na	10.5	-9.7	9.8	9.2
EBITDA Margin (%)	74.5	75.0	75.1	75.1	75.1
EBIT Margin (%)	74.5	75.0	75.1	75.1	75.1
Payout ratio (%)	nm	nm	nm	78.4	72.8
ROE (%)	-2.9	11.4	8.0	8.2	8.7
Capex/sales (%)	26.8	217.2	-136.4	17.7	17.6
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	48.2	44.2	26.6	27.2	27.5
Net interest cover (x)	3.5	4.1	4.0	3.9	3.9

Source: Company data, Deutsche Bank estimates

South Africa – Property | Price (13 February 2015): 10705c | Target price: 11000c | Rating: Buy

Hyprop Investments Ltd

Ryan Eichstadt / Sean Holmes

Business description: Hyprop specialises in prime shopping and retail centres that account for 95% of its total net income. Hyprop is a listed REIT. The total value of Hyprop's portfolio at June 2014 was R26bn, while the fund's market capitalisation is R24bn. Amongst its holdings are Canal Walk, The Glen, Hyde Park, CapeGate Mall, The Mall of Rosebank, and Southcoast Mall. Rental contribution is 95% retail, and 5% office. The group recently acquired Somerset Mall and in 2013 it received its first dividend from Atterbury Africa. Hyprop's portfolio is defensive due to prime locations and diverse tenant mix, dominated by blue-chip retailers. Distribution growth has consistently yielded average growth of 8.7% over the past five years.

Drivers:

- The completion and ramp-up of Achimota Mall in Accra (Ghana) and Kumasi City Mall (Ghana).
- 25% of total GLA (m^2) is up for lease renewals in FY15. The front-loaded lease expiry profile will provide both challenges and opportunities for Hyprop.
- Strain on existing retail tenants given slow growth forecasts and pressures on the South African consumer.

Outlook: Hyprop has a specialised focus of high-quality retail space (95% of its physical asset revenue is derived from retail centres, with 80% of the retail component comprising large and super regional centres). These centres tend to be defensive in nature. We have seen a strong performance from this portfolio, which we anticipate will continue. Distribution growth of 11.4% was achieved in FY14. We expect FY15e distribution growth to grow by 8-10%. Upside risks exist for our FY15e forecasts, given the significant FY14 lease expiries at the Glen, CapeGate, Hyde Park Corner, Woodlands Boulevard and Clearwater Mall. In addition, the redevelopment of Rosebank Mall is scheduled for completion in September 2014, with the benefits accruing in FY15. Hyprop has delivered in terms of disposing of non-core assets and will likely focus on the Rosebank Mall redevelopment and Atterbury Africa investment in FY14-15. We expect the stock will remain highly regarded and sought after, given the defensive growth profile and scarcity value of its asset base. While the longer term prospects are attractive, it is reasonably fully priced on a 12 month view. The property asset-exposure to retail supports our view that retail will outperform office and industrial exposure. HYP's longer term prospects are attractive, and there is scope for expansion throughout Africa. Buy.

Valuation: We apply a DCF to ensure our bond yield-derived price target is reasonably supported by distributable cash flows. In our DCF, we use a 1x beta, a risk free rate of 8.5%, a terminal growth rate that reflects relative growth that we project the company to achieve and standard ERP for SA stocks of 4.5% based in line with our Deutsche Bank official view. We derive our 12-month official bond yield relative price target by capitalising our interpolated F2 DPS. Our 12-month target price is calculated using our distribution per share (or linked unit) forecasts and a 12-month forward dividend yield multiple. We calculate our target price DY multiple using the Gordon Growth dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk-free rate of 8.5% (based on the 10-year SA bond yield) and an equity risk premium of 4.5% to calculate the company's cost of equity. Our terminal growth assumption is based on the relative growth that we project the company to achieve in the sector.

Risks: Downside risks general to the sector are GDP growth below forecast, unexpected interest rate hikes and a long bond yield of over 8.5%. A key company-specific upside risk is achieving significant synergies in excess of what we anticipate from the Attfund Retail portfolio acquisition. Downside risks include continued losses from hotel operations, and lower reversions and higher vacancies emerging at office park operations.

Model updated:20 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Hyprop

Reuters: HYPJ.J Bloomberg: HYP SJ

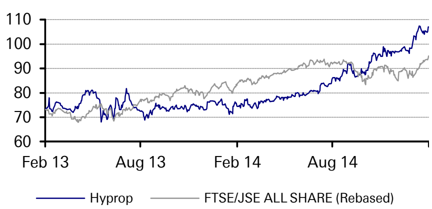
Buy

Price (13 Feb 15)	ZAR 107.05
Target Price	ZAR 110.00
52 Week range	ZAR 73.57 - 107.40
Market Cap (m)	ZARm 26,034
	USDm 2,234

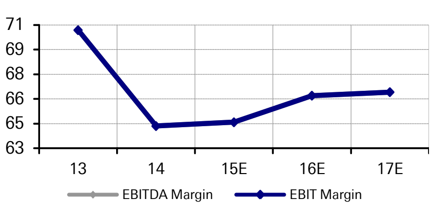
Company Profile

Hyprop specialises in prime shopping and retail centres that account for 93% of its total investment property. Hyprop is a listed REIT. The total value of its portfolio at June 2013 was R20.2bn, while its market capitalisation is R19bn. Among its holdings are Canal Walk, The Glen, Hyde Park, CapeGate Mall, The Mall of Rosebank, and Southcoast Mall. Rental contribution is 95% retail, and 5% office. HYP recently acquired Somerset Mall and in 2013 it received its first dividend from Atterbury Africa. Hyprop's portfolio is defensive due to prime locations and diverse

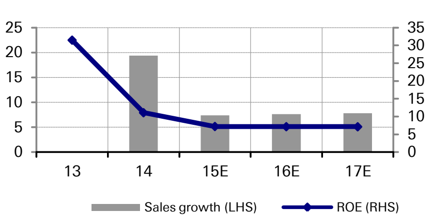
Price Performance



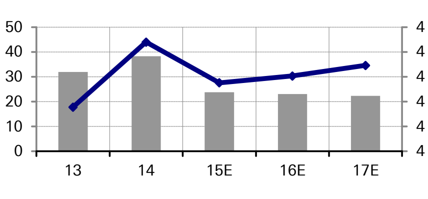
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2013	2014	2015E	2016E	2017E
Financial Summary					
DB EPS (ZAR)	8.50	5.04	5.24	5.80	6.30
Reported EPS (ZAR)	19.16	8.05	5.73	6.08	6.48
DPS (ZAR)	4.24	4.72	5.24	5.80	6.30
BVPS (ZAR)	68.4	76.6	81.9	87.6	93.6
Weighted average shares (m)	243	243	243	243	243
Average market cap (ZARm)	17,574	18,312	26,034	26,034	26,034
Enterprise value (ZARm)	22,884	25,400	30,765	30,941	31,124
Valuation Metrics					
P/E (DB) (x)	8.5	14.9	20.4	18.5	17.0
P/E (Reported) (x)	3.8	9.4	18.7	17.6	16.5
P/BV (x)	1.14	1.04	1.31	1.22	1.14
FCF Yield (%)	nm	nm	9.2	nm	nm
Dividend Yield (%)	5.9	6.3	4.9	5.4	5.9
EV/Sales (x)	11.0	10.3	11.6	10.8	10.1
EV/EBITDA (x)	15.7	15.9	17.9	16.3	15.2
EV/EBIT (x)	15.7	15.9	17.9	16.3	15.2
Income Statement (ZARm)					
Sales revenue	2,075	2,478	2,661	2,864	3,088
Gross profit	1,364	1,640	1,761	1,936	2,087
EBITDA	1,457	1,594	1,719	1,896	2,051
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	1,457	1,594	1,719	1,896	2,051
Net interest income(expense)	-386	-395	-443	-486	-520
Associates/affiliates	4	0	0	0	0
Exceptionals/extraordinaries	1,536	783	116	72	48
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	2,611	1,983	1,391	1,482	1,579
Income tax expense	-2,048	18	-2	3	3
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	4,659	1,965	1,393	1,479	1,576
DB adjustments (including dilution)	-2,591	-740	-118	-69	-44
DB Net profit	2,068	1,226	1,275	1,410	1,531
Cash Flow (ZARm)					
Cash flow from operations	-50	215	-7	-2	5
Net Capex	-242	-1,392	2,397	-174	-188
Free cash flow	-292	-1,177	2,390	-176	-183
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	198	1,180	-2,382	184	192
Net cash flow	-93	3	8	9	9
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	75	77	85	94	103
Tangible fixed assets	19,783	23,998	22,928	24,478	26,141
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	0	34	1	1	1
Other assets	3,124	2,756	2,859	2,976	3,097
Total assets	22,982	26,865	25,872	27,548	29,342
Interest bearing debt	5,384	7,199	4,817	5,001	5,193
Other liabilities	961	1,041	1,139	1,251	1,375
Total liabilities	6,345	8,240	5,956	6,253	6,568
Shareholders' equity	16,637	18,625	19,917	21,296	22,773
Minorities	0	0	0	0	0
Total shareholders' equity	16,637	18,625	19,917	21,296	22,773
Net debt	*5,310*	*7,122*	*4,732*	*4,908*	*5,090*
Key Company Metrics					
Sales growth (%)	nm	19.4	7.4	7.6	7.8
DB EPS growth (%)	na	-40.7	4.0	10.6	8.6
EBITDA Margin (%)	70.2	64.4	64.6	66.2	66.4
EBIT Margin (%)	70.2	64.4	64.6	66.2	66.4
Payout ratio (%)	97.3	99.0	100.2	95.4	97.2
ROE (%)	31.5	11.1	7.2	7.2	7.2
Capex/sales (%)	11.6	56.2	-90.1	6.1	6.1
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	31.9	38.2	23.8	23.0	22.4
Net interest cover (x)	3.8	4.0	3.9	3.9	3.9

Source: Company data, Deutsche Bank estimates

South Africa – Property | Price (13 February 2015): 1181c | Target price: 1200c | Rating: Buy

Redefine Properties Ltd

Ryan Eichstadt / Sean Holmes

Business description: Redefine is one of the largest property stocks on the JSE, with a current R40bn market cap. The net property income contribution at FY14 is 46% retail, 38% office and 16% industrial. Redefine has a 14.5% 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 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.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect escalations to be 6-7% with new and expiring leases negotiated at reversionary levels below escalation rates. 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, where significant negative rental growth is still a feature. 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. Recent disposals, acquisitions and improvements have shown an improvement to the overall portfolio quality. We expect strong cost containment and a shift in portfolio mix to lower management intensive, increased single occupancy buildings to assist in keeping the cost/income ratio at 24%. A key factor for Redefine is also the efficiencies to be realised in the medium term by bedding down the acquisitively grown portfolio and acquiring and developing larger properties increasingly consisting of larger retail offerings.

Outlook: The physical SA portfolio by contractual rental income consists of 44% office, 39% retail and 17% industrial. For FY15e, we expect a return to 8% pa distribution growth, in line with company guidance. We expect Redefine's portfolio to show improvements in quality, maintaining a steady cost/income ratio in the medium term. In our opinion, continued growth in core property income ahead of core property cost growth is unlikely to be maintained, particularly in respect of office rental. We do, however, place value on the high quality nature of Redefine's office assets, and see defensive distribution growth on the back of this. Buy.

Valuation: We apply a DCF to ensure our bond yield-derived price target is reasonably supported by distributable cash flows. In our DCF, we use a 1x beta, a risk free rate of 8.5%, a terminal growth rate that reflects relative growth that we project the company to achieve and standard ERP for SA stocks of 4.5% based in line with our Deutsche Bank official view. We derive our 12-month official bond yield relative price target by capitalising our interpolated F2 DPS. Our 12-month target price is calculated using our distribution per share (or linked unit) forecasts and a 12-month forward dividend yield multiple. We calculate our target price DY multiple using the Gordon Growth dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk-free rate of 8.5% (based on the 10-year SA bond yield) and an equity risk premium of 4.5% to calculate the company's cost of equity. Our terminal growth assumption is based on the relative growth that we project the company to achieve in the sector.

Risks: The fund's hybrid structure raises the risk profile, with the potential for overpaying for growth a potential risk. This risk is lessened due to the economy of scale having been reached and an increased revenue contribution from the physical portfolio. Forecast risk is above the sector average, given the multiple revenue streams on which its income is based. Downside risks to our view would be management disappointing the market on distribution growth, a material change in stated strategy, or a significant acquisition that increases the risk profile without being materially distribution enhancing. Redefine has a c.50% exposure to office, the worst performing sector relative to retail and industrial assets, in our view. However, these office assets are of a defensive, high quality. Risks general to the sector are a slow and prolonged recovery in GDP growth, lack of liquidity and a long bond yield above or below our expectations.

Model updated:20 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Redefine Properties Ltd

Reuters: RDFJ.J Bloomberg: RDF SJ

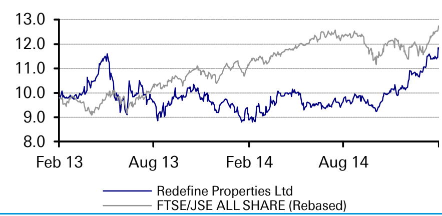
Buy

Price (13 Feb 15)	ZAR 11.81
Target Price	ZAR 12.00
52 Week range	ZAR 8.80 - 11.85
Market Cap (m)	ZARm 36,500
	USDm 3,132

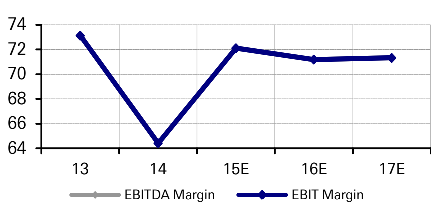
Company Profile

Redefine is a listed REIT with international investments (10%), local listed securities (5%) and local properties (85%) making up the portfolio. Redefine has a market capitalisation of R30bn, with R41bn assets managed. The rental contribution is 39% retail, 44% office and 17% industrial. Redefine is a hybrid fund, with listed holdings in Hyprop, Arrowhead, Fountainhead and Cromwell Property Group.

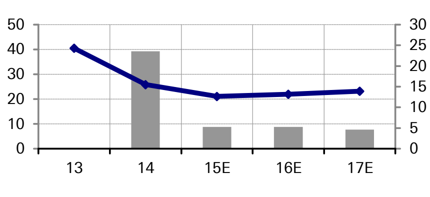
Price Performance



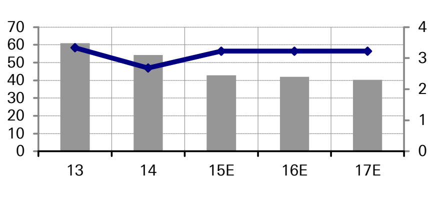
Margin Trends



Growth & Profitability



Solvency



Ryan Eichstadt
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Fiscal year end 31-Aug	2013	2014	2015E	2016E	2017E
Financial Summary					
DB EPS (ZAR)	1.69	0.95	1.60	1.72	1.86
Reported EPS (ZAR)	1.75	1.27	1.27	1.38	1.54
DPS (ZAR)	0.69	0.74	0.80	0.86	0.93
BVPS (ZAR)	8.2	10.5	11.0	11.6	12.2
Weighted average shares (m)	2,825	3,091	3,091	3,091	3,091
Average market cap (ZARm)	27,607	29,640	36,500	36,500	36,500
Enterprise value (ZARm)	38,559	42,122	45,927	46,182	46,216
Valuation Metrics					
P/E (DB) (x)	5.8	10.1	7.4	6.9	6.4
P/E (Reported) (x)	5.6	7.6	9.3	8.5	7.7
P/BV (x)	1.11	0.91	1.07	1.02	0.97
FCF Yield (%)	nm	nm	8.8	nm	nm
Dividend Yield (%)	7.0	7.8	6.8	7.3	7.9
EV/Sales (x)	9.9	7.8	7.8	7.2	6.7
EV/EBITDA (x)	13.6	12.1	10.8	10.1	9.4
EV/EBIT (x)	13.6	12.1	10.8	10.1	9.4
Income Statement (ZARm)					
Sales revenue	3,884	5,408	5,887	6,407	6,902
Gross profit	2,679	3,501	4,095	4,394	4,733
EBITDA	2,841	3,485	4,245	4,562	4,923
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	2,841	3,485	4,245	4,562	4,923
Net interest income(expense)	-851	-1,298	-1,316	-1,414	-1,526
Associates/affiliates	330	440	0	0	0
Exceptionals/extraordinaries	-787	859	-1,261	-1,214	-1,144
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	1,532	3,486	1,668	1,934	2,253
Income tax expense	-1,390	-31	-27	23	24
Minorities	0	0	0	0	0
Other post-tax income/(expense)	2,013	1,116	2,929	3,148	3,397
Net profit	4,934	4,633	4,624	5,059	5,626
DB adjustments (including dilution)	-148	-1,170	1,234	1,237	1,168
DB Net profit	4,786	3,463	5,858	6,295	6,794
Cash Flow (ZARm)					
Cash flow from operations	-306	185	-403	-403	-402
Net Capex	-5,210	-5,871	3,622	-154	12
Free cash flow	-5,516	-5,686	3,220	-557	-390
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	5,505	5,560	-3,303	477	314
Net cash flow	-11	-127	-83	-80	-76
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	359	351	386	424	467
Tangible fixed assets	32,862	40,954	39,345	41,313	43,378
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	3,704	6,924	6,641	6,824	7,063
Other assets	11,957	9,262	9,632	10,017	10,418
Total assets	48,882	57,490	56,004	58,579	61,326
Interest bearing debt	15,015	19,757	16,454	16,931	17,245
Other liabilities	9,792	1,998	2,120	2,306	2,510
Total liabilities	24,807	21,754	18,573	19,237	19,756
Shareholders' equity	24,074	35,736	37,431	39,341	41,570
Minorities	0	0	0	0	0
Total shareholders' equity	24,074	35,736	37,431	39,341	41,570
Net debt	*14,656*	*19,406*	*16,068*	*16,507*	*16,779*
Key Company Metrics					
Sales growth (%)	nm	39.2	8.8	8.8	7.7
DB EPS growth (%)	na	-44.1	69.2	7.5	7.9
EBITDA Margin (%)	73.1	64.4	72.1	71.2	71.3
EBIT Margin (%)	73.1	64.4	72.1	71.2	71.3
Payout ratio (%)	100.7	102.1	102.6	52.6	51.1
ROE (%)	24.3	15.5	12.6	13.2	13.9
Capex/sales (%)	134.1	108.6	-61.5	2.4	-0.2
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	60.9	54.3	42.9	42.0	40.4
Net interest cover (x)	3.3	2.7	3.2	3.2	3.2

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (13 February 2015): 13061c | Target price: 17500c | Rating: Buy

African Rainbow Minerals Ltd

Rene Kleyweg

Business description: 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 commissioning the expansion to 14mtpa of iron ore. Manganese volumes are predominantly by rail with prices no longer supporting 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: 25%) comprise Nkomati, Modikwa and Two Rivers. Nkomati has transitioned 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 high grades and improved recoveries. Two Rivers have performed well from a cost perspective recently but Modikwa has struggled. There is limited opportunity to grow capacity at either.

Harmony (6% 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 15% of Harmony; we expect it to retain this stake in the short and medium term.

Copper and coal. ARM's copper business (2% of NAV) is held through a 50:50 joint venture with Vale. The Lubambe (Konkola North) project has been a frustration and continues to underperform. ARM Coal (13% of NAV) is owned through a BEE structure with Xstrata, the business has seen significant capital invested in an effort to convert PCB's underground operations to open pit.

Drivers:

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

Whilst there is some modest growth in platinum and coal and a long term potential expansion in manganese, we expect ARM production growth to moderate.

Outlook: ARM has predominantly focussed on developing the resources within its portfolio since its listing in 2004, and this is set to continue, although opportunities are becoming fewer. The main focus of modest growth is expected to be on the ferrous side, including manganese. In general we expect the emphasis to be on organic growth rather than transformational acquisitions, which should allow for a more progressive dividend policy to emerge. Buy.

Valuation: Our target price is based on a sum-of-the-parts valuation, with the stake in Harmony valued at our target price, and other operations valued based on a DCF analysis, with a WACC of 14% (Rf 8.5%, D/E 0%, 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, manganese, ferromanganese and iron ore, as well as a stronger ZAR/USD. Other risks include limited available rail capacity in the long term, which would hamper anticipated volume growth; slowing Chinese growth and the potential for ARM to make a value destructive acquisition.

Model updated:16 December 2014

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

ARM

Reuters: ARIJ.J Bloomberg: ARI SJ

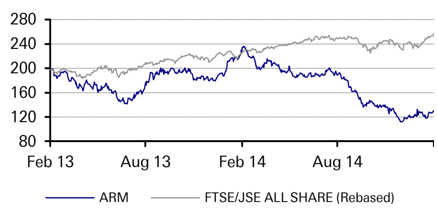
Buy

Price (13 Feb 15)	ZAR 130.61
Target Price	ZAR 175.00
52 Week range	ZAR 112.00 - 236.50
Market Cap (m)	ZARm 28,286
	USDm 2,427

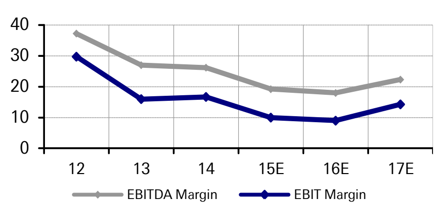
Company Profile

ARM is a diversified mining and minerals company with assets in ferrous, platinum group metals, coal base metals and copper. ARM holds a significant interest in the gold mining sector through its shareholding in Harmony.

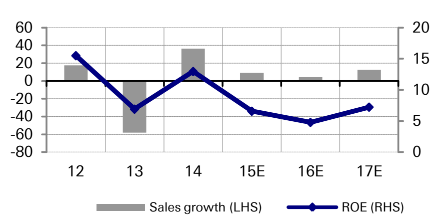
Price Performance



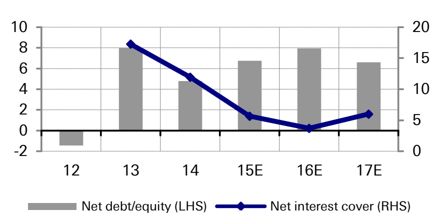
Margin Trends



Growth & Profitability



Solvency



Rene Kleyweg De Monchy
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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	16.00	17.19	18.86	8.13	5.98	9.24
Reported EPS (ZAR)	15.94	7.52	15.10	8.13	5.98	9.24
DPS (ZAR)	4.75	5.10	6.00	5.31	4.38	6.94
BVPS (ZAR)	108.0	111.6	123.1	125.3	126.0	130.9
Weighted average shares (m)	214	216	216	217	217	217
Average market cap (ZARm)	36,282	36,693	41,532	28,286	28,286	28,286
Enterprise value (ZARm)	30,182	23,703	26,629	13,724	13,732	13,053
Valuation Metrics						
P/E (DB) (x)	10.6	9.9	10.2	16.1	21.8	14.1
P/E (Reported) (x)	10.6	22.6	12.7	16.1	21.8	14.1
P/BV (x)	1.46	1.31	1.52	1.04	1.04	1.00
FCF Yield (%)	2.2	3.2	5.8	2.5	2.7	4.4
Dividend Yield (%)	2.8	3.0	3.1	4.1	3.4	5.3
EV/Sales (x)	1.7	3.2	2.7	1.3	1.2	1.0
EV/EBITDA (x)	4.6	12.0	10.2	6.5	6.7	4.6
EV/EBIT (x)	5.8	20.2	15.9	12.6	13.4	7.1
Income Statement (ZARm)						
Sales revenue	17,530	7,342	10,004	10,922	11,385	12,824
Gross profit	6,531	1,982	2,620	2,098	2,047	2,862
EBITDA	6,531	1,982	2,620	2,098	2,047	2,862
Depreciation	1,315	808	949	1,006	1,023	1,030
Amortisation	0	0	0	0	0	0
EBIT	5,216	1,174	1,671	1,091	1,024	1,832
Net interest income(expense)	47	-68	-140	-193	-276	-306
Associates/affiliates	11	3,049	3,175	1,429	1,003	1,146
Exceptionals/extraordinaries	-70	-2,457	-616	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	5,204	1,698	4,090	2,327	1,751	2,672
Income tax expense	1,633	-84	546	378	310	383
Minorities	133	148	255	177	138	274
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,438	1,634	3,289	1,772	1,304	2,015
DB adjustments (including dilution)	13	2,103	819	0	0	0
DB Net profit	3,451	3,737	4,108	1,772	1,304	2,015
Cash Flow (ZARm)						
Cash flow from operations	4,847	2,790	3,415	2,658	1,837	2,249
Net Capex	-4,045	-1,606	-1,015	-1,951	-1,060	-992
Free cash flow	802	1,184	2,400	707	777	1,257
Equity raised/(bought back)	50	28	62	0	0	0
Dividends paid	-959	-1,021	-1,338	-1,301	-1,150	-950
Net inc/(dec) in borrowings	129	446	-821	0	0	0
Other investing/financing cash flows	-32	-66	-203	0	0	0
Net cash flow	-10	571	100	-593	-373	307
Change in working capital	*0*	*1,646*	*-312*	*44*	*-97*	*-531*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,590	1,965	2,150	1,557	1,183	1,490
Tangible fixed assets	18,707	11,499	11,930	12,874	12,912	12,875
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	6,952	16,410	17,766	18,195	18,698	19,344
Other assets	6,067	3,965	4,612	4,768	4,971	5,629
Total assets	35,316	33,839	36,458	37,394	37,765	39,338
Interest bearing debt	3,237	3,992	3,502	3,502	3,502	3,502
Other liabilities	7,674	4,384	4,757	5,045	5,124	5,357
Total liabilities	10,911	8,376	8,259	8,547	8,626	8,859
Shareholders' equity	23,200	24,070	26,688	27,159	27,314	28,379
Minorities	1,205	1,393	1,511	1,688	1,826	2,100
Total shareholders' equity	24,405	25,463	28,199	28,847	29,139	30,479
Net debt	*-353*	*2,027*	*1,352*	*1,945*	*2,319*	*2,012*
Key Company Metrics						
Sales growth (%)	17.7	-58.1	36.3	9.2	4.2	12.6
DB EPS growth (%)	1.0	7.4	9.7	-56.9	-26.4	54.5
EBITDA Margin (%)	37.3	27.0	26.2	19.2	18.0	22.3
EBIT Margin (%)	29.8	16.0	16.7	10.0	9.0	14.3
Payout ratio (%)	29.6	67.3	39.5	64.8	72.8	74.5
ROE (%)	15.5	6.9	13.0	6.6	4.8	7.2
Capex/sales (%)	23.1	21.9	11.3	17.9	9.3	7.7
Capex/depreciation (x)	3.1	2.0	1.2	1.9	1.0	1.0
Net debt/equity (%)	-1.4	8.0	4.8	6.7	8.0	6.6
Net interest cover (x)	nm	17.3	11.9	5.7	3.7	6.0

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (13 February 2015): 21733c | Target price: 35000c | Rating: Buy

Anglo American plc

Rene Kleyweg

Business description: Anglo American (Anglo) is the most diversified of the major miners. The company has six main divisions, metallurgical (NPV US$6.7bn) and thermal coal (US$3.9bn), iron ore (US$11.6bn), copper (US$12.9bn), diamonds (US$8.5bn) and platinum (US$10.7bn). More specifically Anglo's focus is on six key assets, Sishen and Minas Rio in iron ore, Los Bronces and Collahuasi in copper, Mogalakwena in platinum and Jwaneng in diamonds. Most of these offer significant long term brownfield growth potential. In addition, the company's main growth opportunities are in metallurgical coal (Moranbah South and Grosvenor II) and in copper (Quellaveco).

Anglo appointed Mark Cutifani as its new CEO from April 2013. 2013 proved to be an eventful year for Anglo and Mr Cutifani, with the problems at Sishen leading to a 90° rotation in parts of the mine plan, challenges in implementing the platinum review, a dramatic increase in capex guidance at Minas Rio to US$8.8bn etc. But the new CEO has laid out a clear strategy around raising ROCE to a minimum 15% from an estimated 9% in 2016. The required US$4bn or so of increase in EBIT is to come from three main areas: US$1.3bn in overhead cuts, project pipeline and supply chain savings; US$1.4bn from operational turnarounds at problem mines, and the balance from ongoing reviews of assets. The targets are based on a steady state commodity and foreign exchange environment. Management in its December analyst presentation re-iterated its confidence in achieving these targets and we think further progress will be evident in FY14 results. The decline in oil pricing will also help and could easily add as much as 1% to ROCE.

Mr Cutifani also hired his former AngloGold colleague Tony O'Neil to join him at Anglo as Group Technical Director. Given that many of the group's operational challenges appear to be around management of the mining rather than processing side of things, we believe Mr O'Neil's technical credentials will prove most valuable in pointing Anglo in the right direction. Indeed significant progress has been made during 2014.

Anglo trades at a significant discount to its NPV and on a materially lower rating than its diversified mining peers. We expect part of the discount to narrow as management shows progress towards its 15% ROCE steady state target. Improvements in operating performance in the platinum division, the return of free cash flow generation and the ability to move forward on some of the growth opportunities around its key assets will further drive relative valuations medium term.

Drivers:

- Rand and A$.
- PGMs, copper, coal and iron ore prices.

Anglo's primary business driver remains the global economic cycle with a broad exposure to early cycle steel input products (metallurgical coal and iron ore) through mid cycle copper and thermal coal to late cycle consumer exposure in diamonds and platinum. Its main FX exposure is to the rand, with around 50% of costs in South Africa.

Outlook: We think Anglo management has the right approach and tools to turn around the group and drive towards its 15% ROCE 2016/17 target, and that a steady re-rating of the stock can be achieved from the disclosure of progress towards the 2016 milestone from 4Q14 onwards. In the next 12 months, we believe Anglo will benefit from a normalisation of platinum operations, solid production results from copper, lower exposure than peers to a weak iron ore price and volume recovery in diamonds. Whilst 2015 FCF remains subdued on our forecasts, it improves from 2016 onwards. We do not view our earnings and FCF forecasts as overly aggressive - relative to peers we have not incorporated any material productivity gains or cost reductions. Buy on upside to our target price.

Valuation: We value Anglo on a sum of the parts basis, using DCF-derived NPV valuations for each division. We use a WACC of 8.7% (cost of equity of 10%, cost of debt post-tax of 3.2%, applying a tax rate of 30% and assuming a LT gearing target of 20%). To derive our TP we apply a NPV multiple of 0.85x, to reflect historical management performance relative to the broader sector over time.

Risks: Downside risks include stronger-than-expected operating currencies (rand, A$) and lower commodity prices than we forecast, in particular PGMs, copper and iron ore. More specific risks include implementation risks of the plan to exit high cost Platinum mines and domestic coal in South Africa as well as ramp-up at Minas Rio and the stripping programme at Sishen.

Model updated:16 February 2015

Running the numbers

Europe

United Kingdom

Metals & Mining

Anglo American

Reuters: AGLJ.J Bloomberg: AGL SJ

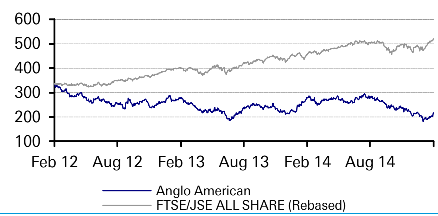
Buy

Price (13 Feb 15)	ZAR 217.33
Target Price	ZAR 350.00
52 Week range	ZAR 182.22 - 295.56
Market Cap (m)	ZARm 279,704
	USDm 24,003

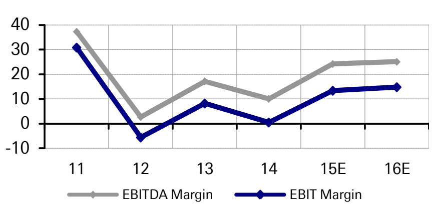
Company Profile

Anglo American plc is a globally diversified mining company. It has interests in diamonds, platinum, met coal, thermal coal, copper, nickel, 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 of non-core assets to create a more focused mining group. Anglo's diamond and platinum assets differentiate it from the other diversified miners.

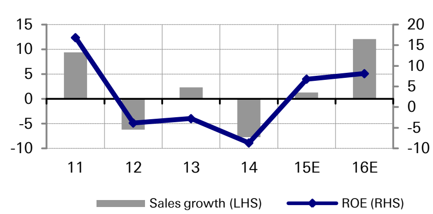
Price Performance



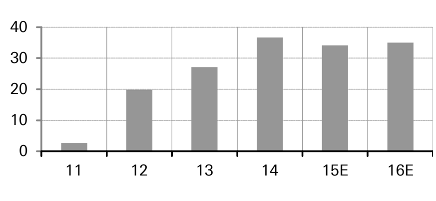
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014	2015E	2016E
Financial Summary						
DB EPS (USD)	4.85	2.27	2.08	1.73	1.42	1.75
Reported EPS (USD)	4.89	-1.17	-0.75	-1.96	1.42	1.75
DPS (USD)	0.74	0.85	0.85	0.85	0.85	0.85
BVPS (USD)	32.3	30.0	24.7	20.6	21.1	22.0
Weighted average shares (m)	1,210	1,254	1,281	1,284	1,287	1,287
Average market cap (USDm)	53,916	42,291	31,455	25,724	24,003	24,003
Enterprise value (USDm)	63,668	54,084	44,410	40,255	38,401	39,538
Valuation Metrics						
P/E (DB) (x)	9.2	14.8	11.8	11.6	13.2	10.6
P/E (Reported) (x)	9.1	nm	nm	nm	13.2	10.6
P/BV (x)	1.13	1.02	0.88	0.91	0.88	0.85
FCF Yield (%)	4.5	nm	0.3	nm	2.5	3.0
Dividend Yield (%)	1.7	2.5	3.5	4.2	4.6	4.6
EV/Sales (x)	2.1	1.9	1.5	1.5	1.4	1.3
EV/EBITDA (x)	5.6	69.9	8.8	14.8	5.8	5.1
EV/EBIT (x)	6.7	nm	18.5	291.7	10.5	8.7
Income Statement (USDm)						
Sales revenue	30,580	28,680	29,342	27,073	27,419	30,724
Gross profit	11,406	774	5,045	2,729	6,641	7,712
EBITDA	11,406	774	5,045	2,729	6,641	7,712
Depreciation	1,967	2,374	2,638	2,591	2,973	3,155
Amortisation	0	0	0	0	0	0
EBIT	9,439	-1,600	2,407	138	3,668	4,556
Net interest income(expense)	668	418	271	242	164	127
Associates/affiliates	977	421	168	208	111	62
Exceptionals/extraordinaries	183	1,396	-469	-385	0	0
Other pre-tax income/(expense)	-485	-806	-677	-462	-510	-697
Profit before tax	10,782	-171	1,700	-259	3,432	4,048
Income tax expense	2,860	393	1,274	1,265	877	1,028
Minorities	1,753	906	1,387	989	737	770
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,169	-1,470	-961	-2,513	1,818	2,250
DB adjustments (including dilution)	-49	4,330	3,634	4,730	0	0
DB Net profit	6,120	2,860	2,673	2,217	1,818	2,250
Cash Flow (USDm)						
Cash flow from operations	8,555	4,787	6,078	5,435	5,791	5,700
Net Capex	-6,126	-5,541	-5,985	-5,903	-5,194	-4,979
Free cash flow	2,429	-754	93	-468	597	720
Equity raised/(bought back)	-347	24	14	-97	6	6
Dividends paid	-2,222	-2,237	-2,237	-1,922	-1,495	-1,533
Net inc/(dec) in borrowings	4,667	5,834	1,043	1,825	-1,672	-1,141
Other investing/financing cash flows	1,106	-5,678	-148	-179	1,328	0
Net cash flow	5,633	-2,811	-1,235	-841	-1,236	-1,947
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (USDm)						
Cash and other liquid assets	11,732	9,094	7,704	6,748	5,512	3,564
Tangible fixed assets	40,549	45,089	41,505	38,475	39,368	41,192
Goodwill/intangible assets	2,322	4,571	4,083	3,912	3,912	3,912
Associates/investments	8,976	6,291	7,548	7,520	7,434	7,447
Other assets	8,863	14,324	10,325	9,355	8,155	9,158
Total assets	72,442	79,369	71,165	66,010	64,380	65,273
Interest bearing debt	12,873	17,754	17,848	18,535	16,863	15,722
Other liabilities	16,380	17,828	15,953	15,298	14,274	14,815
Total liabilities	29,253	35,582	33,801	33,833	31,137	30,537
Shareholders' equity	39,092	37,657	31,671	26,417	27,147	28,310
Minorities	4,097	6,130	5,693	5,760	6,096	6,427
Total shareholders' equity	43,189	43,787	37,364	32,177	33,243	34,737
Net debt	*1,141*	*8,660*	*10,144*	*11,787*	*11,351*	*12,158*
Key Company Metrics						
Sales growth (%)	9.4	-6.2	2.3	-7.7	1.3	12.1
DB EPS growth (%)	23.0	-53.2	-8.4	-17.0	-17.9	23.7
EBITDA Margin (%)	37.3	2.7	17.2	10.1	24.2	25.1
EBIT Margin (%)	30.9	-5.6	8.2	0.5	13.4	14.8
Payout ratio (%)	14.5	nm	nm	nm	60.2	48.6
ROE (%)	16.8	-3.8	-2.8	-8.7	6.8	8.1
Capex/sales (%)	20.3	19.6	20.9	22.1	18.9	16.2
Capex/depreciation (x)	3.2	2.4	2.3	2.3	1.7	1.6
Net debt/equity (%)	2.6	19.8	27.1	36.6	34.1	35.0
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (13 February 2015): 28165c | Target price: 37500c | Rating: Buy

BHP Billiton plc

Rene Kleyweg

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 (49% of operating assets), North America (29%), South America (11%) and Southern Africa (5%). 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, and manganese.

We believe BHP's investment case remains its ability to deliver consistent returns through a combination of a sustainable progressive dividend policy and modest longer term growth. BHP's growth strategy remains focused on five basins and five commodities, each with over a 100 years worth of resources (Western Australian iron ore; Queensland coal; Escondida copper; onshore US gas and Saskatchewan potash). The constraining requirements of Tier 1 scalable assets in OECD countries are likely to limit growth somewhat. Pilbara iron ore and Queensland coking coal basins are suffering from supply growth and a slowdown in Chinese commodity consumption. Escondida serves the more medium term copper demand, and the two newest additions – Saskatchewan and the onshore US petroleum – serve longer dated energy demand. Whilst diversification has failed to reduce the cyclical pressures it is currently experiencing, the quality of the assets, their competitiveness and the strength of the balance sheet are not in doubt.

Operational performance remains the key objective of the CEO, Andrew Mackenzie rather than growth. But as we move through into next year, we will start seeing commitments to new investment; we estimate capex will stabilise in a US$12-14 range (US$4bn of sustaining and US$8-10bn on growth).

Drivers: BHP's FY15 earnings profile remains dominated by carbon the steel materials – iron ore, coking coal and manganese (38% of EBITDA); the Energy (petroleum and thermal coal are 34% of EBITDA) and base metals (copper 25% and aluminium 4% of EBITDA). Key currency exposures include the A$, CHP and rand having a significant impact on US$ operating costs and earnings.

Outlook: The long-term BHP Billiton story remains one of production and earnings growth, portfolio simplification and growing also through acquisitions. The US$15bn purchase of US tight oil assets in 2011 demonstrated a focus on further diversification and on the importance of energy in the portfolio. A decision to demerge non-core assets (aluminium, manganese, and South African coal assets, the Cannington lead/silver mine, Illawarra met coal and Cerro Matoso nickel) will further simplify the portfolio and improve returns. The company's capital allocation strategy is focused on: 1. Organic growth, with a focus on returns. 2. Balance sheet management (maintaining the A rating), 3. Progressively growing (and periodically rebasing) the dividend, and; 4. Returning excess cash to shareholders (likely share buybacks). BHP Billiton's assets are long life, low operating cost, and in low to moderate risk countries (Australia, North America, 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, margins, returns, growth and diversification.

Valuation: We value BHP using life of mine cash flows with a WACC of 9.3% (COE 10.6% - Rf 3%, Rp 6.0%; CoD 3.5% on a D/E of 15%; Beta of 1.26). We assume a long-term AUD/USD of 0.80, long-term Brent oil of US$96/bbl, WTI oil of US$87/bbl, US natural gas of US$4.3/mmbtu, iron ore fines of US$80/t (CIF Asia), coking coal of US$150/t, copper US$3.22/lb (all real). To derive our target price we apply a 1.1x exit multiple. The 10% premium is based on the management performance relative to the broader Metals and Mining peer group under our coverage. We use a USD/GBP exchange rate of 1.60.

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, particularly the US Onshore oil programme. Delivery risk exists on the large iron ore expansions in the Pilbara, Jansen potash, and the petroleum growth projects (both US Onshore and the GoM). A potential medium-term slowdown in Chinese steel demand may result in lower iron ore and coking coal demand and therefore lower bulk commodity prices.

Model updated:21 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

BHP Billiton Plc

Reuters: BILJ.J | Bloomberg: BIL SJ

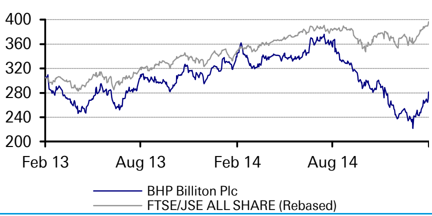
Buy

Price (13 Feb 15)	ZAR 281.65
Target Price	ZAR 375.00
52 Week range	ZAR 221.82 - 376.25
Market Cap (m)	ZARm 1,498,706
	USDm 128,611

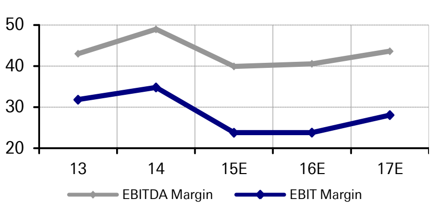
Company Profile

BHP Billiton plc is an international resources company. The company's principal business lines are mineral and petroleum production, including coal (thermal and coking), iron ore, aluminium, manganese, nickel, copper concentrate and cathode, diamonds, and oil & gas (conventional and unconventional, LNG).

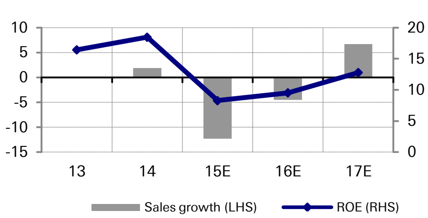
Price Performance



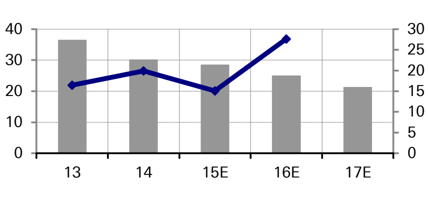
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2013	2014	2015E	2016E	2017E
Financial Summary					
DB EPS (USD)	2.29	2.52	1.44	1.44	1.96
Reported EPS (USD)	2.10	2.59	1.24	1.44	1.96
DPS (USD)	1.16	1.21	1.24	1.24	1.29
BVPS (USD)	13.3	14.9	15.1	15.3	15.4
Weighted average shares (m)	5,321	5,321	5,321	5,321	5,321
Average market cap (USDm)	163,492	162,046	128,611	128,611	128,611
Enterprise value (USDm)	193,746	191,635	158,836	157,650	156,447
Valuation Metrics					
P/E (DB) (x)	13.4	12.1	16.7	16.7	12.4
P/E (Reported) (x)	14.6	11.8	19.6	16.7	12.4
P/BV (x)	1.94	2.18	1.60	1.58	1.57
FCF Yield (%)	0.2	6.4	6.4	8.2	8.9
Dividend Yield (%)	3.8	4.0	5.1	5.1	5.3
EV/Sales (x)	2.9	2.9	2.7	2.8	2.6
EV/EBITDA (x)	6.8	5.8	6.7	6.9	6.0
EV/EBIT (x)	9.2	8.2	11.3	11.7	9.3
Income Statement (USDm)					
Sales revenue	65,953	67,206	58,943	56,277	60,051
Gross profit	24,433	31,385	23,548	22,842	26,200
EBITDA	28,380	32,909	23,548	22,842	26,200
Depreciation	7,378	9,498	9,513	9,425	9,321
Amortisation	0	0	0	0	0
EBIT	21,002	23,411	14,035	13,417	16,878
Net interest income(expense)	-1,276	-1,176	-930	-486	109
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	-263	-197	-292
Profit before tax	19,726	22,235	12,842	12,734	16,695
Income tax expense	6,906	7,012	4,919	4,074	5,343
Minorities	1,597	1,392	1,326	956	912
Other post-tax income/(expense)	0	0	0	0	0
Net profit	11,223	13,831	6,596	7,704	10,440
DB adjustments (including dilution)	985	-384	1,109	0	0
DB Net profit	12,208	13,447	7,705	7,704	10,440
Cash Flow (USDm)					
Cash flow from operations	20,154	25,364	20,695	20,477	20,856
Net Capex	-19,905	-15,067	-12,475	-9,914	-9,360
Free cash flow	249	10,297	8,219	10,564	11,496
Equity raised/(bought back)	21	0	0	0	0
Dividends paid	-6,167	-6,387	-6,619	-6,619	-6,886
Net inc/(dec) in borrowings	7,157	-910	-4,000	-1,000	-3,000
Other investing/financing cash flows	-364	126	-910	-1,426	-1,760
Net cash flow	896	3,126	-3,310	1,519	-150
Change in working capital	*-7,514*	*655*	*2,337*	*1,083*	*-1,485*
Balance Sheet (USDm)					
Cash and other liquid assets	5,677	8,803	5,493	7,012	6,861
Tangible fixed assets	100,565	108,787	111,749	112,238	112,277
Goodwill/intangible assets	5,496	5,439	5,605	5,794	5,971
Associates/investments	1,880	2,436	2,436	2,436	2,436
Other assets	25,560	25,948	24,071	23,424	24,281
Total assets	139,178	151,413	149,354	150,904	151,825
Interest bearing debt	33,187	34,589	30,589	29,589	26,589
Other liabilities	30,700	31,442	30,944	31,103	32,794
Total liabilities	63,887	66,031	61,533	60,692	59,383
Shareholders' equity	70,667	79,143	80,257	81,314	81,898
Minorities	4,624	6,239	7,565	8,897	10,544
Total shareholders' equity	75,291	85,382	87,822	90,212	92,442
Net debt	*27,510*	*25,786*	*25,096*	*22,577*	*19,728*
Key Company Metrics					
Sales growth (%)	nm	1.9	-12.3	-4.5	6.7
DB EPS growth (%)	na	10.2	-42.7	0.0	35.5
EBITDA Margin (%)	43.0	49.0	40.0	40.6	43.6
EBIT Margin (%)	31.8	34.8	23.8	23.8	28.1
Payout ratio (%)	55.0	46.6	100.0	85.7	65.7
ROE (%)	16.4	18.5	8.3	9.5	12.8
Capex/sales (%)	33.7	23.8	21.2	17.6	15.6
Capex/depreciation (x)	3.0	1.7	1.3	1.1	1.0
Net debt/equity (%)	36.5	30.2	28.6	25.0	21.3
Net interest cover (x)	16.5	19.9	15.1	27.6	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (13 February 2015): 5160c | Target price: 6100c | Rating: Hold

Glencore plc

Rene Kleyweg

Business description: Glencore is the world's third largest mining company by market capitalisation following the merger with Xstrata in 2013. Its origin lies on the marketing and trading side of the industry rather than extraction. Following the merger, the balance has changed somewhat with the industrial assets contributing the bulk (70%) of the NPV. However, from an EBIT perspective marketing will represent 47% of 2015 earnings. Within the industrial assets, copper dominates accounting for 40% of NPV, with nickel (14%), coal (13%) and zinc (10%) thereafter. Whilst historically the industrial assets were acquired opportunistically and tended to be relatively high cost, this is no longer the case, with most assets in the 1st or 2nd quartile of the cost curve.

Glencore remain reluctant to develop large scale green field projects due to the inherent execution risk and long payback periods. Focus instead is on brownfield expansions and bolt on acquisitions that come with opportunities for the trading business to extract additional value. However given their scale now, the traditional small bolt-on acquisitions struggle to make a difference. This has resulted in Glencore opportunistically approaching Rio Tinto with a view to a potential merger in 2014, which was dismissed.

Management insists that excess cash will be returned to shareholders and delivered on that in 2014 with the share buyback announcement from the required Las Bambas asset disposal. However, debt levels (predominantly from the trading business) are proving of concern to the market and potentially the rating agencies should commodity prices decline further. As such, we see no room for additional capital returns to shareholders near-term.

Drivers: With lower margins than its larger peers on the industrial side (mostly down to lower iron ore exposure) Glencore is dependent on healthy commodity prices. The marketing division also generally does better in a rising market. Capital expenditure is declining rapidly allowing for significant free cash flow for distribution back to shareholders. However, with few buyers of assets around it may well be that Glencore management is more tempted by the acquisition opportunities presented to it. Given recent relative performance, we do not view another approach to Rio Tinto as likely.

