Deutsche Bank
Research

Sub-Saharan Africa
South Africa

Periodical
Elephant Book

Date
2 February 2016

Trunk status?

Contributing analysts

Alexander Burgansky
+971 4 428 3 861
alexander.burgansky@db.com

Avinash Kalkapersad
+27 11 775 7355
avinash.kalkapersad@db.com

Bankole Ubogu
+27 11 775 7254
bankole.ubogu@db.com

Charlie Muir-Sands
+44 20 754 75749
charlie.muir-sands@db.com

Danelee Masia
+27 11 775 7267
danelee.masia@db.com

John Kim
+27 11 775 7013
john.kim-sa@db.com

Matthias Pfeifenberger
+43 1 53181 153
matthias.pfeifenberger@db.com

Patrick Mann
+27 11 775 7282
patrick.mann@db.com

Rene Kleyweg
+44 20 754 18178
rene.kleyweg@db.com

Ryan Eichstadt
+27 11 775 7249
ryan.eichstadt@db.com

Sean Holmes
+27 011 775-7292
sean.holmes@db.com

Stefan Swanepoel
+27 11 775 7483
stefan.swanepoel@db.com

The Elephant Book provides an overview of the economy and an analysis of 57 companies currently under coverage.

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stefan.swanepoel@db.com

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Unspectacular global growth and policy dilemmas make for choppy markets.

We expect a modest rise in global growth in 2016, from the slowest pace post crisis in 2015. The US and European cyclical recoveries continue, albeit somewhat softer in the US of late. We expect average growth to remain stable in Europe, yet unspectacular. Other large advanced economies should see growth accelerate. Meanwhile, the outlook in EM remains challenging, but less deep recessions in Russia and Brazil and an acceleration in India should see growth pick up. As for China, while the gradual deceleration continues, fears of a sharp slowdown are overdone. Hardly an outlook worthy of the worst ever start of a year for equity markets. Tactical rebounds in risk assets are possible in the short-term, but a sustainable recovery requires China uncertainty to fade, the US$ to bottom-out and the oil price to stabilise. More generally, markets in 2016 are likely to remain choppy. US$ strength should continue, though at a more modest pace. US and European rates should rise modestly.

South Africa has entered a business cycle downswing

Economic growth has faltered and corporate profits are in a recession. There are strong indications that a business cycle downswing is already 12-18 months underway. But the worst is yet to come. The lingering profit squeeze will have damaging consequences for the economy. In our view, it spells the end to a six-year boom in consumer demand. For 2016 we see a slowdown in growth to 0.5%, and a modest rebound to 1% in 2017. We are particularly bearish over the consumer, with growth in real spending seen at 0.2% and
-0.3% in 2016 and 2017, respectively. Tighter fiscal and monetary policies, significant inflation pressures, capex and job cuts and negative wealth effects will weigh on demand. Add to this rising political uncertainty that is unlikely to dissipate in a local government election year. This year will see a re-emergence of labour tension and strike activity could rise. Wages will be renegotiated in the automotive, platinum and electricity sectors, where union militancy is rife. This adds to our pessimism over the investment outlook, rendering exports the main driver of growth this year.

Is South Africa the next "fallen angel" in EM?

On our economic assessment, South Africa may be downgraded to junk this year, possibly as soon as June. The upcoming Budget (24 February) could change this outcome, but it will require a review of government's spending trajectory. Lowering government expenditure will aid the economy's growth potential over the medium-term. However, structural reform is still an essential part to keeping investment grade status in the long-term. We do think Moody's and Fitch credit agencies will appraise the sovereign credit below sub-investment grade. One downgrade to junk tends to result in a sell-off by conservative investment funds, which may already be in the price. However if two or more agencies revise the sovereign to junk status, it will no doubt trigger more capital flight. Rand-denominated assets are supported by the credit uplift from higher local currency ratings.

Macro-backdrop supports underweight equities, overweight bonds, overweight cash and underweight listed property.

Given the challenging EM backdrop, South Africa remains in the bad camp. We prefer to go underweight equities, especially interest rate sensitive counters, while maintaining exposure to non-commodity rand hedges. We are bullish South African rates, and recommend rand-hedged positions for foreign investors.

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Global economy

Key trends and forecasts

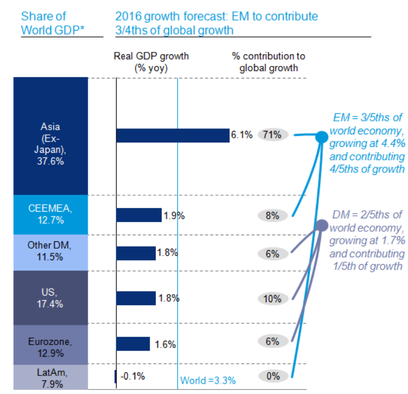
Disappointing global growth to pick up slightly in 2016

Growth in global economic activity is projected to have bottomed in 2015 and rise gradually toward trend by 2017, led primarily by an acceleration in emerging market economies. The slowdown in 2015 has been driven primarily by a deceleration in emerging market economies, where growth has fallen by more than one-half of a percentage point from 2014. The sharp contractions in Russia and Brazil are the main reason for this deceleration.

Over the next year or so changes in the global growth outlook are likely to be driven entirely by fluctuations in emerging market growth. Growth in 2016 is projected to rise gradually to 3.2%, as the severe contractions in Russia and Brazil moderate. This should help boost emerging market growth by almost one-half of a percentage point, even with growth slowing further in China. But the emerging markets growth story is not simply a technical one: recent declines in export growth should reverse, albeit weakly, providing a more positive basis for recovery than the 'less bad' Brazil and Russia outlooks.

Growth in advanced economies should remain stable at just below 2% in 2016. US GDP growth is projected to slow to less than 2%. The economy should be driven predominantly by a healthy expansion of consumer spending. Business investment growth should remain relatively subdued, held back by, among other factors, a strengthening US$, election-year uncertainties, subdued corporate earnings growth, and in the longer term, tightening financial conditions. Growth prospects in the US for this year will depend on whether the stock and credit markets can find footing and the appreciation of the US$ can abate. Although we are not forecasting a recession, we have become more cautious on the economic outlook over the past several months, partly because of the narrowness of GDP growth. Further, we expect euro area GDP growth to be broadly unchanged at 1.6% in 2016 and to slow in 2017. Dual monetary and fiscal easing should help protect euro area economic growth from the fading oil stimulus in 2016.

Figure 1: EM still drives the bulk of global growth

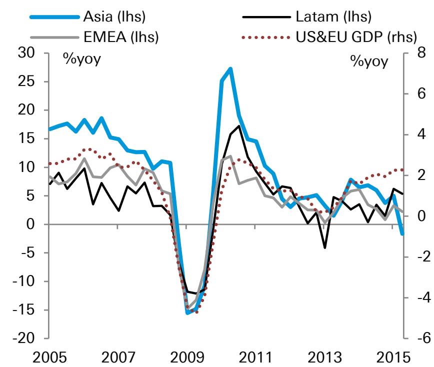


Source: Deutsche Bank, IMF, Bloomberg Finance LP

The coming year will likely remain challenging for emerging markets. We expect growth in China to slow further in the coming year to 6.7% from 6.9% in 2015 and 7.3% in 2014, offering little respite for commodity producers. This will probably force continued output cuts to close the supply-demand gap for resources. We think that by the end of 2016, this will have been achieved in the oil market, thanks to production cuts, especially in the US; but in most other commodity markets, balance should be restored only in 2017.