Outlook: Glencore Xstrata's unique integrated business model allows the company to leverage not only the growth in global commodity demand, but also growth in global commodity trade. Its recent merger with Xstrata has transformed the business from a trading dominated (by earnings) business to a fully fledged miner. Its large group of industrial or producing assets offers price exposure to a diversified basket of commodities including metals, agricultural products and energy products. Its trading business is a key differentiator vs. the diversified miners, able to leverage the trend of increased commodity price volatility and the preferential growth of commodity trading. Glencore's current asset base can deliver superior production growth over the next two year compared with the other miners. The equity market remains sceptical on the sustainability of the marketing earnings in a range of commodity price and trading environments but this should improve if it delivers within its guided range. Hold.

Valuation: We value Glencore using discounted cash flow analysis on its life of asset cash flows. We use a WACC of 8.6% (CoD 4%, Gearing target 20%, Tax rate 20% and RFR 3%) Our price target is set at our valuation in line with the sector.

Risks: Weaker commodity prices or stronger operating currencies than expected are key downside risks to our earnings and valuation forecasts. We see three key stock-specific downside risks: Some of Glencore's key growth assets are in less politically stable regions, such as the Democratic Republic of Congo (DRC) and Equatorial Guinea, which introduces a higher degree of sovereign risk. Glencore is in the process of integrating Xstrata into its portfolio and control costs at the same time – mismanagement of this process could lead to value reduction of the assets (eg cutting costs below sustainable levels). Of the large miners, we view Glencore as the most likely to undertake further M&A in the near-term – transactions are usually viewed sceptically by the market in the first instance and could lead to price underperformance. Upside risks to the call are mostly around significantly higher coal, nickel and zinc prices.

Model updated:13 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Mining

Glencore

Reuters: GLNJ.J Bloomberg: GLN SJ

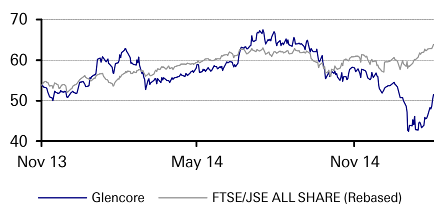
Hold

Price (13 Feb 15)	ZAR 51.60
Target Price	ZAR 61.00
52 Week range	ZAR 42.49 - 67.50
Market Cap (m)	ZARm 685,166
	USDm 58,797

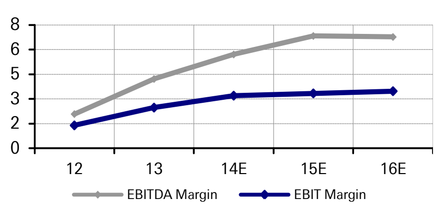
Company Profile

Glencore is one of the world's leading integrated producers and marketers of commodities, covering metals and minerals, energy and agricultural commodities. The company has worldwide activities in production, sourcing, processing, refining, transporting, storage and financing of commodities. The recent merger with Xstrata has significantly increased its mining output and moved it from a trading dominated to mining dominated company.

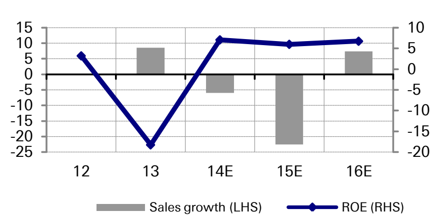
Price Performance



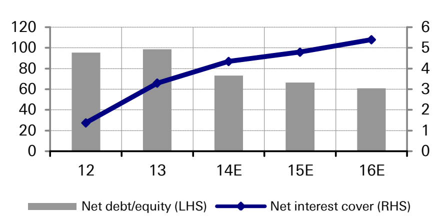
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Financial Summary					
DB EPS (USD)	0.07	0.32	0.30	0.27	0.31
Reported EPS (USD)	0.14	-0.65	0.28	0.27	0.31
DPS (USD)	0.16	0.17	0.18	0.19	0.19
BVPS (USD)	4.4	3.8	4.5	4.6	4.7
Weighted average shares (m)	7,011	11,141	13,278	13,140	13,120
Average market cap (USDm)	na	60,374	58,797	58,797	58,797
Enterprise value (USDm)	na	94,178	83,744	80,279	77,837
Valuation Metrics					
P/E (DB) (x)	na	16.8	14.6	16.6	14.1
P/E (Reported) (x)	na	nm	15.7	16.6	14.1
P/BV (x)	0.00	1.38	1.00	0.97	0.94
FCF Yield (%)	na	nm	4.1	10.1	8.2
Dividend Yield (%)	na	3.0	4.1	4.2	4.3
EV/Sales (x)	nm	0.4	0.4	0.5	0.4
EV/EBITDA (x)	nm	9.6	6.7	6.9	6.3
EV/EBIT (x)	nm	16.3	11.9	14.2	12.3
Income Statement (USDm)					
Sales revenue	214,436	232,694	218,857	169,486	182,027
Gross profit	5,474	9,825	12,501	11,591	12,334
EBITDA	4,477	9,825	12,501	11,591	12,334
Depreciation	1,473	4,049	5,478	5,918	5,998
Amortisation	0	0	0	0	0
EBIT	3,004	5,776	7,023	5,673	6,336
Net interest income(expense)	-2,184	-1,751	-1,617	-1,184	-1,175
Associates/affiliates	367	0	0	0	0
Exceptionals/extraordinaries	0	-11,068	-74	0	0
Other pre-tax income/(expense)	-111	-1	41	81	81
Profit before tax	1,076	-7,044	5,372	4,570	5,242
Income tax expense	-76	254	1,284	898	1,136
Minorities	148	104	244	112	-2
Other post-tax income/(expense)	0	0	0	0	0
Net profit	1,004	-7,402	3,844	3,560	4,109
DB adjustments (including dilution)	-466	11,068	290	0	0
DB Net profit	538	3,666	4,134	3,560	4,109
Cash Flow (USDm)					
Cash flow from operations	4,381	9,184	11,262	12,689	9,004
Net Capex	-3,005	-9,329	-8,868	-6,837	-4,238
Free cash flow	1,376	-145	2,394	5,852	4,765
Equity raised/(bought back)	0	10	-780	-250	0
Dividends paid	-1,066	-2,062	-2,254	-2,429	-2,452
Net inc/(dec) in borrowings	6,123	558	251	-3,776	-5,249
Other investing/financing cash flows	-4,956	1,706	4,972	292	128
Net cash flow	1,477	67	4,583	-311	-2,807
Change in working capital	*727*	*2,599*	*1,604*	*2,600*	*-1,100*
Balance Sheet (USDm)					
Cash and other liquid assets	2,782	2,849	7,432	7,121	4,314
Tangible fixed assets	23,238	67,507	69,823	70,742	68,983
Goodwill/intangible assets	2,664	9,053	9,100	9,100	9,100
Associates/investments	25,353	21,724	23,707	23,707	23,707
Other assets	51,500	53,799	50,660	43,162	45,588
Total assets	105,537	154,932	160,723	153,832	151,692
Interest bearing debt	35,526	55,185	52,872	49,096	43,847
Other liabilities	35,711	46,598	45,838	41,440	42,766
Total liabilities	71,237	101,783	98,710	90,536	86,613
Shareholders' equity	31,266	49,957	58,799	60,082	61,865
Minorities	3,034	3,192	3,214	3,214	3,214
Total shareholders' equity	34,300	53,149	62,013	63,296	65,079
Net debt	*32,744*	*52,336*	*45,440*	*41,975*	*39,533*
Key Company Metrics					
Sales growth (%)	nm	8.5	-5.9	-22.6	7.4
DB EPS growth (%)	na	345.9	-6.2	-12.0	17.5
EBITDA Margin (%)	2.1	4.2	5.7	6.8	6.8
EBIT Margin (%)	1.4	2.5	3.2	3.3	3.5
Payout ratio (%)	111.0	nm	63.4	68.7	60.2
ROE (%)	3.2	-18.2	7.1	6.0	6.7
Capex/sales (%)	1.5	4.1	4.1	4.0	2.3
Capex/depreciation (x)	2.1	2.4	1.6	1.2	0.7
Net debt/equity (%)	95.5	98.5	73.3	66.3	60.7
Net interest cover (x)	1.4	3.3	4.3	4.8	5.4

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (13 February 2015): 23247c | Target price: 21000c | Rating: Hold

Kumba Iron Ore Ltd

Rene Kleyweg

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. Capacity is currently 49mt; with up to 6mt (12%) being sold to ArcelorMittal. Longer term expansions are dependent on an expansion of the Orex rail line from current 60mt to 80-82mt. However, Transnet is finding it difficult to get take or pay commitments in the current environment. As such, we expect near term expansions to be limited in size to around 3mtpa of capacity creep.

Anglo controls SIOC through its 70%-held subsidiary, Kumba. Its economic interest in SIOC is only 52%, however. In 2012 Anglo paid an average price of R519ps for an additional 4.5%. Minority partner Exxaro has expressed its desire to focus on operating assets but we do not believe Anglo will increase its exposure further given BEE requirements.

Kumba has sold between 60-70% of export volumes to China recently and is highly exposed to Chinese steel demand and global iron ore prices. With the continuous addition of new low cost capacity in Australian and Brazilian iron and mine closures in China taking longer than expected, we expect iron ore prices to remain subdued for the medium term.

Drivers:

- Iron ore spot prices.
- Freight rates from South Africa to China.
- ZAR/USD exchange rate.
- Timing of further rail capacity increases.

Kumba is chiefly exposed to the ZAR/USD exchange rate and the key catalysts include a falling iron ore price that leads to weaker cash generation and earnings, and thus ultimately to lower dividends.

Outlook: Kumba Iron Ore (Kumba) has a 74% stake in the Sishen Iron Ore Company (SIOC). SIOC has delivered 100% export volume growth since 2006 in delivery of the JIG plant (13mtpa) and Kolomela (10mtpa) projects. Further growth is limited by Transnet's expansion of the rail link between Sishen and Saldanha, which is unlikely to be delivered before 2018, in our view. Of the current 49mt production capacity, exports contribute 42mt and 6.2mt is sold on a cost +20% basis to ArcelorMittal SA. The 10-year strategy is to increase production to 60mtpa. Anglo American controls SIOC through its 69.7%-held subsidiary Kumba. Kumba has limited growth before 2018e and has guided to Sishen costs rising. Hold.

Valuation: We value Kumba on a NPV basis (1x our 1H15E NPV using a 13.9% WACC), broadly in line with industry peers. Whilst historically the high dividend payout and yield have led to the shares trading at a significant premium to NPV, this is not fundamentally justifiable. With the dividend yield forecast to continue declining to broadly in line with the SA market, we expect the valuation focus to move away from dividend yield back to NPV.

Risks: The main risk is a sustained weakening of the rand, which would boost dividend yields. Other risks include higher-than-expected iron ore prices and faster growth. Company-specific risks: Delays in the expansion of Transnet's rail capacity that could postpone SIOC's expansion plans. Higher iron ore and FX would boost valuations.

Model updated:16 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

Kumba Iron Ore Ltd

Reuters: KIOJ.J Bloomberg: KIO SJ

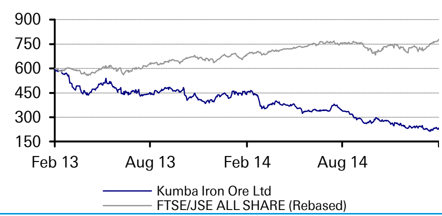
Hold

Price (13 Feb 15)	ZAR 232.47
Target Price	ZAR 210.00
52 Week range	ZAR 213.90 - 465.00
Market Cap (m)	ZARm 74,549
	USDm 6,397

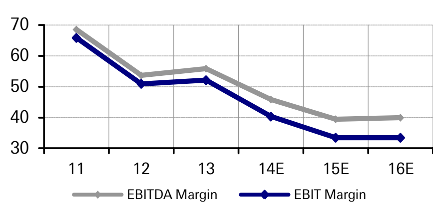
Company Profile

Kumba Iron Ore is a single commodity iron ore business that principally owns the Sishen Iron Ore Company. SIOC owns the Sishen, Kolomela and Thabazimbi mines in the Northern Cape of South Africa. Kumba's export allocation from 2013 is 44mt with up to 8.75mt sold domestically in South Africa. Kumba Iron Ore was previously part of Kumba Resources and is a subsidiary of Anglo American plc.

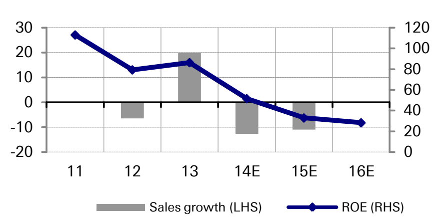
Price Performance



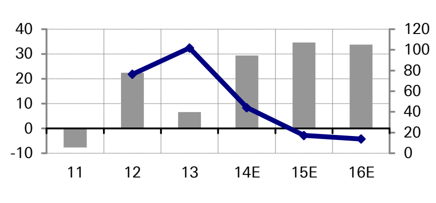
Margin Trends



Growth & Profitability



Solvency



Rene Kleyweg De Monchy
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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (ZAR)	52.99	37.98	48.02	34.26	22.78	22.40
Reported EPS (ZAR)	52.97	37.96	48.03	33.38	22.78	22.40
DPS (ZAR)	44.30	31.70	40.04	23.34	11.41	11.22
BVPS (ZAR)	49.2	46.5	64.7	64.5	73.2	84.4
Weighted average shares (m)	321	321	321	321	321	321
Average market cap (ZARm)	150,830	171,397	154,856	74,549	74,549	74,549
Enterprise value (ZARm)	153,304	179,356	162,262	87,918	91,270	93,593
Valuation Metrics						
P/E (DB) (x)	8.9	14.1	10.0	6.8	10.2	10.4
P/E (Reported) (x)	8.9	14.1	10.0	7.0	10.2	10.4
P/BV (x)	10.17	12.24	6.86	3.61	3.18	2.75
FCF Yield (%)	3.9	nm	3.9	nm	nm	nm
Dividend Yield (%)	9.4	5.9	8.3	10.0	4.9	4.8
EV/Sales (x)	3.2	3.9	3.0	1.8	2.2	2.2
EV/EBITDA (x)	4.6	7.4	5.3	4.0	5.5	5.5
EV/EBIT (x)	4.8	7.7	5.7	4.6	6.4	6.6
Income Statement (ZARm)						
Sales revenue	48,554	45,446	54,461	47,597	42,407	42,334
Gross profit	33,279	24,398	30,424	21,828	16,734	16,917
EBITDA	33,279	24,398	30,424	21,828	16,734	16,917
Depreciation	1,312	1,245	2,039	2,636	2,545	2,756
Amortisation	0	0	0	0	0	0
EBIT	31,967	23,153	28,385	19,192	14,190	14,160
Net interest income(expense)	92	-303	-279	-435	-822	-1,016
Associates/affiliates	0	0	-46	-5	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	32,059	22,850	28,060	18,752	13,368	13,144
Income tax expense	9,760	6,750	7,760	4,604	3,743	3,680
Minorities	5,256	3,888	4,854	3,424	2,310	2,271
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	17,043	12,212	15,446	10,724	7,315	7,192
DB adjustments (including dilution)	6	8	-3	282	0	0
DB Net profit	17,049	12,220	15,443	11,006	7,315	7,192
Cash Flow (ZARm)						
Cash flow from operations	11,758	5,300	12,522	5,869	7,864	8,575
Net Capex	-5,849	-5,399	-6,453	-8,477	-8,907	-8,626
Free cash flow	5,909	-99	6,069	-2,608	-1,042	-51
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-5,864	-5,546	-3,207	-3,728	-1,590	-1,264
Net inc/(dec) in borrowings	0	2,678	-3,332	6,744	5,000	0
Other investing/financing cash flows	-2	-19	259	310	0	0
Net cash flow	43	-2,986	-211	718	2,368	-1,315
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,774	1,527	1,053	1,664	4,032	2,717
Tangible fixed assets	20,878	24,765	29,922	35,170	41,532	47,402
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	702	728	743	797	797	797
Other assets	8,059	9,516	12,820	13,268	13,045	13,119
Total assets	34,413	36,536	44,538	50,899	59,406	64,034
Interest bearing debt	3,191	5,869	2,849	9,593	14,593	14,593
Other liabilities	10,630	11,358	14,505	14,305	14,278	14,287
Total liabilities	13,821	17,227	17,354	23,898	28,871	28,880
Shareholders' equity	15,833	14,964	20,831	20,764	23,578	27,190
Minorities	4,759	4,345	6,353	6,237	6,957	7,964
Total shareholders' equity	20,592	19,309	27,184	27,001	30,535	35,155
Net debt	*-1,583*	*4,342*	*1,796*	*7,929*	*10,561*	*11,876*
Key Company Metrics						
Sales growth (%)	nm	-6.4	19.8	-12.6	-10.9	-0.2
DB EPS growth (%)	na	-28.3	26.4	-28.7	-33.5	-1.7
EBITDA Margin (%)	68.5	53.7	55.9	45.9	39.5	40.0
EBIT Margin (%)	65.8	50.9	52.1	40.3	33.5	33.4
Payout ratio (%)	83.4	83.4	83.3	69.8	50.0	50.0
ROE (%)	113.0	79.3	86.3	51.6	33.0	28.3
Capex/sales (%)	12.0	11.9	11.8	17.8	21.0	20.4
Capex/depreciation (x)	4.5	4.3	3.2	3.2	3.5	3.1
Net debt/equity (%)	-7.7	22.5	6.6	29.4	34.6	33.8
Net interest cover (x)	nm	76.4	101.7	44.1	17.3	13.9

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (13 February 2015): 14460c | Target price: 17000c | Rating: Buy

AngloGold Ashanti Ltd

Patrick Mann

Business description: AngloGold Ashanti is a significant global gold producer, with operations in South Africa, Tanzania, Ghana, Mali, Democratic Republic of the Congo, Guinea, the USA, Brazil, Argentina and Australia; as well as projects in Colombia. Currently, around 30% of group attributable production comes from South Africa, and AngloGold is therefore less geographically exposed to the region relative to Harmony and Sibanye. The company considers its South African assets to be mature, low-growth and cash generative assets, while the international operations are where growth and opportunities lie. Current mines in ramp-up include Kibali in the DRC (joint venture with RandGold Resources) and Tropicana in Australia (70% owned). In response to the lower gold price, AngloGold has made the centre of its strategy sustainable cash flow generation. Steps taken include cost-saving programmes and the cutting of non-essential corporate and exploration costs. We expect continued management of the portfolio may see asset disposals and/or joint venture agreements struck, particularly in Ghana and Colombia (joint ventures possible) and USA (sale possible). This is also in line with management's "self-help" deleveraging plan to reduce the current levels of net debt – without tapping capital markets.

Drivers: Key value drivers for AngloGold include:

- The gold price.
- The sale and/or JVing of assets and deleveraging.
- Wage and electricity cost inflation.

Outlook: We believe AngloGold offers is oversold after the share came under sustained pressure after the September 2014 restructuring and related proposed US$2.1bn rights issue were scrapped. This created fear that current levels of debt are unsustainable and capital raising is inevitable. However, we believe AngloGold can reduce leverage without tapping capital markets. As it is trading at a significant discount to NPV, a sale or joint venture of an operating asset, which the company is considering, will be immediately accretive and serve to allay balance sheet concerns. The company is also actively seeking a joint venture partner at Obuasi, in Ghana, and its newly declared resource in Colombia. The company has also gained significant traction with a number of cost- and capex-saving initiatives that have mitigated near-term cost pressures and shown positive incremental FCF-impulse in a continued difficult operating environment for gold miners. Group production is also boosted by relatively low-cost ounces from the Kibali and Tropicana mines.

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 WACC of 11.1% and 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 the long-term gold price assumption and long-term ZAR/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). For CY15 we use a gold price forecast of US$1,163/oz and a ZAR/USD forecast of 11.20. 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. Buy.

Risks: Downside risks to our target price include an inability to find a joint venture partner at Obuasi or in Colombia at an acceptable price; interruptions to production from labour unrest in South Africa as wages needed to be negotiated in 2015, and a slower-than-expected implementation of the turnaround plans for Obuasi. Sales of assets at less than DBe of NPV; lower mining flexibility as a result of lower sustaining capital spend; 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:19 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Gold

AngloGold Ashanti

Reuters: ANGJ.J Bloomberg: ANG SJ

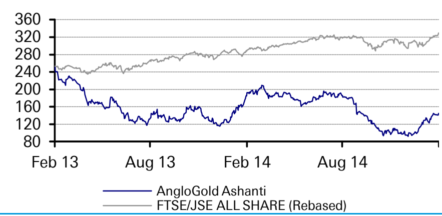
Buy

Price (13 Feb 15)	ZAR 144.60
Target Price	ZAR 170.00
52 Week range	ZAR 91.95 - 209.00
Market Cap (m)	ZARm 58,738
	USDm 5,041

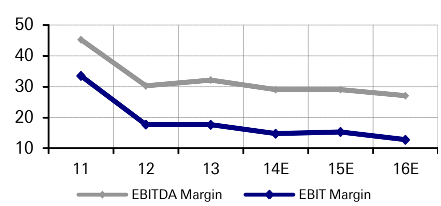
Company Profile

AngloGold Ashanti has 20 operations on four continents. The current production profile split by region is approximately 30% South Africa; 36% Continental Africa; 20% the Americas; and 14% Australia. AngloGold is free cash flow focused and is targeting maximizing free cash flow and lowering net debt from an improving portfolio.

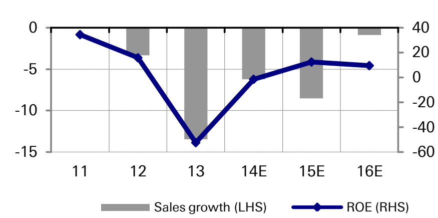
Price Performance



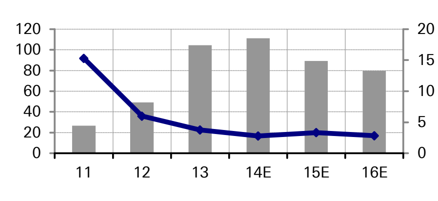
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (USD)	3.08	2.39	1.53	0.18	0.96	0.81
Reported EPS (USD)	3.69	2.15	-5.68	-0.11	0.96	0.81
DPS (USD)	0.49	0.36	0.06	0.00	0.00	0.00
BVPS (USD)	13.0	14.1	7.8	7.2	8.2	8.9
Weighted average shares (m)	386	387	393	406	406	406
Average market cap (USDm)	16,945	13,614	6,909	5,041	5,041	5,041
Enterprise value (USDm)	17,756	15,267	8,852	6,929	6,563	6,343
Valuation Metrics						
P/E (DB) (x)	14.3	14.7	11.5	69.0	12.9	15.3
P/E (Reported) (x)	11.9	16.4	nm	nm	12.9	15.3
P/BV (x)	3.20	2.19	1.49	1.73	1.51	1.40
FCF Yield (%)	6.9	nm	nm	0.5	6.8	3.7
Dividend Yield (%)	1.1	1.0	0.3	0.0	0.0	0.0
EV/Sales (x)	2.7	2.4	1.6	1.3	1.4	1.4
EV/EBITDA (x)	6.0	7.9	5.0	4.6	4.8	5.0
EV/EBIT (x)	8.1	13.6	9.1	9.1	9.1	10.6
Income Statement (USDm)						
Sales revenue	6,570	6,352	5,497	5,156	4,717	4,675
Gross profit	3,396	3,087	2,150	1,753	1,607	1,487
EBITDA	2,974	1,923	1,769	1,499	1,372	1,267
Depreciation	772	797	799	737	648	668
Amortisation	0	0	0	0	0	0
EBIT	2,202	1,126	970	761	724	598
Net interest income(expense)	-144	-188	-257	-272	-216	-211
Associates/affiliates	73	-28	-162	-30	39	48
Exceptionals/extraordinaries	0	0	-3,468	-308	0	0
Other pre-tax income/(expense)	190	260	384	11	0	0
Profit before tax	2,248	1,198	-2,371	193	508	387
Income tax expense	723	321	-333	185	142	92
Minorities	46	19	30	20	15	13
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,552	830	-2,230	-43	390	330
DB adjustments (including dilution)	-255	94	2,829	116	0	0
DB Net profit	1,297	924	599	73	390	330
Cash Flow (USDm)						
Cash flow from operations	2,550	1,692	1,069	921	1,105	954
Net Capex	-1,374	-1,779	-1,491	-893	-762	-770
Free cash flow	1,176	-87	-422	27	343	184
Equity raised/(bought back)	9	1	0	0	0	0
Dividends paid	-170	-230	-62	-9	0	0
Net inc/(dec) in borrowings	-158	1,215	858	-260	0	0
Other investing/financing cash flows	-331	-1,119	-638	-11	-52	-82
Net cash flow	526	-220	-264	-253	291	102
Change in working capital	*-169*	*-219*	*-171*	*121*	*69*	*-12*
Balance Sheet (USDm)						
Cash and other liquid assets	1,112	892	648	388	679	781
Tangible fixed assets	6,525	7,648	4,815	4,886	5,000	5,102
Goodwill/intangible assets	210	315	267	247	247	247
Associates/investments	702	1,060	1,328	1,444	1,536	1,666
Other assets	2,253	2,780	2,616	2,214	2,093	2,123
Total assets	10,802	12,695	9,674	9,180	9,555	9,918
Interest bearing debt	2,488	3,583	3,891	3,691	3,691	3,691
Other liabilities	3,148	3,643	2,676	2,518	2,488	2,567
Total liabilities	5,636	7,226	6,567	6,209	6,179	6,258
Shareholders' equity	5,029	5,447	3,079	2,941	3,331	3,602
Minorities	137	22	28	30	46	59
Total shareholders' equity	5,166	5,469	3,107	2,971	3,376	3,660
Net debt	*1,376*	*2,691*	*3,243*	*3,303*	*3,012*	*2,910*
Key Company Metrics						
Sales growth (%)	nm	-3.3	-13.5	-6.2	-8.5	-0.9
DB EPS growth (%)	na	-22.4	-36.2	-88.2	433.6	-15.2
EBITDA Margin (%)	45.3	30.3	32.2	29.1	29.1	27.1
EBIT Margin (%)	33.5	17.7	17.6	14.8	15.3	12.8
Payout ratio (%)	12.2	16.8	nm	nm	0.0	0.0
ROE (%)	34.4	15.8	-52.3	-1.4	12.4	9.5
Capex/sales (%)	21.2	28.1	27.3	17.9	16.2	16.5
Capex/depreciation (x)	1.8	2.2	1.9	1.2	1.2	1.2
Net debt/equity (%)	26.6	49.2	104.4	111.2	89.2	79.5
Net interest cover (x)	15.3	6.0	3.8	2.8	3.4	2.8

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (13 February 2015): 5770c | Target price: 4500c | Rating: Hold

Gold Fields Ltd

Patrick Mann

Business description: Gold Fields is a gold miner with operations in South Africa, Ghana, Peru and Australia. Gold Fields' strategy is to deliver a sustainable 15% free cash flow margin at a US$1,300/oz gold price. 2013 was a transformative year for the company, Gold Fields spun-out two South Africa-based mines, KDC and Beatrix, in a one-for-one issuance of shares in Sibanye Gold Ltd in 1Q13, leaving the South Deep mine, one of Gold Fields' larger mines, the company's sole operation in South Africa. Gold Fields purchased the Yilgarn South assets in Western Australia from Barrick during FY13. Gold Fields also initiated various cost-reduction exercises, including reducing marginal mining, restructuring the head office/corporate costs and deferring non-essential capital expenditure. The company also announced the break-up of its Growth and International Projects (GIP) division during 2013, pulling back on exploration at some projects and putting others up for sale, reducing greenfields exploration expenditure significantly and signalling the company's intention to focus on extracting margin from existing operations and focusing on only the most promising greenfields projects.

Gold Fields pays out 25-35% of its normalised earnings to shareholders and the company seeks to remain one of the highest dividend payers in the industry.

Drivers: Key value drivers for Gold Fields include:

- The gold price.
- The ability to deliver South Deep, a major source of potential value if it can overcome its disappointing progress to date in reaching targeted steady-state.
- Wage and electricity cost inflation.

Outlook: We believe Gold Fields is trading at fair value. South Deep is a significant source of value for the group if it can be delivered; however, since February 2014 when the initial revised plan was given, there have been two downward revisions to production guidance. The first was owing to a "short-term loss of momentum" (36koz) disclosed with 1Q14 results; and the second (c.50koz) in June 2014 was due to a management-driven safety stoppage of four months in areas of the mine (making up the majority of production) that have been identified as unsafe. We would expect further revisions to the plan in 2015 in an attempt to deliver this project. Gold Fields has also signalled its intent to move away from greenfields, capex-intensive projects towards shorter-term brownfields, near-mine exploration projects. Gold Fields has a policy of paying out 25-35% of normalised earnings as a dividend – this use of FCF will have to be balanced with the need to fund future production growth from capex. We also have concerns of the viability of the revised South Deep plan, given the multiple disruptions experienced in 2014 that have led to repeated downgrades to targets.

Valuation: We value Gold Fields based on a sum-of-the-parts DCF model of individual operations and projects. We apply a WACC of 11.1% and 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 ZAR/USD rate assumptions of US$1,540/oz and 11.00 respectively 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. For CY15 we use a gold price forecast of US$1,163/oz and a ZAR/USD forecast of 11.20. Hold.

Risks: Upside risks to our target price include a faster-than-forecast ramp-up at South Deep and better-than-expected synergies from the newly-acquired Yilgarn assets in West Australia. A higher-than-expected gold price and weaker-than-expected ZAR/USD rate are also upside risks. Downside risks include further delays on delivering South Deep, unexpected production interruptions from labour unrest and/or safety stoppages; lower-than-expected gold prices, and a stronger-than-expected ZAR/USD rate.

Model updated:23 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Gold

Gold Fields

Reuters: GFIJ.J Bloomberg: GFI SJ

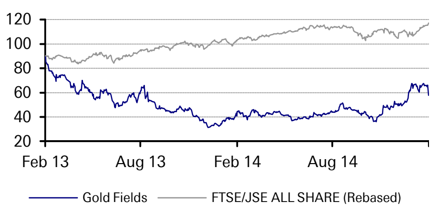
Hold

Price (13 Feb 15)	ZAR 57.70
Target Price	ZAR 45.00
52 Week range	ZAR 35.99 - 67.45
Market Cap (m)	ZARm 44,363
	USDm 3,807

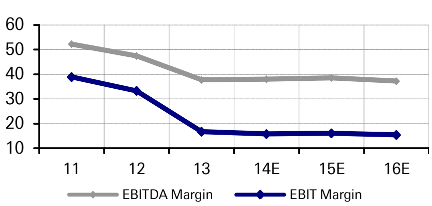
Company Profile

Gold Fields is a gold producer with operations in Australia, South Africa, Ghana and Peru. The company underwent a transformative period recently, unbundling the majority of its South African assets into Sibanye and purchasing the Yilgarn South mines in Western Australia. Gold Fields now mines most of its c.2.2moz pa from Australia, but remains with a primary listing on South Africa's JSE.

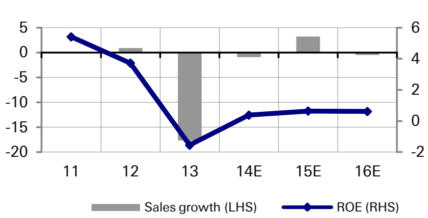
Price Performance



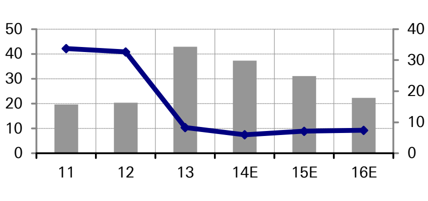
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (USD)	0.86	0.48	-0.10	0.10	0.17	0.16
Reported EPS (USD)	1.35	0.95	-0.40	0.10	0.17	0.16
DPS (USD)	0.24	0.50	0.02	0.04	0.05	0.05
BVPS (USD)	8.2	8.5	5.3	4.9	5.0	5.1
Weighted average shares (m)	724	729	743	769	769	769
Average market cap (USDm)	11,784	9,698	4,715	3,807	3,807	3,807
Enterprise value (USDm)	12,847	10,683	6,191	5,109	4,905	4,578
Valuation Metrics						
P/E (DB) (x)	18.9	27.7	nm	49.9	29.7	30.9
P/E (Reported) (x)	12.1	14.0	nm	51.1	29.7	30.9
P/BV (x)	1.89	1.45	0.59	1.03	1.00	0.97
FCF Yield (%)	9.8	2.1	nm	6.4	6.6	9.5
Dividend Yield (%)	1.5	3.8	0.3	0.8	1.0	1.0
EV/Sales (x)	3.7	3.0	2.1	1.8	1.7	1.5
EV/EBITDA (x)	7.0	6.4	5.6	4.7	4.3	4.2
EV/EBIT (x)	9.4	9.1	12.7	11.2	10.3	10.0
Income Statement (USDm)						
Sales revenue	3,499	3,531	2,906	2,879	2,971	2,956
Gross profit	1,989	1,868	1,239	1,194	1,247	1,201
EBITDA	1,829	1,676	1,098	1,095	1,146	1,101
Depreciation	468	500	611	640	668	644
Amortisation	0	0	0	0	0	0
EBIT	1,362	1,177	487	455	478	457
Net interest income(expense)	-40	-36	-59	-76	-67	-62
Associates/affiliates	-1	-50	-18	-4	-6	-6
Exceptionals/extraordinaries	300	204	-647	-75	-47	-47
Other pre-tax income/(expense)	-110	-117	-91	-86	-90	-89
Profit before tax	1,164	843	-597	219	274	260
Income tax expense	430	454	-20	131	135	129
Minorities	108	33	-12	9	5	2
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	973	691	-296	75	128	123
DB adjustments (including dilution)	-350	-340	224	2	0	0
DB Net profit	623	350	-71	76	128	123
Cash Flow (USDm)						
Cash flow from operations	2,165	1,441	529	823	830	945
Net Capex	-1,005	-1,239	-729	-579	-580	-582
Free cash flow	1,160	203	-200	244	250	363
Equity raised/(bought back)	7	2	1	1	0	0
Dividends paid	-217	-376	-62	-40	-40	-34
Net inc/(dec) in borrowings	513	-40	206	-100	0	0
Other investing/financing cash flows	-1,528	122	-276	72	0	0
Net cash flow	-66	-88	-331	177	210	329
Change in working capital	*-50*	*-120*	*10*	*26*	*32*	*10*
Balance Sheet (USDm)						
Cash and other liquid assets	744	606	325	502	712	1,041
Tangible fixed assets	7,710	6,258	5,389	5,041	4,953	4,890
Goodwill/intangible assets	549	520	431	399	399	399
Associates/investments	101	278	259	266	266	266
Other assets	1,263	3,410	892	844	846	845
Total assets	10,367	11,073	7,296	7,051	7,176	7,442
Interest bearing debt	1,908	1,869	2,060	1,944	1,944	1,944
Other liabilities	2,547	3,013	1,191	1,245	1,276	1,450
Total liabilities	4,455	4,882	3,251	3,189	3,220	3,394
Shareholders' equity	5,912	6,191	4,045	3,737	3,825	3,915
Minorities	0	0	0	125	131	133
Total shareholders' equity	5,912	6,191	4,045	3,862	3,956	4,048
Net debt	*1,164*	*1,263*	*1,735*	*1,443*	*1,232*	*903*
Key Company Metrics						
Sales growth (%)	nm	0.9	-17.7	-0.9	3.2	-0.5
DB EPS growth (%)	na	-44.2	na	na	68.3	-4.1
EBITDA Margin (%)	52.3	47.5	37.8	38.0	38.6	37.2
EBIT Margin (%)	38.9	33.3	16.8	15.8	16.1	15.4
Payout ratio (%)	17.8	52.8	nm	42.0	30.0	30.0
ROE (%)	5.4	3.7	-1.6	0.4	0.6	0.6
Capex/sales (%)	28.8	35.1	25.4	20.2	19.5	19.7
Capex/depreciation (x)	2.2	2.5	1.2	0.9	0.9	0.9
Net debt/equity (%)	19.7	20.4	42.9	37.4	31.1	22.3
Net interest cover (x)	33.7	32.6	8.3	6.0	7.1	7.4

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (13 February 2015): 3081c | Target price: 1600c | Rating: Hold

Harmony Gold Mining Co Ltd

Patrick Mann

Business description: Harmony Gold produces around 1.2m ounces of gold a year from a portfolio of 10 mines as well as surface operations in South Africa, plus one mine in Papua New Guinea (PNG). Harmony's assets in PNG are held through its 50% share in the Morobe Mining Joint Venture (MMJV) with Newcrest Mining. The JV holds the Golpu project in PNG. Harmony has recently (December 2014) released an updated pre feasibility study (PFS) on the Golpu project and aims to develop the US$3.1bn "Stage 1" of the mine from FY15-20. The updated PFS lays out a project that is lower capital and quicker payback than planned in 2012, by focusing initially on higher-grade sections of the copper-gold porphyry. Stage 1, producing 500koz pa gold-equivalent production from 2024-29, pays for the infrastructure of the project, building a mine that is scalable through future modular expansion – creating options for further development. The PNG government has an option to take up to a 30% stake in the project up until the granting of a special mining lease, and would have to buy in for its share of sunk capital and become a full participant.

We believe the company's number one strategic goal over the next five years is to deliver the Golpu project.

Currently, Harmony's South African operations account for >90% of the group's attributable production. With the significant capital requirements for Golpu looming, we believe Harmony is particularly cash flow focused and we expect restructuring to get all operations cash flow positive and minimal capital spend in South Africa. The company has already begun restructuring its Kusasalethu mine in late 2014 and has scrapped capital projects such as the Phakisa decline. Harmony's operations are currently in the upper quartile of the cost curve and, as the marginal producer, the stock is geared to movements in the rand gold price. A risk on the horizon is the gold sector wage negotiations in South Africa in 2015. The National Union of Mineworkers' dominance in the sector is being threatened by growing AMCU membership. The concern is of a prolonged work stoppage, after the five month strike in platinum by AMCU in 2014.

Drivers: Key value drivers for Harmony include:

- The gold price and the ZAR/USD exchange rate.
- Capital capacity to develop Golpu (including capacity of the JV partner, Newcrest).
- Wage and electricity cost inflation and/or disruptions related to labour and/or electricity shortages in South Africa.

Outlook: We rate Harmony a Hold based on forecast rand gold prices that are significantly lower than current spot prices. As the highest cost-producer in our coverage, Harmony's price target is the most dependent on DB's forecast rand gold prices. Our price target assumes a rand gold price falling to below R400,000/kg by FY17 and only exceeding Harmony's cost of production again by 2020, tipping the company into losses and negative free cash flow over this period. However, if the rand gold price average over January 2015 persists, the company is profitable and free cash flow positive under our other assumptions (excluding rand gold). We thus retain a Hold on the stock despite downside to the share on our target price – as this downside is almost entirely the equivalent of a put option on the rand gold price. We expect the stock to be volatile and trade on short-term newsflow and rand gold price movements.

Valuation: We value Harmony based on a sum-of-the-parts DCF model of individual operations and projects, and a nominal WACC of 11.1%. We apply a 1x multiple to our DCF-derived net asset value for the company. For CY15 we use a gold price forecast of US$1,169/oz and a ZAR/USD forecast of 11.20. 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. Hold.

Risks: Downside risks include Harmony's exposure to a rising inflationary environment in South Africa and the resultant pressure on its operating margins. Both upside and downside risks exist in the company's grade management. With regard to Papua New Guinea, downside risks include higher wage inflation that would pressure margins; a change in government that could mean unfavourable changes to tax treatment or licensing regime for mining projects; and logistics issues at the Golpu project, specifically related to infrastructure. Upside risks include better-than-expected market reaction to the Golpu project. Other risks are different-than-expected gold prices and ZAR/USD exchange rate.

Model updated:19 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Gold

Harmony

Reuters: HARJ.J Bloomberg: HAR SJ

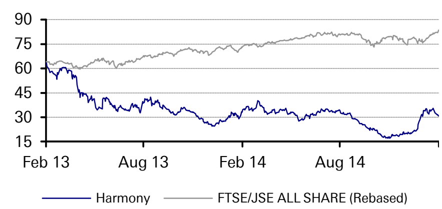
Hold

Price (13 Feb 15)	ZAR 30.81
Target Price	ZAR 16.00
52 Week range	ZAR 17.00 - 40.32
Market Cap (m)	ZARm 13,347
	USDm 1,145

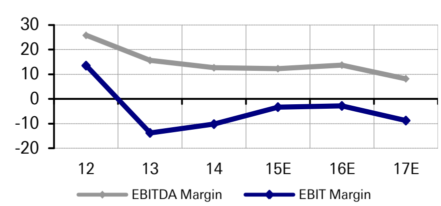
Company Profile

Harmony is the fifth largest gold producer in the world, with around 1.3moz of gold produced per year. The company has 12 mines plus two sources of surface material in South Africa plus one mine and one project in Papua New Guinea. Overall, Harmony has six mines in build-up, two in steady -state and five other mines.

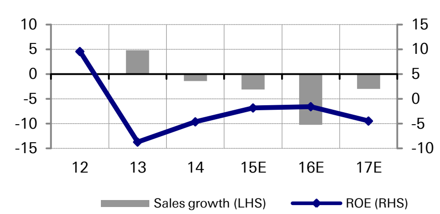
Price Performance



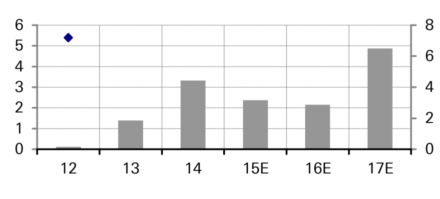
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	5.59	0.47	0.26	-1.16	-1.00	-2.78
Reported EPS (ZAR)	5.94	-5.47	-2.92	-1.16	-1.00	-2.78
DPS (ZAR)	0.90	0.50	0.50	0.00	0.00	0.00
BVPS (ZAR)	78.3	74.8	71.7	71.1	70.1	67.3
Weighted average shares (m)	435	432	433	433	433	433
Average market cap (ZARm)	40,536	27,070	14,402	13,347	13,347	13,347
Enterprise value (ZARm)	40,433	27,366	15,429	14,072	13,994	14,762
Valuation Metrics						
P/E (DB) (x)	16.7	132.9	126.9	nm	nm	nm
P/E (Reported) (x)	15.7	nm	nm	nm	nm	nm
P/BV (x)	0.98	0.48	0.43	0.43	0.44	0.46
FCF Yield (%)	2.6	nm	nm	3.7	0.6	nm
Dividend Yield (%)	1.0	0.8	1.5	0.0	0.0	0.0
EV/Sales (x)	2.7	1.7	1.0	0.9	1.0	1.1
EV/EBITDA (x)	10.3	11.0	7.7	7.5	7.5	13.5
EV/EBIT (x)	19.6	nm	nm	nm	nm	nm
Income Statement (ZARm)						
Sales revenue	15,169	15,902	15,682	15,191	13,637	13,231
Gross profit	4,893	4,109	3,176	2,940	2,725	1,946
EBITDA	3,919	2,494	1,991	1,873	1,878	1,091
Depreciation	1,921	1,942	2,143	2,367	2,256	2,243
Amortisation	-60	2,733	1,439	0	0	0
EBIT	2,058	-2,181	-1,591	-494	-377	-1,152
Net interest income(expense)	-286	-256	-277	-260	-260	-260
Associates/affiliates	0	0	-108	0	0	0
Exceptionals/extraordinaries	61	51	37	0	0	0
Other pre-tax income/(expense)	97	358	390	211	204	204
Profit before tax	1,930	-2,028	-1,549	-543	-433	-1,208
Income tax expense	-63	655	-279	-36	0	0
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	592	314	0	0	0	0
Net profit	2,585	-2,369	-1,270	-507	-433	-1,208
DB adjustments (including dilution)	-153	2,573	1,384	0	0	0
DB Net profit	2,432	204	114	-507	-433	-1,208
Cash Flow (ZARm)						
Cash flow from operations	4,213	2,855	2,138	2,601	1,841	1,059
Net Capex	-3,139	-3,713	-2,528	-2,112	-1,763	-1,826
Free cash flow	1,074	-858	-390	489	78	-768
Equity raised/(bought back)	26	3	0	0	0	0
Dividends paid	-431	-435	0	0	0	0
Net inc/(dec) in borrowings	195	345	144	0	0	0
Other investing/financing cash flows	216	1,261	-14	4	0	0
Net cash flow	1,080	316	-260	493	78	-768
Change in working capital	*-330*	*16*	*-159*	*502*	*19*	*24*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,773	2,089	1,829	2,323	2,400	1,633
Tangible fixed assets	32,853	32,820	33,069	32,977	32,484	32,068
Goodwill/intangible assets	2,196	2,191	886	885	885	885
Associates/investments	146	153	4	4	4	4
Other assets	6,232	4,971	5,082	4,191	4,026	4,039
Total assets	43,200	42,224	40,870	40,379	39,800	38,628
Interest bearing debt	1,816	2,538	2,860	3,052	3,052	3,052
Other liabilities	7,302	7,380	6,968	6,504	6,359	6,395
Total liabilities	9,118	9,918	9,828	9,556	9,411	9,447
Shareholders' equity	34,082	32,306	31,042	30,783	30,350	29,142
Minorities	0	0	0	0	0	0
Total shareholders' equity	34,082	32,306	31,042	30,783	30,350	29,142
Net debt	*43*	*449*	*1,031*	*729*	*652*	*1,419*
Key Company Metrics						
Sales growth (%)	nm	4.8	-1.4	-3.1	-10.2	-3.0
DB EPS growth (%)	na	-91.6	-44.4	na	14.6	-178.9
EBITDA Margin (%)	25.8	15.7	12.7	12.3	13.8	8.2
EBIT Margin (%)	13.6	-13.7	-10.1	-3.3	-2.8	-8.7
Payout ratio (%)	15.2	nm	nm	nm	nm	nm
ROE (%)	9.6	-8.7	-4.6	-1.8	-1.6	-4.5
Capex/sales (%)	20.7	23.3	16.1	13.9	12.9	13.8
Capex/depreciation (x)	1.6	1.9	1.2	0.9	0.8	0.8
Net debt/equity (%)	0.1	1.4	3.3	2.4	2.1	4.9
Net interest cover (x)	7.2	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (13 February 2015): 3200c | Target price: 2100c | Rating: Hold

Sibanye Gold Ltd

Patrick Mann

Business description: Sibanye Gold is a purely South African focused gold mining company. Unbundled from Gold Fields with three main assets (Kloof, Driefontein and Beatrix), Sibanye delivered efficiency gains and cost savings at these operations. Sibanye has focused on growing its resource and reserve base through internal focus on existing operations as well as corporate action. This has included the purchase of the Cooke assets, Wits Gold and exercising an option to invest in the Burnstone mine. The company also has a tailings retreatment plan in the pipeline. Sibanye previously made its intentions to purchase platinum assets publicly known, as platinum industry majors rationalise portfolios; however, this appears to have been stymied by a slower-than-expected rationalisation process. Sibanye's strategy is to be a superior cash generator and dividend payer in the medium to long term and thus differentiate itself from the majority of the industry. The potential for higher-than-expected dividend payouts is an upside risk in the stock.

Drivers: Key value drivers for Sibanye include:

- The gold price and the ZAR/USD exchange rate.
- Ability to increase reserve base and sustain operations past current planned levels.
- Balance between dividend-payouts and levels of future capex.
- Wage and electricity cost inflation and/or disruptions related to labour and/or electricity shortages in South Africa.

Outlook: Sibanye was listed in February 2013 with a strategy to establish itself as a high dividend payer from mature, cash-generative assets. Since then, the company has been highly acquisitive and yet is determined to position itself in investors' minds as a cash-generative, sustainable high dividend player. In this light, it has tried its utmost to move away from the "harvest strategy" that Gold Fields was following with the assets. The company has apparently cooled on its initial publicly expressed interest in purchasing high cost, conventional platinum mines from Amplats. The delivery of a free cash flow driven strategy will become increasingly difficult in a lower gold price environment, which DB forecasts. The strong share price performance ytd and the current rating means the share is pricing in more than current reserves in production, and is trading at a premium to NPV. We believe this is a result of credit being given to management on future delivery of value accretive projects from Sibanye's project pipeline. With the current share price factoring in successful delivery of these objectives, we believe there is downside risk on delivery in the stock and that the shares are fairly valued at these levels.

Valuation: We derive our target price from a life-of-mine DCF model, using a WACC of 11% and applying a 1x exit multiple to our NAV. For CY15 we use a gold price forecast of US$1,163/oz and a ZAR/USD forecast of 11.20. Hold.

Risks: Upside risks include increased production volume from the approval of any or all of three projects: pillar and white area mining, tailings retreatment and secondary reef mining. Corporate action is both a significant upside and downside risk. Downside risks include production interruptions from safety incidents and labour relations unrest; negative operational gearing from a stronger-than-expected ZAR/USD rate and/or a lower-than-expected gold price. Dilution from any issuance of equity to implement Sibanye's stated strategy to build on its presence in the South African gold industry through acquisitions is also a risk. In addition, investment in projects or the creation of JVs could lead to substantially different cash flows than our base case estimates. Sibanye may be found liable in the potential class action brought by former and/or current employees regarding the contraction of silicosis. There is a longer-term risk of higher-than-expected costs of dealing with potential acid mine drainage.

Model updated:28 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Mining

Sibanye Gold

Reuters: SGLJ.J Bloomberg: SGL SJ

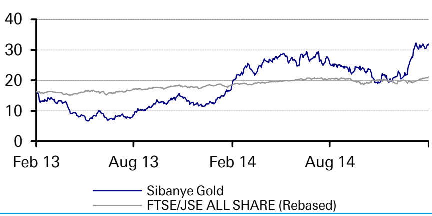
Hold

Price (13 Feb 15)	ZAR 32.00
Target Price	ZAR 21.00
52 Week range	ZAR 19.05 - 32.26
Market Cap (m)	ZARm 26,736
	USDm 2,294

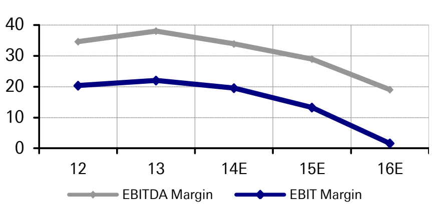
Company Profile

Sibanye Gold owns and operates underground gold mines in South Africa - Kloof, Driefontein, Beatrix (which were previously wholly owned by Gold Fields Ltd) and the acquired Cooke operations. Sibanye also has potential production in the Burnstone mine, by acquiring Wits Gold in 2014.

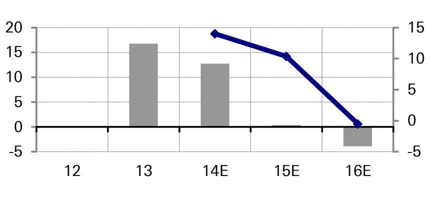
Price Performance



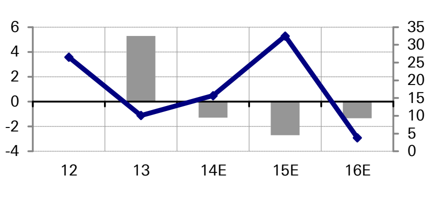
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Financial Summary					
DB EPS (ZAR)	2.55	3.15	2.20	1.77	-0.09
Reported EPS (ZAR)	2.55	2.30	2.05	1.77	-0.09
DPS (ZAR)	0.00	1.12	1.25	0.66	0.00
BVPS (ZAR)	-9.7	12.8	16.8	17.4	17.1
Weighted average shares (m)	1,000	734	835	898	898
Average market cap (ZARm)	na	8,128	26,736	26,736	26,736
Enterprise value (ZARm)	na	8,111	24,497	24,237	24,419
Valuation Metrics					
P/E (DB) (x)	na	3.5	14.6	18.1	nm
P/E (Reported) (x)	na	4.8	15.6	18.1	nm
P/BV (x)	nm	0.96	1.91	1.84	1.87
FCF Yield (%)	na	45.9	11.1	4.5	nm
Dividend Yield (%)	na	10.1	3.9	2.1	0.0
EV/Sales (x)	nm	0.4	1.1	1.1	1.2
EV/EBITDA (x)	nm	1.1	3.3	3.8	6.1
EV/EBIT (x)	nm	1.9	5.8	8.4	71.5
Income Statement (ZARm)					
Sales revenue	16,554	19,331	21,790	21,867	21,020
Gross profit	5,730	7,358	7,377	6,337	4,001
EBITDA	5,730	7,358	7,377	6,337	4,001
Depreciation	2,363	3,104	3,120	3,439	3,659
Amortisation	0	0	0	0	0
EBIT	3,367	4,254	4,257	2,898	342
Net interest income(expense)	-127	-420	-272	-89	-89
Associates/affiliates	93	52	-149	35	35
Exceptionals/extraordinaries	124	-1,294	-357	-100	0
Other pre-tax income/(expense)	-544	-636	-922	-372	-392
Profit before tax	2,914	1,955	2,558	2,371	-104
Income tax expense	365	256	841	780	-34
Minorities	1	6	0	0	10
Other post-tax income/(expense)	0	0	0	0	0
Net profit	2,548	1,692	1,716	1,591	-80
DB adjustments (including dilution)	-2	617	120	0	0
DB Net profit	2,546	2,310	1,836	1,591	-80
Cash Flow (ZARm)					
Cash flow from operations	3,352	6,632	6,273	4,716	3,382
Net Capex	-3,107	-2,902	-3,300	-3,436	-3,388
Free cash flow	245	3,731	2,973	1,280	-6
Equity raised/(bought back)	0	17,246	0	0	0
Dividends paid	-731	-272	-1,004	-1,055	-211
Net inc/(dec) in borrowings	8,492	34,568	-1,537	0	0
Other investing/financing cash flows	516	190	-539	0	0
Net cash flow	8,522	55,462	-107	225	-217
Change in working capital	*-648*	*569*	*1,080*	*-279*	*-172*
Balance Sheet (ZARm)					
Cash and other liquid assets	292	1,492	1,385	1,610	1,393
Tangible fixed assets	16,376	15,151	21,578	21,576	21,304
Goodwill/intangible assets	0	0	844	844	844
Associates/investments	220	515	2,044	2,079	2,114
Other assets	2,810	2,837	1,665	1,557	1,605
Total assets	19,698	19,995	27,516	27,665	27,260
Interest bearing debt	2,000	1,991	1,190	1,190	1,190
Other liabilities	27,370	8,581	11,245	10,858	10,733
Total liabilities	29,370	10,572	12,435	12,048	11,923
Shareholders' equity	-9,673	9,423	15,081	15,618	15,337
Minorities	0	0	0	0	0
Total shareholders' equity	-9,673	9,423	15,081	15,618	15,337
Net debt	*1,708*	*499*	*-195*	*-420*	*-204*
Key Company Metrics					
Sales growth (%)	nm	16.8	12.7	0.4	-3.9
DB EPS growth (%)	na	23.5	-30.1	-19.4	na
EBITDA Margin (%)	34.6	38.1	33.9	29.0	19.0
EBIT Margin (%)	20.3	22.0	19.5	13.3	1.6
Payout ratio (%)	0.0	48.6	60.8	37.2	nm
ROE (%)	nm	nm	14.0	10.4	-0.5
Capex/sales (%)	18.8	15.0	15.1	15.7	16.1
Capex/depreciation (x)	1.3	0.9	1.1	1.0	0.9
Net debt/equity (%)	nm	5.3	-1.3	-2.7	-1.3
Net interest cover (x)	26.5	10.1	15.7	32.5	3.8

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (13 February 2015): 37829c | Target price: 52000c | Rating: Buy

Anglo American Platinum Ltd

Patrick Mann

Business description: Amplats is the world's largest platinum miner, with interests in 14 mines, three smelting complexes, a base metal refinery and a precious metal refinery. Amplats is forecast to increase production slowly but steadily from 2.3moz in 2013 to between 2.5 and 2.6moz in 2017. Amplats is in the process of disposing of Union mine (sale) and its three Rustenburg mines (preparing for a listing and evaluating buyer interest), as well as disposing of its share of the Bokoni and Pandora joint ventures. As Amplats is only one of three fully integrated mine-to-market PGM producers, we expect the ounces will continue to be processed and marketed by Amplats, although the mining operations will be third-party managed. This repositions the company's owned mines and JVs portfolio to majority open-pit and mechanised operations. Amplats' main competitors include Impala (gross platinum production of around 1.4-1.5moz pa) and Lonmin (total platinum production of ±0.75moz). 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 majority of their metal through volume contracts with pricing based on the relatively illiquid spot market. While platinum group metals (PGMs) can be substituted among each other, there are few, if any, viable substitutes outside the PGM family in autocatalysis (PGMs' primary market). Anglo American owns 78% of Amplats shares, with the remainder as free float on the Johannesburg Stock Exchange.

Drivers: Key value drivers for Amplats include:

- ZAR/USD exchange rate.
- PGM prices, mainly platinum, palladium, and rhodium.
- Value received on disposal of assets.
- Wage and electricity cost inflation.

Although Amplats' 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.

Outlook: We believe Amplats is the best positioned major platinum producer. This is due to both its broad range of assets and its ownership of the most PGM resources and reserves of all producers. The flagship open-cast Mogalakwena mine on the Northern Limb of South Africa's Bushveld Complex is a key asset within Amplats and is firmly entrenched at the lower end of the cost curve. With current (2014e) production from this asset well below 1moz of 4E and reserves of c.142moz of 4E PGMs, the potential to increase production and cash flows over time presents a clear opportunity. Amplats also has access to low cost mechanised production, mainly through JVs, giving it an attractive range of options for a shift in production mix. This shift will be further facilitated by the planned exit of Union mine (sale) and Rustenburg (either through sale or a separate primary listing) by Amplats. We expect further news around this strategy in 2015. We believe the planned exit of Rustenburg and Union mines by Amplats (whilst retaining a purchase of concentrate agreement) and the movement to majority open-pit and mechanised mining in PGMs are the theoretically correct steps as a practical solution to improving the group's longer-term profitability in a challenging South African operating environment. However, the sale of Rustenburg in particular we see being a challenge, as it is integrated into processing operations and there is a lack of buyers with a clear strategic reason to own these assets. Nevertheless, the shift in production mix to mechanised, higher margin operations should provide a continual medium-term catalyst for the company through improving margins.

Valuation: We value Amplats on a sum-of-the-parts DCF basis using a WACC of 13% and applying a 1x DCF exit multiple to derive our target price. For CY15 we use a platinum price forecast of US$1,338/oz and a ZAR/USD forecast of 11.20. Buy.

Risks: Risks to our view include a lower sales price for Rustenburg and/or Union than our NPV valuation, difficulties in increasing production from Mogalakwena, including, but not restricted to, capex required. Further operational difficulties could be encountered in ramping up production post strikes in 2014; further production disruptions from labour unrest and strikes related to wages and union rivalry in South Africa; cost inflation; cost savings as a result of restructuring or difficulties in implementing planned restructuring measures and rand-PGM prices, amongst others.

Model updated:16 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Amplats

Reuters: AMSJ.J	Bloomberg: AMS SJ

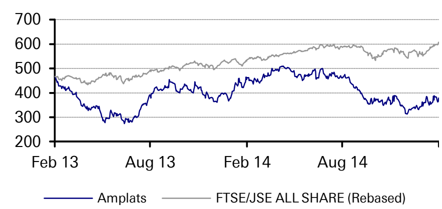
Buy

Price (13 Feb 15)	ZAR 378.29
Target Price	ZAR 520.00
52 Week range	ZAR 313.78 - 510.00
Market Cap (m)	ZARm 98,772
	USDm 8,476

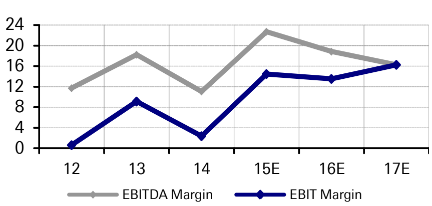
Company Profile

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 has interests in Bokoni and BRPM mine as associates. The company operates three smelters, one base metals refinery and one precious metals refinery. Anglo American owns 80% of Amplats' issued share capital.

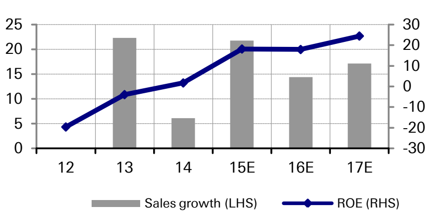
Price Performance



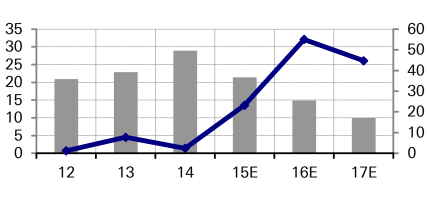
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
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Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	-5.60	5.53	3.00	26.71	28.23	39.60
Reported EPS (ZAR)	-25.47	-5.23	2.38	26.71	28.23	39.60
DPS (ZAR)	0.00	0.00	0.00	0.00	9.45	15.91
BVPS (ZAR)	190.9	186.6	189.7	213.9	230.1	250.8
Weighted average shares (m)	261	261	261	261	261	261
Average market cap (ZARm)	123,059	99,997	112,660	98,772	98,772	98,772
Enterprise value (ZARm)	122,969	101,341	116,311	99,709	96,645	94,193
Valuation Metrics						
P/E (DB) (x)	nm	69.2	143.9	14.2	13.4	9.6
P/E (Reported) (x)	nm	nm	181.3	14.2	13.4	9.6
P/BV (x)	2.34	2.11	1.80	1.77	1.64	1.51
FCF Yield (%)	nm	nm	nm	2.9	4.7	5.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	2.5	4.2
EV/Sales (x)	2.9	1.9	2.1	1.5	1.2	1.0
EV/EBITDA (x)	24.5	10.6	18.9	6.5	6.6	6.4
EV/EBIT (x)	452.1	21.2	87.9	10.2	9.2	6.4
Income Statement (ZARm)						
Sales revenue	42,838	52,404	55,612	67,695	77,427	90,696
Gross profit	5,637	10,970	7,482	16,446	15,706	15,935
EBITDA	5,019	9,556	6,161	15,370	14,577	14,750
Depreciation	4,747	4,774	4,838	5,574	4,107	0
Amortisation	0	0	0	0	0	0
EBIT	272	4,782	1,323	9,796	10,470	14,750
Net interest income(expense)	-215	-618	-537	-422	-190	-330
Associates/affiliates	-659	-298	-128	0	0	0
Exceptionals/extraordinaries	-7,069	-2,356	-405	0	0	0
Other pre-tax income/(expense)	54	-833	201	0	0	0
Profit before tax	-7,617	677	454	9,375	10,280	14,420
Income tax expense	-897	2,191	82	2,625	2,878	4,038
Minorities	-43	-144	-252	-252	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-6,677	-1,370	624	7,002	7,402	10,382
DB adjustments (including dilution)	5,209	2,821	162	0	0	0
DB Net profit	-1,468	1,451	786	7,002	7,402	10,382
Cash Flow (ZARm)						
Cash flow from operations	1,925	6,120	4,713	9,838	11,285	12,680
Net Capex	-7,085	-6,234	-6,827	-6,992	-6,632	-7,050
Free cash flow	-5,160	-114	-2,114	2,846	4,653	5,631
Equity raised/(bought back)	-236	8	-327	-327	-327	-327
Dividends paid	-590	-35	-84	-193	-1,410	-3,000
Net inc/(dec) in borrowings	6,706	-50	3,204	0	-500	-2,000
Other investing/financing cash flows	-842	-821	-639	136	148	148
Net cash flow	-122	-1,012	40	2,462	2,564	451
Change in working capital	*-3,313*	*-3,019*	*1,290*	*-3,023*	*-792*	*-2,884*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,174	1,162	1,202	3,664	6,228	6,679
Tangible fixed assets	53,095	53,108	55,033	56,452	58,977	61,434
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	10,861	10,238	10,757	10,757	10,757	10,757
Other assets	19,817	24,519	23,007	27,694	28,486	32,967
Total assets	85,947	89,027	89,999	98,566	104,448	111,837
Interest bearing debt	12,665	12,618	15,820	15,820	15,320	13,320
Other liabilities	23,182	26,401	23,653	25,991	28,041	31,878
Total liabilities	35,847	39,019	39,473	41,811	43,361	45,198
Shareholders' equity	49,820	49,882	50,736	57,218	61,548	67,101
Minorities	280	126	-210	-462	-462	-462
Total shareholders' equity	50,100	50,008	50,526	56,756	61,086	66,639
Net debt	*10,491*	*11,456*	*14,618*	*12,156*	*9,092*	*6,641*
Key Company Metrics						
Sales growth (%)	nm	22.3	6.1	21.7	14.4	17.1
DB EPS growth (%)	na	na	-45.8	790.8	5.7	40.3
EBITDA Margin (%)	11.7	18.2	11.1	22.7	18.8	16.3
EBIT Margin (%)	0.6	9.1	2.4	14.5	13.5	16.3
Payout ratio (%)	nm	nm	0.0	0.0	33.3	40.0
ROE (%)	-19.6	-3.9	1.7	18.2	17.9	24.5
Capex/sales (%)	16.8	12.1	12.3	10.3	8.6	7.8
Capex/depreciation (x)	1.5	1.3	1.4	1.3	1.6	nm
Net debt/equity (%)	20.9	22.9	28.9	21.4	14.9	10.0
Net interest cover (x)	1.3	7.7	2.5	23.2	55.0	44.7

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (13 February 2015): 232c | Target price: 520c | Rating: Buy

Aquarius Platinum Ltd

Patrick Mann

Business description: Aquarius' primary assets comprise a 100% holding in Aquarius Platinum South Africa (that in turn holds 50% shareholdings in Kroondal and Marikana (both 50/50 JVs with Amplats), as well as a 100% holding in Everest and Blue Ridge (all based in South Africa), a 50% stake in Mimosa (a Zimbabwean mine, co-owned by Implats), 50% of the Chromite Tailings Retreatment Plant (CTRP) (also in South Africa) and a 91.7% stake in Platinum Mile (tailings re-treatment). Aquarius is the fourth largest platinum producer in the world, with attributable production potential of around 350koz pa platinum. In the medium term, output from the group is much lower than capacity as Marikana, Everest, Blue Ridge and CTRP are all on care and maintenance. Aquarius sells its concentrate to the majors (Amplats and Impala) for a percentage of the value of metal contained in the concentrate (around 82%). Although some of the margin is lost in the process, it also de-risks the business to an extent. Kroondal has a relatively short life-of-mine in the current configuration (the PSA-agreement with Amplats extended the agreement for 9½ years); further capital being committed to Mimosa would be dependent on the resolution of uncertainties in the Zimbabwean regulatory environment (terms of indigenisation deals, levies on exported material, the potential requirement for producers in Zimbabwe to construct a refinery, among others).

Drivers: Key value drivers for Aquarius include:

- ZAR/USD exchange rate.
- PGM prices, mainly platinum, palladium, and rhodium.
- Growth in platinum production.
- Wage and electricity cost inflation.
- Zimbabwean regulatory environment situation and changes.

Outlook: We have a Buy recommendation for Aquarius for three main reasons: (i) Kroondal is running at above nameplate, ensuring maximum cash flow; (ii) the strengthening of the group's balance sheet via the recent rights issue and from the sale of a non-core asset and the delivery of corporate cost savings; (iii) the successful repurchase of convertible debt due end 2015 – we think the early timing of this was sensible, alleviating pressure in a tough operating environment.

Valuation: Our price target is set at 0.8x our NPV and reflects a 5% discount to our valuation for Mimosa post the deal to finalise the company's Zimbabwean credits. The 20% discount to our NAV reflects the track record of the operations and management over the past five years. We value Aquarius on a sum-of-the-parts asset DCF valuation basis, applying a nominal WACC of 10.4% (cost of equity post tax 12.7% (beta 1.45), cost of debt 7%). For CY15 we use a platinum price forecast of US$1,338/oz and a ZAR/USD forecast of 11.20. Buy.

Risks: Downside risks to our price target include: 1) lower-than-forecast PGM metals prices; 2) a stronger-than-forecast ZAR/USD exchange rate; 3) industrial action/prolonged strike action disrupting production at Kroondal; and 4) a deterioration in the operating environment in Zimbabwe and/or changes in Zimbabwe mining legislation that could include an increase in taxes, royalties or the introduction of raw material export restrictions.

Model updated:12 February 2015

Running the numbers

Australasia

Australia

M&M - Other Metals

Aquarius Platinum

Reuters: AQPJ.J   Bloomberg: AQP SJ

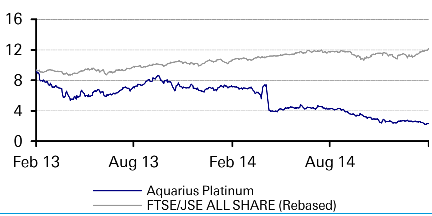
Buy

Price (13 Feb 15)	ZAR 2.32
Target Price	ZAR 5.20
52 Week range	ZAR 2.25 - 7.45
Market Cap (m)	ZARm 3,443
	USDm 295

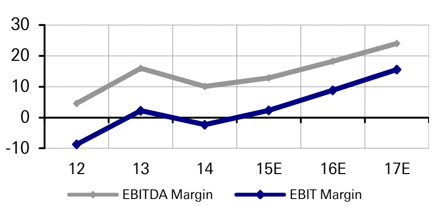
Company Profile

Aquarius Platinum Ltd is a platinum group metals (PGM) producer in southern Africa with listings on the Australian and London stock exchanges. Through its wholly owned subsidiary Aquarius Platinum South Africa, the company operates the Kroondal, Marikana and Everest mines as well as two tailing retreatment facilities. The company also has a 50% stake in the Mimosa Platinum Mine in Zimbabwe.

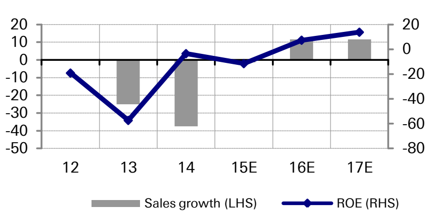
Price Performance



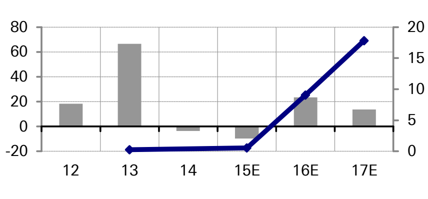
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (USD)	-0.31	-0.31	-0.01	-0.03	0.02	0.03
Reported EPS (USD)	-0.31	-0.58	-0.01	-0.03	0.02	0.03
DPS (USD)	0.00	0.00	0.00	0.00	0.00	0.03
BVPS (USD)	1.4	0.6	0.5	0.3	0.2	0.2
Weighted average shares (m)	467	480	943	1,484	1,501	1,501
Average market cap (USDm)	1,251	353	600	295	295	295
Enterprise value (USDm)	1,372	547	583	256	367	344
Valuation Metrics						
P/E (DB) (x)	nm	nm	nm	nm	11.4	6.5
P/E (Reported) (x)	nm	nm	nm	nm	11.4	6.5
P/BV (x)	0.51	1.00	0.80	0.74	0.97	0.84
FCF Yield (%)	nm	nm	nm	nm	4.7	7.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	14.1
EV/Sales (x)	2.8	1.5	2.5	1.1	1.4	1.2
EV/EBITDA (x)	60.6	9.2	24.7	8.7	7.8	5.0
EV/EBIT (x)	nm	66.3	nm	47.8	16.2	7.7
Income Statement (USDm)						
Sales revenue	498	373	233	230	257	286
Gross profit	35	74	31	35	53	75
EBITDA	23	60	24	30	47	69
Depreciation	66	51	29	24	24	24
Amortisation	0	0	0	0	0	0
EBIT	-43	8	-5	5	23	45
Net interest income(expense)	-35	-31	-28	-10	-3	-3
Associates/affiliates	0	0	5	-41	18	26
Exceptionals/extraordinaries	-4	-281	-2	-1	0	0
Other pre-tax income/(expense)	-95	-21	18	0	0	0
Profit before tax	-177	-324	-13	-47	38	68
Income tax expense	-31	-44	1	4	12	22
Minorities	0	-1	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-146	-279	-13	-50	26	46
DB adjustments (including dilution)	0	128	2	1	0	0
DB Net profit	-146	-151	-11	-49	26	46
Cash Flow (USDm)						
Cash flow from operations	8	8	21	16	37	47
Net Capex	-96	-54	-28	-23	-23	-24
Free cash flow	-88	-45	-7	-7	14	23
Equity raised/(bought back)	0	0	218	0	0	0
Dividends paid	-19	0	0	0	0	0
Net inc/(dec) in borrowings	7	-10	-1	-1	-125	0
Other investing/financing cash flows	-49	-22	26	35	0	0
Net cash flow	-148	-77	236	27	-111	23
Change in working capital	*-9*	*-4*	*-43*	*0*	*0*	*0*
Balance Sheet (USDm)						
Cash and other liquid assets	180	103	137	164	53	76
Tangible fixed assets	276	261	100	99	98	97
Goodwill/intangible assets	88	59	54	54	54	54
Associates/investments	0	0	230	160	178	204
Other assets	657	341	196	163	163	163
Total assets	1,201	765	717	640	547	595
Interest bearing debt	304	300	120	125	125	125
Other liabilities	221	168	123	114	114	114
Total liabilities	525	468	244	239	239	239
Shareholders' equity	677	297	474	401	308	356
Minorities	0	0	0	0	0	0
Total shareholders' equity	677	297	474	401	308	356
Net debt	*124*	*197*	*-17*	*-39*	*72*	*49*
Key Company Metrics						
Sales growth (%)	nm	-25.0	-37.6	-1.4	11.6	11.5
DB EPS growth (%)	na	-0.5	96.3	-185.3	na	75.8
EBITDA Margin (%)	4.5	15.9	10.1	12.9	18.3	24.0
EBIT Margin (%)	-8.7	2.2	-2.3	2.3	8.8	15.6
Payout ratio (%)	nm	nm	nm	nm	0.0	91.6
ROE (%)	-19.1	-57.3	-3.5	-11.5	7.4	13.8
Capex/sales (%)	19.2	14.4	12.0	10.1	9.0	8.3
Capex/depreciation (x)	1.4	1.0	1.0	1.0	1.0	1.0
Net debt/equity (%)	18.3	66.4	-3.5	-9.7	23.4	13.6
Net interest cover (x)	nm	0.3	nm	0.6	9.1	17.8

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (13 February 2015): 7900c | Target price: 11500c | Rating: Hold

Impala Platinum Holdings Ltd

Patrick Mann

Business description: Impala Platinum is the world's second- largest platinum miner producing gross refined platinum of 1.58moz in the year to June 2013 (FY14 was severely disrupted by the five month platinum-sector strike). 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 largest asset is the Impala Platinum mine in Rustenburg (also known as the Lease Area) – the mine was originally intended to produce up to 1moz pa platinum but is currently producing at 709koz pa (FY13 year); with a 2018 goal of 850koz pa on a sustainable basis. The difficulties at this operation began in FY12 when the mine experienced production interruptions from safety and strike stoppages, and began to struggle from a lack of effective development and falling productivity levels. This mine is now highly dependent on three new vertical shafts ramping up as intended to meet its 2018 goal as the older shafts deplete. The IRS operations process all metal from the group as well 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.

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.
- Zimbabwean regulatory environment situation and changes.

Outlook: Impala faces numerous short term challenges. Its flagship Lease Area mine, which produced over 1moz pa from 1996-09, is now aiming to ramp up to 850koz pa by 2018/19, after insufficient development investment reduced mining flexibility and impaired the production base. The company needs to deliver new shafts in order to achieve this outcome, increasing execution risk. After a five month industry strike in 2014, these targets have become less certain, in our view. Impala also faces continued regulatory uncertainty in Zimbabwe, which continues to hamper the ability of the group to invest in this high margin asset with significant long term potential. Impala is undergoing a strategic review and is intending to present these findings in February 2015, along with its interim results. These factors will continue to weigh on the stock over the next twelve months, in our view. Hold.

Valuation: We value Impala on a sum-of-the-parts DCF model of life-of-mine cash flows. We use a WACC of 13% and apply a 1x DCF exit multiple to derive our target price. Given the uncertainty between Impala and the Zimbabwean government regarding 51% ownership of Impala's Zimplats and Mimosa mines, we include 49% of the current ownership that Impala holds in these mines in our target price. For CY15 we use a platinum price forecast of US$1,338/oz and a ZAR/USD forecast of 11.20. For CY15 we use a platinum price forecast of US$1,338/oz and a ZAR/USD forecast of 11.20.

Risks: Upside/downside risks include: the speed of the ramp-up of the Lease Area; fewer/further strikes or production interruptions; an improvement/deterioration in safety trends, leading to decreased/increased production stoppages; lower/higher-than-expected mining cost inflation; lack of/further delays to the rollout of the three new vertical shafts at the Lease Area (20, 16 and 17 shafts). Upside/downside risks relating to the Zimbabwean regulatory environment include: the outcome on the indigenisation agreements and its valuation; no further/additional mining taxes and levies that may be imposed; no/a ban on the export of material for further processing in South Africa; and decreased/increased government pressure for Impala to contribute to the capital costs of a precious metals refinery in Zimbabwe. A resolution of Zimbabwe uncertainties in a more/less than favourable-than-expected manner.

Model updated:19 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Impala Platinum

Reuters: IMPJ.J Bloomberg: IMP SJ

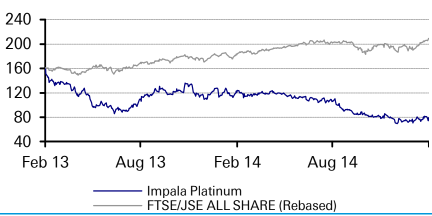
Hold

Price (13 Feb 15)	ZAR 79.00
Target Price	ZAR 115.00
52 Week range	ZAR 69.80 - 123.90
Market Cap (m)	ZARm 47,948
	USDm 4,115

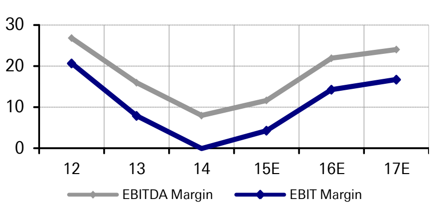
Company Profile

Impala Platinum owns and operates 100% of the Impala mine on the Western Limb of SA's Bushveld Complex. The mine is ramping up to 1moz pa Pt by 2014. On the Eastern Limb, Impala owns and operates 73% of the Marula mine, currently running at 70koz pa Pt, and owns 45% of Two Rivers, managed by JV partner ARM. In Zimbabwe, Impala owns and operates 83% of the Zimplats mine, ramping up to 270koz pa 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

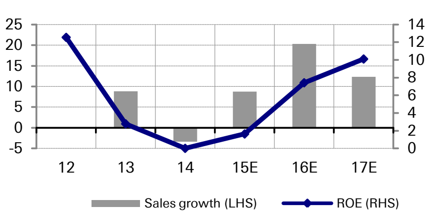
Price Performance



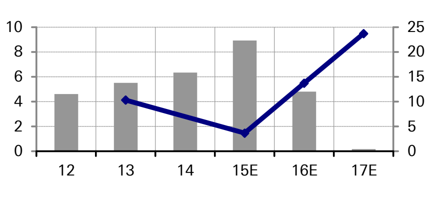
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	6.85	3.30	0.86	1.21	5.46	7.50
Reported EPS (ZAR)	6.89	1.68	0.01	1.21	5.46	7.50
DPS (ZAR)	1.95	0.95	0.00	0.00	0.00	2.14
BVPS (ZAR)	82.8	85.8	86.3	87.5	93.0	99.0
Weighted average shares (m)	606	607	607	607	607	607
Average market cap (ZARm)	98,966	82,849	70,441	47,948	47,948	47,948
Enterprise value (ZARm)	101,382	87,107	73,093	52,043	50,011	47,361
Valuation Metrics						
P/E (DB) (x)	23.8	41.4	134.7	65.4	14.5	10.5
P/E (Reported) (x)	23.7	81.1	nm	65.4	14.5	10.5
P/BV (x)	1.63	1.08	1.24	0.90	0.85	0.80
FCF Yield (%)	nm	nm	nm	nm	3.8	6.7
Dividend Yield (%)	1.2	0.7	0.0	0.0	0.0	2.7
EV/Sales (x)	3.7	2.9	2.5	1.6	1.3	1.1
EV/EBITDA (x)	13.7	18.1	31.5	14.1	6.0	4.6
EV/EBIT (x)	17.8	36.7	nm	38.2	9.2	6.6
Income Statement (ZARm)						
Sales revenue	27,593	30,032	29,028	31,563	37,971	42,660
Gross profit	7,964	7,476	5,583	4,399	9,226	11,252
EBITDA	7,411	4,800	2,320	3,687	8,331	10,262
Depreciation	1,708	2,424	2,341	2,326	2,908	3,127
Amortisation	0	0	0	0	0	0
EBIT	5,703	2,376	-21	1,361	5,423	7,135
Net interest income(expense)	9	-230	-178	-372	-395	-301
Associates/affiliates	117	163	365	370	353	460
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	532	242	-151	-33	-36	-38
Profit before tax	6,361	2,551	15	1,326	5,345	7,256
Income tax expense	1,951	1,476	144	424	1,710	2,322
Minorities	230	53	-137	167	313	378
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,180	1,022	8	734	3,321	4,556
DB adjustments (including dilution)	-29	979	515	0	0	0
DB Net profit	4,151	2,001	523	734	3,321	4,556
Cash Flow (ZARm)						
Cash flow from operations	5,089	5,938	4,096	2,904	6,289	7,650
Net Capex	-7,232	-6,258	-4,436	-4,787	-4,482	-4,450
Free cash flow	-2,143	-320	-340	-1,883	1,806	3,200
Equity raised/(bought back)	877	36	8	0	0	0
Dividends paid	-3,364	-580	-371	0	0	-868
Net inc/(dec) in borrowings	267	4,466	-16	-258	-448	-586
Other investing/financing cash flows	519	308	911	384	315	416
Net cash flow	-3,844	3,910	192	-1,758	1,673	2,162
Change in working capital	*-1,133*	*-487*	*1,649*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,193	5,308	4,305	2,547	4,220	6,382
Tangible fixed assets	44,463	50,263	50,276	52,738	54,312	55,635
Goodwill/intangible assets	1,018	0	0	0	0	0
Associates/investments	1,102	1,335	3,380	3,604	3,828	4,108
Other assets	24,851	23,813	21,906	21,794	21,682	21,570
Total assets	72,627	80,719	79,867	80,683	84,042	87,695
Interest bearing debt	3,609	8,322	7,787	7,529	7,080	6,494
Other liabilities	16,543	17,781	17,163	17,336	17,509	17,682
Total liabilities	20,152	26,103	24,950	24,865	24,589	24,176
Shareholders' equity	50,168	52,037	52,367	53,101	56,422	60,111
Minorities	2,307	2,579	2,550	2,717	3,031	3,409
Total shareholders' equity	52,475	54,616	54,917	55,819	59,453	63,519
Net debt	*2,416*	*3,014*	*3,482*	*4,981*	*2,860*	*112*
Key Company Metrics						
Sales growth (%)	nm	8.8	-3.3	8.7	20.3	12.3
DB EPS growth (%)	na	-51.9	-73.9	40.2	352.4	37.2
EBITDA Margin (%)	26.9	16.0	8.0	11.7	21.9	24.1
EBIT Margin (%)	20.7	7.9	-0.1	4.3	14.3	16.7
Payout ratio (%)	28.3	56.4	0.0	0.0	0.0	28.6
ROE (%)	12.6	2.8	0.0	1.6	7.4	10.1
Capex/sales (%)	26.4	21.2	15.5	15.2	11.8	10.4
Capex/depreciation (x)	4.3	2.6	1.9	2.1	1.5	1.4
Net debt/equity (%)	4.6	5.5	6.3	8.9	4.8	0.2
Net interest cover (x)	nm	10.3	nm	3.7	13.7	23.7

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (13 February 2015): 3000c | Target price: 5300c | Rating: Buy

Lonmin plc

Patrick Mann

Business description: Lonmin is the third largest platinum producer in the world. Lonmin's assets consist primarily of an 82% holding in its South African subsidiary, Lonplats that owns the group's flagship Marikana mine and processing assets, its Limpopo project and the Akanani project. Glencore Xstrata owns 25% of Lonmin's shares. Lonmin concluded a US$800m rights issue in 2012 and implemented a "Renewal Plan" following the 2012 labour unrest and associated events. Lonmin thus coped with the extended stoppage at its operations during the five month platinum sector strike in 2014. Operations have recovered well with the company returning to normal levels of production in 1Q15. However, Lonmin is currently operating on low levels of capex (US$185m for FY15, while it has stated US$250m is a sustainable level pa) that will not affect production in FY15; we do not think levels can remain as low into FY16 without an effect on the sustainable levels of production. Lonmin has guided to production in FY15 of 750koz of platinum. Lonmin has some of its older shafts coming to the ends of their lives and needs to begin investing in its K4 shaft to replace these ounces.

Drivers: Key value drivers for Lonmin include:

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

Outlook: Lonmin is navigating through the post-strike period, and is targeting 750koz pa from Marikana. Hossy Shaft, however, is under close watch as a marginal shaft and may be closed or restructured if it cannot improve its cost position. Lonmin has demonstrated previously, after the 2012 Marikana strike, its ability to recover from production disruptions quickly, assisted by its high ore reserve availability. We expect Lonmin to replicate the previous ramp up success and good operational performance in the coming 12 months given its strong operational flexibility, industry-leading concentrator recoveries, and its focus on its sole asset, Marikana. Lonmin's balance sheet should be sufficient to see it through this period, and the company targets a re-start of its K4 shaft in a few years to sustain the production profile longer term, once cash flows have improved. Given the expected operational performance, relative discount to the sector and high leverage to our forecast PGM price increases, we believe Lonmin will outperform peers in the near term.

Valuation: Our price target is derived by applying a 0.9x multiple to the group's DCF valuation. The 10% discount is based on company management performance relative to the broader Metals and Mining peer group (based on life-of-mine cash flows discounted at a WACC of 10.0%, Beta 1.4, ERP 6%). Buy.

Risks: Downside risks include a stronger-than-expected rand and lower-than-expected PGM prices. There is also a risk of a stock overhang if Glencore Xstrata sells down its 24.5% stake. Further labour disruption also remains a downside risk.

Model updated:29 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Lonmin Plc

Reuters: LONJ.J Bloomberg: LON SJ

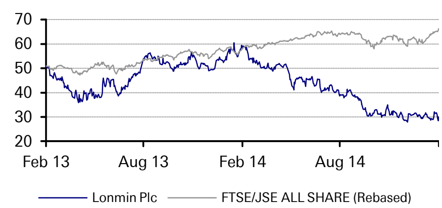
Buy

Price (13 Feb 15)	ZAR 30.00
Target Price	ZAR 53.00
52 Week range	ZAR 27.93 - 59.21
Market Cap (m)	ZARm 17,483
	USDm 1,500

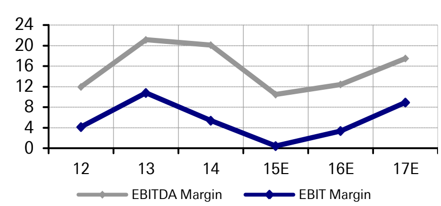
Company Profile

Lonmin specialises in the mining of PGMs (platinum group metals). The group operates a number of platinum mines, concentrators, smelters and a refinery within its core Marikana operations, all situated in the Bushveld Igneous Complex of South Africa. After declining production from 2006, the company's target is 750k of platinum ounces by 2015.

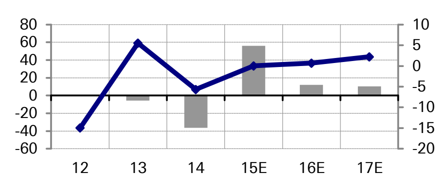
Price Performance



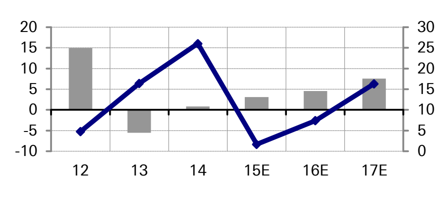
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (USD)	0.07	0.20	0.05	0.00	0.04	0.15
Reported EPS (USD)	-2.01	0.31	-0.33	0.00	0.04	0.15
DPS (USD)	0.00	0.00	0.00	0.00	0.05	0.06
BVPS (USD)	12.6	6.5	5.7	6.0	6.4	6.9
Weighted average shares (m)	203	532	570	583	583	583
Average market cap (USDm)	1,535	2,500	2,602	1,500	1,500	1,500
Enterprise value (USDm)	2,213	2,500	2,780	1,767	1,846	2,012
Valuation Metrics						
P/E (DB) (x)	102.8	22.9	89.7	nm	61.1	17.5
P/E (Reported) (x)	nm	15.1	nm	nm	61.1	17.5
P/BV (x)	0.38	0.80	0.53	0.43	0.40	0.37
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	1.9	2.3
EV/Sales (x)	1.4	1.6	2.9	1.2	1.1	1.1
EV/EBITDA (x)	11.5	7.8	14.3	11.2	8.8	6.2
EV/EBIT (x)	33.0	15.2	53.5	259.9	32.3	12.1
Income Statement (USDm)						
Sales revenue	1,614	1,520	965	1,506	1,690	1,866
Gross profit	202	339	194	190	242	358
EBITDA	193	321	194	158	210	326
Depreciation	126	157	142	151	153	160
Amortisation	0	0	0	0	0	0
EBIT	67	164	52	7	57	167
Net interest income(expense)	-14	-10	-2	-4	-8	-10
Associates/affiliates	4	4	-6	6	6	6
Exceptionals/extraordinaries	-755	-18	-372	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	-698	140	-328	9	55	162
Income tax expense	-148	-58	-123	3	17	49
Minorities	-140	32	-15	6	14	28
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-410	166	-190	0	25	86
DB adjustments (including dilution)	425	-57	219	0	0	0
DB Net profit	15	109	29	0	25	86
Cash Flow (USDm)						
Cash flow from operations	263	16	-116	153	235	241
Net Capex	-404	-159	-93	-185	-300	-350
Free cash flow	-141	-143	-209	-32	-65	-109
Equity raised/(bought back)	0	778	0	0	0	0
Dividends paid	-45	-12	-3	-3	-2	-30
Net inc/(dec) in borrowings	424	-730	0	100	0	50
Other investing/financing cash flows	1	0	-24	-57	0	0
Net cash flow	239	-107	-236	7	-67	-89
Change in working capital	*275*	*-246*	*18*	*2*	*49*	*-26*
Balance Sheet (USDm)						
Cash and other liquid assets	315	201	143	159	153	64
Tangible fixed assets	2,889	2,908	2,882	3,101	3,478	3,918
Goodwill/intangible assets	502	502	497	497	497	497
Associates/investments	578	470	394	394	394	394
Other assets	339	535	449	603	558	616
Total assets	4,623	4,616	4,365	4,755	5,080	5,489
Interest bearing debt	736	0	172	272	332	382
Other liabilities	1,072	959	811	817	850	888
Total liabilities	1,808	959	983	1,089	1,182	1,270
Shareholders' equity	2,558	3,456	3,233	3,512	3,731	4,025
Minorities	257	201	149	154	167	194
Total shareholders' equity	2,815	3,657	3,382	3,666	3,898	4,219
Net debt	*421*	*-201*	*29*	*113*	*179*	*318*
Key Company Metrics						
Sales growth (%)	nm	-5.8	-36.5	56.1	12.2	10.4
DB EPS growth (%)	na	178.8	-75.1	-98.3	4,890.4	248.3
EBITDA Margin (%)	12.0	21.1	20.1	10.5	12.4	17.5
EBIT Margin (%)	4.2	10.8	5.4	0.5	3.4	8.9
Payout ratio (%)	nm	0.0	nm	0.0	118.6	40.8
ROE (%)	-14.9	5.5	-5.7	0.0	0.7	2.2
Capex/sales (%)	25.0	10.5	9.6	12.3	17.8	18.8
Capex/depreciation (x)	3.2	1.0	0.7	1.2	2.0	2.2
Net debt/equity (%)	15.0	-5.5	0.9	3.1	4.6	7.5
Net interest cover (x)	4.8	16.4	26.0	1.7	7.4	16.3

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (13 February 2015): 4843c | Target price: 5500c | Rating: Buy

Northam Platinum Ltd

Patrick Mann

Business description: Northam is a mid-tier PGM miner with big ambitions producing around 200-210koz pa of platinum at steady state from its Zondereinde mine in the northern part of the Western Limb of the Bushveld Complex and ramping up its new, low-cost and mechanised operation on the Eastern Limb, Booysendal. The relatively new CEO, Paul Dunne, is targeting aggressive growth in a countercyclical move intended to pick up assets at the bottom of the cycle, as well as invest in growth to capitalise on higher forecast prices in the medium term. To do this, the company is raising expensive preference share debt at South African prime plus 350bps (currently 12.75%), raising cash of R4bn to target growth opportunities. This will introduce significant financial leverage into the company in 1H15. These are cumulative preference shares, so while forecast FCF looks strong, it is matched to a large extent by a growing non-cash liability.

We believe the organic growth opportunities at Booysendal are most promising, with the infrastructure on site easily scalable to meet double the current targeted steady-state of 80koz pa by October 2015. Northam is evaluating either an increase in volumes at the existing mine (UG2) or potentially a mechanised Merensky decline nearby.

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.

Outlook: We see a short- to medium-term catalyst for Northam from the ramp up of its low-cost, UG2 Booysendal mine in 2015, a mechanised operation on the Eastern Limb that we believe will be competitively placed and has significant organic growth potential. Zondereinde, Northam's other mine, has a soft base to beat in FY15, after an 11 week strike in FY14. Northam will close a R6.6bn Black Economic Empowerment (BEE) deal in 1HCY15 that will see the issuance of R6.6bn in preference shares at prime plus 350bps (currently 12.75%), due in a single bullet payment in 10 years' time. This transaction has significantly geared the balance sheet and we expect a significant portion of value to be transferred to the preference shares when issued. There is uncertainty in future cash flow projections as a result of Northam's growth ambitions. Notwithstanding this, the company's free cash flow position should improve rapidly as project capex on Booysendal rolls away and production from both mines increases in FY15. We expect Northam to be cash flow positive in FY15e. We believe positive and increasing operating and financial results will re-rate the shares.

Valuation: We value Northam on a sum-of-the-parts DCF basis using a WACC of 14% and applying a 1x DCF exit multiple to derive our target price). For CY15 we use a platinum price forecast of US$1,338/oz and a ZAR/USD forecast of 11.20. Buy.

Risks: Downside risks include corporate action and a change in capital investment plans related to the new CEO’s strategy; safety stoppages; difficulty in returning Zondereinde to steady-state as a result of the shaft closure related to the damages sustained during maintenance; a slower-than-expected ramp up of the Booysendal mine; and AMCU attempting to make inroads at Northam's mines.

Model updated:19 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Northam

Reuters: NHMJ.J Bloomberg: NHM SJ

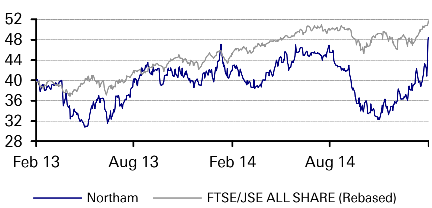
Buy

Price (13 Feb 15)	ZAR 48.43
Target Price	ZAR 55.00
52 Week range	ZAR 32.28 - 48.43
Market Cap (m)	ZARm 18,103
	USDm 1,553

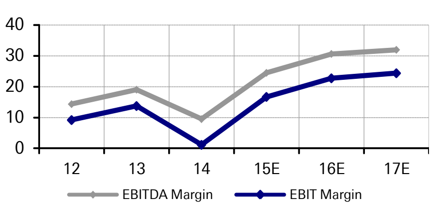
Company Profile

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 also in the process of ramping up the Booysendal mine, a UG2 mine on the Eastern Limb that will produce around 160k PGM (4E) ounces ounce at steady-state, targeted for October 2015.