For most other emerging markets, a positive outlook requires an end to commodity price declines and also an end to the puzzling weakness in exports. In Figure 2, we plot the growth in real exports of goods and services in the major EM economies by region against US and EU combined GDP growth. After adjusting Chinese exports for alleged over-invoicing in early 2013, the decoupling of Asian exports from US and EU GDP growth last year becomes more evident. Growth in Emerging Europe exports has similarly decoupled from EU growth over the past year. Export growth in Latin America has been weak but reasonably closely aligned with US growth. With only about a year's data, it is hard to arrive at a convincing explanation, but we think the following factors are important. Slower growth in Chinese demand for commodity imports may have depressed overall export volumes among the commodity exporters. As China moves up the value chain, production networks may be shrinking. As Chinese suppliers become more proficient, it may require fewer imports of intermediate goods to produce exports. And as multinationals in China focus more on serving the domestic market – now growing in US$ terms as fast as the US market – they may be replacing more expensive imported components with locally sourced 'good enough' parts. Finally, the sharp depreciation of the euro in 2014 must surely have played a role, as the weak euro has depressed the growth of imports while stimulating exports in Europe. Some of these influences depressing EM exports may become less of a constraint in the year ahead.

Figure 2: EM exports of goods and services vs. G2 GDP



Regional data weighted by 2014 nominal US$ goods and services exports.
Source: Haver Analytics LP, Deutsche Bank Research

Figure 3: Key economic and financial market forecasts

	GDP growth, %				CPI inflation, %			
	2014	2015F	2016F	2017F	2014	2015F	2016F	2017F
G7	1.7	1.8	1.7	1.8	1.5	0.2	1.3	2.0
US	2.4	2.4	1.8	2.1	1.6	0.1	1.6	2.3
Japan	-0.1	0.7	0.9	0.7	2.7	0.7	0.4	1.8
Euro area	0.9	1.5	1.6	1.5	0.4	0.1	0.9	1.6
Asia (ex-Japan)	6.4	6.1	6.1	6.3	3.4	2.4	2.7	2.8
China	7.3	6.9	6.7	6.7	2.0	1.4	1.8	1.8
India	7.1	7.3	7.5	7.8	6.7	4.9	5.2	4.8
EEMEA	2.4	1.1	1.9	2.5	6.0	8.7	6.9	5.9
Russia	0.6	-3.7	-0.7	0.5	7.8	15.6	9.2	7.1
Latin America	0.7	-0.8	-0.2	2.1	12.5	15.2	18.7	19.7
Brazil	0.1	-3.8	-2.8	1.0	6.3	9.0	8.8	6.8
Advanced economies	1.7	1.8	1.7	1.8	1.3	0.3	1.2	2.0
EM economies	4.6	4.0	4.4	4.9	5.3	5.6	5.8	5.7
Global	3.4	3.1	3.2	3.6	3.6	3.3	3.9	4.2

Key financial market forecasts

		US	Jpn	Euro	UK
3M Interest	Actual	0.26	0.15	-0.15	0.59
Rates[1]	Mar-16	0.83	0.15	-0.15	0.61
DB forecasts	Jun-16	1.08	0.15	-0.15	0.62
	Dec-16	1.33	0.15	-0.15	0.91
10Y Gov't[2]	Actual	2.02	0.40	0.41	1.72
Bond/Yields	Mar-16	2.00	0.30	0.55	1.80
Spreads[3]	Jun-16	2.25	0.30	0.70	1.90
DB forecasts	Dec-16	1.75	0.40	1.10	2.20

		EUR/ USD	USD/ JPY	EUR/ GBP	GBP/ USD
Exchange	Actual	1.08	118.6	0.76	1.43
Rates	Mar-16	1.05	123.0	0.72	1.46
	Jun-16	1.02	125.0	0.73	1.40
	Dec-16	0.95	128.0	0.74	1.28

*(1) Forecasts are the same dates. * indicates policy rates.*
(2) Forecasts in this table are produced by the regional fixed income strategists.
(3) US 10Y Govt. bond yield forecasts has been taken from US Fixed Income Weekly.

Commodity Forecasts

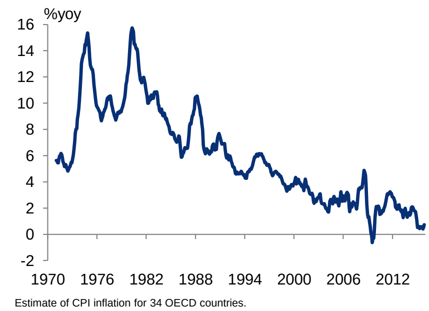
Complex	Commodity	Unit	2015	2016	2017	2018
Energy	WTI	USD/bbl	49.19	40.75	52.00	65.00
	Brent	USD/bbl	54.19	42.30	55.00	70.00
Precious Metals	Gold	USD/oz	1,160	1,033	1,100	1,150
	Platinum	USD/oz	1,053	933	948	1,150
Bulk Materials	Iron ore spot China CIF	USD/t	55.98	46.25	51.50	55.63
Agriculture	Corn	USD/bushel	4.40	4.25	4.25	4.50
	Wheat	USD/bushel	5.61	5.45	5.45	5.50

Source: Deutsche Bank Research, National authorities, Bloomberg Finance LP

Global inflation to accelerate after bottoming in 2015

Inflation is expected to rebound in 2016 and rise modestly further in 2017. The initial acceleration is driven primarily by the stabilisation of energy price, removing what has been a considerable downward force on broad price indexes. Hence, the gap between headline and core inflation will close in the coming year. However, the recent decline in the oil price is pushing out the timing of this recovery. In addition, core inflation rates in the G3 economies have already begun to rise gently, and our expectation is that even after the commodity price effect lifts headline inflation, the underlying rising trend in core inflation will continue to push inflation higher.

Figure 4: Global inflation still near 40-year lows

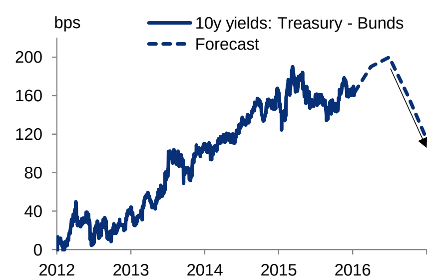


Source: OECD, Haver Analytics, Deutsche Bank Research

Rates: Peak policy divergence

The economic backdrop should allow for this gradual pace of policy normalisation, at least initially. Our projection for 75bps of Fed rate hikes by the end of 2016 and another 100bps during 2017 is noticeably more than the market has been pricing. We also expect the Fed to taper the reinvestment of its maturing asset holdings and allow its balance sheet to begin to run off naturally after mid-2016. In turn, by end 2016, the ECB's medium-term headline inflation projections should be at levels consistent with tapering starting to be discussed at the ECB and implemented in 2017; we see the first ECB policy rate hike only at the end of 2018. The risk is that oil prices continue to decline in the near term and weigh on headline inflation. If this weakens medium-term inflation expectations, the late-2016 tapering risk should dissipate and the pressure for further ECB easing will grow.

Figure 5: Long-end rates are likely to converge partially from near-record wide spreads



Source: Deutsche Bank, Bloomberg Finance LP

As the divergence between US and European monetary policy may have peaked, we believe 2016 should see a partial convergence of US and European bond yields. Our end-year forecasts see the 10-year Bund around 1.1% and 10-year US Treasury at 2.5% (although our macro forecast – with the Fed on a slow but steady uptrend – may be consistent with a somewhat higher yield by end 2016). In Europe, absent an external shock, the market is likely to focus in the second half of the year on the prospects of the ECB discussing (but not implementing) a tapering-off of asset purchases, while the front end should remain anchored.

FX: Plenty of run left in the USD upswing

Following the historical 20% surge in the US$ over the past year and a half (on a trade-weighted basis), we see the US$ upswing extending for at least another two years, though at a more modest pace. There are several unique circumstances with the current US$ up cycle, including that G10 central banks are not expected to follow the Fed's tightening impulse this time around. How 2016 shapes up will be heavily influenced by whether the main macro driver is the Fed or China. If it is the Fed, US$ gains are likely to be slow and broad-based. Conversely, if the RMB again becomes a source of instability, US$ gains should be heavily concentrated in commodity and EM currencies. Our end-2016 forecasts are largely unchanged: EUR/USD at 0.90, USD/JPY at 128, and GBP/USD at 1.27.