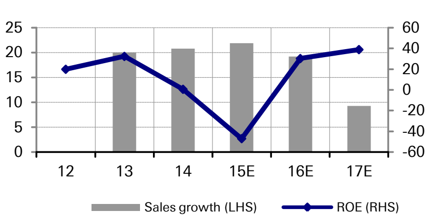
Price Performance



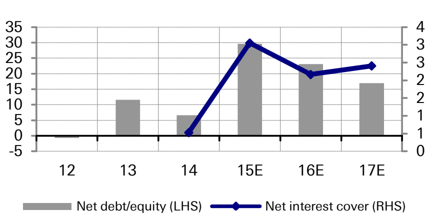
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	0.81	1.36	0.02	-1.92	1.36	1.80
Reported EPS (ZAR)	0.81	1.32	0.02	-1.92	1.36	1.80
DPS (ZAR)	0.05	0.00	0.00	0.00	0.00	0.36
BVPS (ZAR)	27.2	28.2	29.1	25.6	28.7	30.2
Weighted average shares (m)	382	383	391	374	350	350
Average market cap (ZARm)	12,417	12,639	16,012	18,103	18,103	18,103
Enterprise value (ZARm)	12,345	13,406	16,272	20,444	19,927	19,394
Valuation Metrics						
P/E (DB) (x)	40.2	24.2	nm	nm	35.7	26.9
P/E (Reported) (x)	40.0	25.0	nm	nm	35.7	26.9
P/BV (x)	0.85	1.13	1.56	1.89	1.69	1.60
FCF Yield (%)	nm	nm	nm	0.4	8.3	9.6
Dividend Yield (%)	0.2	0.0	0.0	0.0	0.0	0.7
EV/Sales (x)	3.4	3.0	3.0	3.1	2.6	2.3
EV/EBITDA (x)	23.3	15.9	32.1	12.8	8.4	7.2
EV/EBIT (x)	36.4	22.1	264.7	18.8	11.3	9.4
Income Statement (ZARm)						
Sales revenue	3,684	4,421	5,339	6,507	7,754	8,474
Gross profit	529	842	507	1,595	2,377	2,710
EBITDA	529	842	507	1,595	2,377	2,710
Depreciation	190	235	446	508	613	644
Amortisation	0	0	0	0	0	0
EBIT	339	608	61	1,087	1,763	2,066
Net interest income(expense)	54	15	-116	-356	-815	-858
Associates/affiliates	17	14	3	4	4	4
Exceptionals/extraordinaries	0	0	0	-851	0	0
Other pre-tax income/(expense)	43	60	97	-467	53	53
Profit before tax	453	697	46	-584	1,006	1,266
Income tax expense	142	169	26	133	531	635
Minorities	0	23	10	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	311	505	9	-717	475	630
DB adjustments (including dilution)	-1	17	-1	0	0	0
DB Net profit	309	522	9	-717	475	630
Cash Flow (ZARm)						
Cash flow from operations	438	400	709	929	2,039	2,301
Net Capex	-2,009	-1,743	-894	-848	-637	-679
Free cash flow	-1,571	-1,342	-185	80	1,403	1,622
Equity raised/(bought back)	2	2	579	0	0	0
Dividends paid	-57	-22	-11	0	0	-90
Net inc/(dec) in borrowings	35	1,516	-134	4,600	0	0
Other investing/financing cash flows	-1	39	118	0	0	0
Net cash flow	-1,593	194	367	4,680	1,403	1,531
Change in working capital	*-90*	*-281*	*271*	*241*	*49*	*12*
Balance Sheet (ZARm)						
Cash and other liquid assets	105	299	666	5,346	6,749	8,245
Tangible fixed assets	9,136	11,931	11,940	12,280	12,303	12,339
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	505	495	497	500	504	509
Other assets	2,498	1,633	1,638	1,779	1,924	2,018
Total assets	12,244	14,358	14,741	19,906	21,481	23,110
Interest bearing debt	33	1,551	1,418	8,183	9,072	10,039
Other liabilities	1,798	1,991	1,931	2,154	2,365	2,487
Total liabilities	1,831	3,542	3,349	10,337	11,437	12,526
Shareholders' equity	10,413	10,806	11,386	9,564	10,039	10,579
Minorities	0	10	5	5	5	5
Total shareholders' equity	10,413	10,816	11,392	9,570	10,045	10,585
Net debt	*-72*	*1,253*	*752*	*2,836*	*2,323*	*1,794*
Key Company Metrics						
Sales growth (%)	nm	20.0	20.8	21.9	19.2	9.3
DB EPS growth (%)	na	68.8	-98.4	na	na	32.7
EBITDA Margin (%)	14.4	19.1	9.5	24.5	30.7	32.0
EBIT Margin (%)	9.2	13.7	1.2	16.7	22.7	24.4
Payout ratio (%)	6.2	0.0	0.0	nm	0.0	20.0
ROE (%)	19.9	32.3	0.6	-46.9	30.3	38.9
Capex/sales (%)	54.7	39.5	16.8	13.0	8.2	8.0
Capex/depreciation (x)	10.6	7.4	2.0	1.7	1.0	1.1
Net debt/equity (%)	-0.7	11.6	6.6	29.6	23.1	17.0
Net interest cover (x)	nm	nm	0.5	3.1	2.2	2.4

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (13 February 2015): 5748c | Target price: 7000c | Rating: Hold

Royal Bafokeng Platinum Ltd

Patrick Mann

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.

RBPlat has one operating asset, the Boschkoppie mine, which is at steady-state of around 180koz of platinum pa, which is then sold to JV partner Amplats for smelting and refining. Boschkoppie is in the lower half of the cost curve on our estimates, on a cash costs plus SIB capex basis. RBPlat aims to double its group production through the ramp up of the Styldrift project – this mechanised Merensky mine is contiguous to Boschkoppie on the group's Western Limb property and will deliver 200koz pa of platinum in concentrate from 2019e. The mine should be in the lower half of the 2019 cost curve, in our opinion, 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.

Outlook: RBPlat is one of the best positioned producers in the platinum industry, in our view. However, we believe the share price reflects the company's excellent prospects, and rate it a Hold at these levels. RBPlat currently mines majority high-value Merensky reef from its existing BRPM mine, the concentrate from which is sold to Amplats under terms favourable to RBPlat relative to industry norm. RBPlat also charges royalties ranging from 5-25% to Impala on RBPlat reserves mined by Impala from Impala infrastructure. RBPlat Styldrift, a mechanised Merensky project, is a valuable rarity in South African platinum mining. RBPlat has tax allowances that ensure it should not pay cash tax until 2019e, on our estimates. There is also a case to be made for a "take-out" premium in RBPlat's shares as Impala has, unsuccessfully, approached RBPlat in the past. RBPlat also qualifies as an empowered company and avoids the potential dilution from financing BEE deals to which the rest of the industry is exposed.

Valuation: We value RBPlat using a DCF, using a WACC of 13% and applying a 1x DCF exit multiple to derive our target price. For CY15 we use a platinum price forecast of US$1,338/oz and a ZAR/USD forecast of 11.20. Hold.

Risks: Upside risks are the announcement of corporate action: either Impala Platinum reviving its ambitions to buy 100% of the BRPM mine, or RBPlat announcing its own acquisition interests. Further upside risks include rand PGM prices, capital savings on projects, and the market favourably receiving feasibility studies on the Styldrift II project. Downside risks include delays to the Styldrift project, insufficient power as a result of delays to Eskom's substations being built critical to Styldrift's completion, contractor underperformance, and disruptions to the concentrator from planned upgrades to throughput while remaining fully operational.

Model updated:19 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

RBPlat

Reuters: RBPJ.J   Bloomberg: RBP SJ

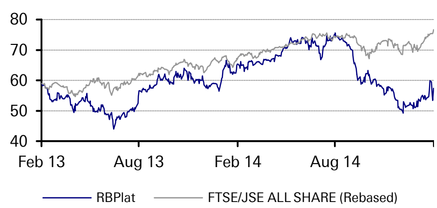
Hold

Price (13 Feb 15)	ZAR 57.48
Target Price	ZAR 70.00
52 Week range	ZAR 49.23 - 75.60
Market Cap (m)	ZARm 10,596
	USDm 909

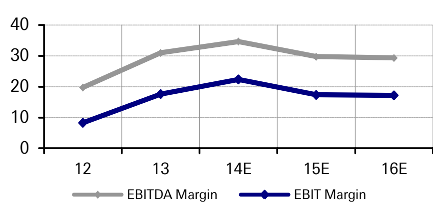
Company Profile

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.

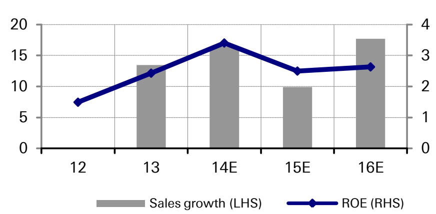
Price Performance



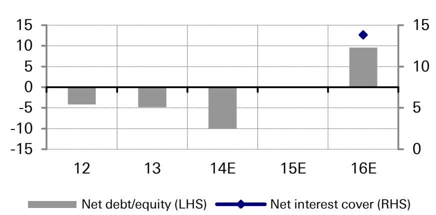
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
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Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Financial Summary					
DB EPS (ZAR)	1.04	1.73	2.37	1.83	1.98
Reported EPS (ZAR)	1.04	1.73	2.37	1.83	1.98
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	70.2	72.2	74.7	74.3	76.2
Weighted average shares (m)	164	164	184	190	190
Average market cap (ZARm)	8,985	9,152	10,596	10,596	10,596
Enterprise value (ZARm)	12,039	12,507	13,121	15,136	17,128
Valuation Metrics					
P/E (DB) (x)	52.9	32.3	24.3	31.4	29.0
P/E (Reported) (x)	52.9	32.2	24.3	31.4	29.0
P/BV (x)	0.82	0.82	0.77	0.77	0.75
FCF Yield (%)	nm	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	4.2	3.8	3.5	3.6	3.5
EV/EBITDA (x)	21.3	12.4	10.0	12.2	11.9
EV/EBIT (x)	50.6	21.8	15.5	21.0	20.3
Income Statement (ZARm)					
Sales revenue	2,865	3,251	3,785	4,160	4,895
Gross profit	667	1,035	1,411	1,262	1,453
EBITDA	566	1,007	1,312	1,237	1,435
Depreciation	272	372	405	449	517
Amortisation	56	61	60	66	76
EBIT	238	574	847	721	842
Net interest income(expense)	56	39	77	1	-61
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	67	0	0	0	0
Profit before tax	361	613	924	723	781
Income tax expense	86	165	273	202	219
Minorities	105	164	215	172	186
Other post-tax income/(expense)	0	0	0	0	0
Net profit	170	284	436	349	377
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	170	284	436	349	377
Cash Flow (ZARm)					
Cash flow from operations	733	908	1,335	1,006	1,049
Net Capex	-1,174	-1,037	-1,734	-2,849	-2,855
Free cash flow	-441	-129	-399	-1,843	-1,807
Equity raised/(bought back)	0	0	1,479	0	0
Dividends paid	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	2,600	0
Other investing/financing cash flows	-8	252	-34	0	0
Net cash flow	-449	123	1,045	757	-1,807
Change in working capital	*-13*	*-134*	*-30*	*-198*	*-305*
Balance Sheet (ZARm)					
Cash and other liquid assets	650	773	1,818	2,575	769
Tangible fixed assets	8,899	9,621	10,950	13,350	15,688
Goodwill/intangible assets	9,023	8,966	8,906	8,840	8,764
Associates/investments	261	0	0	0	0
Other assets	1,269	1,458	1,488	1,735	2,136
Total assets	20,101	20,818	23,162	26,500	27,357
Interest bearing debt	0	0	0	2,600	2,600
Other liabilities	4,621	4,831	5,074	5,292	5,586
Total liabilities	4,621	4,831	5,074	7,892	8,186
Shareholders' equity	11,516	11,858	13,773	14,122	14,499
Minorities	3,965	4,128	4,343	4,515	4,701
Total shareholders' equity	15,481	15,986	18,116	18,636	19,199
Net debt	*-650*	*-773*	*-1,818*	*25*	*1,831*
Key Company Metrics					
Sales growth (%)	nm	13.5	16.4	9.9	17.7
DB EPS growth (%)	na	66.7	37.0	-22.6	8.1
EBITDA Margin (%)	19.7	31.0	34.7	29.7	29.3
EBIT Margin (%)	8.3	17.6	22.4	17.3	17.2
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	1.5	2.4	3.4	2.5	2.6
Capex/sales (%)	41.0	31.9	45.8	68.5	58.3
Capex/depreciation (x)	3.6	2.4	3.7	5.5	4.8
Net debt/equity (%)	-4.2	-4.8	-10.0	0.1	9.5
Net interest cover (x)	nm	nm	nm	nm	13.8

Source: Company data, Deutsche Bank estimates

South Africa – Oil & Gas | Price (13 February 2015): 47756c | Target price: 49000c | Rating: Buy

Sasol Ltd

Avinash Kalkapersad

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 chemical and GTL ventures in the US.

Drivers: Oil weakness dominates the macro environment, resulting in declining returns and material balance sheet risk at Sasol. Despite this sombre near-term outlook, we remind investors the company is operationally in a strong position. Sasol's expansion plans in the US offer substantial growth in the medium term, whilst improved production and material cost cutting initiatives should support near-term earnings. Add to this its defensive rand hedge qualities and we believe Sasol should be a core holding in an investor's portfolio. Key to our recommendation is a recovery of oil prices to USD90/bbl by 2018.

Management has guided for Project Phoenix to deliver sustainable cost savings of at least ~R4bn pa (~10% of FY14 EBIT) from FY16 onwards. We think this guidance is conservative. We also forecast continued improved production volumes on the back of incremental growth projects (Synfuels, Polymers expansion and optimisation, Mozambique gas and Wax expansion).

In terms of attracting marginal investors, Sasol needs to bed down a sustainable growth path in the US among its numerous options, while balancing dividend expectations relative to peers. We believe the economics of Sasol’s proposed US chemicals facility (IRR 12.2%) are encouraging, assuming oil recovers, capex costs are kept under control and timing guidance is adhered to. The low-cost ethane advantage is set to continue in the medium term, and it is vital that Sasol is among the first to deliver its cracker

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. Sasol is embarking on a significant international expansion phase, with the US in particular a targeted geography. Whilst Sasol's near-term earnings outlook is suppressed by weak rand oil prices, we forecast a strong operational performance. While we wait for Sasol's Lake Charles chemical facility to come online (we estimate first production in FY19), it is vital that Sasol deliver on other growth and cost-cutting projects. Sasol has traditionally traded in close correlation with the rand oil price. As it shifts from a predominantly oil company to a chemical one, we believe its rating will rise closer to global chemical company multiples.

Valuation: 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. Our WACC of 10.9% incorporates a debt/equity ratio of 20%, beta of 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% terminal growth rate represents a conservative outlook based on our long-term real oil price inflation expectation. Sasol's volume growth is dependent on the successful implementation of carbon sequestration technology and retaining its proven technological advantage. Buy.

Risks: Risks include a weaker-than-forecast oil price and a stronger-than-forecast ZAR/USD exchange rate. Given significant expansion plans, we highlight the risk of project capex overruns and delays in operational start-up.

Model updated:29 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Oil & Gas Producers

Sasol

Reuters: SOLJ.J Bloomberg: SOL SJ

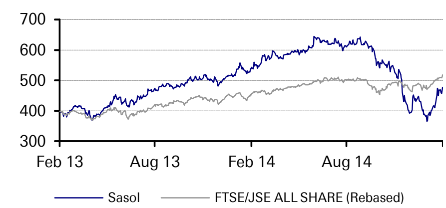
Buy

Price (13 Feb 15)	ZAR 477.56
Target Price	ZAR 490.00
52 Week range	ZAR 365.10 - 645.10
Market Cap (m)	ZARm 290,834
	USDm 24,958

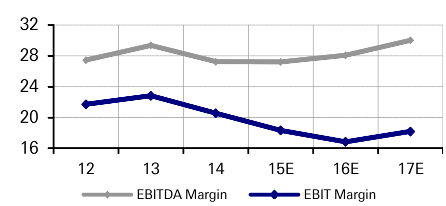
Company Profile

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 plans to build large chemical and GTL facilities in North America.

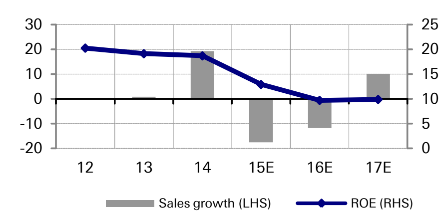
Price Performance



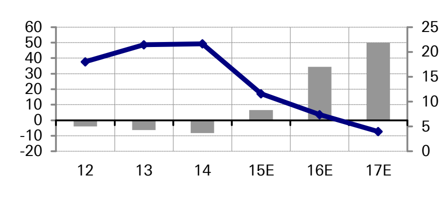
Margin Trends



Growth & Profitability



Solvency



Avinash Kalkapersad
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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	42.07	52.52	59.64	36.54	28.50	29.77
Reported EPS (ZAR)	38.27	42.76	48.27	36.54	28.50	29.77
DPS (ZAR)	17.50	18.38	21.50	21.50	21.50	21.50
BVPS (ZAR)	207.6	247.0	280.8	295.9	302.8	311.0
Weighted average shares (m)	603	606	609	609	609	609
Average market cap (ZARm)	219,665	231,431	321,052	290,834	290,834	290,834
Enterprise value (ZARm)	212,671	208,181	294,939	290,062	342,030	372,973
Valuation Metrics						
P/E (DB) (x)	8.7	7.3	8.8	13.1	16.8	16.0
P/E (Reported) (x)	9.5	8.9	10.9	13.1	16.8	16.0
P/BV (x)	1.65	1.75	2.25	1.61	1.58	1.54
FCF Yield (%)	3.9	7.4	5.8	nm	nm	nm
Dividend Yield (%)	4.8	4.8	4.1	4.5	4.5	4.5
EV/Sales (x)	1.3	1.2	1.5	1.7	2.3	2.3
EV/EBITDA (x)	4.6	4.2	5.3	6.4	8.3	7.6
EV/EBIT (x)	5.8	5.4	7.1	9.5	13.8	12.6
Income Statement (ZARm)						
Sales revenue	168,406	169,891	202,683	167,120	147,418	162,397
Gross profit	58,215	61,559	66,126	58,106	53,972	60,888
EBITDA	46,220	49,900	55,190	45,486	41,390	48,767
Depreciation	9,651	11,121	13,516	14,828	16,531	19,232
Amortisation	0	0	0	0	0	0
EBIT	36,569	38,779	41,674	30,658	24,859	29,535
Net interest income(expense)	-2,030	-1,808	-1,925	-2,645	-3,369	-7,403
Associates/affiliates	958	2,066	4,144	1,806	1,409	1,891
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	811	669	1,220	1,437	1,466	1,496
Profit before tax	36,308	39,706	45,113	31,257	24,365	25,518
Income tax expense	11,746	12,595	14,696	8,439	6,578	6,890
Minorities	674	837	837	528	490	541
Other post-tax income/(expense)	-308	0	0	0	0	0
Net profit	23,580	26,274	29,580	22,290	17,297	18,087
DB adjustments (including dilution)	2,342	6,000	7,446	394	394	394
DB Net profit	25,922	32,274	37,026	22,684	17,691	18,481
Cash Flow (ZARm)						
Cash flow from operations	37,624	47,079	57,223	41,569	29,634	34,099
Net Capex	-29,160	-29,889	-38,594	-52,541	-69,428	-53,298
Free cash flow	8,464	17,190	18,629	-10,973	-39,794	-19,199
Equity raised/(bought back)	0	727	373	0	0	0
Dividends paid	-9,600	-10,787	-13,248	-13,094	-13,094	-13,094
Net inc/(dec) in borrowings	0	8,049	905	0	0	0
Other investing/financing cash flows	649	-1,282	251	0	0	0
Net cash flow	-487	13,897	6,910	-24,066	-52,888	-32,293
Change in working capital	*-2,271*	*-3,278*	*-2,143*	*5,504*	*-3,433*	*-1,971*
Balance Sheet (ZARm)						
Cash and other liquid assets	18,060	31,303	38,400	14,334	1,245	1,245
Tangible fixed assets	129,457	140,854	162,769	200,818	254,050	288,451
Goodwill/intangible assets	1,750	1,992	2,526	2,190	1,854	1,518
Associates/investments	5,015	16,806	15,387	17,193	18,602	20,493
Other assets	49,471	55,210	61,182	48,158	52,915	55,909
Total assets	203,753	246,165	280,264	282,693	328,667	367,616
Interest bearing debt	13,001	21,549	23,882	26,435	66,234	98,527
Other liabilities	62,438	71,723	81,613	71,765	73,247	74,370
Total liabilities	75,439	93,272	105,495	98,200	139,481	172,896
Shareholders' equity	125,234	149,583	170,977	180,173	184,376	189,370
Minorities	3,080	3,310	3,792	4,320	4,809	5,350
Total shareholders' equity	128,314	152,893	174,769	184,493	189,185	194,720
Net debt	*-5,059*	*-9,754*	*-14,518*	*12,101*	*64,989*	*97,282*
Key Company Metrics						
Sales growth (%)	nm	0.9	19.3	-17.5	-11.8	10.2
DB EPS growth (%)	na	24.8	13.6	-38.7	-22.0	4.5
EBITDA Margin (%)	27.4	29.4	27.2	27.2	28.1	30.0
EBIT Margin (%)	21.7	22.8	20.6	18.3	16.9	18.2
Payout ratio (%)	44.8	42.4	44.3	58.7	75.7	72.4
ROE (%)	20.3	19.1	18.7	12.9	9.7	9.9
Capex/sales (%)	17.3	17.9	19.1	31.4	47.1	32.8
Capex/depreciation (x)	3.0	2.7	2.9	3.5	4.2	2.8
Net debt/equity (%)	-3.9	-6.4	-8.3	6.6	34.4	50.0
Net interest cover (x)	18.0	21.4	21.6	11.6	7.4	4.0

Source: Company data, Deutsche Bank estimates

UK – Paper | Price (13 February 2015): 1257p | Target price: 1320p | Rating: Buy

Mondi plc

Matthias Pfeifenberger

Business description: Mondi is an internationally leading packaging and paper company, having generated revenues of E6.5bn in 2014. Following an extensive restructuring, its low-cost asset base is primarily located in central Europe, Russia and South Africa, with operations involved in the manufacture of packaging paper, converted packaging products and uncoated fine paper (UFP). Mondi maintains leading market positions across various products in Europe and is integrated across the paper and packaging production process, from forestry operations and pulp and paper-making capacities (including recycled paper), to the conversion of packaging papers into corrugated packaging, industrial bags, coated products and consumer packaging. Mondi has acquired Nordenia in 2012, strengthening its position in consumer packaging.

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

- Containerboard and corrugated box prices.
- Uncoated fine paper prices.
- Kraft paper prices.
- Softwood and hardwood pulp prices.
- ZAR/USD and EUR/USD exchange rates.
- Movement of input costs.
- Economic development in Europe and especially Central Eastern Europe including Russia, as well as South Africa.

Outlook: We rate Mondi shares a Buy. We like Mondi's positioning as leading producer of industrial and consumer packaging products and uncoated fine paper, operating a well-invested, fully integrated (wood, pulp, converting), low-cost emerging-markets asset base, including its Syktyvkar & Swiecie mills in Russia and Poland and very cost-competitive forestry operations in Russia and South Africa, offering superior returns across the cycle. With more than 50% revenue exposure to emerging markets such as Russia, emerging Europe and South Africa, Mondi benefits from comparatively higher volume growth. Following the acquisition of Nordenia, offering cost and revenue synergies and double-digit earnings accretion, Mondi has strengthened its consumer packaging footprint and added to the business' overall resilience. Post cash outflows recent acquisitions, strong CF generation should leave leverage at quite low levels again, enabling to company to make additional return-enhancing one-off investments (energy, de-bottlenecking, etc.) and more value- and earnings- accretive acquisitions. In the shorter term, incremental price increases across main packaging paper grades should lead to a positive earnings impact in 2015E and support corrugated packaging prices at current levels at least.

Valuation: Our target price is derived from DCF valuation, employing WACC of 7.7% (RfR 3.5%, ERP of 5.5%) and a terminal growth rate of 1.5%, which is a mix of 0.5% growth for graphic papers and 2% growth in packaging, as well as EV/EBIT 2015E (average packaging peers). Mondi trades on <12x fwd EBIT (vs selected European peers at close to 13-14x), which we consider unjustified given market and cost positions, business resilience, emerging-market footprint and superior returns, as well as substantial M&A headroom of est. E2.5bn until mid-term.

Risks: The main risks relate to a European demand slow-down, The main risks relate to a European demand slow-down, structural demand decline for uncoated fine paper, year-end price negotiations in industrial bags, Mondi's ability to source wood in Russia and pass through input cost increases via sales prices (especially for corrugated packaging and bags). In Russia, the weakening ruble should only be considered a mild negative that can be compensated via price increases (as Mondi gains pricing power as local producer) – with 80% of country volumes supplied to domestic buyers (RU is 9% of group revenues), current political turmoil could have a negative impact.

Model updated:27 January 2015

Running the numbers

Europe

United Kingdom

Paper & Forest Products

Mondi

Reuters: MNDI.L Bloomberg: MNDI LN

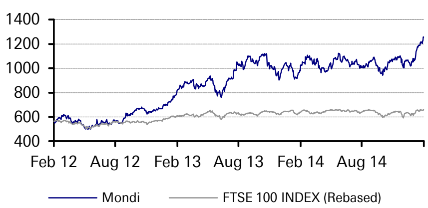
Buy

Price (13 Feb 15)	GBP 1,257.00
Target Price	GBP 1,320.00
52 Week range	GBP 943.50 - 1,258.00
Market Cap (m)	GBPm 6,084
	USDm 9,366

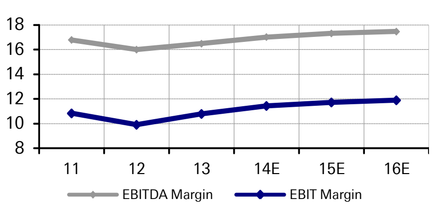
Company Profile

Mondi is an internationally leading packaging and paper company, having generated revenues of E6.5bn in 2014. Following an extensive restructuring, its low-cost asset base is primarily located in central Europe, Russia and South Africa, with operations involved in the manufacture of packaging paper, converted packaging products and uncoated fine paper (UFP).

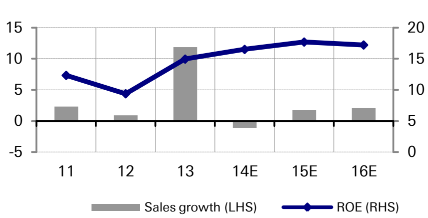
Price Performance



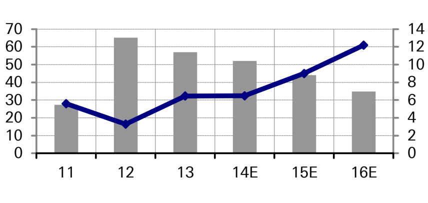
Margin Trends



Growth & Profitability



Solvency



Matthias Pfeifenberger
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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (EUR)	0.67	0.69	0.95	1.02	1.10	1.18
Reported EPS (EUR)	0.65	0.50	0.80	0.93	1.10	1.18
DPS (EUR)	0.26	0.28	0.36	0.43	0.48	0.55
BVPS (EUR)	5.2	5.3	5.4	5.9	6.5	7.2
Weighted average shares (m)	499	483	484	484	484	484
Average market cap (EURm)	3,088	3,454	5,247	8,213	8,213	8,213
Enterprise value (EURm)	4,528	5,849	7,335	10,247	10,135	9,922
Valuation Metrics						
P/E (DB) (x)	9.2	10.4	11.4	16.6	15.5	14.4
P/E (Reported) (x)	9.5	14.3	13.6	18.3	15.5	14.4
P/BV (x)	1.05	1.55	2.35	2.74	2.60	2.36
FCF Yield (%)	16.3	0.5	9.5	3.6	5.4	6.3
Dividend Yield (%)	4.2	3.9	3.3	2.5	2.8	3.2
EV/Sales (x)	0.8	1.0	1.1	1.6	1.6	1.5
EV/EBITDA (x)	4.7	6.3	6.9	9.4	9.0	8.5
EV/EBIT (x)	7.3	10.2	10.5	14.0	13.3	12.5
Income Statement (EURm)						
Sales revenue	5,739	5,790	6,476	6,406	6,521	6,660
Gross profit	2,741	2,766	3,085	3,043	3,091	3,150
EBITDA	964	927	1,068	1,091	1,130	1,164
Depreciation	342	353	369	358	365	371
Amortisation	0	0	0	0	0	0
EBIT	622	574	699	733	765	793
Net interest income(expense)	-111	-174	-108	-113	-85	-65
Associates/affiliates	1	-5	2	3	2	2
Exceptionals/extraordinaries	-12	-27	-94	-34	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	457	368	499	589	682	730
Income tax expense	100	91	85	111	119	128
Minorities	70	35	28	29	31	30
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	330	242	386	449	531	572
DB adjustments (including dilution)	10	92	74	47	0	0
DB Net profit	340	334	460	496	531	572
Cash Flow (EURm)						
Cash flow from operations	834	744	911	884	946	965
Net Capex	-331	-727	-412	-590	-500	-450
Free cash flow	503	17	499	294	446	515
Equity raised/(bought back)	-13	-332	-30	0	0	0
Dividends paid	-169	-157	-198	-191	-220	-249
Net inc/(dec) in borrowings	-139	417	-87	-80	-200	-250
Other investing/financing cash flows	-98	-101	-96	-113	-85	-65
Net cash flow	84	-156	88	-90	-59	-49
Change in working capital	*-68*	*-80*	*-16*	*-26*	*-13*	*-16*
Balance Sheet (EURm)						
Cash and other liquid assets	191	56	130	40	-19	-68
Tangible fixed assets	3,377	3,709	3,428	3,570	3,705	3,744
Goodwill/intangible assets	238	695	675	675	675	675
Associates/investments	43	32	0	93	5	7
Other assets	1,796	2,131	2,007	2,037	2,068	2,105
Total assets	5,645	6,623	6,240	6,415	6,433	6,463
Interest bearing debt	1,023	1,929	1,752	1,672	1,472	1,222
Other liabilities	1,587	1,821	1,642	1,610	1,577	1,544
Total liabilities	2,610	3,750	3,394	3,282	3,049	2,766
Shareholders' equity	2,586	2,572	2,591	2,849	3,160	3,483
Minorities	449	301	255	284	225	215
Total shareholders' equity	3,035	2,873	2,846	3,133	3,385	3,697
Net debt	*832*	*1,873*	*1,622*	*1,632*	*1,491*	*1,290*
Key Company Metrics						
Sales growth (%)	2.3	0.9	11.8	-1.1	1.8	2.1
DB EPS growth (%)	68.8	2.3	37.7	7.8	7.2	7.6
EBITDA Margin (%)	16.8	16.0	16.5	17.0	17.3	17.5
EBIT Margin (%)	10.8	9.9	10.8	11.4	11.7	11.9
Payout ratio (%)	39.3	55.9	45.1	46.3	43.7	46.5
ROE (%)	12.3	9.4	15.0	16.5	17.7	17.2
Capex/sales (%)	5.3	6.2	6.9	7.8	7.7	6.8
Capex/depreciation (x)	0.9	1.0	1.2	1.4	1.4	1.2
Net debt/equity (%)	27.4	65.2	57.0	52.1	44.1	34.9
Net interest cover (x)	5.6	3.3	6.5	6.5	9.0	12.2

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (13 February 2015): 43878c | Target price: 36000c | Rating: Hold

Aspen Pharmacare Holdings Ltd

Avinash Kalkapersad

Business description: South African-based Aspen is a supplier of branded and generic pharmaceuticals in more than 150 countries across the world and of consumer and nutritional products in selected territories. Aspen is represented in Africa, Asia-Pacific, Europe, North America and Latam. Acquisitions announced in 2013 have further extended the group's emerging market presence to the Commonwealth of Independent States, comprising Russia and the former Soviet Republics as well as to Central and Eastern Europe. The group currently has 50 business units. The group has 26 manufacturing facilities at 18 sites on six continents and approximately 8,200 employees.

Drivers: **New deals:** Aspen's acquisitive nature means a significant chunk of earnings growth is expected to come from the integration of recently acquired products and businesses. The two largest transactions, MSD products and facilities and GSK anti-coagulant products has given Aspen access to various new markets and territories through established brands. Key for Aspen will be to improve its market share in these territories in the near term and register the acquired products in other countries. Furthermore, Aspen will look to deliver margin expansion within this product suite through control of raw material costs and operational efficiencies.

Existing businesses: Globally, pharmaceutical pricing is under pressure as governments look to cut healthcare budgets that have been rapidly expanding on the back of an older, increasingly unhealthy population. Positively, emerging markets still exhibit relatively low generic usage rates. We expect penetration rates to rise, which will support volumes at Aspen.

Outlook: Going forward, Aspen's two largest earnings contributors, South Africa and Australia, are expected to deliver slowing growth. Admittedly, both regions are likely to benefit from increased demand for generic medication; however, legislative pressure on pricing will suppress overall pharmaceutical market growth. In our opinion, incremental value will need to be extracted from outside the Australian and South African markets. Whilst exciting prospects lie ahead for the company, given its expanding presence in emerging markets, it's difficult to model significant inroads being made, given the start-up nature of Aspen's current offerings in these markets.

Valuation: We use a DCF model to value Aspen as it better captures Aspen's recent significant capex outlay and longer above market growth profile. We forecast explicitly through to FY18 and then fade cash flows down to our long-term growth rate (3% based on weighted growth rates across Aspen divisions) over the following five years. We then roll forward this calculated fair value at our group WACC (9.6%) to arrive at a 12 month forward target price. Hold.

Risks: Aspen's aggressive M&A activity creates significant execution risk. Aspen could deliver materially better or worse earnings from new territories than we currently forecast. Regulatory environments are different across the platforms in which Aspen operates, bringing with it the potential for adverse policy changes.

Deutsche Securities (Pty) Ltd

Model updated:02 December 2014

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Aspen

Reuters: APNJ.J Bloomberg: APN SJ

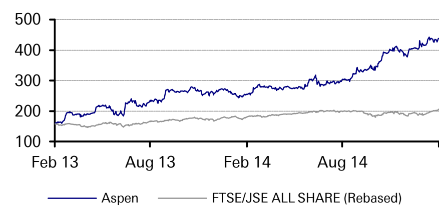
Hold

Price (13 Feb 15)	ZAR 438.78
Target Price	ZAR 360.00
52 Week range	ZAR 253.34 - 443.00
Market Cap (m)	ZARm 200,135
	USDm 17,175

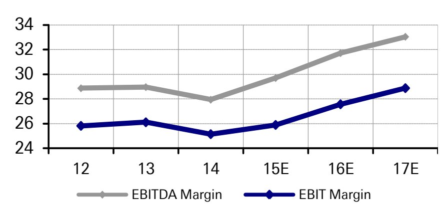
Company Profile

Aspen is a global supplier of branded and generic pharmaceutical products as well as consumer and nutritional products. It is the largest pharmaceutical manufacturer in South Africa and has a presence across 150 countries.

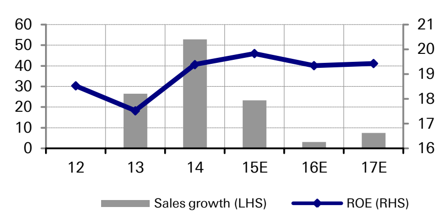
Price Performance



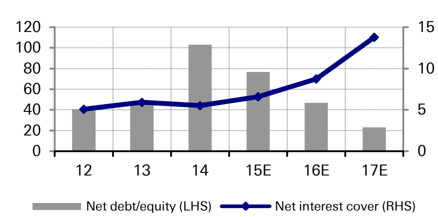
Margin Trends



Growth & Profitability



Solvency



Avinash Kalkapersad
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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	6.37	8.36	10.64	13.67	15.67	18.47
Reported EPS (ZAR)	6.23	7.72	10.98	13.67	15.67	18.47
DPS (ZAR)	1.05	1.57	1.88	2.42	2.77	3.26
BVPS (ZAR)	38.2	50.0	63.4	74.6	87.5	102.8
Weighted average shares (m)	436	455	456	456	456	456
Average market cap (ZARm)	43,404	75,634	119,502	200,135	200,135	200,135
Enterprise value (ZARm)	50,509	86,681	148,741	225,638	218,328	210,510
Valuation Metrics						
P/E (DB) (x)	15.6	19.9	24.6	32.1	28.0	23.8
P/E (Reported) (x)	16.0	21.5	23.9	32.1	28.0	23.8
P/BV (x)	3.26	4.54	4.72	5.88	5.01	4.27
FCF Yield (%)	0.8	nm	2.4	2.4	4.3	4.6
Dividend Yield (%)	1.1	0.9	0.7	0.6	0.6	0.7
EV/Sales (x)	3.3	4.5	5.0	6.2	5.8	5.2
EV/EBITDA (x)	11.5	15.5	18.0	20.9	18.3	15.8
EV/EBIT (x)	12.8	17.2	20.0	23.9	21.1	18.1
Income Statement (ZARm)						
Sales revenue	15,256	19,308	29,515	36,380	37,519	40,322
Gross profit	7,276	9,231	13,722	17,099	17,634	18,952
EBITDA	4,406	5,594	8,249	10,806	11,903	13,327
Depreciation	253	295	434	676	845	964
Amortisation	212	256	390	706	711	715
EBIT	3,941	5,043	7,425	9,424	10,348	11,648
Net interest income(expense)	-776	-853	-1,346	-1,429	-1,183	-846
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	159	0	0	0	0	0
Other pre-tax income/(expense)	275	299	278	0	0	0
Profit before tax	3,599	4,489	6,357	7,995	9,165	10,803
Income tax expense	772	975	1,351	1,759	2,016	2,377
Minorities	9	-6	-2	1	1	1
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,818	3,520	5,008	6,235	7,148	8,425
DB adjustments (including dilution)	79	293	-154	0	0	0
DB Net profit	2,897	3,813	4,854	6,235	7,148	8,425
Cash Flow (ZARm)						
Cash flow from operations	2,908	3,986	3,836	7,337	10,417	11,279
Net Capex	-2,579	-4,308	-1,024	-2,499	-1,844	-1,974
Free cash flow	330	-322	2,812	4,837	8,573	9,306
Equity raised/(bought back)	6	-12	-20	0	0	0
Dividends paid	-460	-715	-716	-1,101	-1,262	-1,487
Net inc/(dec) in borrowings	138	4,336	20,183	0	0	0
Other investing/financing cash flows	223	-1,861	-19,514	0	0	0
Net cash flow	237	1,426	2,746	3,737	7,311	7,818
Change in working capital	*-870*	*-590*	*-2,188*	*-537*	*1,458*	*919*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,315	6,019	8,226	8,226	8,226	8,226
Tangible fixed assets	3,807	4,343	7,151	8,732	9,490	10,258
Goodwill/intangible assets	17,214	24,906	42,341	41,771	41,198	40,619
Associates/investments	37	109	1,026	1,026	1,026	1,026
Other assets	7,347	10,045	23,804	25,913	24,726	24,517
Total assets	31,719	45,422	82,547	85,668	84,665	84,645
Interest bearing debt	10,381	17,076	37,991	34,254	26,943	19,125
Other liabilities	3,939	5,547	15,681	17,402	17,824	18,684
Total liabilities	14,320	22,623	53,671	51,656	44,767	37,809
Shareholders' equity	17,389	22,794	28,874	34,009	39,894	46,832
Minorities	9	5	2	3	4	5
Total shareholders' equity	17,398	22,799	28,876	34,012	39,898	46,837
Net debt	*7,067*	*11,058*	*29,765*	*26,029*	*18,718*	*10,899*
Key Company Metrics						
Sales growth (%)	nm	26.6	52.9	23.3	3.1	7.5
DB EPS growth (%)	na	31.4	27.2	28.5	14.6	17.9
EBITDA Margin (%)	28.9	29.0	27.9	29.7	31.7	33.1
EBIT Margin (%)	25.8	26.1	25.2	25.9	27.6	28.9
Payout ratio (%)	16.3	20.3	17.1	17.7	17.7	17.7
ROE (%)	18.5	17.5	19.4	19.8	19.3	19.4
Capex/sales (%)	17.1	22.4	3.8	6.9	4.9	4.9
Capex/depreciation (x)	5.6	7.8	1.4	1.8	1.2	1.2
Net debt/equity (%)	40.6	48.5	103.1	76.5	46.9	23.3
Net interest cover (x)	5.1	5.9	5.5	6.6	8.7	13.8

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial | Price (13 February 2015): 8916c | Target price: 10700c | Rating: Hold

Barloworld Ltd

John Kim

Business description: Barloworld is a distributor of leading international brands providing integrated rental, fleet management, product support and logistical solutions. The core divisions of the group comprise equipment (earthmoving and power systems), automotive (car rental, motor retail and fleet services), handling (materials handling and agriculture)) 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. 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.

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).

Barloworld is focused on two distinct markets:

1) South African, Russian and Iberian mining, infrastructure and capital investment. Barloworld sells Caterpillar and other mining/heavy construction equipment in three regions: southern Africa, Russia and Iberia. We believe Barloworld's growth opportunities in these markets/businesses lie mostly in sub-Saharan Africa and Russian territories.

2) South African consumer. Automobile retailing, car rental, and fleet leasing (under the Avis brand name) as well as logistics businesses are focused on consumer markets. Barloworld operates one of the largest auto dealership groups in South Africa and thus is exposed to consumer demand in South Africa.

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 and related capital expenditure.

Outlook: The company has executed well against weaker end markets in South Africa as well as its European and Russian territories. We see continued weakness in the equipment order book but find its predictive power less than before. As the Bucyrus acquisition is bedded down, we look for Barloworld to progress both surface and underground mining opportunities in southern Africa where the business has been historically weak. The company is not just equipment with its Automotive and Logistics divisions generating c.40-45% of group profits. We think there will be challenges to growth in most of these divisions as well. Overall, we expect earnings growth will be difficult to achieve this year; Hold.

Valuation: On a P/E relative, we value Barloworld at a P/E relative of 0.76 to the JSE All-Share Index. Using trading multiples of comparable companies, we value Barloworld at a 12.0x FY15E P/E multiple, in-line with peers. On a DCF, we value Barloworld using a risk-free rate of 8.4%, a risk premium of 4.5% and a beta of 1.1 to generate a weighted average cost of capital of 12.0%. We generate a terminal value by applying a FCF multiple using a perpetual growth estimate of 5.0%. We value Barloworld on a sum-of-the-parts basis to derive a final estimate by applying rolling EBIT multiples to the various divisions including those which we estimate to be loss-making.

Risks: Risks to our target being achieved include: 1) a sustained rebound in commodity demand, which should in turn increase mining production, related equipment spend and order book; 2) meaningful uptick in construction and infrastructure spend and/or 3) misjudging equipment demand in its regions and writing down inventory and its rental fleet. Downside risks include weaker than expected revenues and margins in Equipment, failure to release working capital and/or subpar returns.

Model updated:25 November 2014

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Barloworld

Reuters: BAWJ.J Bloomberg: BAW SJ

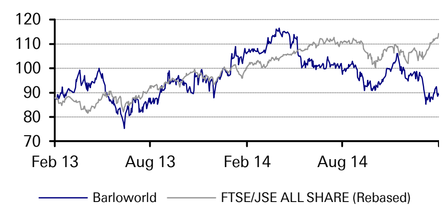
Hold

Price (13 Feb 15)	ZAR 89.16
Target Price	ZAR 107.00
52 Week range	ZAR 85.24 - 116.48
Market Cap (m)	ZARm 18,939
	USDm 1,625

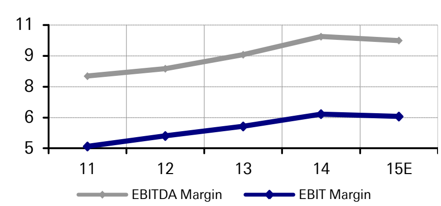
Company Profile

Barloworld is a distributor of leading international brands providing integrated rental, fleet management, product support and logistical solutions. The core divisions of the group comprise equipment (earthmoving and power systems), automotive (car rental, motor retail and fleet services), handling (materials handling and agriculture)) and logistics (logistics management and supply chain optimisation). Barloworld represents Caterpillar, Hyster, Avis and a wide range of automotive OEM brands.

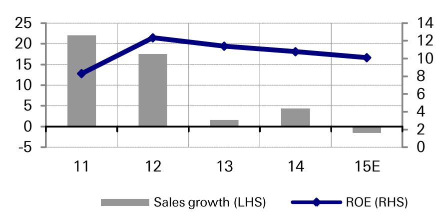
Price Performance



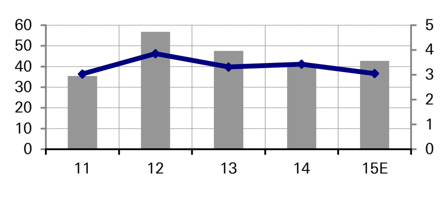
Margin Trends



Growth & Profitability



Solvency



John Kim
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Fiscal year end 30-Sep	2011	2012	2013	2014	2015E
Financial Summary					
DB EPS (ZAR)	4.61	6.75	8.17	8.52	8.26
Reported EPS (ZAR)	4.61	6.75	8.17	8.83	8.26
DPS (ZAR)	1.55	2.30	2.68	3.23	2.99
BVPS (ZAR)	58.4	60.6	72.9	79.6	84.1
Weighted average shares (m)	212	212	212	212	212
Average market cap (ZARm)	13,734	17,069	18,041	21,614	18,939
Enterprise value (ZARm)	17,075	23,642	24,613	27,740	25,915
Valuation Metrics					
P/E (DB) (x)	14.0	11.9	10.4	12.0	10.8
P/E (Reported) (x)	14.0	11.9	10.4	11.5	10.8
P/BV (x)	1.03	1.19	1.31	1.16	1.06
FCF Yield (%)	9.0	nm	2.4	0.7	nm
Dividend Yield (%)	2.4	2.9	3.2	3.2	3.4
EV/Sales (x)	0.3	0.4	0.4	0.4	0.4
EV/EBITDA (x)	4.3	4.8	4.6	4.5	4.3
EV/EBIT (x)	7.5	7.9	7.4	7.2	7.0
Income Statement (ZARm)					
Sales revenue	49,823	58,554	59,498	62,101	61,140
Gross profit	3,993	4,905	5,389	6,170	5,959
EBITDA	3,993	4,905	5,389	6,170	5,959
Depreciation	1,620	1,806	1,940	2,198	2,140
Amortisation	84	111	136	142	120
EBIT	2,289	2,988	3,313	3,830	3,699
Net interest income(expense)	-755	-776	-1,000	-1,117	-1,212
Associates/affiliates	71	141	185	217	239
Exceptionals/extraordinaries	62	190	0	0	0
Other pre-tax income/(expense)	-65	-93	-47	-156	0
Profit before tax	1,531	2,309	2,266	2,557	2,487
Income tax expense	584	815	729	837	821
Minorities	63	76	108	195	150
Other post-tax income/(expense)	0	0	0	0	0
Net profit	955	1,559	1,614	1,742	1,755
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	955	1,559	1,614	1,742	1,755
Cash Flow (ZARm)					
Cash flow from operations	4,932	2,677	5,255	4,031	3,454
Net Capex	-3,699	-4,591	-4,825	-3,880	-3,616
Free cash flow	1,233	-1,914	430	151	-161
Equity raised/(bought back)	-15	-13	-153	-38	0
Dividends paid	-257	-443	-598	-742	-448
Net inc/(dec) in borrowings	-163	2,728	-473	1,199	0
Other investing/financing cash flows	22	-488	-1,256	-646	0
Net cash flow	820	-130	-2,050	-76	-609
Change in working capital	*-27*	*-3,128*	*538*	*313*	*472*
Balance Sheet (ZARm)					
Cash and other liquid assets	2,754	2,624	2,695	4,162	3,426
Tangible fixed assets	8,743	9,473	11,356	12,614	13,623
Goodwill/intangible assets	2,513	2,808	3,219	3,041	3,041
Associates/investments	1,411	1,189	1,448	1,632	1,632
Other assets	15,511	19,716	21,889	22,557	22,163
Total assets	30,932	35,810	40,607	44,006	43,884
Interest bearing debt	7,243	10,088	10,253	11,316	11,355
Other liabilities	11,037	12,555	14,447	15,204	13,991
Total liabilities	18,280	22,643	24,700	26,520	25,347
Shareholders' equity	12,389	12,869	15,445	16,882	17,859
Minorities	263	298	462	604	679
Total shareholders' equity	12,652	13,167	15,907	17,486	18,538
Net debt	*4,489*	*7,464*	*7,558*	*7,154*	*7,930*
Key Company Metrics					
Sales growth (%)	22.0	17.5	1.6	4.4	-1.5
DB EPS growth (%)	170.8	46.3	21.1	4.3	-3.0
EBITDA Margin (%)	8.0	8.4	9.1	9.9	9.7
EBIT Margin (%)	4.6	5.1	5.6	6.2	6.0
Payout ratio (%)	33.6	34.1	32.8	36.7	36.1
ROE (%)	8.3	12.3	11.4	10.8	10.1
Capex/sales (%)	7.8	8.3	8.3	6.7	5.9
Capex/depreciation (x)	2.3	2.5	2.4	1.8	1.6
Net debt/equity (%)	35.5	56.7	47.5	40.9	42.8
Net interest cover (x)	3.0	3.9	3.3	3.4	3.1

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (13 February 2015): 9100c | Target price: 9400c | Rating: Hold

Clicks Group Ltd

Sean Holmes / Ryan Eichstadt

Business description: Clicks operates in the health and beauty and pharmacy retail industry in southern Africa with a current store base of >500. It also wholesales and dispenses pharmaceuticals. Almost all revenue is southern Africa based. Divisional FY14 EBIT breakdown: Retail (85%) and UPD (15%). Clicks is strategically positioned as a high convenience specialist health and beauty retailer. The South African pharmacy market is evolving; entities that pre-2003 were not allowed to hold retail pharmacy licences 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: more than 330 Clicks stores have integrated in-store dispensaries. Management is targeting the roll-out of 20-30 dispensaries pa. 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, leading to higher front shop sales and foot fall through the stores.
- Low selling price inflation slowing top line growth. Given the low SEP drug price increase awarded and limited inflation across health and beauty, very low inflation is expected across the business in the near-term.
- 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.