Commodities: Supply adjustment is well underway for oil, not so for the metals

We expect OPEC will have engineered one of the sharpest historical declines in US production by 2016. While we expect that 1H16 will remain oversupplied and risks remain to the downside during this period, the steady contraction of US supply along with trend rates of demand growth should lead to a more normalised market balance in 2017. However, the current recovery period for oil will likely be one of the slowest and most extended on record. We remain bearish on the outlook for gold as the Fed enters a tightening cycle and the US$ appreciates further. Several factors contribute to a difficult outlook for industrial metals: the barriers to exit for many industrial metals are high, the industry still has not adjusted to structurally lower Chinese demand growth, and long gestation projects continue to add supply to the market. While supply cuts should gather momentum in 2016, we expect price stabilisation only in 2017 when markets should start to look more balanced.

Domestic economy

Business cycle blues

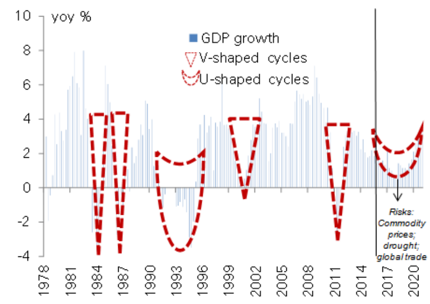
Economic growth has faltered. The electricity crisis last year cut growth by 1% to 1.3%. Confidence levels have also deteriorated, weighed by weaker commodity prices, higher personal income taxes, deteriorating debt affordability and political uncertainty. Export demand has also slowed in 2H15. A culmination of these factors has resulted in a contraction in corporate profits – the first time since 2009.

For 2016 we see a slowdown in growth to 0.5%, and a modest rebound to 1% in 2017. We are particularly bearish over the consumer, with growth in real spending seen at 0.2% and -0.3% in 2016 and 2017, respectively. Tighter fiscal and monetary policies, significant inflation pressures, capex and job cuts and negative wealth effects will weigh on demand. Add to this rising political uncertainty that is unlikely to dissipate in a local government election year. Wages will also be renegotiated in the automotive, platinum and electricity sectors, where union militancy is rife. This adds to our pessimism over the investment outlook, rendering exports the main driver of growth this year.

There are strong indications that an economic downswing has already started. In September last year[1] we established that the economic downturn may be 12-18 months underway. This slowdown is mild, and categorised as U-shaped. It resembles the 1997-99 economic downturn where no technical recession (two-quarters of contraction in GDP) was recorded. But growth was well below average for a two year period.

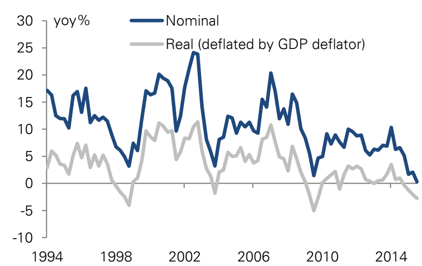
The imbalance between labour and capital income has set off this slowdown. The triggers for this downswing, a trend that has us most in awe, is the widening income jaws in income that is owed to capital vs. income owed to labour. This trend isn't exactly a sign of balanced growth, and neither does it bode well for the potential growth outlook, if sustained. But, it cannot continue given the weakness that's emerged in the economy.

Figure 6: A U-shaped downturn



Source: Deutsche Bank, SARB

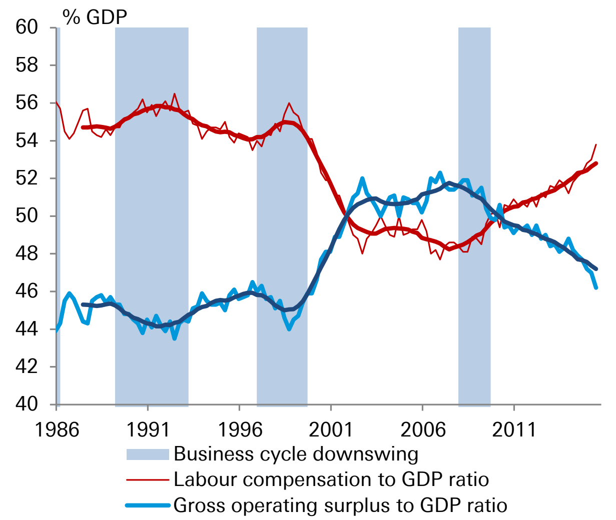
Figure 7: Corporate profit recession



Source: Deutsche Bank, SARB

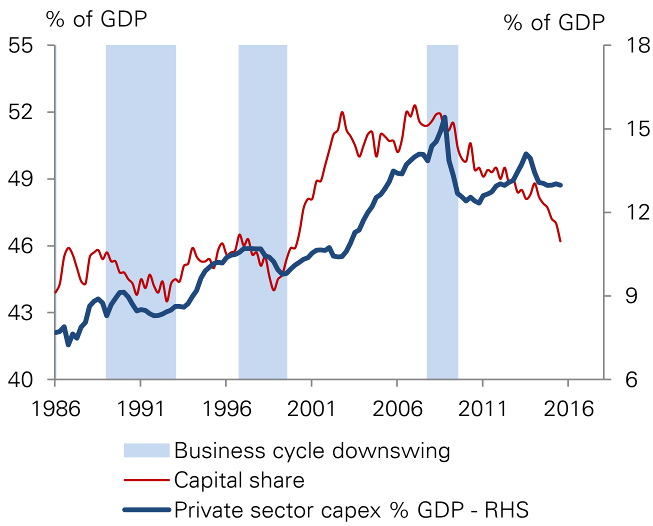
[1] Special Report: South Africa's Nutcracker moment. 7 September 2015.

Figure 8: Capital and labour shares diverging



Source: Deutsche Bank, SARB

Figure 9: Capex investment sensitive to capital share



Source: Deutsche Bank, SARB

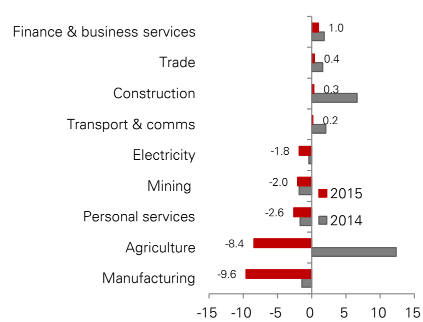
We think the closure of this income jaws has important ramifications for the market, since it portends the end to a significant consumer boom that came from a unique set of circumstances: little credit growth, ultra loose monetary policy, significant wealth effects and the large stock of corporate cash that may have made higher wage awards easier. Union power will explain some of this resilience, but even then, unions' wage bargaining power is a function of the workforce.

The closure of this income jaws has important ramifications for the market, since it portends the end to a significant consumer boom

In short:

- The capital share is at the lowest in 15 years – evidence that the economy is in need of investment enhancing policies. Profit is decomposed into the capital share and the productivity of capital. Drivers of profits are in fact deteriorating, which suggests that returns on capital, or capital productivity, are falling. Returns on capital shapes investment. It is the very sectors that are in recession, the most exposed to the commodity cycle/ China, and burdened by local infrastructure bottlenecks (notably electricity supply), that are experiencing falling capital shares, or rising wage shares (Figure 10).
- In turn, the increase in the wage share over the last six years has given rise to the resilience in consumer demand in our view. A rising labour share means that wage growth has been accelerating at a faster pace than GDP growth. This means unit labour costs have escalated in real terms. We don't think this trend will be sustained much longer, as corporate profits are being squeezed from all directions, namely rising input costs and weakening demand – i.e. the nutcracker theory. As a result, we have already seen an increase in workers being laid off in several sectors (Figure 11).