Outlook: In our view, Clicks looks well positioned to grow its earnings at 11-13% pa over the next five years. One of the group's main investment attractions is its high free cash generation – we project Clicks to produce 85-90% of its net earnings in free cash over the next five years. The company has a track record of return excess cash to shareholders in the form of reduced dividend cover and share buybacks. We believe Clicks' free cash flows and steady earnings growth could underpin its premium P/E rating. We have a Hold recommendation on the stock as we see limited upside over the next 12 months, given the stock's moderate earnings growth prospects and premium rating.

Valuation: Our 12 month target prices are calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple (18x). We calculate our target price P/E multiples using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a RFR of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5%. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. Hold.

Risks: Upside risks: 1) Scheduled medicine sales contribute c.25% to the Clicks division's turnover. We think higher price inflation (through SEP increases) could add impetus to sales growth and support better margins in the group. 2) The pharmaceutical distribution division, UPD, has been successful in gaining new business over the last 18 months. We think there is scope for this division to grow its customer base further, boosting the group's scale, which could potentially support better EBIT margins (through scale efficiencies). Downside risks: 1) Low price inflation pose earnings risk to the group as it might depress EBIT margins amidst cost pressures. 2) The roll-out of new pharmacies is subject to the granting of licences and therefore the group's growth could be constrainedshould there be delays in the granting of new licenses.

Model updated:11 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Clicks Group Ltd

Reuters: CLSJ.J Bloomberg: CLS SJ

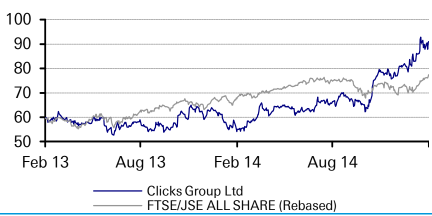
Hold

Price (13 Feb 15)	ZAR 91.00
Target Price	ZAR 94.00
52 Week range	ZAR 54.25 - 92.84
Market Cap (m)	ZARm 22,331
	USDm 1,916

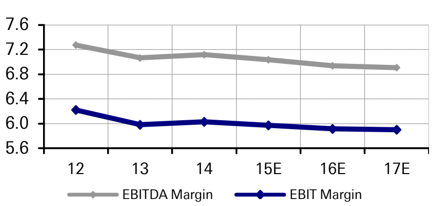
Company Profile

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.

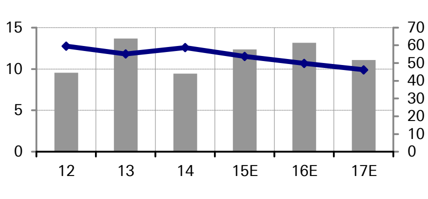
Price Performance



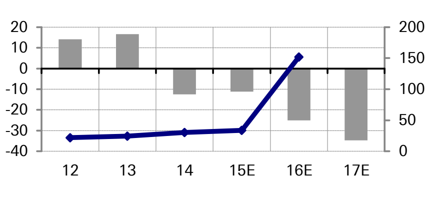
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 31-Aug	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	2.72	2.97	3.37	3.81	4.37	4.93
Reported EPS (ZAR)	2.72	2.97	3.48	3.81	4.37	4.93
DPS (ZAR)	1.52	1.69	1.91	2.24	2.57	2.90
BVPS (ZAR)	5.3	5.6	6.3	7.9	9.7	11.8
Weighted average shares (m)	253	250	245	245	245	245
Average market cap (ZARm)	11,640	14,772	15,001	22,331	22,331	22,331
Enterprise value (ZARm)	11,830	15,000	14,806	22,113	21,729	21,324
Valuation Metrics						
P/E (DB) (x)	16.9	19.9	18.1	23.9	20.8	18.5
P/E (Reported) (x)	16.9	19.9	17.6	23.9	20.8	18.5
P/BV (x)	10.78	9.83	10.89	11.48	9.34	7.72
FCF Yield (%)	1.5	2.0	2.5	1.3	1.5	1.7
Dividend Yield (%)	3.3	2.9	3.1	2.5	2.8	3.2
EV/Sales (x)	0.7	0.8	0.7	1.0	0.8	0.7
EV/EBITDA (x)	10.0	11.5	10.3	13.8	12.2	10.8
EV/EBIT (x)	11.7	13.6	12.2	16.3	14.3	12.7
Income Statement (ZARm)						
Sales revenue	16,237	18,455	20,198	22,695	25,682	28,531
Gross profit	4,275	4,694	5,172	5,685	6,299	6,949
EBITDA	1,182	1,304	1,438	1,597	1,782	1,971
Depreciation	-171	-200	-220	-241	-263	-287
Amortisation	0	0	0	0	0	0
EBIT	1,011	1,104	1,218	1,356	1,519	1,684
Net interest income(expense)	-46	-45	-40	-40	-10	20
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-7	-8	29	0	0	0
Profit before tax	958	1,051	1,207	1,316	1,509	1,704
Income tax expense	-269	-299	-342	-368	-423	-477
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	689	752	865	947	1,087	1,227
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	689	752	865	947	1,087	1,227
Cash Flow (ZARm)						
Cash flow from operations	426	599	678	632	711	793
Net Capex	-248	-308	-299	-352	-375	-412
Free cash flow	178	291	379	279	336	381
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-305	-724	-675	-557	-639	-722
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-171	-224	-632	0	0	0
Net cash flow	-298	-657	-928	-278	-304	-341
Change in working capital	*0*	*24*	*332*	*-256*	*48*	*25*
Balance Sheet (ZARm)						
Cash and other liquid assets	25	116	195	218	602	1,008
Tangible fixed assets	1,011	1,058	1,135	1,246	1,358	1,482
Goodwill/intangible assets	410	453	475	475	475	475
Associates/investments	0	0	0	0	0	0
Other assets	3,330	3,822	4,387	4,927	5,599	6,241
Total assets	4,776	5,449	6,192	6,866	8,034	9,206
Interest bearing debt	215	344	0	0	0	0
Other liabilities	3,212	3,728	4,625	4,909	5,630	6,296
Total liabilities	3,427	4,072	4,625	4,909	5,630	6,296
Shareholders' equity	1,349	1,377	1,567	1,957	2,405	2,910
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,349	1,377	1,567	1,957	2,405	2,910
Net debt	*190*	*228*	*-195*	*-218*	*-602*	*-1,008*
Key Company Metrics						
Sales growth (%)	9.5	13.7	9.4	12.4	13.2	11.1
DB EPS growth (%)	9.7	9.1	13.6	12.9	14.7	12.9
EBITDA Margin (%)	7.3	7.1	7.1	7.0	6.9	6.9
EBIT Margin (%)	6.2	6.0	6.0	6.0	5.9	5.9
Payout ratio (%)	55.8	56.3	54.2	58.0	58.0	58.0
ROE (%)	59.6	55.2	58.8	53.8	49.8	46.2
Capex/sales (%)	1.5	1.7	1.5	1.6	1.5	1.4
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	14.1	16.6	-12.4	-11.1	-25.0	-34.6
Net interest cover (x)	22.0	24.5	30.5	33.9	151.9	nm

Source: Company data, Deutsche Bank estimates

South Africa – Transport | Price (13 February 2015): 19500c | Target price: 19500c | Rating: Hold

Imperial Holdings Ltd

John Kim

Business description: Imperial is a diversified industrial services and retail group with activities spanning logistics; car rental; tourism; financial services; vehicle distribution and retail. The company operates in South Africa, Africa, Europe and Australia. Businesses include:

- **Motor retailing and distribution (41% of group operating profit).** Imperial is the largest auto dealership group in southern Africa through two divisions (Distribution, Retail and Allied Services/Auto Retail). This business includes dealerships groups across a wide variety of OEM brands and also imports and distributes AMH/AAD auto brands (Kia/Hyundai) as well as International, Hino, DAF trucks, Isuzu and Renault commercial vehicles.
- **Car rental and tourism (7% 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 Imperial has largely exited its tourism-related businesses (Springbok).
- **Logistics (35% 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. Imperial's businesses are geographically focused around sub-Saharan Africa and Germany and extend with the reach of customers. We see logistics as a focus area for growth in the overall business.
- **Financial services (17% of group operating profit).** The division underwrites motor vehicle insurance and provides general insurance underwriting and services to the Imperial group and its clients. Businesses include Regent and Liquid Capital which provide both regulated and non-regulated insurance products.

Drivers: In South Africa, the principle drivers of the business are consumer spending and credit availability for the auto-related businesses as well as growth in FMCG spending in the rest of sub-Saharan Africa footprint.

Outlook: We see FY15 as a transitional year for Imperial. The company faces a difficult H1FY15 due to the weak rand and its operational leverage/exposure of its auto importation business. Moreover, Imperial is investing into its logistical capabilities both in the rest of Africa and its International footprints. We believe this combines to create a period of earnings weakness and execution risk. Execution risks in the form of build-out/construction, adoption risk from potential customers of Imperial and from their customers. Conceptually, we see the company investing away from South Africa and its customer-facing businesses. We believe that the investment thesis centres on two basic questions: "How bad does the South African vehicle market get?" and "How material are logistics growth initiatives particularly the rest of Africa?" Our analysis suggests that FY15 could be a relatively flat year financially but a difficult/exciting one from a business execution and risk perspective. We see the South Africa new vehicle market continuing to contract in FY15 with growth capex focused on logistics yielding benefits no earlier than FY16.

Valuation: We value Imperial using an equally-weighted methodology including P/E relative, trading multiples of comparable companies, DCF analysis, and SOTP using FY14E estimates. On a P/E relative, we value Imperial at a P/E relative of 0.73 to the JSE Industrials Index. Historically, Imperial has traded at a one-year average of 0.60 and a three-year average of 0.70 vs. the index. Using trading multiples of comparable companies, we value Imperial at an 11.0x FY14E P/E multiple below the average of its peer group. On a DCF, we value Imperial using a risk-free rate of 8.4%, a risk premium of 4.5% and a beta of 0.88 to generate a weighted average cost of capital of 11.9%. We generate a terminal value for the business by applying a terminal FCF multiple using a perpetual growth estimate of 5.0%. We value Imperial on a sum-of-the-parts basis by applying rolling EBIT multiples to the various divisions within Imperial. Imperial holds c.25% in Mix Telematics (MIX SJ/MIXJ.J) which we value at current market capitalisation. Hold.

Risks: We believe Imperial has largely executed what it can in the South African automotive markets and see little upside at this point. Key risk to the Imperial investment case relates to earnings growth as the company needs to build/buy its logistics presence in the rest of Africa and internationally in order to offset weakness in vehicles and a tough comparison year for results. Downside market risks include weakening demand for vehicles in South Africa and challenging forex. Company-specific risks include declining unit sales and margin pressure, particularly in Motor Import, Distribution and Dealerships (typically its largest profit contributor). In logistics, execution risks include build-out/construction and adoption risk from customers of Imperial and their customers. Upside risks to our call include a stronger-than-expected vehicle market in South Africa, strengthening of the rand and/or meaningful M&A.

Model updated:01 September 2014

Running the numbers

Sub-Saharan Africa

South Africa

Industrial Transportation

Imperial

Reuters: IPLJ.J Bloomberg: IPL SJ

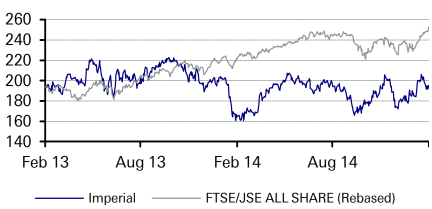
Hold

Price (13 Feb 15)	ZAR 195.00
Target Price	ZAR 195.00
52 Week range	ZAR 160.75 - 207.39
Market Cap (m)	ZARm 39,156
	USDm 3,360

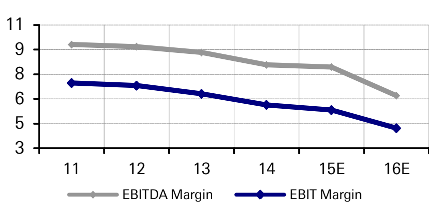
Company Profile

Imperial is a diversified industrial services and retail group with activities spanning logistics; car rental; tourism; financial services; vehicle distribution and retail. The company operates in South Africa, Africa, Europe and Australia.

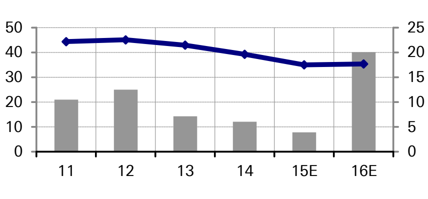
Price Performance



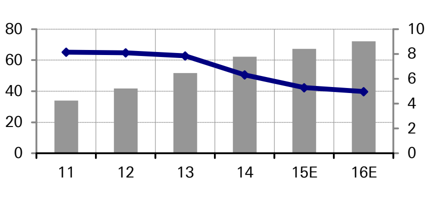
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Jun	2011	2012	2013	2014	2015E	2016E
Financial Summary						
DB EPS (ZAR)	12.89	14.87	17.31	16.06	16.06	17.80
Reported EPS (ZAR)	12.89	14.87	17.31	16.06	16.06	17.80
DPS (ZAR)	4.80	6.80	8.20	8.20	8.29	9.13
BVPS (ZAR)	64.0	69.9	78.6	84.4	92.9	102.4
Weighted average shares (m)	202	204	202	200	201	202
Average market cap (ZARm)	20,131	25,256	38,315	39,580	39,156	39,156
Enterprise value (ZARm)	21,504	28,628	43,004	47,777	49,505	51,941
Valuation Metrics						
P/E (DB) (x)	7.7	8.3	10.9	12.3	12.1	11.0
P/E (Reported) (x)	7.7	8.3	10.9	12.3	12.1	11.0
P/BV (x)	1.71	2.32	2.62	2.37	2.10	1.90
FCF Yield (%)	13.7	10.5	5.2	nm	4.0	4.0
Dividend Yield (%)	4.8	5.5	4.3	4.1	4.3	4.7
EV/Sales (x)	0.3	0.4	0.5	0.5	0.4	0.3
EV/EBITDA (x)	3.6	3.9	5.3	5.7	5.6	5.3
EV/EBIT (x)	4.8	5.2	7.4	8.2	8.3	7.8
Income Statement (ZARm)						
Sales revenue	64,667	80,830	92,382	103,567	111,647	156,424
Gross profit	6,021	7,428	8,157	8,370	8,876	9,709
EBITDA	6,021	7,428	8,157	8,370	8,876	9,709
Depreciation	1,402	1,596	1,915	1,982	2,423	2,589
Amortisation	108	322	409	539	503	503
EBIT	4,511	5,510	5,833	5,849	5,950	6,617
Net interest income(expense)	-554	-681	-744	-926	-1,127	-1,333
Associates/affiliates	34	46	86	76	85	85
Exceptionals/extraordinaries	-46	-12	-178	36	0	0
Other pre-tax income/(expense)	235	-93	93	-78	-90	0
Profit before tax	4,180	4,770	5,090	4,957	4,818	5,370
Income tax expense	1,272	1,382	1,404	1,330	1,301	1,450
Minorities	346	408	392	355	352	392
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,562	2,980	3,294	3,272	3,166	3,528
DB adjustments (including dilution)	0	21	43	60	60	60
DB Net profit	2,562	3,001	3,337	3,332	3,226	3,588
Cash Flow (ZARm)						
Cash flow from operations	4,293	5,237	5,053	2,969	4,990	3,179
Net Capex	-1,528	-2,592	-3,077	-3,315	-3,423	-1,588
Free cash flow	2,765	2,645	1,976	-346	1,566	1,591
Equity raised/(bought back)	-369	-105	-859	-610	0	0
Dividends paid	-983	-1,350	-1,755	-1,940	-1,393	-1,552
Net inc/(dec) in borrowings	-225	-1,534	672	3,305	0	3,235
Other investing/financing cash flows	-454	-856	-487	969	-2,325	-2,475
Net cash flow	734	-1,200	-453	1,378	-2,152	799
Change in working capital	*-298*	*-758*	*-1,604*	*-2,879*	*-501*	*-2,823*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,531	3,545	1,844	3,103	951	1,750
Tangible fixed assets	12,234	14,737	16,348	18,094	21,517	23,106
Goodwill/intangible assets	1,823	4,234	5,206	6,766	6,766	6,766
Associates/investments	4,088	4,494	5,776	5,254	5,254	5,254
Other assets	14,857	18,688	22,462	25,804	27,372	37,004
Total assets	36,533	45,698	51,636	59,021	61,860	73,880
Interest bearing debt	7,949	10,188	11,009	14,985	14,985	18,220
Other liabilities	15,568	19,621	22,914	25,927	27,008	33,817
Total liabilities	23,517	29,809	33,923	40,912	41,993	52,037
Shareholders' equity	11,973	14,666	16,413	17,540	19,298	21,273
Minorities	1,043	1,223	1,300	1,569	1,569	1,569
Total shareholders' equity	13,016	15,889	17,713	19,109	20,867	22,842
Net debt	*4,418*	*6,643*	*9,165*	*11,882*	*14,034*	*16,470*
Key Company Metrics						
Sales growth (%)	21.0	25.0	14.3	12.1	7.8	40.1
DB EPS growth (%)	30.1	15.4	16.4	-7.3	0.1	10.8
EBITDA Margin (%)	9.3	9.2	8.8	8.1	8.0	6.2
EBIT Margin (%)	7.0	6.8	6.3	5.6	5.3	4.2
Payout ratio (%)	35.0	43.4	45.4	50.5	50.8	50.2
ROE (%)	22.2	22.5	21.5	19.6	17.5	17.7
Capex/sales (%)	2.4	3.2	3.3	3.2	3.1	1.0
Capex/depreciation (x)	1.0	1.4	1.5	1.5	1.3	0.6
Net debt/equity (%)	33.9	41.8	51.7	62.2	67.3	72.1
Net interest cover (x)	8.1	8.1	7.8	6.3	5.3	5.0

Source: Company data, Deutsche Bank estimates

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South Africa – General Retailers | Price (13 February 2015): 9037c | Target price: 8600c | Rating: Hold

Lewis Group Ltd

Sean Holmes / Ryan Eichstadt

Business description: Founded in 1934, Lewis has become a significant player in the domestic furniture retail space commanding an estimated low-teen market share (based on the debtors' book). It operates through 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' 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 make monthly payments at the point-of-sale, Lewis builds loyal relationships. This strategy also provides its salespeople with additional selling opportunities. Providing micro finance and ancillary financial services products (bundled asset and credit life insurance) is integral to the core merchandise offering.

- 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 provide margin opportunities. Lewis has successfully rolled out smaller store formats utilising 60% of a regular store's floor space and often producing similar levels of turnover assisted by electronic sales catalogues. This provides EBIT margin opportunities.
- Continued growth in financial services income by extending credit, boosted by NCA-allowable fees and high acceptance rates of ancillary high-margin insurance products driven by low claims rates and high acceptance rates.
- Debtors' costs continuing to roll, but slower: Management has guided for bad debts (as % of the gross debtors' book) to improve over the medium term and support higher EBIT margins. However, trading conditions over the last six months have been challenging, constraining sales growth and keeping bad debts high. We think tough macro conditions could continue to limit growth in this business over the next 18 months.
- 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' 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: Lewis' track record of delivering relatively stable growth and solid returns, despite being exposed to a very cyclical industry. We see room for the group to improve its EBIT margins and RoE, aided by better sales densities (roll-out of smaller format stores) and lower bad debts (in relation to revenue). Hold recommendation based on our more cautious view on the Furniture sector.

Valuation: Our 12 month target prices are calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple. We calculate our target price P/E multiples, using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate P/E rating, based on the calculated dividend yield (where P/E = dividend payout ratio/ dividend yield).

Risks: Upside risks: Lewis is a relatively well-run business and therefore we see most of the risks to our earnings estimates and valuation, stemming from macro developments. Strong consumption drivers such as lower interest rates, low inflation and healthy job creation could pose upside risks to our estimates. Downside risks: Historical evidence shows that Lewis is very sensitive to interest rate changes, given the nature of its customer base. Therefore, we caution that rising interest rates could have an adverse impact of the group's earnings, as bad debts could rise significantly. We are somewhat concerned that Lewis' consumer finance business is less scalable than some of its peers and that it could hamstring tits ability to lower revenue yields - therefore negatively impact on the group's growth.

Model updated:11 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

Furniture & Appliances

Lewis Group Ltd

Reuters: LEWJ.J Bloomberg: LEW SJ

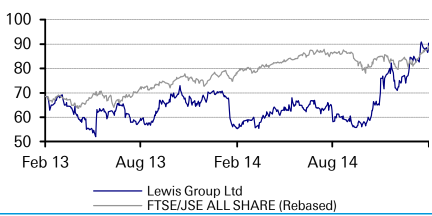
Hold

Price (13 Feb 15)	ZAR 90.37
Target Price	ZAR 86.00
52 Week range	ZAR 55.33 - 90.90
Market Cap (m)	ZARm 8,025
	USDm 689

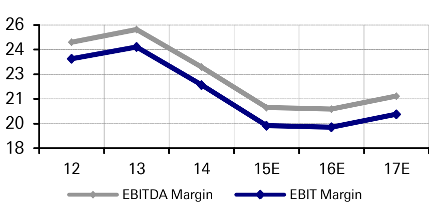
Company Profile

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

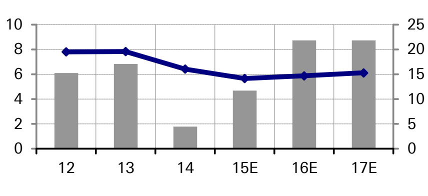
Price Performance



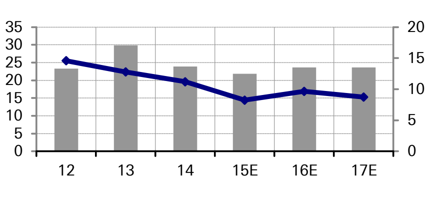
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	8.73	9.97	9.13	8.69	9.65	10.76
Reported EPS (ZAR)	8.73	9.97	9.13	8.69	9.65	10.76
DPS (ZAR)	4.42	5.14	5.17	5.17	5.36	5.98
BVPS (ZAR)	43.6	49.4	54.5	57.7	61.7	66.3
Weighted average shares (m)	88	89	89	89	88	88
Average market cap (ZARm)	6,852	6,286	5,552	8,025	8,025	8,025
Enterprise value (ZARm)	7,848	7,732	6,830	9,260	9,456	9,560
Valuation Metrics						
P/E (DB) (x)	8.9	7.1	6.8	10.4	9.4	8.4
P/E (Reported) (x)	8.9	7.1	6.8	10.4	9.4	8.4
P/BV (x)	1.75	1.31	1.06	1.57	1.47	1.36
FCF Yield (%)	0.3	0.7	11.5	3.6	4.5	5.3
Dividend Yield (%)	5.7	7.3	8.3	5.7	5.9	6.6
EV/Sales (x)	1.6	1.5	1.3	1.7	1.6	1.5
EV/EBITDA (x)	6.6	5.9	5.6	8.2	7.7	6.9
EV/EBIT (x)	6.9	6.2	5.9	8.6	8.2	7.3
Income Statement (ZARm)						
Sales revenue	4,857	5,188	5,281	5,528	6,011	6,536
Gross profit	3,411	3,665	3,757	3,922	4,256	4,639
EBITDA	1,188	1,309	1,212	1,132	1,226	1,384
Depreciation	49	55	58	61	66	72
Amortisation	0	0	0	0	0	0
EBIT	1,139	1,254	1,154	1,071	1,159	1,312
Net interest income(expense)	-78	-98	-103	-130	-120	-150
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	106	112	126	141	155	171
Profit before tax	1,167	1,268	1,177	1,082	1,195	1,333
Income tax expense	367	356	335	304	335	374
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	800	912	842	778	859	958
DB adjustments (including dilution)	-19	-19	-24	0	0	0
DB Net profit	781	893	818	778	859	958
Cash Flow (ZARm)						
Cash flow from operations	296	304	553	376	456	529
Net Capex	-272	-257	88	-90	-98	-107
Free cash flow	24	47	641	286	358	421
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-356	-425	-462	-463	0	0
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-30	-65	-250	-58	0	0
Net cash flow	-362	-443	-71	-235	358	421
Change in working capital	*0*	*0*	*-333*	*-242*	*-554*	*-526*
Balance Sheet (ZARm)						
Cash and other liquid assets	78	60	480	465	269	164
Tangible fixed assets	312	333	327	356	389	423
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	5,740	6,873	7,183	7,665	8,293	8,894
Total assets	6,130	7,266	7,990	8,487	8,951	9,482
Interest bearing debt	1,074	1,506	1,758	1,700	1,700	1,700
Other liabilities	781	913	890	1,130	1,204	1,278
Total liabilities	1,855	2,419	2,648	2,830	2,904	2,978
Shareholders' equity	4,275	4,847	5,342	5,657	6,047	6,503
Minorities	0	0	0	0	0	0
Total shareholders' equity	4,275	4,847	5,342	5,657	6,047	6,503
Net debt	*996*	*1,446*	*1,278*	*1,235*	*1,431*	*1,536*
Key Company Metrics						
Sales growth (%)	6.1	6.8	1.8	4.7	8.7	8.7
DB EPS growth (%)	13.0	14.1	-8.4	-4.8	11.0	11.6
EBITDA Margin (%)	24.5	25.2	23.0	20.5	20.4	21.2
EBIT Margin (%)	23.5	24.2	21.9	19.4	19.3	20.1
Payout ratio (%)	48.9	50.0	54.5	59.0	55.1	55.1
ROE (%)	19.5	19.6	16.1	14.2	14.7	15.3
Capex/sales (%)	5.6	5.0	-1.7	1.6	1.6	1.6
Capex/depreciation (x)	5.6	4.7	-1.5	1.5	1.5	1.5
Net debt/equity (%)	23.3	29.8	23.9	21.8	23.7	23.6
Net interest cover (x)	14.6	12.8	11.2	8.2	9.7	8.7

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (13 February 2015): 4470c | Target price: 4400c | Rating: Hold

Life Healthcare Group Holdings Ltd

Avinash Kalkapersad

Business description: Life Healthcare is the one of the largest owners and operators 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, with a particular focus on increasing exposure to mental healthcare facilities. The group also operates one of the largest public-private partnerships in South Africa (Life Esidimeni), which provides long-term care for state patients under contractual arrangements with the government. Life has small stake in Polish and Indian hospitals.

Drivers: The key earnings drivers for the group are:

- Volume growth: Patient volumes in South Africa have been supported by the continued growth of lives covered by private medical insurance. We forecast a slowing of growth in new lives as the Government Employment Medical Scheme (GEMS) take-up is largely done and SA job growth remains anaemic. Moreover, Life's exposure to the slowing lower income medical scheme market means that we expect Life to underperform its SA peers on volume growth. Positively, South Africa's aging core insured population and rising burdens of disease mean the demand for private healthcare is likely to continue to grow.
- International expansion exciting but expensive: Life's exposure to the Indian healthcare market through its 46% stake in Max Healthcare is undoubtedly exciting. Structurally the market is expected to deliver material growth as private medical insurance penetration rates are still very low. Operationally, Life will bring improvements to Max Healthcare through cost saving initiatives. However, acquisitions are expensive and the largely self pay patient base is sensitive to pricing increases. We have done an extensive note on the Indian healthcare market and value Life's stake in Max Healthcare at R3/share (7% of group target price).

Outlook: Structurally, we continue to like the SA hospitals space. Life is the closest an investor can get to a pure SA hospitals play. However, exposure to a slowing low income medical scheme market, slowing bed expansion plans and relatively small exposure to high growth geographies mean that we have a preference for its peers Netcare and Mediclinic. Hold.

Valuation: We value Life using a sum-of-the-parts methodology valuing the South African business and Max Healthcare separately. For Life's SA business, we use a WACC of 11.3% (risk-free rate 8.5%, equity risk premium 4.5%, beta 0.68x) and a terminal growth rate of 4.5%. Our risk-free rate and equity risk premium are constant across all South African equities. We believe a long-term growth rate of 4.5% is sustainable, given the expectation of continued healthcare demand growth and little competition. We use an unlevered industry beta of 0.7x across all South African hospital businesses and lever this to reflect the capital structure of the individual companies. We value Max using a DCF model with a WACC of 12%. Our cost of equity of 13.9% is based on a risk free rate in India of 7% and an equity risk premium of 7.1%. We use a terminal growth rate of 7% based on long-term growth forecasts for India.

Risks: Risks relate to the outcome of the Competition Commission enquiry into the private healthcare sector. Potential negative outcomes include recommendations for material changes to the private healthcare industry, possibly the forced sale of certain Life hospitals or material pricing cuts. We express concern that lower-than-peer capex spend at Life will affect the operational ability of its hospitals going forward. Upside risks include a better-than-expected performance from its international businesses.

Model updated:17 November 2014

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Life HC

Reuters: LHCJ.J Bloomberg: LHC SJ

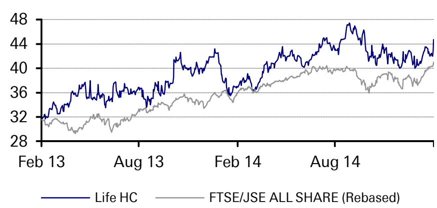
Hold

Price (13 Feb 15)	ZAR 44.70
Target Price	ZAR 44.00
52 Week range	ZAR 36.25 - 47.46
Market Cap (m)	ZARm 46,354
	USDm 3,978

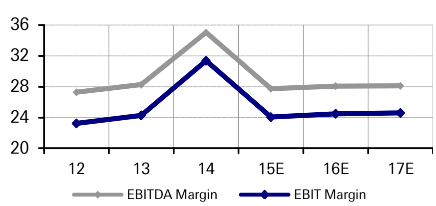
Company Profile

Life Healthcare is a leading private hospital operator in South Africa. Life Healthcare primarily serves the market for insured individuals, representing approximately 8.5m people.

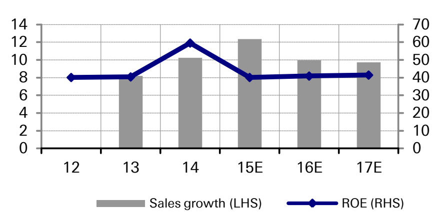
Price Performance



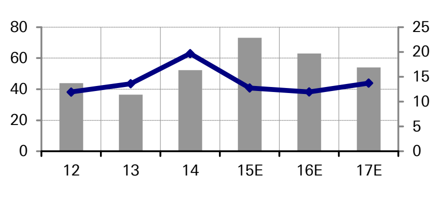
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	1.41	1.50	1.68	1.95	2.20	2.46
Reported EPS (ZAR)	1.44	1.65	2.67	1.95	2.20	2.46
DPS (ZAR)	1.05	1.26	2.41	1.46	1.65	1.85
BVPS (ZAR)	3.8	4.3	4.6	5.1	5.6	6.2
Weighted average shares (m)	1,041	1,038	1,037	1,037	1,037	1,037
Average market cap (ZARm)	25,427	35,201	42,420	46,354	46,354	46,354
Enterprise value (ZARm)	27,548	37,233	45,906	50,371	50,348	50,325
Valuation Metrics						
P/E (DB) (x)	17.4	22.5	24.3	22.9	20.4	18.1
P/E (Reported) (x)	17.0	20.6	15.3	22.9	20.4	18.1
P/BV (x)	8.12	8.23	9.69	8.80	7.96	7.19
FCF Yield (%)	6.8	4.9	3.7	3.4	5.2	5.6
Dividend Yield (%)	4.3	3.7	5.9	3.3	3.7	4.1
EV/Sales (x)	2.5	3.1	3.5	3.4	3.1	2.8
EV/EBITDA (x)	9.2	11.1	10.0	12.4	11.1	10.1
EV/EBIT (x)	10.8	13.0	11.2	14.3	12.7	11.6
Income Statement (ZARm)						
Sales revenue	10,937	11,834	13,046	14,659	16,121	17,691
Gross profit	8,049	8,767	9,706	10,961	12,055	13,229
EBITDA	2,984	3,344	4,570	4,066	4,528	4,973
Depreciation	318	354	355	416	453	494
Amortisation	124	116	122	124	126	128
EBIT	2,542	2,874	4,093	3,526	3,949	4,351
Net interest income(expense)	-213	-211	-208	-276	-330	-317
Associates/affiliates	85	70	39	38	74	101
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-2	31	49	0	0	0
Profit before tax	2,412	2,764	3,973	3,288	3,693	4,136
Income tax expense	669	760	875	910	1,013	1,130
Minorities	247	293	324	355	400	449
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,496	1,711	2,774	2,022	2,279	2,557
DB adjustments (including dilution)	-33	-148	-1,026	0	0	0
DB Net profit	1,463	1,563	1,748	2,022	2,279	2,557
Cash Flow (ZARm)						
Cash flow from operations	2,294	2,610	2,536	3,138	3,494	3,819
Net Capex	-577	-885	-962	-1,551	-1,096	-1,203
Free cash flow	1,717	1,725	1,574	1,587	2,397	2,616
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,031	-1,313	-2,511	-1,524	-1,718	-1,927
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-992	-147	103	-1,509	-163	-174
Net cash flow	-306	266	-834	-1,446	516	515
Change in working capital	*-25*	*-21*	*-15*	*-19*	*-21*	*-25*
Balance Sheet (ZARm)						
Cash and other liquid assets	246	67	267	267	267	267
Tangible fixed assets	4,010	4,518	5,901	7,036	7,679	8,389
Goodwill/intangible assets	2,181	2,084	2,318	2,194	2,068	1,940
Associates/investments	1,091	1,171	785	2,153	2,190	2,241
Other assets	1,728	1,897	2,387	2,599	2,800	3,019
Total assets	9,256	9,737	11,658	14,250	15,004	15,856
Interest bearing debt	2,389	2,109	3,351	5,073	4,887	4,689
Other liabilities	1,989	2,021	2,407	2,600	2,780	2,975
Total liabilities	4,378	4,130	5,758	7,674	7,667	7,663
Shareholders' equity	3,941	4,525	4,792	5,290	5,852	6,482
Minorities	937	1,082	1,108	1,286	1,486	1,711
Total shareholders' equity	4,878	5,607	5,900	6,576	7,338	8,192
Net debt	*2,143*	*2,042*	*3,084*	*4,806*	*4,620*	*4,422*
Key Company Metrics						
Sales growth (%)	nm	8.2	10.2	12.4	10.0	9.7
DB EPS growth (%)	na	7.0	11.9	15.7	12.7	12.2
EBITDA Margin (%)	27.3	28.3	35.0	27.7	28.1	28.1
EBIT Margin (%)	23.2	24.3	31.4	24.1	24.5	24.6
Payout ratio (%)	73.1	76.4	90.1	75.0	75.0	75.0
ROE (%)	40.1	40.4	59.5	40.1	40.9	41.5
Capex/sales (%)	5.4	7.5	7.4	10.6	6.8	6.8
Capex/depreciation (x)	1.3	1.9	2.0	2.9	1.9	1.9
Net debt/equity (%)	43.9	36.4	52.3	73.1	63.0	54.0
Net interest cover (x)	11.9	13.6	19.7	12.8	12.0	13.7

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (13 February 2015): 16920c | Target price: 15200c | Rating: Hold

Massmart Holdings Ltd

Sean Holmes / Ryan Eichstadt

Business description: Massmart is a South African-based management company holding a portfolio of wholesale and retail investments in South Africa, and 12 other African countries (c.10% estimated turnover contribution is ex-South Africa). It has four main operating divisions and 10 branded store formats spanning 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%; Wal-Mart having acquired a 51% stake in 2012. Given the highly concentrated shareholding within the 49% by long-term shareholders, the 'true free float' could be as low as c.12%.

Drivers: Massmart's 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) operate 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 at c.20%; the remaining 50% relates to general merchandise through its flagship big-box Makro and Game stores. Within Masscash, the group also runs Shield, a buying organisation that facilitates the agency sale of food to member companies for a small margin to benefit through economies of scale.

Key future profit drivers are:

- 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 GM market; could bolster the performance of Massdiscounters. However, this is only likely to happen in a more buoyant residential property market.
- 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 footprint and a fresh produce offering will be expanded in to Makro's food offering.

Outlook: We see room for Massmart to improve its EBIT margin over the next five years as cost growth slows (investment in new infrastructure) and its foods business matures. However, we think capital investment in its foods business will remain very high over the next five years, putting pressure on the group's free cash flow generation. Massmart currently trades at a premium to the other food retailers, despite its weaker free cash flow generation outlook and softer earnings growth prospects. We rate the stock a Hold based on valuation and balanced risk/reward.

Valuation: Our 12 month target prices are calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple. We calculate our target price P/E multiples using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate P/E rating, based on the calculated dividend yield (where P/E = dividend payout ratio/ dividend yield.

Risks: Upside risks: 1) Massmart has a high degree of operating leverage; we therefore think higher food inflation could boost EBIT margins and earnings growth. 2) The group has the potential to take market share from the existing larger food retail players, but much will depend on its ability to find good retail sites and to improve its product offering (which might require additional investment in infrastructure). Downside risks: 1) Massmart's more aggressive move into food retailing increases the risk profile of the group in our view, considering that the retailer does not have deep experience in this field (compared with the existing supermarket chains). 2) The counter trades at a P/E premium to the peer group, which poses a risk that its share price performance could suffer if the group's rating normalises.

Model updated:11 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Massmart

Reuters: MSMJ.J Bloomberg: MSM SJ

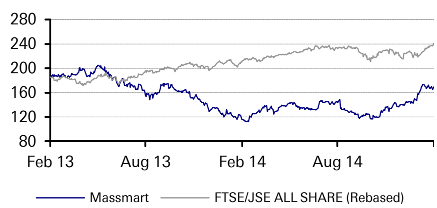
Hold

Price (13 Feb 15)	ZAR 169.20
Target Price	ZAR 152.00
52 Week range	ZAR 112.00 - 173.51
Market Cap (m)	ZARm 36,733
	USDm 3,152

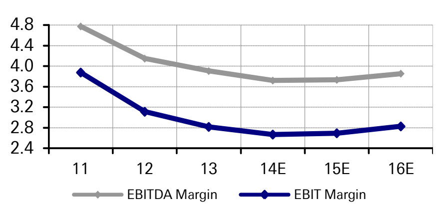
Company Profile

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.

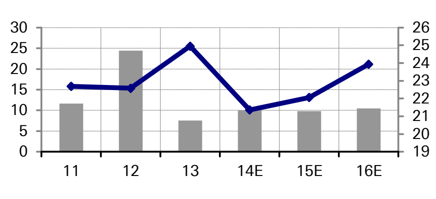
Price Performance



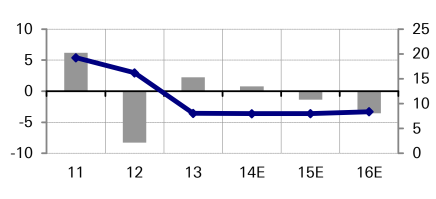
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (ZAR)	4.08	4.68	5.85	5.41	6.04	7.11
Reported EPS (ZAR)	4.08	4.68	5.85	5.41	6.04	7.11
DPS (ZAR)	3.86	4.21	4.21	3.49	3.90	4.59
BVPS (ZAR)	19.6	22.7	24.7	26.7	28.9	31.4
Weighted average shares (m)	204	216	217	217	217	217
Average market cap (ZARm)	29,954	37,237	37,777	36,733	36,733	36,733
Enterprise value (ZARm)	30,212	36,830	37,898	36,778	36,647	36,492
Valuation Metrics						
P/E (DB) (x)	36.1	36.8	29.8	31.3	28.0	23.8
P/E (Reported) (x)	36.1	36.8	29.8	31.3	28.0	23.8
P/BV (x)	8.64	8.40	5.26	6.34	5.86	5.39
FCF Yield (%)	nm	nm	nm	0.0	nm	nm
Dividend Yield (%)	2.6	2.4	2.4	2.1	2.3	2.7
EV/Sales (x)	0.6	0.6	0.5	0.5	0.4	0.4
EV/EBITDA (x)	11.9	13.4	13.7	12.7	11.4	10.0
EV/EBIT (x)	14.7	17.9	18.9	17.6	15.9	13.6
Income Statement (ZARm)						
Sales revenue	53,089	66,050	71,036	78,101	85,775	94,761
Gross profit	9,807	12,487	13,302	14,707	16,236	18,044
EBITDA	2,534	2,739	2,774	2,906	3,203	3,653
Depreciation	476	683	772	821	891	973
Amortisation	0	0	0	0	0	0
EBIT	2,058	2,056	2,002	2,085	2,312	2,680
Net interest income(expense)	-107	-127	-249	-261	-289	-320
Associates/affiliates	-448	-349	144	-50	-50	-50
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,503	1,580	1,897	1,773	1,972	2,310
Income tax expense	585	549	555	519	577	676
Minorities	-38	-54	-59	-62	-65	-68
Other post-tax income/(expense)	42	5	0	0	0	0
Net profit	838	972	1,283	1,192	1,330	1,566
DB adjustments (including dilution)	44	55	0	0	0	0
DB Net profit	882	1,027	1,283	1,192	1,330	1,566
Cash Flow (ZARm)						
Cash flow from operations	1,066	1,416	1,227	1,244	1,363	1,529
Net Capex	-1,400	-2,421	-2,876	-1,230	-1,467	-1,634
Free cash flow	-334	-1,005	-1,649	14	-104	-106
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	1,041	-182	692	116	122	128
Net cash flow	707	-1,187	-957	130	18	22
Change in working capital	*-526*	*1,670*	*1,121*	*62*	*235*	*261*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,549	2,032	2,196	2,388	2,641	2,924
Tangible fixed assets	2,717	3,868	5,988	6,368	6,914	7,546
Goodwill/intangible assets	2,358	2,945	2,929	2,958	2,988	3,018
Associates/investments	0	0	0	0	0	0
Other assets	10,650	14,175	15,035	16,039	17,352	18,854
Total assets	17,274	23,020	26,148	27,754	29,894	32,341
Interest bearing debt	1,807	1,625	2,317	2,433	2,554	2,682
Other liabilities	11,285	16,480	18,461	19,528	21,075	22,838
Total liabilities	13,092	18,105	20,778	21,961	23,629	25,520
Shareholders' equity	4,182	4,915	5,370	5,793	6,265	6,821
Minorities	0	0	0	0	0	0
Total shareholders' equity	4,182	4,915	5,370	5,793	6,265	6,821
Net debt	*258*	*-407*	*121*	*45*	*-86*	*-242*
Key Company Metrics						
Sales growth (%)	11.6	24.4	7.5	9.9	9.8	10.5
DB EPS growth (%)	-24.9	14.9	24.9	-7.4	11.6	17.7
EBITDA Margin (%)	4.8	4.1	3.9	3.7	3.7	3.9
EBIT Margin (%)	3.9	3.1	2.8	2.7	2.7	2.8
Payout ratio (%)	93.8	93.6	71.2	63.6	63.6	63.6
ROE (%)	22.7	22.6	24.9	21.4	22.1	23.9
Capex/sales (%)	2.6	3.7	4.0	1.6	1.7	1.7
Capex/depreciation (x)	2.9	3.5	3.7	1.5	1.6	1.7
Net debt/equity (%)	6.2	-8.3	2.3	0.8	-1.4	-3.5
Net interest cover (x)	19.2	16.2	8.0	8.0	8.0	8.4

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (13 February 2015): 12950c | Target price: 12500c | Rating: Buy

Mediclinic International Ltd

Avinash Kalkapersad

Business description: Mediclinic International was founded in 1983 and has been listed on the Johannesburg Stock Exchange since 1986. Mediclinic International currently has three operating divisions – Mediclinic Southern Africa that operates 52 private hospitals in South Africa and Namibia; Hirslanden that operates 14 private hospitals in Switzerland and Emirates Healthcare that operates two private hospitals and eight clinics in the United Arab Emirates. Switzerland was the largest contributor to FY14 EBITDA (51%), followed by South Africa (40%) and the UAE (9%).

Drivers:

- South Africa: Solid earnings growth has been achieved through a combination of strong volume growth and stable margins. We would have expected the company's preference for high quality healthcare provision to negatively affect volume growth given the growth seen in this sector in recent years (Discovery Keycare). However, the majority of PMI growth has been from GEMS, not low cost schemes, and the majority of GEMS members are still on costlier options (80% of members are on the second highest cost option) fitting in with Mediclinic's high quality strategy. Mediclinic's bed rollout in areas of high GEMS membership and its dominant position in Western Cape has enabled it to grow volumes consistently ahead of peers in the past 24 months.
- Switzerland has a wealthy, aging population that has grown accustomed to a high level of quality care providing support for continued healthcare demand growth in the country. Regulatory uncertainty continues to obscure earnings forecasts. DRG base rates have yet to be finalised presenting risk of lower pricing going forward while a firm decision on the treatment of Highly Specialised Medicines has yet to be announced. Thus far, Mediclinic has ridden out the implementation effects of the DRG relatively well, with volumes increasing but margins declining slightly. We expect further acquisitions from Mediclinic in the region as smaller operators struggle to absorb additional costs from the healthcare reform programme.
- UAE: Rising income, a rapidly expanding population (both in terms of population size and obesity levels), relatively low healthcare spend as a percentage of GDP, increasing prevalence of lifestyle disease and a favourable regulatory environment provides the underpin for private hospital growth in the region. Competition has been on the rise, though, evidenced by the significant loss of medical staff reported in Mediclinic's recent results. We expect to see a doubling of hospital bed capacity in the next 2-3 years in Dubai. Structurally, we like the UAE healthcare space, the key risk is heightened competition.

Outlook: Structurally, we continue to favour the private hospitals space in South Africa and Mediclinic's high exposure to GEMS and provinces with high PMI growth are likely to continue to support earnings growth from the division. Both of Mediclinic's international businesses face regulatory uncertainty in the coming years. Healthcare reform has been implemented in Switzerland but a number of issues linger, not least the final DRG pricing lists and the treatment of Highly Specialised Medicine. The UAE is also looking to implement DRG-based pricing, while rising competition is likely to slow growth. However, Mediclinic's recent performance suggests it has been able to ride out these uncertain times. Foreign earnings are becoming increasingly important to Mediclinic, positively affecting forecasts given the weaker rand; Buy.

Valuation: We use a sum-of-the-parts discounted cash flow model to calculate our target price. We model the South African, Swiss and UAE businesses individually in their respective currencies and then translate our derived value using our one-year forward expected exchange rates to obtain a rand target price. We use a WACC of 9.9% (risk free rate 8.5%, equity risk premium 4.5%, beta 0.88x) and a terminal growth rate of 4.5% for SA. We use a WACC of 5.4% (risk free rate 4.5%, equity risk premium 4.5%, beta 0.9x) and a terminal growth rate of 2% for Switzerland. We use a WACC of 9.4% (risk free rate 5.5%, equity risk premium 7%, beta 1x) and a terminal growth rate of 3% for the UAE. Terminal growth rate assumptions are based on the inflationary outlook for each country/region. Hospitals traditionally are able to push through most of the inflationary costs given the strong market position that they enjoy.

Risks: The global hospital industry faces continual regulatory pressure and Mediclinic faces different challenges across all three geographies. The results of regulatory influence could decrease earnings forecasts and valuation multiples. Increased competition in the UAE poses a downside risk. FX volatility also presents downside risks to our valuation.

Model updated:09 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Mediclinic

Reuters: MDCJ.J Bloomberg: MDC SJ

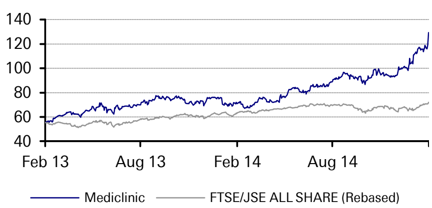
Buy

Price (13 Feb 15)	ZAR 129.50
Target Price	ZAR 125.00
52 Week range	ZAR 67.22 - 129.50
Market Cap (m)	ZARm 110,116
	USDm 9,450

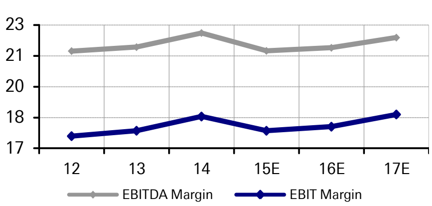
Company Profile

Mediclinic International, founded in 1983, is an international private hospital group with operations in South Africa, Namibia, Switzerland and the United Arab Emirates, and has been listed on the Johannesburg Stock Exchange since 1986. It focuses on providing acute care, specialist-orientated, multidisciplinary hospital services and related service offerings.