Figure 10: Profit growth* in 2015 ytd

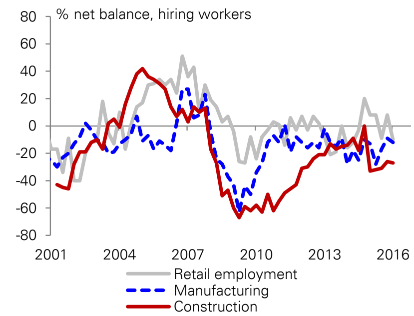


* Gross operating surplus in real terms (adjusted by sector deflators). In accounting terms this is net income less dividends payable (i.e. retained earnings).
Source: Deutsche Bank, Stats SA

What happens from here?

Usually, the gap between the capital and the wage shares increases in a downswing. Wage growth (c.7.8% yoy) will have to slow to in line with nominal GDP growth (c.5% yoy), eventually falling below this level as working hours are cut, jobs are shed, and wage growth stagnates. This helps to stabilise the capital share, which bottoms out around 1-2 quarters before the end of the downswing. It may be difficult to stabilise the capital share if government progresses with national minimum wages this year.

Figure 11: Corporate employment survey



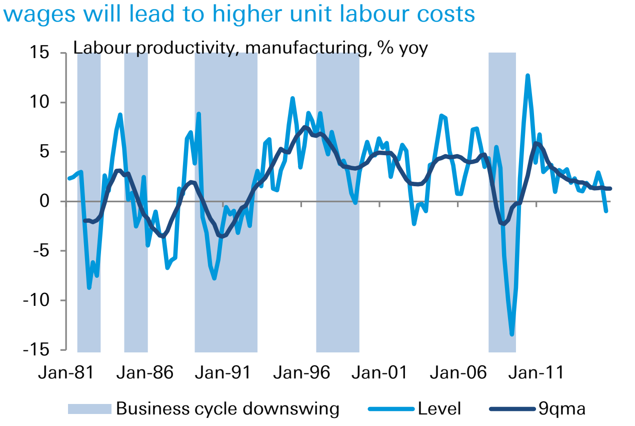
Source: Deutsche Bank, BER

A change in fundamentals that lead to a declining share of labour income will not be easy. In many respects this could entail a cutback in social benefits, bonuses, fixed pay or a combination of these. This will reduce the consumers' well-being and increase inequality as unemployment rises. On the flipside, a decline in profits means firms are unlikely to take an optimistic stance to investment. Corporates will in all likelihood work at restoring balance sheets and building up cash. This explains why it will be hard to see a significant rebound in growth in 2017.

During the course of the year we will need to see several signposts that the downswing is bottoming out. Firstly, falling demand will give rise to excess inventory. The unwind of inventory will be negative for production growth. Secondly, purchasing commitments will fall, which leads to less demand in other sectors of the economy. Thirdly, unit labour costs will spike as wages tend to lag the fall in output. This places further strain on corporate balance sheets. Finally, adjustments to the wage share are necessary to restore corporate profits. Only then will the labour and capital shares start to converge. Usually this marks the start of the upswing, but somewhere in between the SARB may respond by cutting interest rates. At this stage we judge the rate cutting cycle (around 100bps cuts) to kickoff in 2H17.

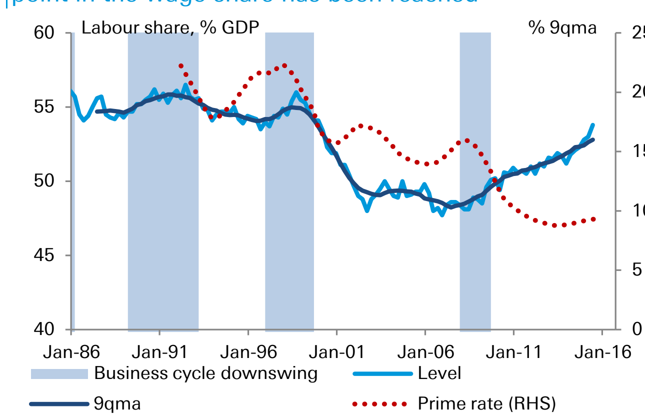
The downswing will end when labour and capital shares start to converge. But somewhere in between the SARB may need to cut interest rates. At this stage we judge the rate cutting cycle (around 100bps cuts) to kickoff in 2H17

Figure 9: Weak labour productivity in the context of high wages will lead to higher unit labour costs



Source: Deutsche Bank, SARB

Figure10: Interest rate cuts may ensue once the turning point in the wage share has been reached

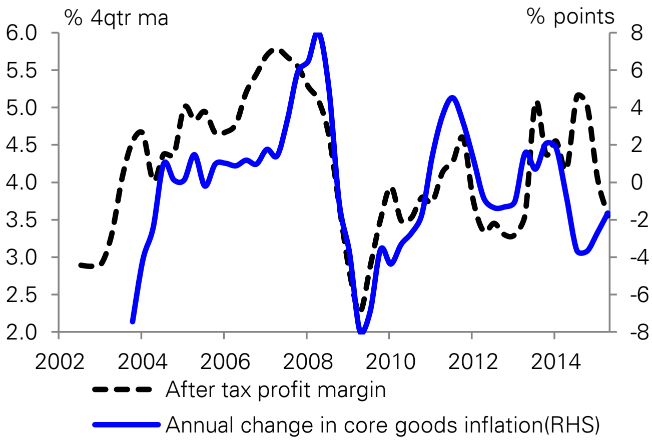


Source: Deutsche Bank, SARB

Dwindling profits may have repercussions for inflation.

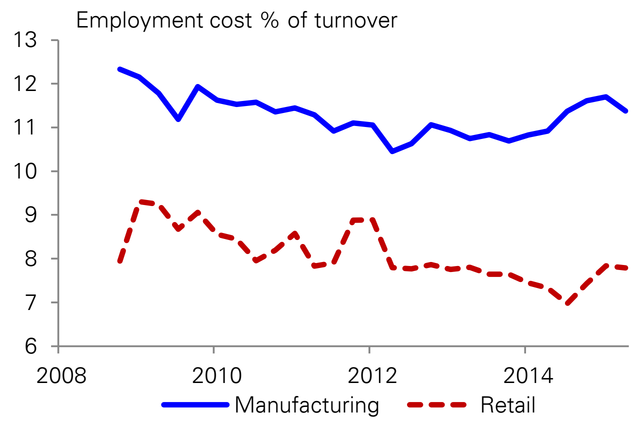
Increased funding costs (interest rates and cost of imports) would subject weak corporate profit growth to more downside pressures. Usually there is an inverse relationship between profit margins and inflation. Inflation only overshoots during times of economic hardship, when profit margins collapse due to significantly higher costs and weaker demand. A rebound in transport costs, pass through from the drought, higher electricity tariffs and a weaker exchange rate could jointly raise cost pressures. Up to now, decent profit margins have acted as a buffer (Figure 11), but cost absorption cannot continue indefinitely. Growth in employment costs has generally outpaced growth in turnover in both manufacturing and trade sectors (Figure 12).

Figure 11: Trade sector profit margins vs goods inflation



Source: Deutsche Bank, StatsSA

Figure12: Turnover has slowed relative to labour costs



Source: Deutsche Bank, StatsSA

All in all, the business cycle downswing will intensify when cost accelerates at a faster pace[2]. When exactly this happens is more difficult to tell. For now, we expect a gradual deterioration in inflation to 6.1% in 2016, supported by lower oil prices. Since wage costs adjust more slowly in a downswing (as it lags the decline in profit), growth in unit labour costs would increase further. This would have negative consequences for inflation. For now, inflation and growth trends would follow a U-shaped profile in line with our thinking of a mild economic downturn.

Our key economic forecasts are listed in Figure 13.

[2] For more on this refer back to the Special Report: South Africa's Nutcracker moment. 7 September 2015.

Figure 13: Key macro-economic forecasts

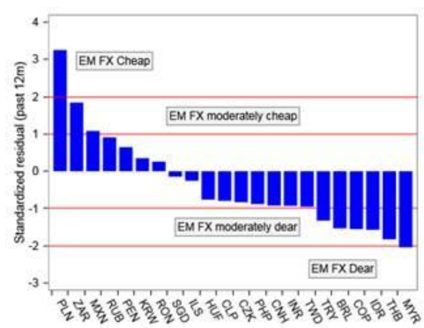
	2012	2013	2014	2015F	2016F	2017F
Real GDP	2.2	2.2	1.5	1.3	0.5	1.0
Private consumption	3.3	2.9	1.4	1.5	0.2	- 0.3
Government consumption	3.4	3.3	1.9	0.2	0.5	0.3
Investment	3.6	7.6	- 0.3	0.3	- 2.9	1.0
Exports	0.3	4.5	2.6	10.1	3.3	3.3
Imports	6.2	1.8	- 0.4	4.8	- 0.4	0.7
CPI (yoy%) average	5.7	5.8	6.1	4.6	6.7	7.0
Budget balance (% of GDP)	- 4.2	- 4.1	- 3.5	- 3.9	- 3.5	- 3.4
Current account balance (% of GDP)	- 5.1	- 5.8	- 5.4	-4.3	-3.8	-4.7
FX rate (eop) ZAR/USD	8.39	10.35	11.58	15.55	17.50	18.0
FX rate (eop)ZAR/EUR	11.06	14.4	14.06	16.92	14.67	13.3
Financial markets (eop)	Current	1Q16	2Q16	3Q16	4Q16	4Q17
Policy rate (repo rate)	6.75	6.75	7.25	7.50	7.50	6.50
3-month rate (Jibar)	6.65	7.0	7.50	7.75	7.75	6.75
10-yr bond yield	9.60					

Source: Deutsche Bank, SARB, Bloomberg Finance LP

The rand remains susceptible to sell off pressures in light of its high beta to commodity prices, sensitivity to FX trends in China and the Fed's reaction function provide for a volatile backdrop. Since the EM FX asset class remains broadly in expensive territory, one can expect that the rand will continue to trade on the back foot (i.e. a proxy for EM risk). However, since the rand is extremely undervalued, it may be one of the first currencies to improve on more positive FX drivers (e.g. commodity prices, the US$ etc.). We see the reversal in the strong US$-trend, a recovery in commodities and improved external vulnerabilities, bringing the rand back towards fair value by 2018 c.R14/USD. In the interim, we see the rand at R17.5/US$ and R18/US$ in 2016 and 2018 respectively.

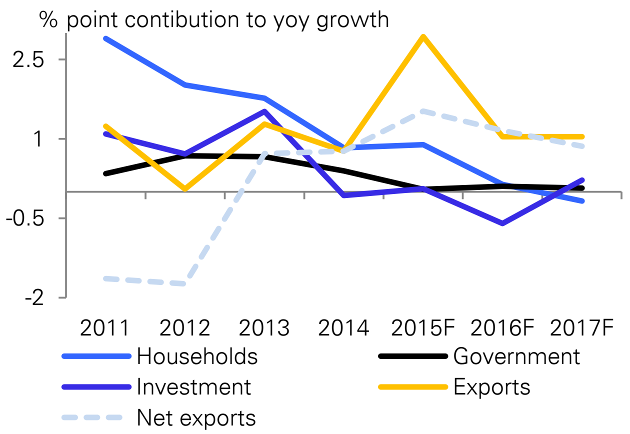
In the below section we briefly highlight a few of the important trends that shape the domestic outlook discussed above.

Figure 14: Rand is cheap vs EM FX*



* *Financial fair value is based on a regression of spot on S&P, VIX, UST10Y, MSCI EM index, DXY and carry*
Source: Deutsche Bank

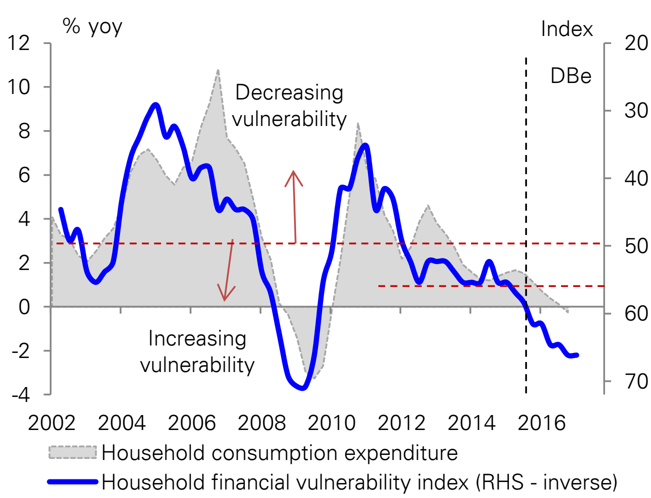
Figure 15: GDP growth drivers – exports still in driving seat



Source: SARB, Deutsche Bank

Demand collapse means GDP growth is at the mercy of the export market. Prospects for household demand and private sector capex are weighed by the simultaneous downturn in corporate profits, the worst drought in more than two decades, and the slowdown in China's growth rate. A profit recession will force more efficiencies over time, but in the short-term this will bear negatively on the consumer directly (via income and jobs), and indirectly (via confidence channels and the wealth effect). Growth in key export markets remains intact, especially in the developed world, but this is not without risks. Firstly, the slowdown in China will challenge the resilience in domestic exports to Africa and other EMs that's been enjoyed up to now. Secondly, electricity will become more expensive this year, which is another risk for the export market in the context of lower capacity utilisation.

Figure 16: Households' financial vulnerability* the worse since the 2009 recession

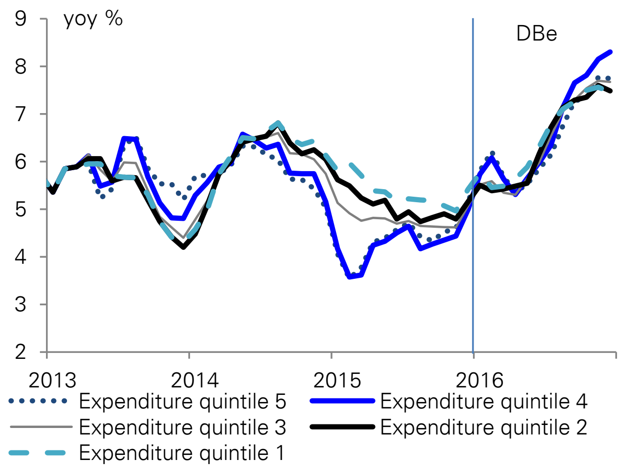


* This financial vulnerability index is a diffusion index of key indicators that affect balance sheet health of consumers. Above 50 denotes rising financial vulnerability, and below 50 shows improved financial health.
Source: Deutsche Bank, SARB

Household financial vulnerability on the rise: Our household financial vulnerability index (HFVI)[3] has been a reliable forward-looking barometer of household stress, leading consumption by around two quarters. The HFVI index is seen increasing to the highest levels in six years as headwinds to the consumer are rising in all income segments. Since 4Q15, consumer confidence and commodity prices have deteriorated, while the equity market has given a distinct bear signal. While lower oil prices are helpful in some respects, the rand has become an offsetting and psychological impediment to demand. We see diminished appetite for spending especially among the affluent market, which is especially sensitive to equity market developments and house price growth. Until now, high-income earners have been a key support structure for consumption growth. This is no longer the case, despite the ability to spend remaining broadly intact.

[3] See EM Special (South Africa) of 18 September 2011 and 16 January 2012

Figure 17: Inflation pressures should be more restrictive for higher income earners than last year*



Using DB's house view of oil prices at USD53/bl for 2016
Source: Deutsche Bank, SARB, StatsSA

Higher income groups will be more negatively affected by 2016 inflation trends than last year. But this will mostly depend on oil price trends. Due to the weight in consumer's expenditure basket, fuel prices have a larger bearing on higher-income groups. Last year, real income growth was a full percentage point higher for the more affluent consumer due to the decline in the oil price. If oil prices were to stay near US$30/bbl for the rest of the year, high income earners will again see c.1% improvement in real income growth. However, the snapback in oil prices at some stage will erode this purchasing power. And this may come at a time when there are already more headwinds facing the upper income groups – e.g. additional tax pressure, negative wealth effects, company liquidations etc.