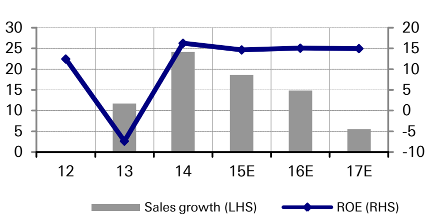
Price Performance



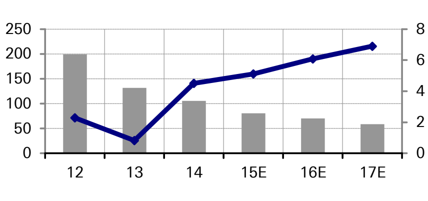
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	1.72	2.66	3.69	4.63	5.55	6.10
Reported EPS (ZAR)	1.74	-1.31	4.09	4.63	5.55	6.10
DPS (ZAR)	0.78	0.86	0.96	1.50	1.80	1.98
BVPS (ZAR)	16.1	21.3	30.3	35.8	39.6	43.8
Weighted average shares (m)	679	742	809	850	850	850
Average market cap (ZARm)	20,022	32,872	57,070	110,116	110,116	110,116
Enterprise value (ZARm)	42,832	57,095	84,643	135,958	135,141	133,177
Valuation Metrics						
P/E (DB) (x)	17.1	16.7	19.1	28.0	23.3	21.2
P/E (Reported) (x)	17.0	nm	17.2	28.0	23.3	21.2
P/BV (x)	2.10	2.99	2.47	3.62	3.27	2.96
FCF Yield (%)	3.8	4.8	3.6	1.4	2.2	3.5
Dividend Yield (%)	2.6	1.9	1.4	1.2	1.4	1.5
EV/Sales (x)	1.9	2.3	2.8	3.8	3.3	3.0
EV/EBITDA (x)	9.2	10.8	12.6	17.7	15.2	13.9
EV/EBIT (x)	11.4	13.4	15.4	21.7	18.5	16.7
Income Statement (ZARm)						
Sales revenue	21,986	24,562	30,495	36,154	41,531	43,803
Gross profit	9,672	10,717	13,306	15,908	18,315	19,317
EBITDA	4,669	5,263	6,744	7,681	8,886	9,589
Depreciation	890	980	1,219	1,385	1,574	1,618
Amortisation	20	19	20	20	20	20
EBIT	3,759	4,264	5,505	6,276	7,292	7,951
Net interest income(expense)	-1,642	-5,166	-1,221	-1,227	-1,199	-1,153
Associates/affiliates	1	2	3	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	59	599	75	0	0	0
Profit before tax	2,177	-301	4,362	5,049	6,093	6,798
Income tax expense	693	442	776	996	1,193	1,375
Minorities	263	259	201	233	278	321
Other post-tax income/(expense)	0	0	0	195	195	195
Net profit	1,221	-1,002	3,385	4,015	4,817	5,297
DB adjustments (including dilution)	-10	3,029	-333	0	0	0
DB Net profit	1,211	2,027	3,052	4,015	4,817	5,297
Cash Flow (ZARm)						
Cash flow from operations	2,216	3,554	4,615	5,076	6,046	6,872
Net Capex	-1,450	-1,989	-2,578	-3,508	-3,581	-3,060
Free cash flow	766	1,565	2,037	1,567	2,465	3,812
Equity raised/(bought back)	0	4,896	0	3,178	0	0
Dividends paid	-436	-488	-688	-1,305	-1,565	-1,722
Net inc/(dec) in borrowings	-214	-2,945	-851	0	0	0
Other investing/financing cash flows	-2,130	-3,998	-25	-1,904	-278	-321
Net cash flow	-2,014	-970	473	1,536	622	1,770
Change in working capital	*-394*	*152*	*-637*	*-383*	*-447*	*-189*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,099	2,705	3,521	3,521	3,521	3,521
Tangible fixed assets	34,808	40,137	49,597	53,391	55,398	56,840
Goodwill/intangible assets	6,350	7,279	9,210	9,190	9,170	9,150
Associates/investments	1,173	230	199	199	199	199
Other assets	5,765	6,391	8,007	9,327	10,664	11,229
Total assets	50,195	56,742	70,534	75,627	78,952	80,939
Interest bearing debt	24,794	26,362	30,370	28,639	27,822	25,857
Other liabilities	13,997	12,378	14,773	15,710	16,600	16,976
Total liabilities	38,791	38,740	45,143	44,348	44,422	42,833
Shareholders' equity	10,116	17,206	24,468	30,356	33,607	37,183
Minorities	1,288	796	923	923	923	923
Total shareholders' equity	11,404	18,002	25,391	31,279	34,530	38,106
Net debt	*22,695*	*23,657*	*26,849*	*25,118*	*24,301*	*22,336*
Key Company Metrics						
Sales growth (%)	nm	11.7	24.2	18.6	14.9	5.5
DB EPS growth (%)	na	54.4	38.9	25.3	20.0	10.0
EBITDA Margin (%)	21.2	21.4	22.1	21.2	21.4	21.9
EBIT Margin (%)	17.1	17.4	18.1	17.4	17.6	18.2
Payout ratio (%)	43.4	nm	23.0	31.8	31.8	31.8
ROE (%)	12.5	-7.3	16.2	14.6	15.1	15.0
Capex/sales (%)	6.7	8.3	8.6	9.7	8.6	7.0
Capex/depreciation (x)	1.6	2.0	2.1	2.5	2.2	1.9
Net debt/equity (%)	199.0	131.4	105.7	80.3	70.4	58.6
Net interest cover (x)	2.3	0.8	4.5	5.1	6.1	6.9

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications | Price (13 February 2015): 21629c | Target price: 22500c | Rating: Buy

MTN Group Ltd
Mike Gresty, CFA

Business description: MTN is one of the largest CEEMEA mobile operators with more than 210m subscribers across 22 African and the Middle Eastern countries. Among the EM multinational mobile operators, MTN offers has among the best intrinsic growth potential, being a top-two operator in all its markets, low but rising smart device penetration, rising wealth levels and further scope from a subscriber penetration perspective.

Nigeria (c.42%) and South Africa (c.20%) dominate, accounting for 62% of EBITDA. The Large Opco cluster comprises the next seven markets by size/potential (Iran, Syria, Ghana, Côte d'Ivoire, Cameroon, Uganda, and Sudan) and contributes 24% of EBITDA. The Small Opco cluster comprises 12 smaller markets that together contribute 12% of EBITDA. Having originally owned and operated all its own networks, MTN has begun selectively disposing of its towers to separate tower companies (although retaining a significant stake in these tower companies). Currently, MTN is focussing on growing its data business across its operations. With a strong balance sheet, we believe it may look at investment opportunities that provide it exclusive access to content as it seeks to differentiate itself from competitors.

Drivers:

- Strong balance sheet; good balance of dividends and growth. Having de-geared steadily since 2008, we expect MTN to move into a small net cash position in the medium term. It switched to a progressive dividend policy (aims to grow dividend 5-15% annually) in 2013, having begun buying back shares as circumstances allow. With capex expected to moderate following two years of elevated "catch-up" spend in Nigeria to restore capacity headroom, a rising free cash flow yield, in combination with a relatively ungeared balance sheet will, we think, place pressure on MTN to increase returns to investors, unless a material acquisition takes place.

- Prioritisation of operational efficiency as the business matures. Historically, MTN's opcos have operated with a high degree of autonomy. Acknowledging that the group is entering a more mature phase, central management has begun to prioritise improving efficiency. MTN is at the beginning of a multi-year efficiency drive which we expect to drive modest margin expansion. Cost reduction initiatives include reducing commissions paid to the distribution channel, Project Next (removing cost duplication through pulling support functions into "centres of excellence") and outsourcing network maintenance to OEMs.

- Continued investment in content/e-commerce. Towards the end of 2013, MTN made its first tentative move into e-commerce, with the acquisition of stakes in various early stage e-commerce ventures launched by Rocket Internet. In the medium term, we expect MTN to build out this third pillar to its business (the others being its legacy towers business and provision of voice/data services) through further investments and partnerships with content providers and e-commerce ventures able to expand the services offered to MTN's large subscriber base.

Outlook: The precipitous fall in the oil price in 2H14 raises a significant macro headwind for MTN in a number of its markets reliant on oil production, most significant of which is Nigeria. The economic impact of this decline is likely to be evident throughout 2015. In terms of what MTN itself can control, however, we think the business has made good progress in addressing various impediments in key markets that have led to it performing below potential in recent years: (1) senior management has been strengthened in SA; (2) capacity headroom on its network has been restored in Nigeria; and (3) it has cleared differences with the Nigerian regulator frustrated its ability to compete properly in Nigeria throughout much of 2014. While the shadow cast by oil's decline will hang over MTN for some time, we think the de-rating that it has already caused will in due course prove to have presented a good entry point into the share. Buy.

Valuation: Our target price for MTN is based on an exit EV/EBITDA multiple of 6.7x and a 12-month forward P/E of 13.7x. This is a premium to the EM multinational mobile telco peer group. Given the superior growth prospects for MTN over the medium term, strong balance sheet and dominant competitive position, we believe a premium to the sector is justified.

Risks: MTN operates in 22 countries across Africa and the Middle East. The political situation in a number of these regions is volatile, and should there be any significant change in the current political situation, this could impact the business negatively. Another risk to the group's performance is currencies. Again given the diverse regions in which the group operates, a significant move in exchange rates represents a potential downside risk to our projections. Should the group embark upon further material corporate action, this could create uncertainty and impact expectations around free cash flow generation and dividend prospects.

Model updated:19 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Telecom

MTN Group

Reuters: MTNJ.J Bloomberg: MTN SJ

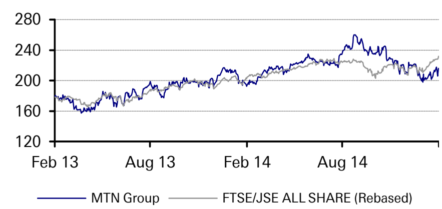
Buy

Price (13 Feb 15)	ZAR 216.29
Target Price	ZAR 225.00
52 Week range	ZAR 194.00 - 260.10
Market Cap (m)	ZARm 396,401
	USDm 34,017

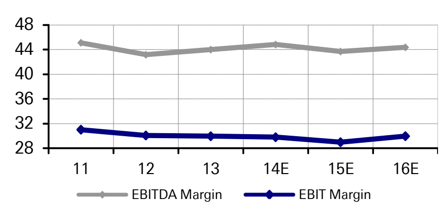
Company Profile

Launched in 1994, MTN Group Ltd is a multinational communications group offering cellular network access and business solutions. It has mobile licences across 22 countries in Africa and the Middle East and as at the end of September 2014, recorded more than 219.2m subscribers across its operations.

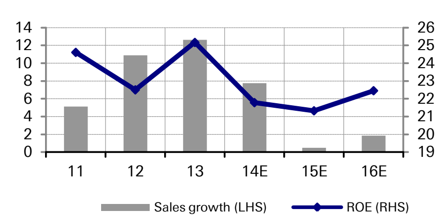
Price Performance



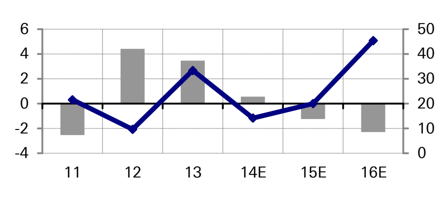
Margin Trends



Growth & Profitability



Solvency



Mike Gresty, CFA
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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (ZAR)	10.69	10.89	14.11	14.17	14.48	15.86
Reported EPS (ZAR)	10.67	10.89	14.11	14.17	14.48	15.86
DPS (ZAR)	7.49	8.24	10.35	11.39	12.52	13.78
BVPS (ZAR)	48.0	48.4	63.6	66.6	69.2	72.0
Weighted average shares (m)	1,854	1,838	1,833	1,833	1,833	1,833
Average market cap (ZARm)	252,587	270,212	335,907	396,401	396,401	396,401
Enterprise value (ZARm)	251,372	273,552	332,800	386,757	380,875	375,484
Valuation Metrics						
P/E (DB) (x)	12.7	13.5	13.0	15.3	14.9	13.6
P/E (Reported) (x)	12.8	13.5	13.0	15.3	14.9	13.6
P/BV (x)	3.00	3.67	3.41	3.25	3.13	3.00
FCF Yield (%)	10.1	5.3	5.6	7.1	7.1	7.4
Dividend Yield (%)	5.5	5.6	5.6	5.3	5.8	6.4
EV/Sales (x)	2.3	2.2	2.4	2.6	2.6	2.5
EV/EBITDA (x)	5.1	5.2	5.5	5.8	5.9	5.6
EV/EBIT (x)	7.4	7.5	8.1	8.8	8.8	8.3
Income Statement (ZARm)						
Sales revenue	109,890	121,867	137,270	147,904	148,620	151,364
Gross profit	49,596	52,637	60,430	66,325	64,961	67,185
EBITDA	49,596	52,637	60,430	66,325	64,961	67,185
Depreciation	13,296	13,791	16,458	19,006	18,726	18,618
Amortisation	2,194	2,161	2,820	3,217	3,121	3,179
EBIT	34,106	36,685	41,152	44,102	43,114	45,389
Net interest income(expense)	-1,582	-3,790	-1,234	-3,100	-2,150	-1,000
Associates/affiliates	5,117	3,008	3,431	3,503	3,954	4,315
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	37,641	35,903	43,349	44,505	44,918	48,704
Income tax expense	13,853	11,835	12,487	14,019	13,925	15,098
Minorities	3,033	3,364	4,111	4,437	4,459	4,541
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	20,755	20,704	26,751	26,049	26,535	29,065
DB adjustments (including dilution)	-943	-686	-891	-70	0	0
DB Net profit	19,812	20,018	25,860	25,979	26,535	29,065
Cash Flow (ZARm)						
Cash flow from operations	39,504	34,981	43,212	49,206	48,886	51,087
Net Capex	-14,103	-20,741	-24,568	-21,200	-20,800	-21,600
Free cash flow	25,401	14,240	18,644	28,006	28,086	29,487
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-11,630	-14,919	-16,187	-20,534	-21,700	-23,870
Net inc/(dec) in borrowings	-1,312	0	0	-4,000	-4,000	-4,000
Other investing/financing cash flows	-13,153	-4,576	8,317	-3,993	-4,013	-4,087
Net cash flow	-694	-5,255	10,774	-522	-1,627	-2,470
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	36,352	27,980	41,822	41,300	39,674	37,204
Tangible fixed assets	71,610	73,905	92,903	95,097	97,171	100,153
Goodwill/intangible assets	34,540	32,594	37,751	34,534	31,413	28,234
Associates/investments	2,681	4,645	12,643	16,146	20,100	24,415
Other assets	36,225	36,950	44,537	44,537	44,537	44,537
Total assets	181,408	176,074	229,656	231,614	232,895	234,544
Interest bearing debt	34,016	32,084	46,025	42,025	38,025	34,025
Other liabilities	54,693	51,103	61,819	61,819	61,819	61,819
Total liabilities	88,709	83,187	107,844	103,844	99,844	95,844
Shareholders' equity	88,897	89,006	116,479	121,994	126,828	132,023
Minorities	3,802	3,881	5,333	5,777	6,223	6,677
Total shareholders' equity	92,699	92,887	121,812	127,770	133,051	138,700
Net debt	*-2,336*	*4,104*	*4,203*	*725*	*-1,649*	*-3,179*
Key Company Metrics						
Sales growth (%)	5.1	10.9	12.6	7.7	0.5	1.8
DB EPS growth (%)	43.1	1.9	29.6	0.5	2.1	9.5
EBITDA Margin (%)	45.1	43.2	44.0	44.8	43.7	44.4
EBIT Margin (%)	31.0	30.1	30.0	29.8	29.0	30.0
Payout ratio (%)	66.9	73.2	70.9	80.1	86.5	86.9
ROE (%)	24.6	22.5	25.2	21.8	21.3	22.5
Capex/sales (%)	12.8	17.0	17.9	14.3	14.0	14.3
Capex/depreciation (x)	0.9	1.3	1.3	1.0	1.0	1.0
Net debt/equity (%)	-2.5	4.4	3.5	0.6	-1.2	-2.3
Net interest cover (x)	21.6	9.7	33.3	14.2	20.1	45.4

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial | Price (13 February 2015): 4393c | Target price: 3800c | Rating: Hold

Nampak Ltd

John Kim

Business description: Nampak is Africa's largest packaging manufacturer. In South Africa the company manufactures packaging products ranging from metal, glass, paper to plastics that are supplied to a wide range of customers. Nampak is also a leading producer of toilet tissue and related products. The company also has manufacturing operations in most of sub-Saharan Africa as well as dairy plastics in the UK.

In South Africa Nampak has exited a number of underperforming businesses (ie. South African cartons and labels) as volume/pricing pressure has refocused the company. In the rest of Africa, the company has made major investments in Angola and Nigeria to acquire/build beverage can plants.

Operations are comprised of three segments:

1) 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 is the #2 glass producer in South Africa that manufactures a range of clear and coloured glass bottles.

2) Paper (Africa and Europe). The group manufactures paper-based carton packaging – folding cartons, corrugated cartons, liquid cartons and display cartons among others.

3) 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).

Drivers: Primary driver of earnings for Nampak include growth in personal consumption expenditure in South Africa, and driving volumes through recent investments/beverage can plants in Angola and Nigeria. In addition, currency and the price of raw materials (tinplate, aluminium, petroleum and glass) which represent over 50% of total costs are material to financial results.

Outlook: In our view, Nampak is a mixed picture of volume and margin pressure in South Africa combined with a positive but costly Rest of Africa growth story. Driving utilisation through Nigerian and Angolan assets are key to earnings growth in our view and this doesn't come without risk. The issue of weaker consumer demand in its core market of South Africa remains as does resulting margin pressure. Valuation on the share gives us pause for thought as we believe that Nampak's African earnings growth involves significant execution risk. Hold.

Valuation: We value Nampak using a weighted methodology including P/E relative, trading multiples of comparable companies (25%), DCF analysis (50% weighting; risk-free rate 8.4%, beta 0.88, WACC 10.8%, terminal growth of 5.0%) and sum of parts (25%) using FY15 estimates.

Risks: Risks to our target price being achieved include unexpected changes to the tax rate, slowing growth in consumer demand in South Africa (its core market) and its impact on margins, and execution risk in the rest of Africa. Much of the growth case is dependent upon investments in Nigeria and Angola where Nampak must drive asset utilisation for profit growth.

Deutsche Securities (Pty) Ltd

Model updated:24 November 2014

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Nampak

Reuters: NPKJ.J Bloomberg: NPK SJ

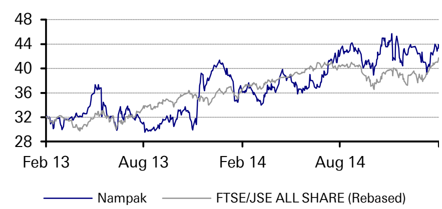
Hold

Price (13 Feb 15)	ZAR 43.93
Target Price	ZAR 38.00
52 Week range	ZAR 34.00 - 45.70
Market Cap (m)	ZARm 28,841
	USDm 2,475

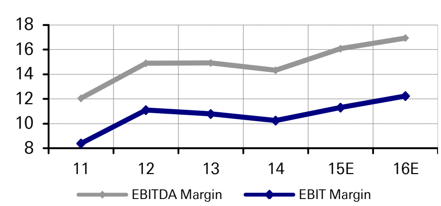
Company Profile

Nampak is Africa's largest packaging manufacturer. In South Africa the company manufactures packaging products ranging from metal, glass, paper to plastics that are supplied to a wide range of customers. Nampak is also a leading producer of toilet tissue and related products. The company also has manufacturing operations in most of sub-Saharan Africa as well as dairy plastics in the United Kingdom.

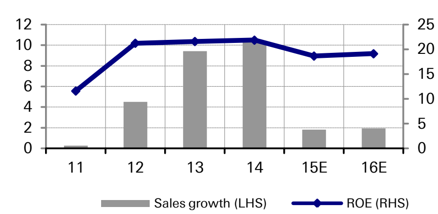
Price Performance



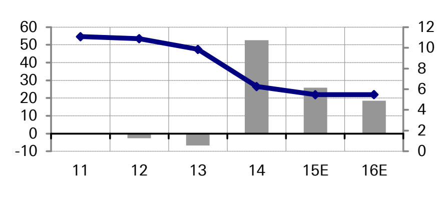
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2011	2012	2013	2014	2015E	2016E
Financial Summary						
DB EPS (ZAR)	1.76	1.94	1.93	2.02	2.32	2.59
Reported EPS (ZAR)	1.76	1.94	1.93	2.27	2.32	2.59
DPS (ZAR)	1.08	1.30	1.40	1.53	1.59	1.79
BVPS (ZAR)	9.7	10.6	12.2	12.6	14.3	15.3
Weighted average shares (m)	618	622	640	650	657	663
Average market cap (ZARm)	12,031	13,913	19,971	24,436	28,841	28,841
Enterprise value (ZARm)	11,950	13,668	19,196	28,317	30,891	30,349
Valuation Metrics						
P/E (DB) (x)	11.1	11.5	16.2	18.6	19.0	17.0
P/E (Reported) (x)	11.1	11.5	16.2	16.6	19.0	17.0
P/BV (x)	1.97	2.60	2.55	3.26	3.07	2.88
FCF Yield (%)	5.9	3.7	1.7	nm	2.8	5.9
Dividend Yield (%)	5.5	5.8	4.5	4.1	3.6	4.1
EV/Sales (x)	0.8	0.8	1.1	1.4	1.5	1.5
EV/EBITDA (x)	6.3	5.5	7.1	9.9	9.4	8.6
EV/EBIT (x)	9.0	7.4	9.8	13.8	13.4	12.0
Income Statement (ZARm)						
Sales revenue	15,819	16,530	18,086	19,971	20,335	20,732
Gross profit	5,022	5,558	3,978	3,268	4,557	4,754
EBITDA	1,907	2,463	2,700	2,862	3,271	3,514
Depreciation	560	599	711	773	933	937
Amortisation	19	28	38	41	39	39
EBIT	1,328	1,836	1,951	2,048	2,299	2,538
Net interest income(expense)	-120	-169	-198	-327	-420	-463
Associates/affiliates	1	8	16	16	10	10
Exceptionals/extraordinaries	169	0	20	0	0	0
Other pre-tax income/(expense)	11	5	5	7	3	3
Profit before tax	1,390	1,681	1,794	1,744	1,892	2,088
Income tax expense	457	448	381	75	324	321
Minorities	-25	-15	-19	34	24	27
Other post-tax income/(expense)	-331	0	0	0	0	0
Net profit	628	1,248	1,433	1,635	1,544	1,741
DB adjustments (including dilution)	424	-38	-158	-176	-24	-27
DB Net profit	1,052	1,210	1,275	1,459	1,520	1,714
Cash Flow (ZARm)						
Cash flow from operations	1,294	1,591	1,759	2,157	2,701	2,688
Net Capex	-581	-1,082	-1,414	-2,605	-1,900	-976
Free cash flow	714	509	345	-448	801	1,712
Equity raised/(bought back)	33	0	-288	0	0	0
Dividends paid	-543	-678	-819	-904	-1,004	-1,132
Net inc/(dec) in borrowings	-623	465	2,528	1,327	332	0
Other investing/financing cash flows	955	-890	1,672	-3,337	1,741	0
Net cash flow	535	-594	3,438	-3,362	1,870	581
Change in working capital	*-548*	*-340*	*-203*	*-189*	*161*	*-55*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,451	1,780	4,421	1,128	2,958	3,500
Tangible fixed assets	5,686	6,612	7,284	9,864	9,256	9,295
Goodwill/intangible assets	183	715	815	3,420	3,420	3,420
Associates/investments	25	24	219	213	213	213
Other assets	5,563	6,119	6,885	7,267	7,229	7,366
Total assets	12,908	15,250	19,624	21,891	23,077	23,794
Interest bearing debt	1,433	1,613	3,945	5,273	5,273	5,273
Other liabilities	5,780	7,421	8,488	8,735	8,859	8,940
Total liabilities	7,213	9,034	12,433	14,008	14,132	14,213
Shareholders' equity	5,733	6,271	7,271	7,934	8,996	9,632
Minorities	-38	-55	-80	-51	-51	-51
Total shareholders' equity	5,695	6,216	7,191	7,883	8,945	9,581
Net debt	*-18*	*-167*	*-476*	*4,145*	*2,314*	*1,773*
Key Company Metrics						
Sales growth (%)	0.3	4.5	9.4	10.4	1.8	1.9
DB EPS growth (%)	19.2	10.5	-0.7	4.8	14.5	11.6
EBITDA Margin (%)	12.1	14.9	14.9	14.3	16.1	17.0
EBIT Margin (%)	8.4	11.1	10.8	10.3	11.3	12.2
Payout ratio (%)	61.4	64.5	66.5	64.5	65.0	65.0
ROE (%)	11.6	21.2	21.6	21.8	18.6	19.1
Capex/sales (%)	4.3	6.5	7.8	13.0	9.3	4.7
Capex/depreciation (x)	1.2	1.7	1.9	3.2	2.0	1.0
Net debt/equity (%)	-0.3	-2.7	-6.6	52.6	25.9	18.5
Net interest cover (x)	11.1	10.9	9.8	6.3	5.5	5.5

Source: Company data, Deutsche Bank estimates

South Africa – Media | Price (13 February 2015): 161550c | Target price: 178500c | Rating: Buy

Naspers Ltd

John Kim

Business description: Naspers is an emerging markets focused media group with principal operations in internet platforms (focussing on commerce, communities, content, communication and games), pay-television and the provision of related technologies and print media (including publishing, distribution and printing of magazines, newspapers and books). 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 e-commerce segment.

Drivers: An important driver for Naspers in the short term is likely to be revenue growth from e-commerce vs. related costs (development spend). Aside from the quarterly revenue data reported from the Tencent operations, investors are now focusing more on the group’s other internet operations like Online Classifieds and e-Tail where recent investments and joint ventures should focus investors on underlying growth and profit trends. The group has 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: Our valuation for Naspers is most sensitive to the value assigned to Tencent, although over the next 12 months we do not see (or require) a re-rating of Tencent to justify our investment case. We expect 2015 to be another investment year for Naspers, depressing margins. Nearer term, our valuation, while depressed as we reflect one-year forward earnings numbers on heightened development spend, still has significant upside. Medium term, we see the cash investment cycle turning, particularly in the internet businesses, as these investments reach scale, releasing margin pressure. Naspers' leading emerging market position enables the group to benefit as internet penetration continues across its operating regions, creating additional markets and driving the next leg of revenue growth. Buy.

Valuation: Our primary valuation methodology is a sum-of-the-parts model. We value the listed investments (Tencent, Mail.ru) at underlying price targets translated at a forward exchange rate, in line with our house exchange rate view. We apply a 20% holding company structure discount to these investments. For unlisted investments, we use a combination of forward estimated EV/Sales and EV/EBITDA multiples as well as acquisition prices. Most of these businesses are still in development phases with insufficient data. The rump consists of a defensive, high margin, subscription-based Pay TV operation and an e-commerce business that is well positioned in significant emerging markets.

Risks: Given Tencent's significance within Naspers' valuation, slowing growth in China is a key risk. A further risk for Naspers is that the current high investment level in e-commerce and Pay TV does not generate sustainable returns; leading to further impairments and eroding future cash returns to shareholders. Given the scale of foreign investments and forex commitments, significant fluctuation in the ZAR/USD could pressure cash flows. Competition in the local pay TV business, although not currently significant, would place pressure on margins for the rump business.

Model updated:03 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

Media

Naspers

Reuters: NPNJn.J Bloomberg: NPN SJ

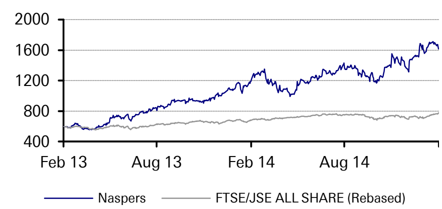
Buy

Price (13 Feb 15)	ZAR 1,615.50
Target Price	ZAR 1,785.00
52 Week range	ZAR 992.00 - 1,714.37
Market Cap (m)	ZARm 638,249
	USDm 54,771

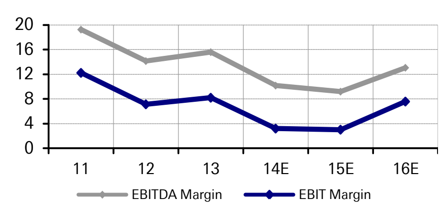
Company Profile

Naspers is an emerging markets focused media group with principal operations in internet platforms (focussing on commerce, communities, content, communication and games), pay-television and the provision of related technologies and print media (including publishing, distribution and printing of magazines, newspapers and books).

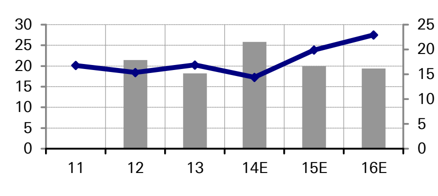
Price Performance



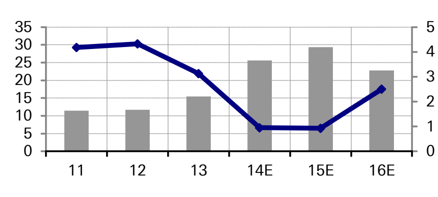
Margin Trends



Growth & Profitability



Solvency



John Kim
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Fiscal year end 31-Mar	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (ZAR)	15.52	17.85	21.64	21.25	29.67	53.74
Reported EPS (ZAR)	15.52	17.85	21.64	21.25	29.67	53.74
DPS (ZAR)	2.70	3.35	3.85	4.25	5.30	6.32
BVPS (ZAR)	108.6	126.5	139.6	167.4	202.0	244.8
Weighted average shares (m)	375	376	385	395	401	407
Average market cap (ZARm)	124,449	138,811	197,246	638,249	638,249	638,249
Enterprise value (ZARm)	107,598	116,031	172,800	607,066	593,733	575,999
Valuation Metrics						
P/E (DB) (x)	21.4	20.7	23.7	76.0	54.5	30.1
P/E (Reported) (x)	21.4	20.7	23.7	76.0	54.5	30.1
P/BV (x)	3.31	3.38	4.10	9.65	8.00	6.60
FCF Yield (%)	3.0	2.4	3.3	nm	nm	0.4
Dividend Yield (%)	0.8	0.9	0.8	0.3	0.3	0.4
EV/Sales (x)	3.1	2.8	3.5	9.7	7.9	6.4
EV/EBITDA (x)	16.1	19.4	22.2	95.0	85.7	49.0
EV/EBIT (x)	25.3	38.5	42.2	300.8	259.9	84.4
Income Statement (ZARm)						
Sales revenue	34,746	42,183	49,869	62,728	75,245	89,807
Gross profit	6,695	5,974	7,786	6,391	6,928	11,746
EBITDA	6,695	5,974	7,786	6,391	6,928	11,746
Depreciation	857	489	1,493	1,942	3,121	3,509
Amortisation	1,581	2,469	2,194	2,431	1,522	1,413
EBIT	4,257	3,016	4,099	2,018	2,285	6,824
Net interest income(expense)	-1,018	-697	-1,310	-2,127	-2,460	-2,724
Associates/affiliates	3,290	3,869	8,778	10,835	17,367	20,385
Exceptionals/extraordinaries	-23	-94	-2,137	-1,201	0	0
Other pre-tax income/(expense)	1,503	-740	-149	-101	47	0
Profit before tax	8,009	5,354	9,281	9,424	17,238	24,486
Income tax expense	1,861	2,059	2,533	2,895	3,162	3,851
Minorities	687	587	701	778	956	1,453
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,461	2,708	6,047	5,751	13,121	19,182
DB adjustments (including dilution)	2,357	6,526	4,680	5,296	3,033	2,923
DB Net profit	7,818	9,234	10,727	11,047	16,154	22,106
Cash Flow (ZARm)						
Cash flow from operations	5,270	5,394	10,035	3,274	2,591	8,643
Net Capex	-1,555	-2,033	-3,521	-3,894	-4,870	-5,838
Free cash flow	3,715	3,361	6,514	-620	-2,279	2,806
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-882	-1,012	-2,768	-1,676	-2,105	-2,511
Net inc/(dec) in borrowings	6,497	1,355	0	7,724	5,705	0
Other investing/financing cash flows	-7,756	-2,314	670	2,173	564	0
Net cash flow	1,574	1,390	4,416	7,601	1,884	294
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	8,731	9,825	15,653	13,664	12,602	13,442
Tangible fixed assets	7,561	8,879	13,716	17,053	17,963	19,181
Goodwill/intangible assets	21,164	21,768	26,395	31,513	31,513	31,513
Associates/investments	24,062	30,659	35,195	50,675	70,950	89,296
Other assets	8,337	10,147	12,304	15,697	18,454	21,647
Total assets	69,855	81,278	103,263	128,602	151,482	175,079
Interest bearing debt	13,662	15,643	24,290	31,104	36,974	36,974
Other liabilities	13,251	16,059	23,120	29,293	31,429	34,946
Total liabilities	26,913	31,702	47,410	60,397	68,403	71,920
Shareholders' equity	40,662	47,515	53,741	66,153	81,016	99,644
Minorities	2,280	2,061	2,112	2,052	2,063	3,515
Total shareholders' equity	42,942	49,576	55,853	68,205	83,079	103,160
Net debt	*4,931*	*5,818*	*8,637*	*17,440*	*24,372*	*23,532*
Key Company Metrics						
Sales growth (%)	nm	21.4	18.2	25.8	20.0	19.4
DB EPS growth (%)	na	15.0	21.2	-1.8	39.6	81.2
EBITDA Margin (%)	19.3	14.2	15.6	10.2	9.2	13.1
EBIT Margin (%)	12.3	7.1	8.2	3.2	3.0	7.6
Payout ratio (%)	16.8	18.1	17.4	19.5	17.4	11.5
ROE (%)	16.8	15.3	16.9	14.4	19.9	22.9
Capex/sales (%)	4.7	5.1	7.1	6.2	6.5	6.5
Capex/depreciation (x)	1.9	4.4	2.4	2.0	1.6	1.7
Net debt/equity (%)	11.5	11.7	15.5	25.6	29.3	22.8
Net interest cover (x)	4.2	4.3	3.1	0.9	0.9	2.5

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (13 February 2015): 4085c | Target price: 4000c | Rating: Buy

Netcare Ltd

Avinash Kalkapersad

Business description: Netcare is the largest owner and operator of private hospitals in South Africa and the UK. 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, Netcare operates through the General Healthcare Group, operating hospitals under the BMI Healthcare brand. South Africa was a slightly larger revenue contributor in FY14 (51%) than the UK (49%); however, on a net earnings basis, the UK contributes just 4%.

Drivers:

- Attractive South African valuation: The majority of Netcare's earnings come from South Africa where growth has lagged that of its peers. Volumes have suffered as a result of slow bed rollout and relatively weak exposure to high growth geographies and medical schemes. This has however changed with strong bed expansion plans (two new hospitals in attractive areas that will be operational by FY16), supported by management's renewed focus on cost control. Netcare remains cheaper on a 12m forward basis (19.1x) than Mediclinic (23x) and Life (21.2x).

- Structural upside in the UK: BMI has experienced continued pressure on private patient volumes as PMI membership declines on the back of anaemic economic growth. Positively, jobs and therefore PMI membership has started to turn positive and we would expect this to filter through to BMI volumes in coming years. While we wait for this, public patient volumes are expected to show continued growth as the NHS faces rigorous financial constraints.

Outlook: We believe investors are punishing Netcare's historically sluggish SA and weak UK businesses too harshly. Whilst the SA business has lagged its peers, we believe this is changing and that the current valuation discount offers a buying opportunity. We also see long-term value in the UK operations, given an aging population, continued pressures on the NHS and a recovering PMI market; Buy.

Valuation: We use a sum-of-the-parts discounted cash flow model as our primary valuation metric. We value Netcare's SA business using a WACC of 10.5% (risk free rate 8.5%, equity risk premium 4.5%, beta 0.74x) and a terminal growth rate of 5.0% in line with our outlook for medical inflation in South Africa. We value its UK division based on a WACC of 6.5% (risk free rate 4.2%, equity risk premium 2.5%, beta 1.04x) and a terminal growth rate of 1.5% (in line with the inflationary outlook there). We convert the UK business value to rand using our one-year forward estimated GBP/ZAR exchange rate.

Risks: Weakness in the UK PMI business may continue for longer than we currently anticipate, pushing the timing of a Netcare UK recovery out further. The SA Competition Commission is set to commence a formal investigation into the private healthcare sector, which could have an effect on Netcare's operations. Staff shortages are a risk in South Africa.

Model updated:05 December 2014

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Netcare

Reuters: NTCJ.J Bloomberg: NTC SJ

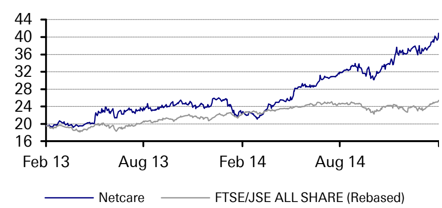
Buy

Price (13 Feb 15)	ZAR 40.85
Target Price	ZAR 40.00
52 Week range	ZAR 21.06 - 40.85
Market Cap (m)	ZARm 54,841
	USDm 4,706

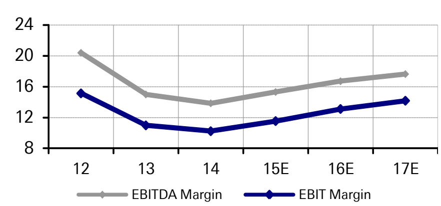
Company Profile

Netcare is an investment holding company and through its subsidiaries, joint ventures and associates in South Africa and the UK, carries on business as a private hospital group providing an extensive range of general and specialised medical care services.

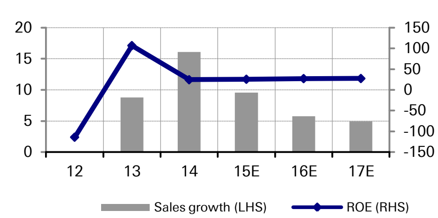
Price Performance



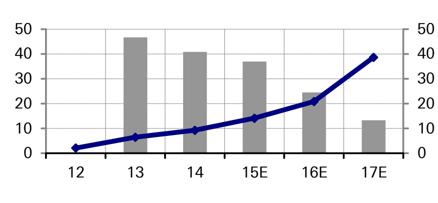
Margin Trends



Growth & Profitability



Solvency



Avinash Kalkapersad
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Fiscal year end 30-Sep	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	1.11	1.37	1.64	1.87	2.24	2.57
Reported EPS (ZAR)	-3.18	3.73	1.54	1.87	2.24	2.57
DPS (ZAR)	0.56	0.68	0.80	0.95	1.14	1.31
BVPS (ZAR)	1.2	5.9	6.9	7.8	8.9	10.1
Weighted average shares (m)	1,308	1,322	1,334	1,343	1,355	1,368
Average market cap (ZARm)	18,524	27,115	35,429	54,841	54,841	54,841
Enterprise value (ZARm)	41,856	33,937	42,560	62,227	61,284	60,177
Valuation Metrics						
P/E (DB) (x)	12.7	15.0	16.2	21.9	18.2	15.9
P/E (Reported) (x)	nm	5.5	17.2	21.9	18.2	15.9
P/BV (x)	13.92	4.09	4.55	5.22	4.60	4.04
FCF Yield (%)	6.1	3.3	3.5	2.1	4.9	5.7
Dividend Yield (%)	4.0	3.3	3.0	2.3	2.8	3.2
EV/Sales (x)	1.7	1.2	1.3	1.8	1.7	1.6
EV/EBITDA (x)	8.1	8.3	9.7	11.7	10.0	8.8
EV/EBIT (x)	11.0	11.3	13.1	15.5	12.7	11.0
Income Statement (ZARm)						
Sales revenue	25,174	27,382	31,783	34,830	36,839	38,658
Gross profit	10,607	11,814	13,556	14,803	15,657	16,430
EBITDA	5,136	4,108	4,404	5,336	6,158	6,821
Depreciation	1,222	1,006	1,059	1,209	1,220	1,231
Amortisation	102	92	92	105	105	105
EBIT	3,812	3,010	3,253	4,022	4,832	5,485
Net interest income(expense)	-1,762	-464	-351	-285	-232	-142
Associates/affiliates	27	89	75	112	131	131
Exceptionals/extraordinaries	-10,773	3,257	0	0	0	0
Other pre-tax income/(expense)	-3,033	-193	-80	0	0	0
Profit before tax	-11,729	5,699	2,897	3,849	4,732	5,473
Income tax expense	-2,016	642	801	1,054	1,287	1,488
Minorities	-5,111	-41	-57	188	299	351
Other post-tax income/(expense)	367	-47	-51	-46	-46	-46
Net profit	-4,235	5,051	2,102	2,561	3,100	3,589
DB adjustments (including dilution)	5,717	-3,202	136	0	0	0
DB Net profit	1,482	1,849	2,238	2,561	3,100	3,589
Cash Flow (ZARm)						
Cash flow from operations	2,477	2,281	3,111	4,002	4,642	5,194
Net Capex	-1,343	-1,395	-1,865	-2,848	-1,927	-2,018
Free cash flow	1,134	886	1,246	1,154	2,715	3,177
Equity raised/(bought back)	234	0	149	0	0	0
Dividends paid	-744	-860	-1,019	-1,333	-1,604	-1,850
Net inc/(dec) in borrowings	62	0	0	0	0	0
Other investing/financing cash flows	171	-66	-395	112	131	131
Net cash flow	857	-40	-19	-67	1,242	1,458
Change in working capital	*0*	*167*	*-101*	*5*	*3*	*3*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,906	1,686	1,712	1,712	1,712	1,712
Tangible fixed assets	27,678	10,487	11,504	13,143	13,850	14,636
Goodwill/intangible assets	5,426	3,873	4,316	4,211	4,106	4,000
Associates/investments	486	677	723	723	723	723
Other assets	7,726	7,196	8,462	9,006	9,365	9,690
Total assets	44,222	23,919	26,717	28,795	29,755	30,761
Interest bearing debt	29,390	6,557	6,684	6,751	5,509	4,051
Other liabilities	15,852	6,930	7,861	8,410	8,772	9,100
Total liabilities	45,242	13,487	14,545	15,161	14,281	13,151
Shareholders' equity	1,646	7,804	9,290	10,564	12,106	13,891
Minorities	-2,666	2,628	2,882	3,070	3,369	3,719
Total shareholders' equity	-1,020	10,432	12,172	13,634	15,475	17,611
Net debt	*26,484*	*4,871*	*4,972*	*5,039*	*3,797*	*2,339*
Key Company Metrics						
Sales growth (%)	nm	8.8	16.1	9.6	5.8	4.9
DB EPS growth (%)	na	22.7	20.3	13.7	20.0	14.7
EBITDA Margin (%)	20.4	15.0	13.9	15.3	16.7	17.6
EBIT Margin (%)	15.1	11.0	10.2	11.5	13.1	14.2
Payout ratio (%)	nm	17.7	50.8	50.0	50.0	50.0
ROE (%)	-113.8	106.9	24.6	25.8	27.4	27.6
Capex/sales (%)	5.5	5.1	6.1	8.2	5.2	5.2
Capex/depreciation (x)	1.1	1.3	1.7	2.2	1.5	1.5
Net debt/equity (%)	nm	46.7	40.8	37.0	24.5	13.3
Net interest cover (x)	2.2	6.5	9.3	14.1	20.9	38.6

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (13 February 2015): 5675c | Target price: 5000c | Rating: Hold

Pick n Pay Stores Ltd

Sean Holmes / Ryan Eichstadt

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 domestic player 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 more than 470 corporate-owned and more than 370 franchise stores. The 20 hypermarkets generate a substantial portion of group turnover (>20%).

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. It is currently in the middle of large restructuring process that includes the continued rollout of centralised distribution, 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. Unfortunately, this strategy has been to no avail as it has struggled to grow sales in line with the market, hamstrung by i) weak consumer growth in middle mass-mark; ii) low stock availability; iii) slow space growth; and iv) struggling general merchandise sales.
- **Significant margin expansion opportunity through wage containment.** The group has significant room to bolster EBIT margins through better labour efficiencies. We estimate Pick n Pay's corporate store's staff cost-to-sales ratio is c.3-4% higher than that of its peers.
- **A more aggressive approach to African (ex-South Africa) 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.
- **Recovery from high 'restructuring-related' cost base:** The substantial investments in centralised distribution and IT systems resulted in significant additional costs being incurred (consulting fees etc.). Off a high base, the yoy growth in operating costs should start to abate assisting margins to improve boosted by a more favourable top line environment.

Outlook: Pick n Pay has one of the biggest and strongest retail footprints in South Africa. The group has room to improve its profitability and bolster shareholder returns, through a combination of: i) lifting sales densities (mainly in its Hypermarket division), ii) improving GP margin (through better supply chain efficiencies) iii) better cost management (mainly through reducing staff costs). In our view, the group has the potential to increase its EBIT margin from 1.4% FY13 to 3.6-4.0% over the next 5-7 years. Notwithstanding our view that the stock offers value longer term, we feel there is too much earnings risk in the near term (given the restructuring challenges and execution risk on the new strategy). Hold based stretched valuation relative to its earnings growth outlook over the next two years

Valuation: Our 12 month target prices are calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple (19x). We calculate our target price P/E multiples using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate P/E rating, based on the calculated dividend yield (where P/E = dividend payout ratio/ dividend yield).

Risks: Upside risks: Pick n Pay is in the middle of a grand scale restructuring and the timing of the potential restructuring benefits are very difficult to gauge. Considering the group's low EBIT margin (high degree of operating leverage), we think earnings could receive a significant boost should food inflation accelerate. The food retailers have historically reported expanding EBIT margins, during times of rising food inflation. Downside risks: We think most of the downside risk lies potentially with management's ability to successfully restructure the business, to achieve better operating efficiencies. We are somewhat concerned that Pick n Pay's store expansion programme is not aggressive enough, and that it lose further market share to rival Shoprite. One of Pick n Pay's biggest challenges is its high labour costs (overstaffed and overpaid), which we think could take time to address.

Model updated:11 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Pick n Pay Stores

Reuters: PIKJ.J | Bloomberg: PIK SJ

Hold

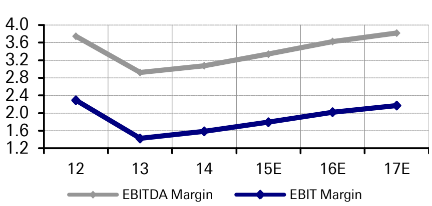
Price (13 Feb 15)	ZAR 56.75
Target Price	ZAR 50.00
52 Week range	ZAR 44.02 - 59.99
Market Cap (m)	ZARm 27,092
	USDm 2,325

Company Profile

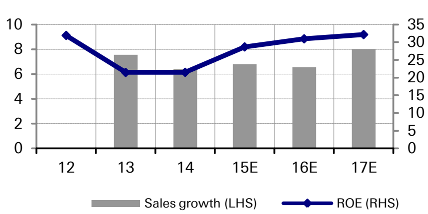
Pick n Pay is a holding company with subsidiaries in South Africa and Australia. The group is predominantly engaged in the mass retailing of food, but also retails clothing and general merchandise.