Risks to the outlook and investment status

- Risks to growth are omnipresent.

A great deal of domestic risks to the growth outlook hinge on the pace of SARB policy tightening, the 2016 Budget outcome, further economic stresses (e.g. electricity supply, weakening productivity) and importantly, whether global growth, especially Africa growth, remains a reliable backstop to export activity. The scale of the drought that should cost the economy around 1% of GDP could exacerbate economic weakness. Developments in these factors will mostly determine whether the envisaged U-shaped downswing evolves into a V-shaped profile, in which case we can see base-effects paving the path for a better growth rate in 2017.

External risks include a further deterioration in international trade as exports have been the key driver of growth over the last two years. Though the real exchange rate deprecation should keep global price competitiveness intact, exports are more demand elastic. Export growth momentum has weakened over the last few months, especially in vehicle exports and exports destined for Africa (c.20% of total exports). Recession in the US is not guaranteed, but this has become a risk to the global economy. A further deterioration in commodity prices will also have worrying consequences given negative trends already underway in commodity-sensitive sectors. But the negative wealth effects from already diminishing stock returns could hold in larger repercussions for the economy.

- South Africa likely to lose its investment grade this year.

Poor growth has led to increased downgrade risk. Cutting government expenditure is the first step to avoid this outcome in the short-term.

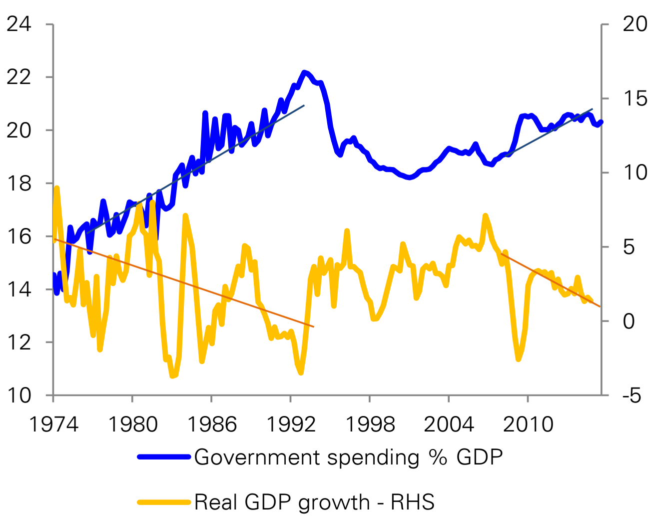
Stricter control of government expenditure could positively change the long-term growth path. In our view, this may be one of the few ways in which investment grade remains intact for now

We believe the fate of the economic growth outlook lies in government's hands. For starters, stricter control of government expenditure could positively change the long-term growth path. This point may sound controversial, as by cutting government expenditure in a downswing is unheard of. But we think this has become necessary.

Government spending is crowding out the private sector

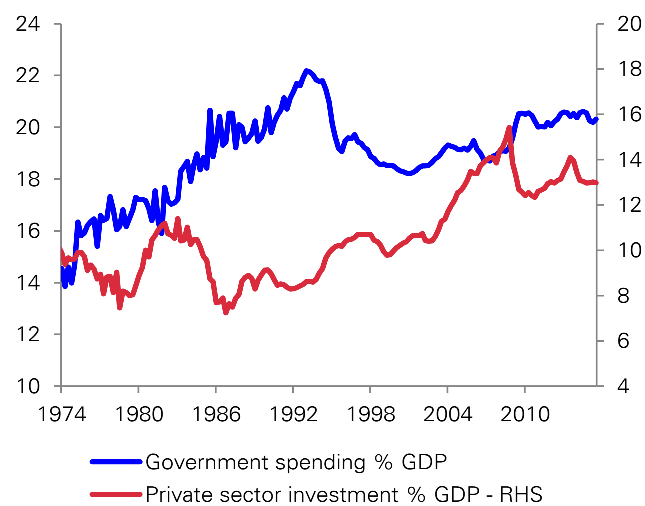
There is no evidence that higher government spending – especially if driven by current as opposed to capital expenditure – has raised South Africa's growth rate over the long-term. If anything, South Africa had its best growth years when government's consumption as a share of GDP was the lowest (Figure 18). There is a direct negative correlation between government spending and private sector capex (Figure 19).

Figure 18: Government spending doesn't raise growth…



Source: Deutsche Bank, SARB

Figure 19: …as it crowds out private sector spending



Source: Deutsche Bank, SARB

High government spending has begun to crowd out private sector activity. Government's debt burden, though not high by international norms, has become problematic for the broader economy given the growing interest bill. Ultimately, as government funds itself by raising taxes or debt, both will increase the cost of borrowing and/or reduce savings further. The current account deficit will remain a problematic phenomenon. And, if left unchecked, will have undesirable consequences for the long-term economic outlook and credit status of the sovereign.

All-in all, the way we see growth panning out will mean that South Africa stands a good chance in losing its investment grade by S&P this year…

The way we see growth panning out will mean that South Africa stands a good chance in losing its investment grade

The upcoming Budget could change this outcome, but as mentioned above, it will require a review of government's spending trajectory. Lowering government expenditure will aid the economy's growth potential. However, structural reform is still an essential part to keeping investment grade status in the long-term. It's not our base case that Fitch or Moody's will join the ranks. One downgrade to junk tends to result in a sell-off by conservative investment funds, which may already be in the price. However if two or more agencies revise the sovereign to junk status, it will no doubt trigger more capital flight.

…but there are some buffers for local assets

Since the bulk of domestic government debt is rand-denominated, where the local currency rating applies, the initial fallout on the market from sub-investment grade may be limited

Since the bulk of domestic government debt is rand-denominated, where the local currency rating applies, the initial fallout on the market from sub-investment grade may be limited. A sovereign downgrade (hard currency rating) mainly affects the US$-denominated cost of borrowing. And even so, at least two or three agencies have to rate the sovereign borrower sub-investment grade to have a larger market impact. This criteria also applies to the inclusion of South Africa in some indices. For example, South African bonds will be excluded from the Citi World Government Bond index once both Moody's and S&P rate the government sub-investment grade. In this case, since it is rand-denominated bonds that are included in this index, the *local currency* credit rating applies. In this regard, Moody's and S&P still see the LC rating two and three notches, respectively, above junk.

There are a few quick wins that could mean that the credit is pulled from the brink of junk status.

- Budget reprioritisation specifically aimed at reducing government current expenditure (e.g. wage bill). Party officials have made several remarks recently that talks to some progress being made in this direction. These are encouraging to hear, but unlikely to be implemented ahead of government elections around mid-year.
- Making headway on key reforms not yet implemented. Several policy matters, including amendments to labour legislation (i.e. secret strike ballots) and the Mineral Resources and Petroleum Development Act that have fallen by the wayside would also need to be addressed. South Africa must also not neglect its trade policies, which could result in losing benefits under the AGOA trade agreement.

If South Africa was to lose its investment status, it could probably take more than five years to regain, as this would require a significant improvement in the economy's growth potential. The criteria for reversing negative rating actions will become harder to meet. As it stands, for S&P to revise the credit outlook back to stable it needs to see improving business confidence and private sector investment due to better policy implementation. Moreover, the delivery of promised energy infrastructure will be essential, but Eskom's build programme will only be completed by 2022.

Neither equities nor bonds are currently pricing this slowdown in our view. Further downside is possible in equities, especially locally-oriented sectors. In turn, the yield curve could conceivably invert on the back of rotation out of equities as investors hunt for yield.