Price Performance

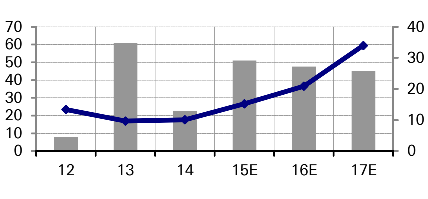
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 28-Feb	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	1.50	1.06	1.13	1.69	2.06	2.44
Reported EPS (ZAR)	1.50	1.06	1.13	1.69	2.06	2.44
DPS (ZAR)	1.31	0.84	0.92	1.12	1.37	1.62
BVPS (ZAR)	5.0	5.0	5.6	6.3	7.2	8.2
Weighted average shares (m)	477	477	478	477	477	477
Average market cap (ZARm)	20,106	20,908	20,569	27,092	27,092	27,092
Enterprise value (ZARm)	20,298	22,379	21,184	28,643	28,740	28,873
Valuation Metrics						
P/E (DB) (x)	28.1	41.3	38.1	33.6	27.5	23.3
P/E (Reported) (x)	28.1	41.3	38.1	33.6	27.5	23.3
P/BV (x)	8.51	8.89	8.02	8.96	7.88	6.92
FCF Yield (%)	4.6	nm	0.6	nm	nm	nm
Dividend Yield (%)	3.1	1.9	2.1	2.0	2.4	2.9
EV/Sales (x)	0.4	0.4	0.3	0.4	0.4	0.4
EV/EBITDA (x)	9.7	12.8	10.8	12.6	10.9	9.7
EV/EBIT (x)	15.9	26.3	21.0	23.5	19.6	17.0
Income Statement (ZARm)						
Sales revenue	55,595	59,790	63,618	67,943	72,398	78,211
Gross profit	10,245	10,854	11,541	12,381	13,297	14,522
EBITDA	2,083	1,748	1,958	2,269	2,626	2,987
Depreciation	808	896	948	1,049	1,162	1,287
Amortisation	0	0	0	0	0	0
EBIT	1,275	852	1,010	1,219	1,465	1,700
Net interest income(expense)	-95	-88	-100	-80	-70	-50
Associates/affiliates	-2	23	32	37	42	49
Exceptionals/extraordinaries	-34	-34	-34	0	0	0
Other pre-tax income/(expense)	-8	22	-109	0	0	0
Profit before tax	1,170	809	833	1,176	1,437	1,698
Income tax expense	408	258	249	352	429	508
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	729	518	551	824	1,007	1,191
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	729	518	551	824	1,007	1,191
Cash Flow (ZARm)						
Cash flow from operations	2,527	-82	1,235	1,390	1,579	1,766
Net Capex	-1,611	-1,117	-1,109	-1,693	-1,885	-1,913
Free cash flow	916	-1,199	126	-303	-307	-146
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-672	-557	-424	-484	-590	-711
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	788	-342	-574	0	0	0
Net cash flow	1,032	-2,098	-872	-787	-896	-858
Change in working capital	*0*	*0*	*730*	*-633*	*209*	*13*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,272	1,258	1,540	604	507	374
Tangible fixed assets	4,663	4,866	5,027	5,670	6,394	7,019
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	5,883	6,897	7,538	8,151	8,589	9,389
Total assets	11,818	13,021	14,105	14,426	15,490	16,782
Interest bearing debt	1,464	2,729	2,155	2,155	2,155	2,155
Other liabilities	7,950	7,876	9,247	9,227	9,875	10,688
Total liabilities	9,414	10,605	11,402	11,382	12,030	12,843
Shareholders' equity	2,404	2,416	2,703	3,043	3,461	3,940
Minorities	0	0	0	0	0	0
Total shareholders' equity	2,404	2,416	2,703	3,043	3,461	3,940
Net debt	*192*	*1,471*	*615*	*1,551*	*1,648*	*1,781*
Key Company Metrics						
Sales growth (%)	nm	7.5	6.4	6.8	6.6	8.0
DB EPS growth (%)	na	-29.3	6.5	49.5	22.2	18.2
EBITDA Margin (%)	3.7	2.9	3.1	3.3	3.6	3.8
EBIT Margin (%)	2.3	1.4	1.6	1.8	2.0	2.2
Payout ratio (%)	85.7	77.4	80.2	64.9	64.9	64.9
ROE (%)	31.9	21.5	21.5	28.7	31.0	32.2
Capex/sales (%)	2.9	1.9	1.7	2.5	2.6	2.4
Capex/depreciation (x)	2.0	1.2	1.2	1.6	1.6	1.5
Net debt/equity (%)	8.0	60.9	22.8	51.0	47.6	45.2
Net interest cover (x)	13.4	9.7	10.1	15.2	20.9	34.0

Source: Company data, Deutsche Bank estimates

South Africa – Luxury Goods | Price (13 February 2015): 10301c | Target price: 10085c | Rating: Hold

Richemont

Wynand van Zyl

Business description: Richemont is a Switzerland-based luxury goods company and owner of 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. In 2010 it acquired full control of the luxury online retailer, Net-a-Porter.

Drivers: Richemont is one of the world's premier luxury goods groups involved in 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. In jewellery, Richemont is predominantly a retailer with the majority of its jewellery sold through its own, single-brand boutiques. In watches, Richemont is increasingly moving into retail as well.

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. In addition, to capitalise on the opportunities offered by the relatively unbranded and dynamic jewellery sector, Richemont is refocusing on the Piaget jewellery lines. Specialist watchmakers include exclusive brands like Vacheron Constantin, IWC, Panerai and Jaeger-LeCoultre. Most watch brands are positioned in the high-end/prestige segments and enjoy high levels of profitability, with the exception of Baume & Mercier, currently undergoing a phase of repositioning including an attempt to expand the brand's reach in China via a partnership with Chow Tai Fook. Montblanc is now significantly less reliant on pen sales than it was a number of years ago and at the moment is under the spotlight to improve its profitability via streamlining the product offering and the distribution. The leather and accessories segment includes Dunhill and Lancel that have struggled in recent years to retain the strong position they once enjoyed and a number of smaller brands, the most important of which is the fashion brand Chloe and Net-a-Porter. After a portfolio review focused on assessing the opportunities of each of the brands, Richemont has decided for the moment to retain ownership of all, as the disposal would not yield adequate valorisation. Over the last 10 years we estimate that price mix gains have delivered ~2/3 of Richemont's strong margin expansion. Given a weak demand environment, lower commodity prices and the recent depegging of the CHF from the EUR, the luxury company will have to focus more on cost optimisation to drive further margin expansion. Finally, with an estimated 45% of group sales, Richemont offers one of the highest exposures in the luxury sector to Chinese demand (domestic and offshore).

Outlook: Despite the many attractions to the Richemont equity story, we have taken the view that the risk-reward is currently tilted to the downside. Our concerns are beyond the negative margin impact of the recent depegging of the CHF. The ongoing weak demand outlook from China (impact from anti-corruption drive and change in luxury spending patterns) and absence of price mix opportunities remove two of the key luxury profit drivers of the past decade. After Swatch, Richemont also will be the European luxury company to benefit least from a weaker EUR as well. Hold.

Valuation: We value Richemont using a DCF valuation (WACC: 9.5%, risk free rate: 4.5%, equity risk premium: 4.5%, long term EBIT margin 24%. 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 thus are key downside risks. In this framework Richemont is vulnerable to weakening economic activity in China and globally and to geopolitical threats. Lower/higher raw material prices and weaker/stronger EUR can increase/decrease margins. Sustainability of price/mix and low visibility on the level of stock can also represent risks to the downside. Upside risks are a recovery in high end demand in China and better-than-expected margin protection from raw materials and cost cutting.

Model updated:20 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Personal Goods

Richemont

Reuters: CFRJ.J Bloomberg: CFR SJ

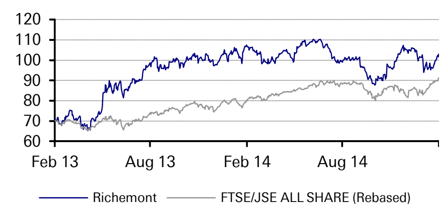
Hold

Price (13 Feb 15)	ZAR 103.01
Target Price	ZAR 100.85
52 Week range	ZAR 87.75 - 110.36
Market Cap (m)	ZARm 564,326
	USDm 48,428

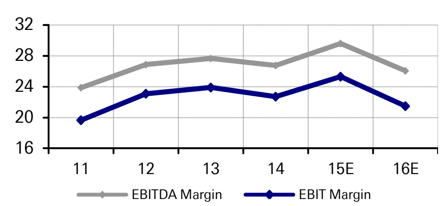
Company Profile

Richemont is a Swiss luxury goods group managed with a view to the long-term development of successful international brands. Richemont owns several of the world's leading luxury goods companies, with particular strength in jewellery, luxury watches and writing instruments.

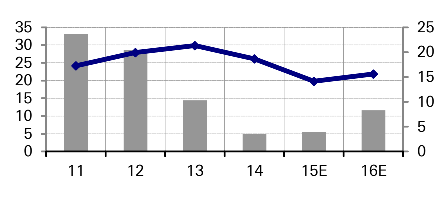
Price Performance



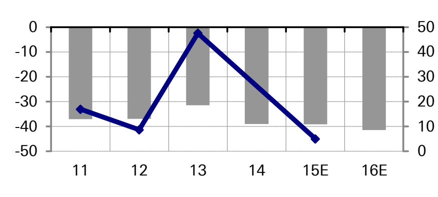
Margin Trends



Growth & Profitability



Solvency



Wynand Van Zyl
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Fiscal year end 31-Mar	2011	2012	2013	2014	2015E	2016E
Financial Summary						
DB EPS (EUR)	1.96	2.76	3.57	3.68	3.04	4.08
Reported EPS (EUR)	1.96	2.76	3.57	3.68	3.26	4.08
DPS (EUR)	0.34	0.45	0.83	1.17	1.47	1.54
BVPS (EUR)	12.7	15.6	18.6	21.8	25.4	28.0
Weighted average shares (m)	551	551	550	549	548	547
Average market cap (EURm)	18,438	22,073	28,103	38,022	42,467	42,467
Enterprise value (EURm)	16,229	19,207	24,906	34,100	42,481	36,571
Valuation Metrics						
P/E (DB) (x)	16.9	14.2	14.0	18.4	25.0	18.6
P/E (Reported) (x)	17.1	14.5	14.3	18.8	23.8	19.0
P/BV (x)	3.12	2.87	3.22	3.15	3.05	2.76
FCF Yield (%)	3.7	3.9	1.5	4.7	1.2	4.1
Dividend Yield (%)	1.0	1.1	1.6	1.7	1.9	2.0
EV/Sales (x)	2.4	2.2	2.5	3.2	3.8	2.9
EV/EBITDA (x)	9.9	8.1	8.9	12.0	12.8	11.2
EV/EBIT (x)	12.0	9.4	10.3	14.1	14.9	13.6
Income Statement (EURm)						
Sales revenue	6,892	8,867	10,150	10,649	11,235	12,538
Gross profit	4,394	5,651	6,519	6,751	7,303	7,824
EBITDA	1,646	2,382	2,808	2,850	3,326	3,267
Depreciation	291	334	382	431	483	573
Amortisation	0	0	0	0	0	0
EBIT	1,355	2,048	2,426	2,419	2,843	2,693
Net interest income(expense)	-80	-236	-51	64	-568	50
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	1,275	1,812	2,375	2,483	2,275	2,743
Income tax expense	196	264	370	411	448	461
Minorities	-11	-4	0	5	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,090	1,552	2,005	2,067	1,827	2,283
DB adjustments (including dilution)	0	0	0	0	-127	0
DB Net profit	1,090	1,552	2,005	2,067	1,700	2,283
Cash Flow (EURm)						
Cash flow from operations	1,011	1,333	1,511	2,469	1,356	2,438
Net Capex	-323	-482	-1,087	-683	-850	-702
Free cash flow	688	851	424	1,786	506	1,736
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-141	-204	-250	-452	-640	-805
Net inc/(dec) in borrowings	77	0	0	0	0	0
Other investing/financing cash flows	144	254	72	-51	0	0
Net cash flow	768	901	246	1,283	-134	930
Change in working capital	*-359*	*-549*	*-876*	*-34*	*-826*	*-419*
Balance Sheet (EURm)						
Cash and other liquid assets	3,381	4,036	5,155	6,228	7,020	7,935
Tangible fixed assets	1,267	1,529	1,787	1,966	2,333	2,462
Goodwill/intangible assets	755	795	952	965	965	965
Associates/investments	637	840	764	682	682	682
Other assets	3,653	4,553	5,839	6,077	6,944	7,694
Total assets	9,693	11,753	14,497	15,918	17,945	19,738
Interest bearing debt	792	852	1,940	1,569	1,569	1,569
Other liabilities	1,909	2,283	2,342	2,391	2,447	2,813
Total liabilities	2,701	3,135	4,282	3,960	4,016	4,382
Shareholders' equity	6,980	8,609	10,214	11,952	13,922	15,350
Minorities	12	9	1	6	6	6
Total shareholders' equity	6,992	8,618	10,215	11,958	13,928	15,356
Net debt	*-2,589*	*-3,184*	*-3,215*	*-4,659*	*-5,451*	*-6,366*
Key Company Metrics						
Sales growth (%)	33.2	28.7	14.5	4.9	5.5	11.6
DB EPS growth (%)	82.0	40.6	29.4	3.3	-17.6	34.4
EBITDA Margin (%)	23.9	26.9	27.7	26.8	29.6	26.1
EBIT Margin (%)	19.7	23.1	23.9	22.7	25.3	21.5
Payout ratio (%)	17.0	16.1	22.9	31.0	44.1	37.0
ROE (%)	17.3	19.9	21.3	18.7	14.1	15.6
Capex/sales (%)	4.7	5.4	10.7	6.4	7.6	5.6
Capex/depreciation (x)	1.1	1.4	2.8	1.6	1.8	1.2
Net debt/equity (%)	-37.0	-36.9	-31.5	-39.0	-39.1	-41.5
Net interest cover (x)	16.9	8.7	47.6	nm	5.0	nm

Source: Company data, Deutsche Bank estimates

South Africa – Beverage | Price (13 February 2015): 62353c | Target price: 63000c | Rating: Hold

SABMiller plc

Wynand van Zyl

Business description: SABMiller is the world's second biggest brewer after AB Inbev. With an estimated 65% of beer volumes from emerging markets it offers the highest exposure to the higher growth emerging markets among the leading international brewers. The other feature that sets SABMiller apart is that it focuses on domestic and regional brands. Although the lack of an international brand can be seen as a negative, within the predominant emerging markets where it operates this allows it to benefit optimally through scale from the emerging consumers. The acquisition of Bavaria in October 2005 was transformational for SABMiller as it not only balanced its emerging market growth profile but saw Latin America becoming its key profit driver. Latin America at 34% contributes now more to group EBITA than South Africa at 15.7% (FY14 basis). Africa at 14.6% of group EBITA is projected to take over the growth mantle from Latin America. Another key feature of SABMiller's growth potential is China. Although it contributes 18% to group beer volumes it is only 2.7% of profits. So as the beer consumer in China premiumise over time this should deliver strong profit uplift from an already established platform. As for other brewers with similar exposures SABMiller's developed market businesses remain beholden to declining beer per capita consumption and intense competition. Although this exposure does diversify exchange rate risk it is a drag on growth at group level. A notable black mark on an otherwise highly successful M&A track record is the material underperformance of the Fosters acquisition made in 2011. Under MD Alan Clark the brewer is embarking on a process of closer integrations onto regional and global platforms, expansion into adjacent categories like soft drinks and potential M&A to source additional growth. A good example thereof is the recent establishment of Coca-Cola Beverages Africa, which we see as a first step in a much broader pan-African soft drinks context.

Drivers: In emerging markets SABMiller's embedded beer volume growth opportunity is around 3% pa, whereas in developed markets it is flat volumes at best. Notable is that Africa (excluding South Africa) is now becoming the key growth engine as the exceptional growth potential of Latin America has largely been delivered. Africa beer demand is expected to maintain strong volume growth in spite of the weak commodity cycle. The material forex headwinds that SABMiller faces during the present slowing emerging market growth cycle is estimated to lower FY15 reported sales by around 5%. This clearly illustrates that forex is one of the key risks faced by SABMiller. Furthermore, as large parts of COGS are priced in US$ this has a margin impact as well. Therefore US$ strength typically results in a slowing in the brewer's rate of margin expansion and profit growth.

Outlook: SABMiller remains a brewer with superior exposure to growth within beer. Two-thirds of its EBITA comes from the right emerging markets, primarily Africa and Latin America. The growth in Africa will be complemented with the recent joint venture with Coca-Cola. The developed markets of North America and Australia provide superior cash flows to finance growth elsewhere, though concerns in Europe moderate our views. The company is undergoing centralisation initiatives that cause short term disruption and allocation of capital away from the growth areas, but should benefit the company in the long term by driving better scale. SABMiller remains subject to market speculation that AB Inbev will make an offer to acquire it. We think this is highly unlikely however given that AB Inbev will prefer to target companies that offer much higher potential synergies, for example in North and Latin American soft drink space. 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 7.89% (incorporating a levered beta of 1.18, net debt / EV ratio of 20%, risk-free rate of 4.00% and 4.30% cost of debt), medium-term cash flow growth of 5% a year, and a post year-10 terminal growth rate of 2.0% . We view our terminal growth rate as a conservative number, below embedded volume growth rate.

Risks: Our upside/downside risks include government taxation, consumer sentiment in Latin America and Africa, centralisation of the organisation, underinvestment in its growth markets, developed markets competitive pressures and M&A, real and perceived.

Model updated:12 January 2015

Running the numbers

Europe

United Kingdom

Beverage

SABMiller

Reuters: SABJ.J Bloomberg: SAB SJ

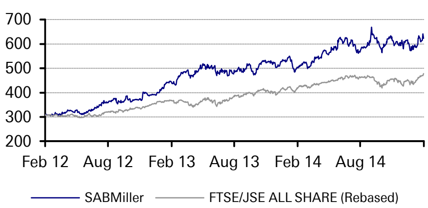
Hold

Price (13 Feb 15)	ZAR 623.53
Target Price	ZAR 630.00
52 Week range	ZAR 499.28 - 668.91
Market Cap (m)	ZARm 994,935
	USDm 85,380

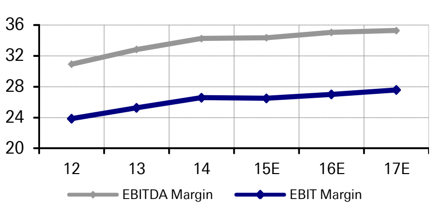
Company Profile

SABMiller is a global brewer with a strong bias towards emerging markets, having expanded rapidly over the last two decades from its South African roots into the US, Latin America, Africa, Europe and Asia. In addition to its beer business, the group is a large Coca-Cola bottler, with significant operations in Africa and, through its stake in Efes, exposure to Coca-Cola Icecek. SAB also owns some legacy hotel and gaming assets in South Africa. Key international brands include Peroni, Pilsner Urquell, Miller Genuine Draft and Grolsch.

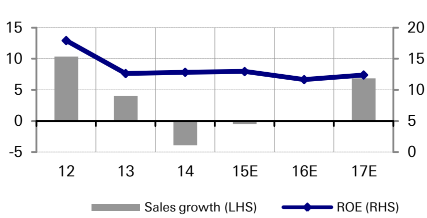
Price Performance



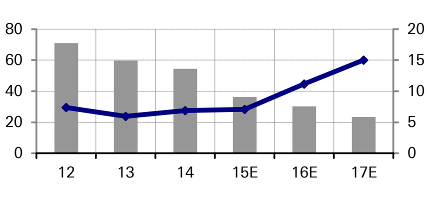
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (USD)	2.13	2.34	2.39	2.43	2.56	2.78
Reported EPS (USD)	2.64	2.02	2.09	2.24	2.20	2.51
DPS (USD)	0.91	1.01	1.05	1.07	1.13	1.22
BVPS (USD)	15.8	16.6	16.5	18.6	19.8	21.2
Weighted average shares (m)	1,583	1,590	1,597	1,596	1,598	1,600
Average market cap (USDm)	57,461	70,153	79,545	85,380	85,380	85,380
Enterprise value (USDm)	60,793	68,303	74,052	76,172	74,893	73,246
Valuation Metrics						
P/E (DB) (x)	17.1	18.8	20.8	22.0	20.9	19.3
P/E (Reported) (x)	13.8	21.8	23.8	23.9	24.3	21.4
P/BV (x)	2.53	3.19	3.03	2.88	2.71	2.52
FCF Yield (%)	5.8	5.0	3.7	3.8	3.8	4.3
Dividend Yield (%)	2.5	2.3	2.1	2.0	2.1	2.3
EV/Sales (x)	3.6	3.9	4.4	4.6	4.5	4.1
EV/EBITDA (x)	11.8	12.0	12.9	13.3	12.8	11.7
EV/EBIT (x)	15.2	15.6	16.7	17.3	16.7	14.9
Income Statement (USDm)						
Sales revenue	16,713	17,385	16,704	16,620	16,629	17,770
Gross profit	10,088	10,657	10,424	10,556	10,410	11,285
EBITDA	5,169	5,709	5,720	5,711	5,828	6,269
Depreciation	909	867	854	880	906	933
Amortisation	273	450	427	429	431	433
EBIT	3,987	4,392	4,439	4,402	4,491	4,903
Net interest income(expense)	-540	-738	-645	-623	-403	-327
Associates/affiliates	1,152	1,213	1,226	1,169	1,211	1,317
Exceptionals/extraordinaries	1,004	-188	-197	185	-203	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	4,451	3,466	3,597	3,964	3,886	4,576
Income tax expense	1,126	1,192	1,173	1,242	1,254	1,531
Minorities	256	237	269	267	272	297
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,221	3,250	3,381	3,625	3,571	4,064
DB adjustments (including dilution)	-821	522	484	304	579	436
DB Net profit	3,400	3,772	3,865	3,929	4,150	4,500
Cash Flow (USDm)						
Cash flow from operations	4,844	4,969	4,364	5,039	5,031	5,564
Net Capex	-1,523	-1,445	-1,415	-1,788	-1,793	-1,847
Free cash flow	3,321	3,524	2,949	3,251	3,239	3,716
Equity raised/(bought back)	124	85	24	0	0	0
Dividends paid	-1,324	-1,517	-1,640	-421	-1,756	-1,867
Net inc/(dec) in borrowings	8,861	-460	-1,244	-3,716	-1,279	-1,646
Other investing/financing cash flows	-11,189	-279	-180	886	-203	-203
Net cash flow	-207	1,353	-91	0	0	0
Change in working capital	*304*	*-39*	*168*	*-15*	*-9*	*-11*
Balance Sheet (USDm)						
Cash and other liquid assets	745	2,171	2,081	2,081	2,081	2,081
Tangible fixed assets	9,299	9,059	9,065	9,669	10,241	10,829
Goodwill/intangible assets	30,029	29,497	27,029	26,688	26,350	26,014
Associates/investments	10,600	11,119	11,531	10,820	11,205	11,606
Other assets	4,978	4,448	4,045	4,207	4,411	4,635
Total assets	55,651	56,294	53,751	53,466	54,287	55,164
Interest bearing debt	19,226	18,548	17,047	13,331	12,052	10,406
Other liabilities	10,412	10,286	9,222	9,217	9,260	9,321
Total liabilities	29,638	28,834	26,269	22,548	21,312	19,727
Shareholders' equity	25,073	26,372	26,319	29,648	31,597	33,940
Minorities	940	1,088	1,163	1,270	1,379	1,497
Total shareholders' equity	26,013	27,460	27,482	30,917	32,976	35,437
Net debt	*18,481*	*16,377*	*14,966*	*11,250*	*9,971*	*8,325*
Key Company Metrics						
Sales growth (%)	10.4	4.0	-3.9	-0.5	0.1	6.9
DB EPS growth (%)	11.7	10.3	2.0	1.6	5.5	8.3
EBITDA Margin (%)	30.9	32.8	34.2	34.4	35.0	35.3
EBIT Margin (%)	23.9	25.3	26.6	26.5	27.0	27.6
Payout ratio (%)	34.1	49.4	49.6	47.1	50.6	48.0
ROE (%)	17.9	12.6	12.8	13.0	11.7	12.4
Capex/sales (%)	9.8	8.5	8.9	10.8	10.8	10.4
Capex/depreciation (x)	1.7	1.6	1.6	1.9	1.8	1.8
Net debt/equity (%)	71.0	59.6	54.5	36.4	30.2	23.5
Net interest cover (x)	7.4	6.0	6.9	7.1	11.2	15.0

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (13 February 2015): 17900c | Target price: 19700c | Rating: Buy

Shoprite Holdings Ltd

Sean Holmes / Ryan Eichstadt

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 and non-RSA, furniture and other operating segments contribute 83%, 10%, 3% and 4% of EBIT respectively at FY13. The chairman of the company indirectly owns c.18% 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 more than 400 Shoprite stores and more than 160 Checkers stores. The target markets for Shoprite is middle to lower income, and Checkers middle to upper income consumers. The 31 hypermarkets target middle to upper income groups, providing customers with a wide selection of food and general merchandise. Usave (327 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 and OK Furniture, cater for the middle and middle to lower income groups respectively.

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

- Further EBIT margin upside. Shoprite is growing its retail footprint by c.7% per year, well ahead of the peer group's c.3-4%. We think further market share gains could enable Shoprite to lower its cost-to-revenue ratio through better economies of scale. Increased buying power and a favourable shift in product mix (growing consumer wealth amongst lower end consumers) could potentially lift GP margins by c.1% over the medium to longer term.
- 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. Shoprite has been adding 15-20 stores pa in Africa over the last 2-3 years – growing at c.10% pa.
- Improved capital returns. Current ROE of 27% is well below that of the peer group. We see room for ROEs to improve to 40-50% as the capex cycle slows, stock turn in Africa improves and profitability increases further.

Outlook: We believe Shoprite looks well positioned to grow its earnings at a CAGR of 10-13% over the next five years, supported by a combination of solid sales growth and EBIT margin expansion. We think Shoprite's aggressive roll-out of new stores could enable it to take further market share from both the formal as well as informal market. Over the medium to longer term, we see same store sales growth benefitting from strong basket size growth, as lower end consumers trading up. Notwithstanding the group's impressive EBIT margin trend over the last 10 years, we think there is scope for EBIT margins to expand a further longer term, but feel the company may have to sacrifice margin over the next five years to support sales growth (in a tough consumer environment). Buy on valuation and solid earnings growth prospects longer term.

Valuation: Our 12 month target prices are calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple (19x). We calculate our target price P/E multiples using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate P/E rating, based on the calculated dividend yield (where P/E = dividend payout ratio/ dividend yield).

Risks: Downside risks: High cost growth associated with Shoprite aggressive space expansion could put pressure on earnings, should sales growth slow. The group's capital requirement to support new developments/initiatives could pressure capital returns and free cash flow generation. Labour costs make up 40-45% of the group's overall operating costs and therefore labour cost pressures could depress EBIT margins.

Model updated:11 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Shoprite

Reuters: SHPJ.J — Bloomberg: SHP SJ

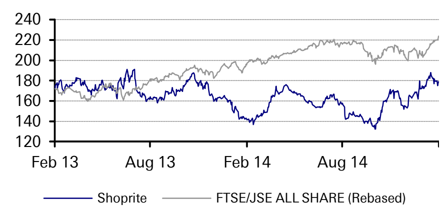
Buy

Price (13 Feb 15)	ZAR 179.00
Target Price	ZAR 197.00
52 Week range	ZAR 132.25 - 188.00
Market Cap (m)	ZARm 95,765
	USDm 8,218

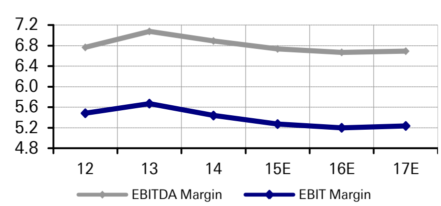
Company Profile

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

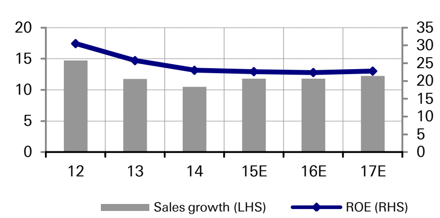
Price Performance



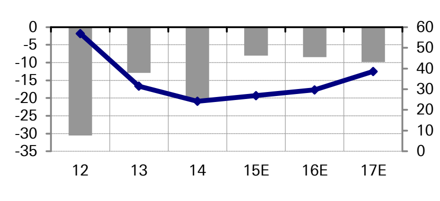
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	6.08	6.77	6.97	7.73	8.55	9.75
Reported EPS (ZAR)	5.90	6.72	6.97	7.73	8.55	9.75
DPS (ZAR)	3.03	3.38	3.50	3.86	4.28	4.87
BVPS (ZAR)	23.8	28.4	32.2	36.0	40.3	45.2
Weighted average shares (m)	513	535	535	535	535	535
Average market cap (ZARm)	64,660	93,654	87,779	95,765	95,765	95,765
Enterprise value (ZARm)	60,813	91,751	84,368	94,274	94,007	93,440
Valuation Metrics						
P/E (DB) (x)	20.7	25.9	23.5	23.2	20.9	18.4
P/E (Reported) (x)	21.4	26.1	23.5	23.2	20.9	18.4
P/BV (x)	6.32	6.54	4.79	4.97	4.44	3.96
FCF Yield (%)	9.3	0.3	nm	0.3	0.2	0.5
Dividend Yield (%)	2.4	1.9	2.1	2.2	2.4	2.7
EV/Sales (x)	0.7	1.0	0.8	0.8	0.7	0.6
EV/EBITDA (x)	10.6	13.6	11.7	11.9	10.7	9.5
EV/EBIT (x)	13.0	17.0	14.8	15.2	13.8	12.1
Income Statement (ZARm)						
Sales revenue	85,056	95,064	105,044	117,419	131,273	147,353
Gross profit	19,303	21,908	24,108	26,927	30,255	34,247
EBITDA	5,755	6,728	7,239	7,910	8,755	9,862
Depreciation	1,090	1,336	1,525	1,718	1,927	2,145
Amortisation	0	0	0	0	0	0
EBIT	4,665	5,392	5,714	6,192	6,828	7,717
Net interest income(expense)	-82	-171	-236	-230	-230	-200
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-8	-4	-9	0	0	0
Other pre-tax income/(expense)	-93	-27	-2	0	0	0
Profit before tax	4,482	5,190	5,467	5,962	6,598	7,517
Income tax expense	1,439	1,578	1,727	1,819	2,012	2,293
Minorities	-16	-17	-10	-10	-10	-10
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,027	3,595	3,730	4,134	4,576	5,215
DB adjustments (including dilution)	93	27	2	0	0	0
DB Net profit	3,120	3,622	3,732	4,134	4,576	5,215
Cash Flow (ZARm)						
Cash flow from operations	9,131	3,294	4,056	3,785	4,215	4,752
Net Capex	-3,111	-3,038	-4,164	-3,510	-3,997	-4,276
Free cash flow	6,020	256	-108	275	217	476
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,554	-1,809	-1,873	-2,067	-2,288	-2,607
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	1,988	121	533	0	0	0
Net cash flow	6,454	-1,432	-1,448	-1,792	-2,071	-2,132
Change in working capital	*-16*	*-2,253*	*1,583*	*-2,194*	*49*	*91*
Balance Sheet (ZARm)						
Cash and other liquid assets	7,939	6,122	8,161	6,241	6,508	7,075
Tangible fixed assets	10,017	11,652	13,576	15,283	17,261	19,295
Goodwill/intangible assets	546	1,041	1,225	1,311	1,403	1,501
Associates/investments	0	0	0	0	0	0
Other assets	12,581	14,665	17,571	19,224	21,349	23,765
Total assets	31,083	33,480	40,533	42,059	46,521	51,636
Interest bearing debt	4,030	4,151	4,684	4,684	4,684	4,684
Other liabilities	14,246	14,077	18,566	18,025	20,199	22,707
Total liabilities	18,276	18,228	23,250	22,709	24,883	27,391
Shareholders' equity	12,745	15,184	17,217	19,284	21,572	24,179
Minorities	62	68	66	66	66	66
Total shareholders' equity	12,807	15,252	17,283	19,350	21,638	24,245
Net debt	*-3,909*	*-1,971*	*-3,477*	*-1,557*	*-1,824*	*-2,391*
Key Company Metrics						
Sales growth (%)	14.7	11.8	10.5	11.8	11.8	12.2
DB EPS growth (%)	19.0	11.3	3.0	10.8	10.7	14.0
EBITDA Margin (%)	6.8	7.1	6.9	6.7	6.7	6.7
EBIT Margin (%)	5.5	5.7	5.4	5.3	5.2	5.2
Payout ratio (%)	51.4	50.3	50.2	50.0	50.0	50.0
ROE (%)	30.5	25.7	23.0	22.7	22.4	22.8
Capex/sales (%)	3.7	3.2	4.0	3.0	3.0	2.9
Capex/depreciation (x)	2.9	2.3	2.7	2.0	2.1	2.0
Net debt/equity (%)	-30.5	-12.9	-20.1	-8.0	-8.4	-9.9
Net interest cover (x)	56.9	31.5	24.2	26.9	29.7	38.6

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (13 February 2015): 18385c | Target price: 20100c | Rating: Buy

Spar Group Ltd

Sean Holmes / Ryan Eichstadt

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: The food store network consists of SuperSpar stores (sized 1,500-3,000m^2), Spar stores (700-1,500m^2) and KwikSpar stores (250-750m^2). In addition, Spar has exposure to the DIY market through its fast-growing network of 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 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.

Spar is well positioned to deliver solid and stable earnings growth of 12-16% pa over the next five years, support by c.12% top-line growth. The business is extremely cash generative and could reward investors with 4-5% dividend yield pa.

Outlook: In our view Spar is a defensive yield play, supported by a stable growth outlook and robust free cash flows. We see Spar growing its earnings at CAGR of 11-13% over the next five years, mainly driven by steady top line growth (10-12% pa). We do not foresee any significant capital investment over the next five years, presenting Spar with the opportunity to return excess capital to shareholders. Buy on valuation.

Valuation: Our 12 month target prices are calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple. We calculate our target price P/E multiples using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate P/E rating, based on the calculated dividend yield (where P/E = dividend payout ratio/ dividend yield).

Risks: Downside risks: Spar's wholesale business is very dependent on the retail footprint of its franchisees. Therefore there is some earnings risk should Spar lose its franchisees to a competitor. We think that space growth (and therefore sales) could be constrained if business confidence remains low and the demand from new franchisees is low.

Model updated:11 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Spar Group Limited

Reuters: SPPJ.J Bloomberg: SPP SJ

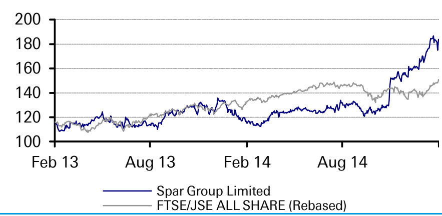
Buy

Price (13 Feb 15)	ZAR 183.85
Target Price	ZAR 201.00
52 Week range	ZAR 112.33 - 186.84
Market Cap (m)	ZARm 31,696
	USDm 2,720

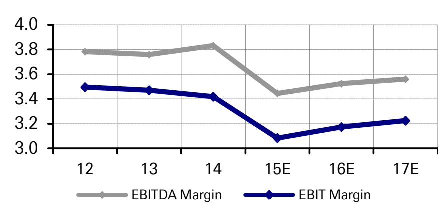
Company Profile

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.

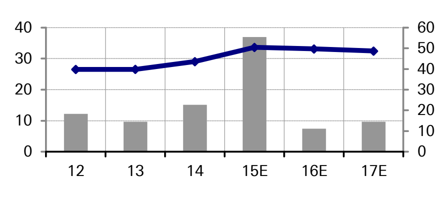
Price Performance



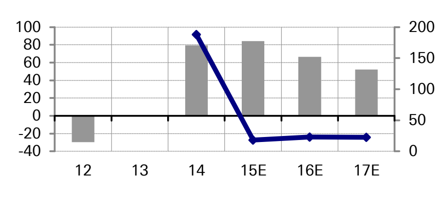
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Sep	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	5.66	6.43	7.18	8.84	9.92	11.04
Reported EPS (ZAR)	5.71	6.49	7.32	8.84	9.92	11.04
DPS (ZAR)	4.30	4.85	5.40	6.55	7.35	8.17
BVPS (ZAR)	16.5	18.5	17.6	20.1	22.8	25.9
Weighted average shares (m)	172	172	172	172	172	172
Average market cap (ZARm)	19,404	20,394	21,535	31,696	31,696	31,696
Enterprise value (ZARm)	18,563	20,393	23,944	34,607	34,302	34,023
Valuation Metrics						
P/E (DB) (x)	19.9	18.4	17.4	20.8	18.5	16.7
P/E (Reported) (x)	19.7	18.2	17.1	20.8	18.5	16.7
P/BV (x)	7.76	6.56	7.14	9.16	8.05	7.10
FCF Yield (%)	1.9	1.4	nm	nm	1.1	1.1
Dividend Yield (%)	3.8	4.1	4.3	3.6	4.0	4.4
EV/Sales (x)	0.4	0.4	0.4	0.5	0.4	0.4
EV/EBITDA (x)	11.3	11.3	11.4	13.3	12.0	10.8
EV/EBIT (x)	12.2	12.3	12.7	14.9	13.4	11.9
Income Statement (ZARm)						
Sales revenue	43,560	47,796	55,016	75,367	80,937	88,743
Gross profit	3,839	4,230	5,031	7,035	7,548	8,270
EBITDA	1,648	1,797	2,108	2,597	2,852	3,160
Depreciation	125	138	227	272	283	298
Amortisation	0	0	0	0	0	0
EBIT	1,523	1,659	1,881	2,325	2,569	2,862
Net interest income(expense)	5	9	-10	-128	-112	-126
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	11	5	0	0	0
Other pre-tax income/(expense)	-9	-10	-26	0	0	0
Profit before tax	1,519	1,658	1,845	2,197	2,457	2,736
Income tax expense	459	471	499	564	625	698
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,060	1,198	1,351	1,633	1,832	2,038
DB adjustments (including dilution)	-9	-10	-26	0	0	0
DB Net profit	1,051	1,188	1,325	1,633	1,832	2,038
Cash Flow (ZARm)						
Cash flow from operations	593	579	-546	696	759	826
Net Capex	-222	-296	-924	-848	-422	-477
Free cash flow	371	283	-1,470	-152	337	349
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-738	-842	-941	-1,093	-1,276	-1,425
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-71	-101	-101	0	0	0
Net cash flow	-438	-660	-2,512	-1,244	-938	-1,076
Change in working capital	*560*	*-1,022*	*1,027*	*-351*	*-32*	*-71*
Balance Sheet (ZARm)						
Cash and other liquid assets	841	112	437	-65	240	518
Tangible fixed assets	1,588	1,749	2,878	3,454	3,592	3,771
Goodwill/intangible assets	391	388	2,545	2,545	2,545	2,545
Associates/investments	0	0	0	0	0	0
Other assets	7,075	7,537	11,086	12,571	13,471	14,733
Total assets	9,895	9,786	16,946	18,504	19,848	21,568
Interest bearing debt	0	111	2,846	2,846	2,846	2,846
Other liabilities	7,057	6,497	11,073	12,207	13,076	14,267
Total liabilities	7,057	6,608	13,919	15,053	15,922	17,113
Shareholders' equity	2,838	3,178	3,027	3,451	3,926	4,455
Minorities	0	0	0	0	0	0
Total shareholders' equity	2,838	3,178	3,027	3,451	3,926	4,455
Net debt	*-841*	*-1*	*2,409*	*2,911*	*2,606*	*2,328*
Key Company Metrics						
Sales growth (%)	12.2	9.7	15.1	37.0	7.4	9.6
DB EPS growth (%)	8.9	13.6	11.5	23.3	12.2	11.3
EBITDA Margin (%)	3.8	3.8	3.8	3.4	3.5	3.6
EBIT Margin (%)	3.5	3.5	3.4	3.1	3.2	3.2
Payout ratio (%)	69.8	69.8	68.9	69.1	69.1	69.1
ROE (%)	39.8	39.8	43.5	50.4	49.7	48.6
Capex/sales (%)	0.5	0.6	1.7	1.1	0.5	0.5
Capex/depreciation (x)	1.8	2.1	4.1	3.1	1.5	1.6
Net debt/equity (%)	-29.6	0.0	79.6	84.4	66.4	52.2
Net interest cover (x)	nm	nm	188.1	18.2	23.0	22.6

Source: Company data, Deutsche Bank estimates

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South Africa – Telecommunications | Price (13 February 2015): 7690c | Target price: 6500c | Rating: Hold

Telkom SA SOC Ltd

Mike Gresty, CFA

Business description: Telkom, 39.8% owned by the South African government, is the incumbent fixed-line operator in South Africa. Telkom has some 3.7m fixed lines today (7.2% penetration), an element that remains under pressure as mobile substitution continues.

Having exited its investment in Vodacom in May 2009, Telkom launched its own mobile strategy in October 2010 under the brand 8.ta. It was re-branded Telkom Mobile in 2013. Having fallen well short of its original subscriber share and financial targets, Telkom management has moved to curtail the cash burn in Telkom Mobile through the introduction of MTN as a strategic partner. Still subject to regulatory approval, the plan entails MTN taking over the running and future investment in the network, while a reciprocal roaming arrangement will enable the two to roam on each other’s networks.

In 2014, Telkom announced the acquisition of Business Connexion. Also still subject to regulatory approval, Business Connexion, which provides a range of IT support services and has a market leading share of data centres in SA, is intended to enable Telkom to provide a one-stop ICT solution to commercial and corporate customers as the trend towards convergence of IT services, telecommunications and media gathers pace.

Telkom also holds legacy stakes in some small and arguably non-core businesses: iWay Africa Group – a satellite-based ISP aimed at the enterprise market in the rest of Africa, a 64.9% stake in Trudon (owner of the Yellow Pages brand), and a 100% stake in Swiftnet, which, among other things, provides connectivity services for point-of-sale devices. The net contribution from these other businesses is relatively immaterial.

Drivers:

- Delivery of differentiated converged proposition following the NGN upgrade. Having dithered for several years post the network rollout ahead of the 2010 World Cup, one of the first decisions of the reconfigured board in late 2012 was to proceed with the next generation network upgrade (NGN), focussing on the c.600 exchanges that drive c.80% of Telkom’s revenue. Aside from enabling Telkom to offer much faster data speeds, the technology will enable Telkom to launch converged products for the first time.
- Introduction of MTN as a strategic partner into Telkom Mobile. Should the plan to introduce MTN as a strategic partner receive regulatory approval, we expect it to reduce Telkom Mobile’s capex and opex commitments by c.700m, bringing forwards the prospect of EBITDA breakeven to FY17 and positive FCF to FY19 (per our estimates).
- Returning top line to growth; focus on opex rationalisation. After years of flat to declining top-line, Telkom’s guidance is to return the group to slow top line growth in the medium-term. In addition, it aims to improve margin through cost rationalisation (cutting staff costs to 25% of revenue over five years (from c.29% currently) is a key component of this plan).

Outlook: New management has made good progress in restoring relations with stakeholders and providing new strategic direction over the last 18 months. So far, however, these plans (particularly from a top line perspective) have yet to deliver any meaningful change in trajectory for the business. With the share having performed very strongly over this period, it is now already discounting a fair portion of what has been promised by management, posing downside risk if execution falters – Hold.

Valuation: Our target price on Telkom is based on an exit EV/EBITDA multiple of c.3.7x and a 12-month interpolated forward P/E multiple of 11x. This is a discount rating relative to international fixed and integrated telco operators, but looks appropriate in light of Telkom's growth prospects and projected free cash margin in the medium term.

Risks: The key downside investment risks would be failure to consummate the MTN deal in Mobile, despite having reached heads of agreement already; poor execution and monetisation of its NGN upgrade and unfavourable regulatory developments, particularly with respect to interconnection, spectrum allocation and participation in SA's national broadband plan. Upside investment risks include earlier execution of potential catalysts, such as unlock of value in its property portfolio.

Model updated:18 November 2014

Running the numbers

Sub-Saharan Africa

South Africa

Telecom

Telkom

Reuters: TKGJ.J Bloomberg: TKG SJ

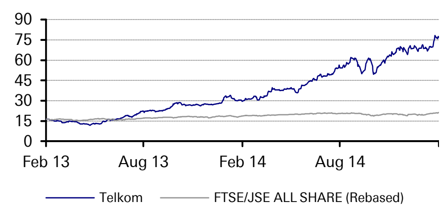
Hold

Price (13 Feb 15)	ZAR 76.90
Target Price	ZAR 65.00
52 Week range	ZAR 29.85 - 78.39
Market Cap (m)	ZARm 39,940
	USDm 3,427

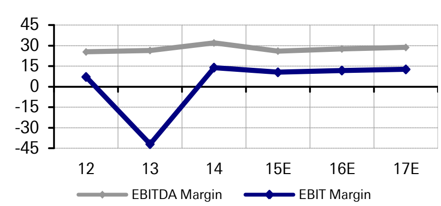
Company Profile

Telkom SA Ltd (Telkom) is an integrated communications service provider in South Africa. The company offers packaged voice, data, broadband and Internet services to business and residential customers. Telkom's main operating segments are Telkom Fixed Line and Telkom Mobile. The Telkom Fixed Line segment provides fixed-line access, fixed-mobile and data communications services. The Telkom Mobile segment provides mobile voice services, data services and handset sales.

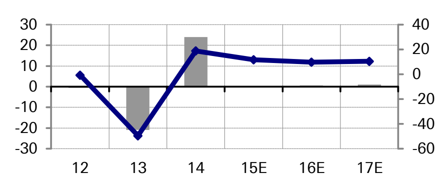
Price Performance



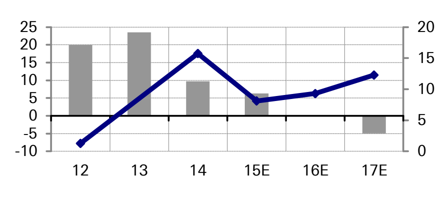
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	3.11	0.60	8.47	5.44	4.92	5.52
Reported EPS (ZAR)	-0.42	-23.03	7.45	5.44	4.92	5.52
DPS (ZAR)	0.00	0.00	0.00	2.00	3.50	4.00
BVPS (ZAR)	58.2	34.9	44.4	49.0	51.9	54.0
Weighted average shares (m)	511	511	513	519	519	519
Average market cap (ZARm)	16,471	9,454	12,028	39,940	39,940	39,940
Enterprise value (ZARm)	20,683	11,892	14,399	41,280	39,801	38,435
Valuation Metrics						
P/E (DB) (x)	10.4	30.8	2.8	14.1	15.6	13.9
P/E (Reported) (x)	nm	nm	3.1	14.1	15.6	13.9
P/BV (x)	0.41	0.43	0.76	1.57	1.48	1.42
FCF Yield (%)	13.0	21.8	1.6	3.1	6.5	8.1
Dividend Yield (%)	0.0	0.0	0.0	2.6	4.6	5.2
EV/Sales (x)	0.6	0.4	0.4	1.3	1.2	1.1
EV/EBITDA (x)	2.4	1.7	1.4	4.8	4.4	4.0
EV/EBIT (x)	8.6	nm	3.1	11.9	10.1	9.1
Income Statement (ZARm)						
Sales revenue	33,658	26,604	32,962	32,928	33,102	33,422
Gross profit	8,546	7,035	10,539	8,570	9,131	9,584
EBITDA	8,546	7,035	10,539	8,570	9,131	9,584
Depreciation	6,138	18,180	5,937	5,095	5,207	5,352
Amortisation	0	0	0	0	0	0
EBIT	2,408	-11,145	4,602	3,475	3,923	4,232
Net interest income(expense)	-1,872	-224	-292	-428	-422	-344
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	238	279	176	242	204	241
Profit before tax	774	-11,090	4,486	3,289	3,706	4,129
Income tax expense	595	442	494	365	1,056	1,177
Minorities	126	123	121	100	93	88
Other post-tax income/(expense)	-269	-104	-49	0	0	0
Net profit	-216	-11,759	3,822	2,824	2,557	2,865
DB adjustments (including dilution)	1,803	12,066	525	0	0	0
DB Net profit	1,587	307	4,347	2,824	2,557	2,865
Cash Flow (ZARm)						
Cash flow from operations	6,704	7,649	6,490	5,686	7,732	8,179
Net Capex	-4,570	-5,588	-6,303	-4,453	-5,140	-4,940
Free cash flow	2,134	2,061	187	1,233	2,592	3,239
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-812	-177	-124	-71	-1,020	-1,786
Net inc/(dec) in borrowings	-1,253	-701	-2,736	877	-300	-300
Other investing/financing cash flows	1,103	1,203	4,504	1,348	3,388	4,660
Net cash flow	1,172	2,386	1,831	3,387	4,660	5,814
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,168	2,384	1,842	3,394	4,666	5,820
Tangible fixed assets	36,155	24,881	25,123	24,724	24,871	24,689
Goodwill/intangible assets	3,555	2,581	2,833	2,677	2,463	2,233
Associates/investments	2,243	2,217	261	690	690	690
Other assets	9,447	9,512	9,346	9,666	9,794	9,924
Total assets	52,568	41,575	39,405	41,151	42,484	43,356
Interest bearing debt	7,189	6,660	4,097	5,016	4,716	4,416
Other liabilities	15,238	16,738	12,160	10,293	10,296	10,302
Total liabilities	22,427	23,398	16,257	15,309	15,012	14,718
Shareholders' equity	29,707	17,798	22,771	25,434	26,971	28,050
Minorities	434	379	377	408	501	589
Total shareholders' equity	30,141	18,177	23,148	25,842	27,472	28,638
Net debt	*6,021*	*4,276*	*2,255*	*1,622*	*50*	*-1,404*
Key Company Metrics						
Sales growth (%)	-0.6	-21.0	23.9	-0.1	0.5	1.0
DB EPS growth (%)	-6.5	-80.7	1,308.8	-35.8	-9.5	12.0
EBITDA Margin (%)	25.4	26.4	32.0	26.0	27.6	28.7
EBIT Margin (%)	7.2	-41.9	14.0	10.6	11.9	12.7
Payout ratio (%)	nm	nm	0.0	36.8	71.1	72.5
ROE (%)	-0.7	-49.5	18.8	11.7	9.8	10.4
Capex/sales (%)	13.9	21.2	19.3	13.7	15.5	14.8
Capex/depreciation (x)	0.8	0.3	1.1	0.9	1.0	0.9
Net debt/equity (%)	20.0	23.5	9.7	6.3	0.2	-4.9
Net interest cover (x)	1.3	nm	15.8	8.1	9.3	12.3

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial | Price (13 February 2015): 31600c | Target price: 32300c | Rating: Buy

The Bidvest Group Ltd

John Kim

Business description: Bidvest comprises a group of highly diverse businesses run on a decentralised basis focusing on trading services and distribution. 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. Outside South Africa, the group is active in the food service distribution industry having developed its international business into the largest foodservices group outside the US.