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	14396	18500	31-Dec	15.38	16.78	18.48	9.25	10.05	10.24	8.49	8.49	Buy
Capitec Bank	48100	30000	28-Feb	17.40	22.06	26.91	6.63	8.36	11.26	18.59	18.59	Sell
FirstRand	4472	4750	30-Jun	3.41	3.81	4.19	1.74	2.10	2.50	13.98	13.98	Hold
Investec**	443	600	31-Mar	35.85	37.24	37.57	19.00	20.00	19.85	15.05	15.05	Buy
Nedbank	18744	25500	31-Dec	20.76	22.69	26.60	10.28	11.34	13.30	8.17	8.17	Buy
RMB Holdings	5630	6500	30-Jun	4.48	4.91	5.60	2.27	2.64	3.01	11.33	11.33	Hold
Standard Bank	11221	16000	31-Dec	10.74	14.13	16.19	5.98	6.87	8.49	7.84	7.84	Buy
Financial Services												
Alexander Forbes	535	760	31-Mar	-0.52	0.58	0.58	0.00	0.22	0.37	14.88	4.05	Buy
Coronation Fund Managers	6107	5400	30-Sep	5.71	5.18	4.38	5.71	5.16	4.38	12.61	12.61	Buy
JSE	12859	12500	31-Dec	7.34	8.32	9.11	4.80	5.55	6.07	15.64	4.26	Hold
Peregrine Holdings	2729	3300	31-Mar	1.95	2.76	2.85	1.00	1.50	1.40	8.99	8.99	Buy
Transaction Capital	1098	1300	30-Sep	0.57	0.69	0.84	0.16	0.22	0.27	14.49	14.49	Buy
Real Estate												
Attacq	1685	2530	30-Jun	1.51	1.40	0.67	0.00	0.00	0.00	15.73	0.00	Buy
Growthpoint	2279	2800	30-Jun	1.53	0.62	1.13	1.61	1.73	1.84	11.29	6.54	Buy
Hyprop	10112	13500	30-Jun	5.04	5.44	5.85	4.72	5.43	6.03	6.49	5.35	Buy
Pivotal	1600	2700	28-Feb	1.46	0.47	0.83	0.00	0.00	0.00	6.42	0.00	Buy
Redefine Properties	950	1250	31-Aug	0.95	0.84	1.71	0.74	0.80	0.85	7.23	7.37	Buy
General Mining												
Anglo American*	6300	7000	31-Dec	1.73	0.72	0.08	0.85	0.32	0.00	NM	8.17	Hold
ARM	5708	6000	30-Jun	18.86	7.99	3.03	6.00	3.50	3.50	279.31	2.63	Buy
BHP Billiton*	13523	22000	30-Jun	2.47	1.61	0.21	1.21	1.24	1.24	39.65	4.90	Hold
Glencore*	5330	3000	31-Dec	0.33	0.11	0.06	0.18	0.06	0.12	NM	4.84	Buy
Kumba Iron Ore	2910	5100	31-Dec	34.26	10.23	1.52	23.34	0.00	0.00	3.57	0.00	Buy
S32*	3500	1900	30-Jun	0.08	0.11	0.00	0.00	0.00	0.00	15.88	0.00	Buy
Gold												
AngloGold Ashanti*	13200	14800	31-Dec	0.00	0.06	0.25	0.00	0.00	0.00	NM	0.00	Buy
Gold Fields*	5465	4000	31-Dec	0.11	0.07	0.04	0.04	0.02	0.01	78.99	0.54	Hold
Harmony	3143	2500	30-Jun	0.26	-1.87	1.05	0.00	0.00	0.00	NM	0.00	Buy
Sibanye Gold	3673	2600	31-Dec	1.68	1.10	2.01	1.12	0.45	0.70	31.68	1.28	Hold
Platinum												
Amplats	23141	17000	31-Dec	3.01	0.37	5.53	0.00	0.00	0.00	NM	0.00	Hold
Aquarius Platinum*	287	285	30-Jun	-0.01	-0.03	-0.02	0.00	0.00	0.00	NM	0.00	Buy
Impala Platinum	3288	4000	30-Jun	0.86	0.36	-1.06	0.00	0.00	0.00	NM	0.00	Buy
Lonmin*	1190	1000	30-Sep	0.05	-0.16	-0.11	0.00	0.00	0.00	NM	0.00	Sell
Northam	3148	1800	30-Jun	0.02	-2.03	-1.34	0.00	0.00	0.00	NM	0.00	Sell
RBPlat	2826	2700	31-Dec	2.38	-0.49	-0.17	0.00	0.00	0.00	NM	0.00	Buy

** Price in ZAR; all other values in US$*
*** Price and all 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	42500	41000	30-Jun	48.27	49.01	32.08	21.50	18.50	12.68	10.28	3.70	Hold
Non-Mining Resources – Paper												
Mondi***	1124	1650	31-Dec	1.07	1.32	1.45	0.42	0.55	0.65	12.20	3.63	Buy
Industrials												
Aspen	25999	37500	30-Jun	10.64	12.19	13.96	1.88	2.16	2.47	32.31	0.59	Buy
Barloworld	7000	9500	30-Sep	8.52	9.22	9.77	3.23	3.41	3.83	10.04	3.68	Buy
Bidvest	35494	37400	30-Jun	17.23	18.72	21.79	8.34	9.09	10.53	16.67	3.00	Buy
Clicks	8492	10100	31-Aug	3.37	3.84	4.31	1.91	2.35	2.64	22.07	2.79	Hold
Imperial	11309	13600	30-Jun	16.06	14.46	14.78	8.20	7.95	7.64	13.08	4.20	Buy
Lewis	4230	5400	31-Mar	9.13	8.38	8.37	5.17	5.17	5.17	8.27	7.46	Hold
Life Healthcare	3394	3600	30-Sep	1.77	1.79	1.93	2.41	1.54	1.64	22.40	3.84	Buy
Massmart	8642	12100	31-Dec	5.21	5.63	6.67	4.21	3.31	3.92	16.42	3.58	Hold
Mediclinic	12100	12500	31-Mar	3.69	4.01	5.11	0.96	1.07	1.28	19.07	1.12	Hold
Mr Price	15458	19200	31-Mar	7.15	8.60	9.33	4.82	5.80	6.28	24.07	2.80	Buy
Nampak	1946	2100	30-Sep	2.14	2.06	2.34	1.53	1.34	1.42	18.64	3.50	Hold
Naspers	193600	237500	31-Mar	21.25	27.17	46.53	4.25	4.70	5.27	51.06	0.34	Buy
Netcare	3240	3900	30-Sep	1.55	1.70	2.06	0.80	0.92	1.06	21.82	2.41	Buy
Pick n Pay Stores	5682	6300	28-Feb	1.13	1.70	2.12	0.92	1.18	1.42	32.40	2.14	Hold
Richemont****	10500	12700	31-Mar	3.69	1.99	3.65	1.17	1.60	1.68	30.36	2.21	Buy
Shoprite	13923	15800	30-Jun	6.97	7.70	8.32	3.50	3.86	4.18	20.96	2.40	Buy
Spar	17998	21600	30-Sep	7.30	8.66	9.79	5.40	6.32	7.33	22.68	3.62	Buy
Steinhoff****	7499	9400	30-Jun	0.28	0.31	0.30	0.10	0.11	0.13	12.49	2.34	Buy
Super Group	3834	4100	30-Jun	2.42	2.65	3.39	0.00	0.00	0.00	12.37	0.00	Buy
The Foschini Group	11893	17200	31-Mar	9.03	8.90	10.27	5.36	5.88	6.78	14.47	4.53	Buy
Truworths	9304	12300	30-Jun	5.69	5.92	7.30	3.85	4.05	4.99	13.44	5.09	Buy
Woolworths	9002	11900	30-Jun	3.75	4.16	4.54	2.40	2.47	3.06	22.58	2.98	Buy

** Price in ZAR; all other values in US$*
*** Price and all 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 (29 January 2016): 14396c | Target price: 18500c | Rating: Buy