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

- Bidvest Food Services: (36%) has operations in Australia, New Zealand, the UK, Benelux and Easter Europe as well as China. Recent acquisitions include operations in Italy and specialist businesses in the UK.
- Bidfreight (13% 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.
- BidAutomotive (7%). This business operates over 116 dealerships across South Africa and is active in motor retailing, car auctions, financing and vehicle insurance brokering.
- Financial Services (7% of trading profit). This division carries Bidvest's interest in Bidvest Bank, which provides a range of financial, foreign exchange and travel services.
- Bidvest Services, Rental and Products and Travel and Aviation (17% of trading profit) offers hygiene services, textile rental and industrial workwear, security and laundry services, as well as contract cleaning services. Travel and Aviation offers baggage handling and transport services around the airport as well as Budget rental car.
- Bid PaperPlus (4% of trading profit) 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.
- Bid Consumer Products (1% of trading profit) is a relatively new division including House of Living brands which markets and distributes branded household durables. This division was created from the acquisition of AMAPs.
- BidOffice, Industrial and Electrical (9% of trading profit), 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.
- Bidvest Namibia (6% of trading profit). 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.

Outlook: Through acquisition and investment, Bidvest has secured earnings growth for FY15E and FY16E. Bidvest operates a diversified business model: while five of Bidvest's 12 divisions account for c.65% of group profit, we highlight the diverse nature of these five major divisions (Foodservice, Freight, Automotive, Financial Services, and Namibia). Beyond these major divisions, most of Bidvest's remaining exposure is to business-to-business (B2B) relationships often in the form of multi-year, contractual relationships. Collectively, Bidvest operates a mix of defensive business models that function in lower growth economic conditions. We estimate that c.35% of group earnings come from non-rand currencies providing a rand hedge where no one foreign currency accounts for more than 10% of profit. Aid from acquisition and currency helps the story. There is potential upside/value unlock in its Foodservice assets where a separate listing is being considered. Buy.

Valuation: We value Bidvest using a weighted methodology including trading multiples of comparable companies and SOTP using FY15 estimates. Using trading multiples of comparable companies, we value Bidvest at a 15.5x forward multiple inline with the average of its peer group. We value Bidvest on a sum-of-the-parts basis by applying rolling EBIT multiples to the various divisions excluding: 1) property where we apply a 8.5% cap rate to Bidvest's real estate portfolio; 2) Bidvest Bank where we value the business on a price/book value of 2.0x against estimated equity; and 3) Bidvest Namibia, Adcock Ingram and Comair where Bidvest's equity stakes are valued at current market values.

Risks: Downside risks include: 1) inability to grow earnings organically or through acquisition as Bidvest typically serves mature markets; and 2) weakness in larger divisions including Foodservice and Financial Service. Other risks include: lack of economic recovery in Europe and possible negative revaluation in light of relatively disappointing ROEs.

Model updated:05 September 2014

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Bidvest

Reuters: BVTJ.J | Bloomberg: BVT SJ

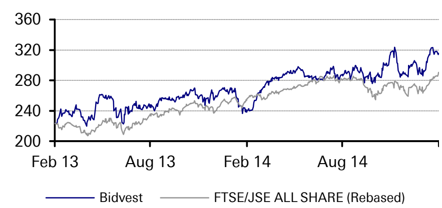
Buy

Price (13 Feb 15)	ZAR 316.00
Target Price	ZAR 323.00
52 Week range	ZAR 239.45 - 323.95
Market Cap (m)	ZARm 99,898
	USDm 8,573

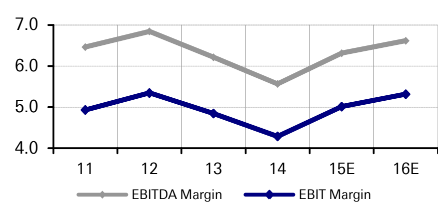
Company Profile

Bidvest is a diversified industrial service and retail group with activities spanning service businesses, logistics, vehicle retailing, car rental, tourism and other related services. Since 1995, Bidvest has grown beyond South Africa, expanding aggressively into continental Europe, the United Kingdom and Asia-Pacific.

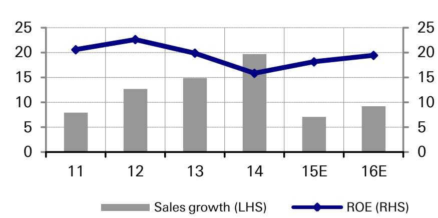
Price Performance



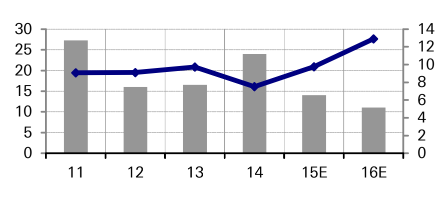
Margin Trends



Growth & Profitability



Solvency



John Kim
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Fiscal year end 30-Jun	2011	2012	2013	2014	2015E	2016E
Financial Summary						
DB EPS (ZAR)	11.54	14.71	15.52	17.23	19.56	21.12
Reported EPS (ZAR)	11.54	14.71	15.52	14.53	19.56	21.12
DPS (ZAR)	4.80	6.22	7.20	8.34	9.15	9.89
BVPS (ZAR)	55.4	69.7	84.4	100.9	116.5	127.4
Weighted average shares (m)	319	310	313	315	316	317
Average market cap (ZARm)	43,231	48,694	67,768	82,845	99,898	99,898
Enterprise value (ZARm)	45,818	49,279	68,425	84,275	99,088	98,536
Valuation Metrics						
P/E (DB) (x)	11.8	10.7	14.0	15.3	16.2	15.0
P/E (Reported) (x)	11.8	10.7	14.0	18.1	16.2	15.0
P/BV (x)	2.54	2.53	2.90	2.80	2.71	2.48
FCF Yield (%)	6.9	8.5	3.1	3.8	4.4	5.7
Dividend Yield (%)	3.5	4.0	3.3	3.2	2.9	3.1
EV/Sales (x)	0.4	0.4	0.4	0.5	0.5	0.5
EV/EBITDA (x)	6.0	5.4	7.2	8.2	8.0	6.9
EV/EBIT (x)	7.8	6.9	9.2	10.7	10.0	8.6
Income Statement (ZARm)						
Sales revenue	118,483	133,534	153,405	183,645	196,645	214,734
Gross profit	212,414	239,775	276,444	329,926	353,469	385,662
EBITDA	7,660	9,142	9,536	10,227	12,420	14,211
Depreciation	1,696	1,875	1,964	2,196	2,394	2,614
Amortisation	115	127	133	149	163	178
EBIT	5,848	7,140	7,439	7,882	9,864	11,420
Net interest income(expense)	-644	-785	-765	-1,048	-1,011	-885
Associates/affiliates	98	77	162	110	104	210
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	5,302	6,433	6,836	6,944	8,957	10,745
Income tax expense	1,528	1,695	1,784	2,107	2,418	2,901
Minorities	235	295	280	233	317	335
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,538	4,443	4,772	4,603	6,222	7,509
DB adjustments (including dilution)	149	-246	0	736	-287	-886
DB Net profit	3,688	4,197	4,772	5,339	5,934	6,623
Cash Flow (ZARm)						
Cash flow from operations	6,026	6,641	4,893	7,244	8,399	9,547
Net Capex	-3,044	-2,483	-2,771	-4,109	-3,986	-3,809
Free cash flow	2,983	4,158	2,122	3,134	4,413	5,738
Equity raised/(bought back)	-1,427	281	182	383	0	0
Dividends paid	-1,560	-2,063	-2,227	-1,873	-3,002	-3,245
Net inc/(dec) in borrowings	703	-115	2,278	698	0	0
Other investing/financing cash flows	-784	-454	122	-3,872	-689	-1,605
Net cash flow	-84	1,806	2,477	-1,530	722	888
Change in working capital	*35*	*-280*	*-2,124*	*-993*	*-683*	*-601*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,437	5,871	8,453	8,839	7,644	8,356
Tangible fixed assets	11,603	12,446	13,873	16,272	18,681	20,939
Goodwill/intangible assets	7,027	8,311	9,880	13,370	12,890	13,415
Associates/investments	3,230	4,000	5,067	7,717	7,719	7,767
Other assets	21,532	25,267	29,405	34,778	37,435	38,131
Total assets	47,830	55,895	66,678	80,975	84,369	88,608
Interest bearing debt	9,468	9,487	13,000	16,755	13,023	13,023
Other liabilities	19,905	23,809	26,128	31,209	32,981	33,404
Total liabilities	29,373	33,296	39,128	47,964	46,004	46,427
Shareholders' equity	17,669	21,630	26,374	31,781	36,834	40,443
Minorities	788	969	1,177	1,230	1,530	1,738
Total shareholders' equity	18,457	22,599	27,551	33,011	38,364	42,181
Net debt	*5,030*	*3,615*	*4,547*	*7,917*	*5,379*	*4,667*
Key Company Metrics						
Sales growth (%)	7.9	12.7	14.9	19.7	7.1	9.2
DB EPS growth (%)	8.5	27.5	5.5	11.0	13.5	8.0
EBITDA Margin (%)	6.5	6.8	6.2	5.6	6.3	6.6
EBIT Margin (%)	4.9	5.3	4.8	4.3	5.0	5.3
Payout ratio (%)	41.5	42.2	46.1	57.1	46.5	46.5
ROE (%)	20.6	22.6	19.9	15.8	18.1	19.4
Capex/sales (%)	3.5	2.9	2.6	3.0	2.6	2.2
Capex/depreciation (x)	2.3	2.0	1.9	2.4	2.0	1.7
Net debt/equity (%)	27.3	16.0	16.5	24.0	14.0	11.1
Net interest cover (x)	9.1	9.1	9.7	7.5	9.8	12.9

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (13 February 2015): 17898c | Target price: 19300c | Rating: Buy

The Foschini Group Ltd

Sean Holmes / Ryan Eichstadt

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, Sportscene and Duesouth brands. The @home brand, launched in 2001, formed Foschini's beachhead into the domestic home accessories market.

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.

- 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 5-7% trading space growth over the next 12 months.
- Increasing GP margins despite product inflation increasing. A weaker rand 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.
- TFG Financial Services driving enhanced profitability and returns through the continued unwind of debtors' costs, maintenance of overall yield on the book.

Outlook: We see a value unlock opportunity in Foschini through more efficient capital management. The group's 24% FY14 RoE is substantially lower than its peers' 40-60% RoE. A high proportion of the group's equity is tied up in TFG Financial Services, which currently generates a RoE of less than 10%. In our view, Foschini could improve its free cash flow generation and RoE through higher gearing in TFG Financial Services and better inventory management, which we think could help support a higher P/E rating. Buy on valuation and improved earnings growth outlook.

Valuation: Our 12 month SOTP-based target price is calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple (14x). We calculate our target price P/E multiples using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity (CoE of 13.0%). Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate P/E rating, based on the calculated dividend yield (where P/E = dividend payout ratio/dividend yield.

Risks: Downside risks: The consumer finances business within the group could be susceptible to rising bad debts should the macro environment deteriorate (due to rising interest rates, high inflation, increased job losses). We think Foschini's relatively weaker supply chain (longer lead times) could potentially constrain its sales growth and GP margins prospects. Upside risks: tighter control over operating costs and faster improvement in bad debts.

Model updated:11 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

The Foschini Group Ltd

Reuters: TFGJ.J Bloomberg: TFG SJ

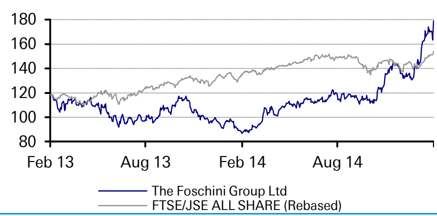
Buy

Price (13 Feb 15)	ZAR 178.98
Target Price	ZAR 193.00
52 Week range	ZAR 86.94 - 178.98
Market Cap (m)	ZARm 36,870
	USDm 3,164

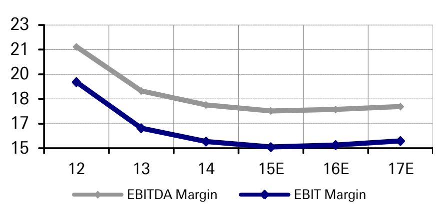
Company Profile

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.

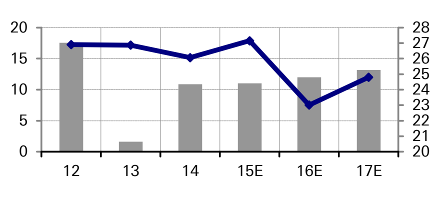
Price Performance



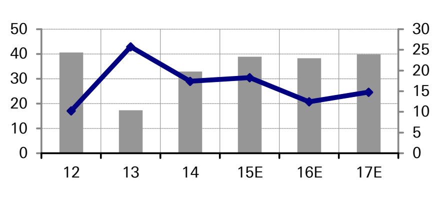
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	7.66	8.51	9.03	10.74	10.53	12.30
Reported EPS (ZAR)	7.66	8.51	9.03	10.74	10.53	12.30
DPS (ZAR)	4.55	5.06	5.36	6.00	7.02	8.20
BVPS (ZAR)	26.2	29.3	30.1	37.7	40.7	44.2
Weighted average shares (m)	205	209	206	206	206	206
Average market cap (ZARm)	19,946	26,660	20,907	36,870	36,870	36,870
Enterprise value (ZARm)	23,301	28,712	24,428	40,399	40,617	41,114
Valuation Metrics						
P/E (DB) (x)	12.7	15.0	11.2	16.7	17.0	14.6
P/E (Reported) (x)	12.7	15.0	11.2	16.7	17.0	14.6
P/BV (x)	4.73	3.85	3.56	4.75	4.40	4.05
FCF Yield (%)	3.5	2.4	0.8	2.5	1.7	2.0
Dividend Yield (%)	4.7	4.0	5.3	3.4	3.9	4.6
EV/Sales (x)	1.6	1.9	1.5	2.2	2.0	1.8
EV/EBITDA (x)	7.6	10.5	8.5	12.9	11.5	10.2
EV/EBIT (x)	8.4	12.0	9.7	14.8	13.1	11.6
Income Statement (ZARm)						
Sales revenue	14,505	14,742	16,346	18,151	20,332	23,013
Gross profit	7,755	7,836	8,767	9,787	10,963	12,399
EBITDA	3,072	2,726	2,883	3,137	3,531	4,037
Depreciation	311	334	363	400	439	481
Amortisation	0	0	0	0	0	0
EBIT	2,761	2,392	2,520	2,737	3,092	3,555
Net interest income(expense)	-269	-93	-145	-150	-248	-241
Associates/affiliates	0	0	0	28	219	260
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	10	0	0	0	0	0
Profit before tax	2,502	2,299	2,375	2,615	3,062	3,575
Income tax expense	810	669	692	762	892	1,042
Minorities	-110	162	177	359	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,582	1,792	1,860	2,212	2,170	2,533
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,582	1,792	1,860	2,212	2,170	2,533
Cash Flow (ZARm)						
Cash flow from operations	1,227	1,220	703	1,377	1,163	1,326
Net Capex	-537	-573	-537	-443	-530	-577
Free cash flow	689	647	166	934	633	749
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-847	-1,009	-1,087	-1,176	-1,351	-1,580
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	933	-1,556	1,022	2,543	9	414
Net cash flow	775	-1,918	102	2,300	-710	-416
Change in working capital	*-1,251*	*787*	*-1,506*	*-1,802*	*-851*	*-1,246*
Balance Sheet (ZARm)						
Cash and other liquid assets	711	593	301	1,975	1,765	1,683
Tangible fixed assets	1,313	1,548	1,696	1,739	1,830	1,925
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	10,832	13,153	15,106	12,551	13,794	15,273
Total assets	12,856	15,294	17,103	16,266	17,389	18,882
Interest bearing debt	3,495	1,939	2,961	5,504	5,513	5,927
Other liabilities	2,497	5,605	6,052	1,695	2,087	2,320
Total liabilities	5,992	7,544	9,013	7,199	7,599	8,247
Shareholders' equity	6,293	7,044	7,229	9,067	9,790	10,635
Minorities	571	706	861	0	0	0
Total shareholders' equity	6,864	7,750	8,090	9,067	9,790	10,635
Net debt	*2,784*	*1,346*	*2,660*	*3,529*	*3,747*	*4,244*
Key Company Metrics						
Sales growth (%)	17.5	1.6	10.9	11.0	12.0	13.2
DB EPS growth (%)	23.6	11.1	6.1	18.9	-1.9	16.7
EBITDA Margin (%)	21.2	18.5	17.6	17.3	17.4	17.5
EBIT Margin (%)	19.0	16.2	15.4	15.1	15.2	15.4
Payout ratio (%)	59.0	59.1	59.4	55.8	66.7	66.7
ROE (%)	26.9	26.9	26.1	27.1	23.0	24.8
Capex/sales (%)	3.7	3.9	3.3	2.4	2.6	2.5
Capex/depreciation (x)	1.7	1.7	1.5	1.1	1.2	1.2
Net debt/equity (%)	40.6	17.4	32.9	38.9	38.3	39.9
Net interest cover (x)	10.3	25.7	17.4	18.3	12.5	14.8

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (13 February 2015): 8684c | Target price: 9500c | Rating: Buy

Truworths International Ltd

Sean Holmes / Ryan Eichstadt

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.22%). 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 more than 540 stores.

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

- **Improved sales growth:** .Adverse credit conditions and lack of credit affordability have constrained Truworths' sales growth over the last three years. On top of that, its merchandise offer has not been as compelling as some of its peers. We see a more buoyant consumer environment supporting better sales growth over the next 2-5 years.
- **Selective acquisitions:** A free cash file of c.R1.3bn (4% of current market cap) provides the group with opportunities to assess potential acquisitions that compliment the core fashion business or alternatively reduce the dividend cover or do further share buybacks.
- **Further African expansion:** Management has highlighted plans to accelerate African expansion through a mix of franchise and corporate stores. With only 30-40 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 is cautiously optimistic about the group's growth prospects over the next 12 months, citing South African consumers' high debt levels and a key constraining factor. However, the group plans to continue growing its retail space by c.6% pa over the short/medium term.

Outlook: We see Truworths growing its diluted HEPS at a CAGR of 11-13% over the next 4-5 years. In the near term, we are somewhat cautious that the company could face some EBIT margin pressure, mainly as we think the group's GP margins are at risk of contraction and caution that bad debts could remain elevated. However, we think some of the GP margin pressure could potentially be absorbed through a combination of better cost management and improved scale benefits. We see Truworths' strong free cash flow generation and R1.3bn FY13 cash pile as key investment attractions. We rate the stock a Buy, considering the group's stable earnings growth record and scope to return excess cash to shareholders.

Valuation: Our 12 month target price is calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple. We calculate our target price P/E multiples, using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate P/E rating, based on the calculated dividend yield (where P/E = dividend payout ratio/ dividend yield.

Risks: Downside risks: A faster-than-expected contraction in GP margin poses the biggest risk to our earnings forecast and valuation. The group is susceptible to rising bad debts should the macro environment deteriorate. In our view, Truworths might be at more risk than some of its peers should competition from international retailers increase, considering its higher price points and target market.

Model updated:11 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Truworths

Reuters: TRUJ.J Bloomberg: TRU SJ

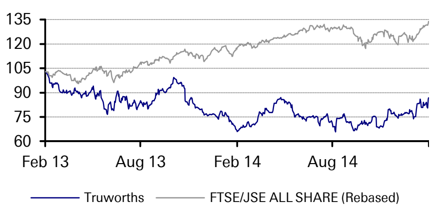
Buy

Price (13 Feb 15)	ZAR 86.84
Target Price	ZAR 95.00
52 Week range	ZAR 65.70 - 87.09
Market Cap (m)	ZARm 36,282
	USDm 3,114

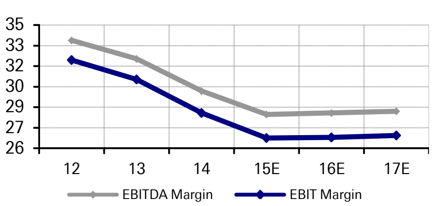
Company Profile

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).

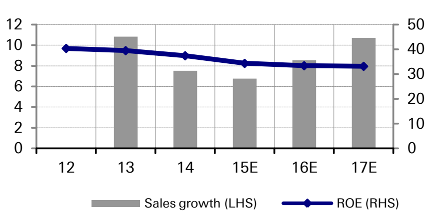
Price Performance



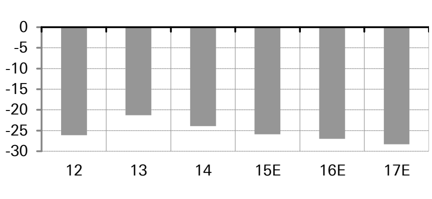
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	5.17	5.61	5.69	5.71	6.24	6.98
Reported EPS (ZAR)	5.17	5.61	5.69	5.71	6.24	6.98
DPS (ZAR)	3.26	3.62	3.85	3.86	4.21	4.71
BVPS (ZAR)	13.3	13.8	14.7	16.5	18.6	20.9
Weighted average shares (m)	423	422	418	418	418	418
Average market cap (ZARm)	33,083	40,518	33,843	36,282	36,282	36,282
Enterprise value (ZARm)	31,523	39,193	32,255	34,361	34,024	33,608
Valuation Metrics						
P/E (DB) (x)	15.1	17.1	14.2	15.2	13.9	12.4
P/E (Reported) (x)	15.1	17.1	14.2	15.2	13.9	12.4
P/BV (x)	6.75	6.30	5.09	5.27	4.68	4.15
FCF Yield (%)	2.6	0.4	1.0	1.8	2.3	2.7
Dividend Yield (%)	4.2	3.8	4.8	4.4	4.9	5.4
EV/Sales (x)	3.3	3.7	2.8	2.8	2.5	2.3
EV/EBITDA (x)	9.8	11.4	9.4	10.0	9.1	8.1
EV/EBIT (x)	10.2	12.0	10.0	10.6	9.7	8.6
Income Statement (ZARm)						
Sales revenue	9,668	10,715	11,521	12,301	13,351	14,780
Gross profit	5,848	6,504	6,904	7,392	8,034	8,906
EBITDA	3,227	3,432	3,420	3,442	3,749	4,169
Depreciation	138	160	184	212	237	260
Amortisation	0	0	0	0	0	0
EBIT	3,089	3,272	3,236	3,230	3,512	3,909
Net interest income(expense)	101	94	121	139	167	209
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	3,190	3,366	3,357	3,369	3,679	4,118
Income tax expense	965	958	951	955	1,042	1,167
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,225	2,408	2,406	2,415	2,637	2,951
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,225	2,408	2,406	2,415	2,637	2,951
Cash Flow (ZARm)						
Cash flow from operations	1,073	398	607	998	1,176	1,336
Net Capex	-229	-242	-267	-333	-343	-365
Free cash flow	844	156	340	665	833	971
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,258	-1,471	-1,587	-1,629	-1,698	-1,876
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	-414	-1,315	-1,247	-964	-865	-905
Change in working capital	*-796*	*-382*	*-80*	*-331*	*-495*	*-555*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,560	1,325	1,588	1,921	2,258	2,674
Tangible fixed assets	775	857	934	1,054	1,158	1,261
Goodwill/intangible assets	184	193	196	198	200	202
Associates/investments	0	0	0	0	0	0
Other assets	4,398	4,896	5,358	5,776	6,387	7,096
Total assets	6,917	7,271	8,076	8,949	10,004	11,232
Interest bearing debt	0	0	0	0	0	0
Other liabilities	936	1,052	1,434	1,521	1,637	1,790
Total liabilities	936	1,052	1,434	1,521	1,637	1,790
Shareholders' equity	5,981	6,219	6,642	7,428	8,367	9,442
Minorities	0	0	0	0	0	0
Total shareholders' equity	5,981	6,219	6,642	7,428	8,367	9,442
Net debt	*-1,560*	*-1,325*	*-1,588*	*-1,921*	*-2,258*	*-2,674*
Key Company Metrics						
Sales growth (%)	nm	10.8	7.5	6.8	8.5	10.7
DB EPS growth (%)	na	8.5	1.5	0.4	9.2	11.9
EBITDA Margin (%)	33.4	32.0	29.7	28.0	28.1	28.2
EBIT Margin (%)	32.0	30.5	28.1	26.3	26.3	26.4
Payout ratio (%)	61.9	63.4	66.9	66.7	66.7	66.7
ROE (%)	40.4	39.5	37.4	34.3	33.4	33.1
Capex/sales (%)	2.4	2.3	2.3	2.7	2.6	2.5
Capex/depreciation (x)	1.7	1.5	1.5	1.6	1.4	1.4
Net debt/equity (%)	-26.1	-21.3	-23.9	-25.9	-27.0	-28.3
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications | Price (13 February 2015): 13663c | Target price: 12500c | Rating: Hold

Vodacom Group Ltd

Mike Gresty, CFA

Business description: Vodacom Group Ltd, which is 65% owned by Vodafone Group plc 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 – contributing c.85% of EBITDA. However, it is the faster growing international operations that have been critical to the group's growth at the margin in recent times.

Vodacom is the number one operator across all the markets where it operates in terms of subscriber market share with the exception of Mozambique. In South Africa, it is particularly dominant in the post-paid segment.

Currently, Vodacom is awaiting regulatory approval of its acquisition of South Africa's second fixed network operator, Neotel. The rationale for this deal includes gaining access to valuable spectrum that Neotel holds, accelerating Vodacom's efforts to get access to the enterprise segment and allowing Vodacom to move closer to a position of being able to offer a converged fixed/mobile proposition.

Drivers:

- Financial services, significant network capacity and Neotel in South Africa. While core voice revenues in South Africa remain under pressure, Vodacom's increased investment in network capacity (part of its parent, Vodafone's Project Spring) is expected to enable it to capitalise on strongly growing mobile data demand. The re-launch of M-Pesa in mid-2014, together with opportunities presented via the Neotel acquisition provide further top-line growth opportunities in what has for some years been a slowing market on account of intensifying competition, market saturation and a subdued macro backdrop.

- International continues to provide the prospect of faster growth at the margin as they gain scale The group's African operations, while still relatively small, provide an exposure markets with a clearer growth underpin than SA (lower penetration, faster growth in GDP per capita and very limited competition from fixed line incumbents). While they have fallen victim from time to time to bouts of aggressive price competition (we worry that Tanzania and DRC have issued too many licenses), we expect these markets to sustain double digit growth in the medium term. As Mozambique and DRC gain scale, we expect positive operating leverage to be evident.

Outlook: From a broad operational perspective we believe Vodacom remains a defensive holding with the stable South African business contributing the majority of profits for the group. We think FY15 has been a particularly difficult one for Vodacom in that it has faced a perfect storm of a halving in termination rates, aggressive price competition from a resurgent MTN and a soft consumer environment in its home market. Tanzania (responsible for c.50% of its International division EBITDA) also struggled due to increased taxes and price competition. This led to management lowering medium term guidance to mid-single digit growth in EBITDA. We believe, however, that as one looks beyond FY15 the growth outlook in SA will improve – declining revenue streams (interconnect and SMS) are now becoming relatively immaterial, while data revenue, which should continue to compound at c.20% now 26.4% of SA service revenue. We also think the recent three year termination rate glide path announced by ICASA has limited the capacity of Cell C to lead further price cuts in the market, likely leading to a stabilisation in voice pricing. However, this is reflected in the rating currently, Hold.

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 value Vodacom on a 12-month forward P/E of 12.7x (in line with its average since the beginning of 2011) and EV/EBITDA of 7.0x (around the mid-point of its range since the beginning of 2011), implying a de-rating from current levels, though still a premium vs. its EM multinational peers. Our valuation for the group is underpinned by the group's better-than-sector dividend yield (approximately 7%) and a business that, in our view, is defensive in nature in the current volatile markets.

Risks: South Africa remains a key contributor to group profitability. Possible risks facing it in this market include unanticipated moves by competitors seeking to gain a meaningful foothold, significant deterioration in the consumer environment and further regulatory interference. The outcome of negotiations to acquire Neotel pose both upside (potential access to Neotel spectrum) and downside (excessive price and possible dividend risk) risk, depending on the outcome and terms.

Model updated:10 November 2014

Running the numbers

Sub-Saharan Africa

South Africa

Telecom

Vodacom

Reuters: VODJ.J Bloomberg: VOD SJ

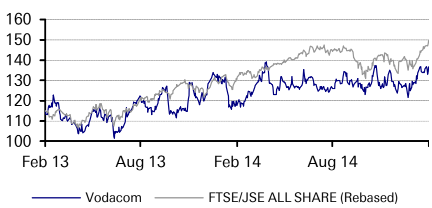
Hold

Price (13 Feb 15)	ZAR 136.63
Target Price	ZAR 125.00
52 Week range	ZAR 116.92 - 139.20
Market Cap (m)	ZARm 200,573
	USDm 17,212

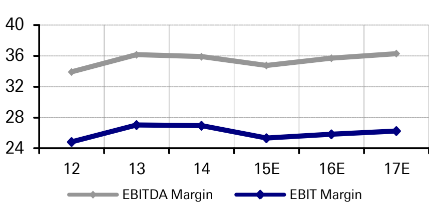
Company Profile

Vodacom is an African mobile communications company providing voice, messaging, data and converged services to just over 47m customers. From its roots in South Africa, Vodacom has grown its operations to include networks in Tanzania, the Democratic Republic of Congo (DRC), Mozambique and Lesotho. Vodacom is majority owned by Vodafone, one of the world's largest mobile communications companies by revenue. Vodacom listed on the JSE Limited with its head office is in Johannesburg, South Africa.

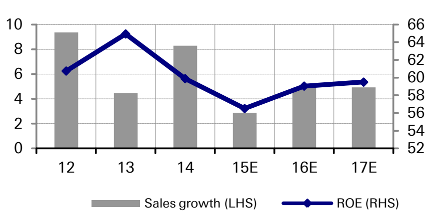
Price Performance



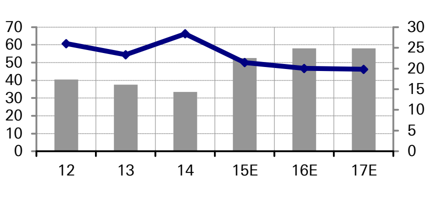
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	7.06	8.70	8.95	8.81	9.39	10.00
Reported EPS (ZAR)	7.06	8.70	8.95	8.81	9.39	10.00
DPS (ZAR)	7.10	7.85	8.25	7.94	8.46	9.01
BVPS (ZAR)	12.6	14.2	15.7	15.5	16.3	17.3
Weighted average shares (m)	1,469	1,468	1,468	1,468	1,468	1,468
Average market cap (ZARm)	131,347	159,624	172,703	200,573	200,573	200,573
Enterprise value (ZARm)	138,495	166,655	179,014	211,318	213,464	214,463
Valuation Metrics						
P/E (DB) (x)	12.7	12.5	13.2	15.5	14.6	13.7
P/E (Reported) (x)	12.7	12.5	13.2	15.5	14.6	13.7
P/BV (x)	8.58	7.76	8.28	8.83	8.36	7.90
FCF Yield (%)	8.9	8.2	8.1	5.0	5.8	6.8
Dividend Yield (%)	7.9	7.2	7.0	5.8	6.2	6.6
EV/Sales (x)	2.1	2.4	2.4	2.7	2.6	2.5
EV/EBITDA (x)	6.1	6.6	6.6	7.8	7.3	6.9
EV/EBIT (x)	8.3	8.8	8.8	10.7	10.1	9.5
Income Statement (ZARm)						
Sales revenue	66,929	69,917	75,711	77,887	81,714	85,735
Gross profit	22,698	25,275	27,176	27,071	29,173	31,123
EBITDA	22,698	25,275	27,176	27,071	29,173	31,123
Depreciation	5,882	6,364	6,785	7,284	8,067	8,617
Amortisation	199	14	-3	65	0	0
EBIT	16,617	18,897	20,394	19,722	21,106	22,507
Net interest income(expense)	-639	-810	-718	-919	-1,055	-1,137
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	224	0	0	0	0
Other pre-tax income/(expense)	-45	123	-91	-100	-100	-100
Profit before tax	15,933	18,434	19,585	18,703	19,951	21,270
Income tax expense	5,730	5,210	5,918	5,611	5,985	6,381
Minorities	47	233	424	212	233	257
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	10,156	12,991	13,243	12,880	13,733	14,633
DB adjustments (including dilution)	218	-221	-110	50	50	50
DB Net profit	10,374	12,770	13,133	12,930	13,783	14,683
Cash Flow (ZARm)						
Cash flow from operations	19,310	19,997	23,603	22,019	23,476	24,844
Net Capex	-7,569	-6,929	-9,535	-11,989	-11,776	-11,113
Free cash flow	11,741	13,068	14,068	10,030	11,700	13,731
Equity raised/(bought back)	-148	-88	-342	-511	-200	-200
Dividends paid	-7,897	-11,817	-12,142	-12,722	-12,258	-13,037
Net inc/(dec) in borrowings	320	1,809	-2,235	1,317	1,000	500
Other investing/financing cash flows	-1,184	-156	255	-1,169	-1,305	-1,386
Net cash flow	2,832	2,816	-396	-3,055	-1,062	-391
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,781	6,528	6,127	3,072	2,009	1,617
Tangible fixed assets	24,367	27,741	30,802	35,872	39,984	42,911
Goodwill/intangible assets	5,123	5,332	5,369	5,005	4,601	4,172
Associates/investments	896	1,368	2,333	2,333	2,333	2,333
Other assets	14,063	14,622	16,110	16,512	16,874	17,223
Total assets	48,230	55,591	60,741	62,793	65,802	68,255
Interest bearing debt	11,425	14,511	14,085	15,402	16,402	16,902
Other liabilities	17,875	19,864	22,913	23,939	24,589	25,040
Total liabilities	29,300	34,375	36,998	39,341	40,991	41,942
Shareholders' equity	18,530	20,800	23,057	22,704	23,979	25,376
Minorities	400	416	686	748	831	938
Total shareholders' equity	18,930	21,216	23,743	23,452	24,810	26,314
Net debt	*7,644*	*7,983*	*7,958*	*12,330*	*14,393*	*15,285*
Key Company Metrics						
Sales growth (%)	9.4	4.5	8.3	2.9	4.9	4.9
DB EPS growth (%)	7.9	23.2	2.8	-1.5	6.6	6.5
EBITDA Margin (%)	33.9	36.2	35.9	34.8	35.7	36.3
EBIT Margin (%)	24.8	27.0	26.9	25.3	25.8	26.3
Payout ratio (%)	102.7	88.7	91.5	90.5	90.5	90.4
ROE (%)	60.8	64.9	59.9	56.5	59.0	59.5
Capex/sales (%)	11.4	10.4	12.6	15.5	14.5	13.1
Capex/depreciation (x)	1.3	1.1	1.4	1.6	1.5	1.3
Net debt/equity (%)	40.4	37.6	33.5	52.6	58.0	58.1
Net interest cover (x)	26.0	23.3	28.4	21.5	20.0	19.8

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (13 February 2015): 9050c | Target price: 8900c | Rating: Buy

Woolworths Holdings Ltd

Sean Holmes / Ryan Eichstadt

Business description: Woolworths operates food, clothing and homeware outlets (both full-line stores containing all three product categories and food-only stores) predominantly in South Africa. It also owns a majority stake in Country Road, retailing clothing and homeware through retail outlets and concessions in large department stores in Australia and New Zealand. At an EBIT level, clothing and home contributes c.35%, food 25%, Country Road and DJS contributes c.40%.

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

- Fast growing food sales. A relatively robust high income consumer and a struggling Pick n Pay could continue to drive further market share gains over the next two years.
- Focus on driving better cost efficiency. We see scope for clothing GP margins to improve further over the medium term helped by better procurement/supply chain efficiencies. Overhead costs are still too high in our view, presenting an opportunity to improve cost efficiency and drive higher EBIT margin (in both food and clothing).
- Margin upside in David Jones: The Australian business will contribute c.20% to group EBIT. We see room for this business to lift its EBIT margin to 13-14% over the medium term (FY14: 6%), helped improved cost efficiencies and better merchandise.

Despite management acknowledging the weak macro trends persisting globally and concerns over the possible impact domestically, management is optimistic the Woolies customer will show relative stronger resilience over the next 12 months, supported by low interest rates.

Outlook: In our view Woolies has further potential to improve its RoE and free cash flow generation over the next five years. We think there is further room for EBIT margin expansion (in both its food and clothing businesses), through a combination of better cost efficiencies and increased scale benefits. The company has a track record of returning excess cash to shareholders. We therefore think the robust, free cash outlook could underpin the counter's rating and continue to support superior share price performance. It is worth bearing in mind that Woolies is a very cyclical business and notwithstanding the structural improvements to the business over the last five years, we caution that earnings could come under pressure should interest rates rise. We rate the stock a Buy on valuation.

Valuation: Our 12 month target price is calculated using our diluted HEPS forecasts and a 12 month forward P/E multiple (16x). We calculate our target price P/E multiples using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate P/E rating, based on the calculated dividend yield (where P/E = dividend payout ratio/ dividend yield).

Risks: Historical evidence shows Woolies is very sensitive to interest rate changes, given the nature of its customer base. Therefore, we caution that rising interest rates could have an adverse impact of the group's earnings. Key to our investment thesis is Woolies' EBIT margin expansion potential – this is partly driven by improved cost efficiencies. Challenging consumer condition might cause a delay in Woolies achieving its FY16 EBIT margin targets, which might be negatively received by the market. The acquisition of David Jones increases the group's near term earnings risk, but holds longer term value accretion potential.

Model updated:12 February 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Woolworths Holdings Ltd

Reuters: WHLJ.J Bloomberg: WHL SJ

Buy

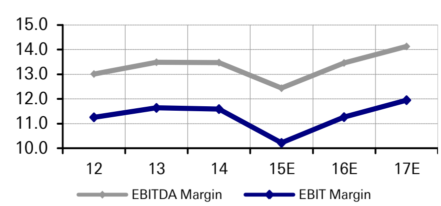
Price (13 Feb 15)	ZAR 90.50
Target Price	ZAR 89.00
52 Week range	ZAR 60.30 - 90.50
Market Cap (m)	ZARm 80,007
	USDm 6,866

Company Profile

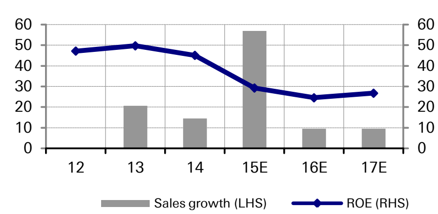
Woolworths operates a large chain of food and clothing- and home outlets predominantly in South Africa. Country Road retails clothing and homeware through retail outlets and concessions in large department stores in Australia and New Zealand. It has a joint venture offering consumer finance through store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

Price Performance

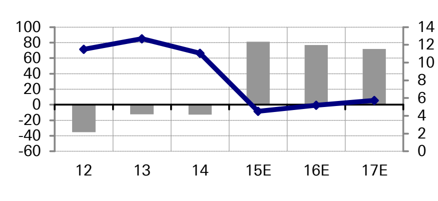
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	2.61	3.38	3.60	3.74	4.62	5.49
Reported EPS (ZAR)	2.61	3.29	3.61	4.04	4.91	5.78
DPS (ZAR)	1.98	2.34	2.52	2.82	3.43	4.04
BVPS (ZAR)	6.0	7.6	8.7	19.5	21.0	22.7
Weighted average shares (m)	747	747	758	884	926	926
Average market cap (ZARm)	30,714	48,804	53,451	80,007	80,007	80,007
Enterprise value (ZARm)	29,211	48,359	52,903	94,653	94,937	95,144
Valuation Metrics						
P/E (DB) (x)	15.8	19.3	19.6	24.2	19.6	16.5
P/E (Reported) (x)	15.8	19.9	19.5	22.4	18.4	15.7
P/BV (x)	8.39	8.50	8.95	4.65	4.32	3.98
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	4.8	3.6	3.6	3.1	3.8	4.5
EV/Sales (x)	1.0	1.3	1.3	1.4	1.3	1.2
EV/EBITDA (x)	7.4	9.8	9.4	11.6	9.8	8.5
EV/EBIT (x)	8.6	11.3	10.9	14.1	11.7	10.1
Income Statement (ZARm)						
Sales revenue	30,333	36,615	41,933	65,798	72,067	78,982
Gross profit	11,921	15,288	17,724	27,414	30,488	33,601
EBITDA	3,949	4,941	5,653	8,185	9,704	11,164
Depreciation	533	678	791	1,460	1,583	1,720
Amortisation	0	0	0	0	0	0
EBIT	3,416	4,263	4,862	6,726	8,121	9,444
Net interest income(expense)	-297	-336	-440	-1,489	-1,562	-1,647
Associates/affiliates	-251	-319	-322	-288	-360	-446
Exceptionals/extraordinaries	0	73	-16	0	0	0
Other pre-tax income/(expense)	2	-71	4	271	271	271
Profit before tax	2,870	3,537	4,104	5,220	6,470	7,622
Income tax expense	811	993	1,114	1,508	1,871	2,205
Minorities	-23	-41	-102	0	0	0
Other post-tax income/(expense)	38	62	103	100	0	0
Net profit	1,998	2,514	2,769	3,612	4,599	5,417
DB adjustments (including dilution)	-2	71	-4	-271	-271	-271
DB Net profit	1,996	2,585	2,765	3,341	4,328	5,146
Cash Flow (ZARm)						
Cash flow from operations	1,012	2,043	1,806	12,549	2,970	3,353
Net Capex	-1,223	-2,294	-2,090	-27,478	-3,436	-3,865
Free cash flow	-211	-251	-284	-14,930	-466	-512
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,516	-1,789	-1,933	-2,523	-3,212	-3,783
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	5	297	7,839	14,356	0	0
Net cash flow	-1,722	-1,743	5,622	-3,096	-3,677	-4,295
Change in working capital	*58*	*-629*	*425*	*-588*	*182*	*305*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,145	1,562	9,542	-1,620	-1,904	-2,111
Tangible fixed assets	2,726	2,726	3,519	14,940	16,792	18,938
Goodwill/intangible assets	824	2,440	2,946	17,544	17,544	17,544
Associates/investments	0	0	0	0	0	0
Other assets	4,350	5,475	6,262	9,997	10,586	11,192
Total assets	10,045	12,203	22,269	40,861	43,019	45,563
Interest bearing debt	535	832	8,671	13,027	13,027	13,027
Other liabilities	4,938	5,434	6,646	9,793	10,564	11,475
Total liabilities	5,473	6,266	15,317	22,820	23,591	24,502
Shareholders' equity	4,465	5,652	6,629	18,041	19,428	21,061
Minorities	107	285	323	0	0	0
Total shareholders' equity	4,572	5,937	6,952	18,041	19,428	21,061
Net debt	*-1,610*	*-730*	*-871*	*14,647*	*14,931*	*15,138*
Key Company Metrics						
Sales growth (%)	nm	20.7	14.5	56.9	9.5	9.6
DB EPS growth (%)	na	29.7	6.6	3.6	23.7	18.9
EBITDA Margin (%)	13.0	13.5	13.5	12.4	13.5	14.1
EBIT Margin (%)	11.3	11.6	11.6	10.2	11.3	12.0
Payout ratio (%)	74.0	69.5	69.0	69.0	69.0	69.0
ROE (%)	47.2	49.7	45.1	29.3	24.5	26.8
Capex/sales (%)	4.0	6.3	5.0	41.8	4.8	4.9
Capex/depreciation (x)	2.3	3.4	2.6	18.8	2.2	2.2
Net debt/equity (%)	-35.2	-12.3	-12.5	81.2	76.9	71.9
Net interest cover (x)	11.5	12.7	11.1	4.5	5.2	5.7

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	BHP Billiton	Diversified Metals & Mining	1,498,660	34,535	162,046	34,535
2	SABMiller	Brewers	995,777	67,043	79,545	67,043
3	Glencore	Diversified Metals & Mining	685,166	54,795	58,218	54,795
4	Naspers	Cable & Satellite	638,249	32,527	54,231	2,791
5	Richemont	Apparel, Accessories & Luxury Goods	565,457	27,927	51,025	31,847
6	MTN Group	Wireless Telecommunication Services	396,401	7,898	33,682	678
7	Sasol	Integrated Oil & Gas	290,834	7,898	30,923	678
8	Anglo American	Diversified Metals & Mining	282,746	66,801	24,025	66,801
9	Standard Bank	Diversified Banks	250,429	99,183	21,279	8,511
10	Aspen	Pharmaceuticals	200,135	66,801	11,510	5,733
11	Vodacom	Wireless Telecommunication Services	200,573	7,292	17,071	626
12	FirstRand	Other Diversified Financial Services	188,197	66,801	17,691	5,733
13	Barclays Africa Group	Diversified Banks	157,874	8,378	13,414	719
14	Nedbank	Diversified Banks	121,863	1,536	10,355	132
15	Mediclinic	Health Care Facilities	104,807	32,527	5,641	2,791
16	Bidvest	Industrial Conglomerates	99,500	155,097	7,979	13,310
17	Amplats	Precious Metals & Minerals	98,734	62,834	8,389	5,392
18	Shoprite	Food Retail	95,791	12,636	8,455	1,084
19	Kumba Iron Ore	Diversified Metals & Mining – Steel	74,689	10,470	6,409	899
20	Woolworths	Department Stores	68,617	13,873	5,148	1,191
21	RMB Holdings	Other Diversified Financial Services	65,549	7,898	6,162	678
22	Growthpoint	Diversified REIT	59,209	19,981	4,652	1,715
23	AngloGold Ashanti	Gold	58,738	203,322	4,991	203,322
24	Netcare	Health Care Facilities	54,494	5,608	3,349	481
25	Impala Platinum	Precious Metals & Minerals	47,948	1,367	6,785	117
26	Life Healthcare	Health Care Facilities	46,354	103,146	4,010	8,851
27	Gold Fields	Gold	44,363	28,893	3,769	28,893
28	Telkom	Integrated Telecommunication Services	39,464	39,211	1,189	3,365
29	Imperial	Distributors	39,000	31,429	3,812	2,697
30	Massmart	Hypermarkets & Super Centres	36,733	107,165	3,121	9,196
31	Redefine Properties	Diversified REIT	36,500	271,806	2,824	23,325
32	Truworths	Apparel Retail	36,282	66,801	3,260	5,733
33	Foschini	Apparel Retail	36,870	14,086	2,067	1,209
34	Spar	Food Distributors	31,696	42,444	2,036	3,642
35	Nampak	Metal & Glass Containers	28,555	12,779	2,310	1,097
36	ARM	Diversified Metals & Mining	28,247	175	4,000	15
37	Pick n Pay Stores	Food Retail	27,149	40,217	2,059	3,451
38	Sibanye Gold	Gold	26,736	319	2,272	27
39	Hyprop	Retail REIT	26,034	116,390	1,764	9,988
40	Capitec Bank	Diversified Banks	22,823	203,322	2,125	17,448
41	Clicks	Drug Retail	22,331	10,658	1,429	915
42	Northam	Precious Metals & Minerals	18,935	27,063	1,542	2,322
43	Barloworld	Trading Companies & Distributors	18,920	27,063	2,043	2,322
44	Lonmin	Precious Metals & Minerals	17,089	64,228	2,602	64,228
45	Attacq	Real Estate Development	15,466	23,126	1,139	1,985
46	Harmony	Gold	13,347	8,153	1,387	700
47	RBPlat	Precious Metals & Minerals	10,596	6,245	900	536
48	Lewis	Homefurnishing Retail	8,025	85,619	549	7,347
49	Mondi	Paper Products	6,084	271,806	9,366	309,954
50	Investec	Diversified Capital Markets	3,748	74,737	6,249	115,050
51	Alexander Forbes	Other Diversified Financial Services	3,326	250,226	304	21,473
52	Transaction Capital	Other Diversified Financial Services	3,219	154,671	285	13,273
53	Aquarius Platinum	Precious Metals & Minerals	2,187	16,316	600	16,316

Source: Deutsche Bank

Appendix 1

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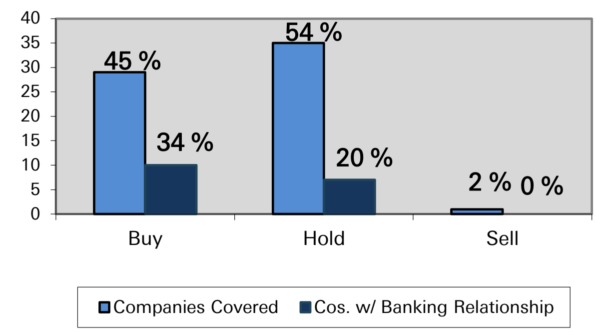

GEMs South African Universe

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