Barclays Africa Group Ltd

Stefan Swanepoel / Bankole Ubogu

Business description: Absa was formed in 1991 by the merger of United and Allied Building Societies and Volkskas Bank. By January 1992, Absa was the largest local banking group by assets. Historically, Absa was 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. c.R18.3bn of Barclays' African operations were sold by Barclays to Absa in exchange for an additional c.15.3% shareholding in Absa, increasing its stake to c.62.3%. The sale also resulted in a restructuring where Absa was rebranded to the Barclays Africa Group (only the holding company has been rebranded and not the banking entity as yet). 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, we expect asset growth to be largely stable in FY16 (c.+10.5%) and FY17 (c.+11.3%) as corporate growth is supported by counter cyclical renewable energy deals, as well as some contribution from Africa in due course. We anticipate margins will remain stable this year as higher cost of funds is offset by the benefits from the endowment effect. We caution Barclays may experience some pain in the event of a yield curve inversion or other swap market dislocations, given its interest rate hedge. We expect the credit loss ratio has bottomed and we therefore see a normalisation of the credit loss ratio to continue. We acknowledge there may well be tail risk associated with further corporate asset quality deterioration. 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. Cost management remains impressive and extremely important in a lower growth environment. We expect the good cost discipline to continue. It remains a 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 has increased its impairment charge as a result. The outlook for the company is dependent on its ability to generate growth in NIR, in an increasingly regulated environment that remains weak. A lot of the recent negative news has been reflected in the share price. Buy.

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: 18%, COE: 13.9%, g: 6%). The above results in a terminal P/B multiple of 1.5x. 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: Downside risks include lower-than-expected asset growth that could result in lower profits. Worse credit quality than expected. An inability to maintain costs, resulting in the ROE targets not being met. Higher regulatory charges adding pressure on the bottom line. The potential to do acquisitions in the rest of Africa that is too expensive and doesn't contribute sufficiently to the growth of the group. The margin hedge could expose the group to additional risk if there are violent swings in interest rates.

Model updated:07 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Barclays Africa Group

Reuters: BGAJ.J Bloomberg: BGA SJ

Buy

Price (29 Jan 16)	ZAR 143.96
Target Price	ZAR 185.00
52 Week range	ZAR 122.73 - 198.91
Market Cap (m)	ZARm 122,164
	USDm 7,686

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	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(ZAR)	12.30	13.98	15.39	16.81	18.51	21.12
EPS (DB) (ZAR)	12.28	13.97	15.38	16.78	18.48	21.09
Growth Rate - EPS (DB) (%)	-9	14	10	9	10	14
DPS (ZAR)	6.84	15.28	9.25	10.05	10.24	11.37
BVPS (stated) (ZAR)	91.01	91.25	97.64	104.46	113.66	123.82
Tang. NAV p. sh. (ZAR)	87.41	87.54	93.84	100.48	109.49	119.45
Market Capitalisation (ZARm)	135,686.07	112,062.13	154,135.80	122,163.82	122,163.82	122,163.82
Shares in issue (m)	848.70	848.00	847.10	850.17	852.37	854.07
Valuation Ratios & Profitability Measures						
P/E (stated)	13.0	9.5	11.8	8.6	7.8	6.8
P/E (DB)	13.0	9.5	11.8	8.6	7.8	6.8
P/B (stated)	1.8	1.4	1.9	1.4	1.3	1.2
P/Tangible equity (DB)	1.83	1.51	1.94	1.43	1.31	1.21
ROE(stated)(%)	14.95	15.34	16.29	16.65	17.00	17.81
ROTE (tangible equity) (%)	15.53	15.98	16.96	17.32	17.66	18.47
ROIC (invested capital) (%)	15.5	16.0	17.0	17.3	17.7	18.5
Dividend yield(%)	4.9	10.3	5.9	7.0	7.1	7.9
Dividend cover(x)	1.8	0.9	1.7	1.7	1.8	1.9
Profit & Loss (ZARm)						
Net interest revenue	29,302	32,351	35,601	38,098	41,974	46,741
Non interest income	25,674	27,055	27,524	29,059	30,961	33,347
Commissions	21,918	22,915	23,040	24,350	25,841	27,716
Trading Revenue	0	0	0	0	0	0
Other revenue	3,756	4,140	4,484	4,708	5,120	5,631
Total revenue	54,976	59,406	63,125	67,156	72,935	80,088
Total Operating Costs	31,185	34,453	37,260	39,206	41,793	44,719
Employee Costs	15,787	17,593	19,334	20,243	21,558	23,068
Other costs	15,398	16,860	17,926	18,963	20,234	21,651
Pre-Provision profit/(loss)	23,791	24,953	25,865	27,950	31,142	35,370
Bad debt expense	8,855	6,987	6,290	7,082	8,237	9,264
Operating Profit	14,936	17,966	19,575	20,869	22,905	26,106
Pre-tax associates	249	130	142	156	172	189
Pre-tax profit	15,185	18,096	19,717	21,025	23,076	26,295
Tax	4,439	5,222	5,573	5,782	6,231	7,100
Other post tax items	-747	-893	-928	-1,019	-1,135	-1,227
Stated net profit	10,419	11,843	13,032	14,264	15,751	18,008
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	10,419	11,843	13,032	14,264	15,751	18,008
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	438,216	560,933	619,705	667,778	734,286	812,800
Interest-earning assets	704,964	768,723	782,289	852,805	943,725	1,050,130
Customer Loans	566,262	605,337	636,326	688,090	760,228	846,055
Total Deposits	691,329	754,904	783,961	862,357	948,593	1,043,452
Stated Shareholder Equity	77,096	77,317	82,690	88,645	96,704	105,557
Equals: Tangible Equity	74,048.0	74,176.0	79,471.0	85,265.3	93,155.1	101,830.7
Tier 1 capital	57,017.0	67,885.0	73,830.0	80,446.2	88,105.2	96,518.8
Tier 1 ratio (%)	13	12	12	12	12	12
o/w core tier 1 capital ratio (%)	14	13	13	13	13	12
Credit Quality						
Gross NPLs/Total Loans(%)	5.56	4.84	4.30	3.59	3.59	3.59
Risk Provisions/NPLs(%)	50	55	59	71	71	71
Bad debt / Avg loans (%)	1.66	1.19	1.01	1.07	1.14	1.15
Bad debt/Pre-Provision Profit(%)	37.2	28.0	24.3	25.3	26.5	26.2
Growth Rates & Key Ratios						
Growth in revenues (%)	20	8	6	6	9	10
Growth in costs (%)	18	10	8	5	7	7
Growth in bad debts (%)	74	-21	-10	13	16	12
Growth in RWA (%)	3	28	10	8	10	11
Net int. margin (%)	4	4	5	5	5	5
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	81.91	80.19	81.17	79.79	80.14	81.08
ROTE Decomposition						
Revenue % ARWAs	12.75	11.89	10.69	10.43	10.40	10.35
Net interest revenue % ARWA	6.79	6.48	6.03	5.92	5.99	6.04
Non interest revenue % ARWA	5.95	5.42	4.66	4.51	4.42	4.31
Costs/income ratio (%)	56.7	58.0	59.0	58.4	57.3	55.8
Bad debts % ARWAs	2.05	1.40	1.07	1.10	1.18	1.20
Tax rate (%)	29.7	29.1	28.5	27.7	27.2	27.2
Adj. Attr. earnings % ARWA	2.36	2.34	2.18	2.19	2.22	2.30
Capital leverage (ARWA/Equity)	6.4	6.7	7.7	7.8	7.9	7.9
ROTE (Adj. earnings/Ave. equity)	15.2	15.8	16.8	17.1	17.5	18.3

Source: Company data, Deutsche Bank estimates

Stefan Swanepoel
+27 11 775-7483 stefan.swanepoel@db.com

South Africa – Banks | Price (29 January 2016): 41800c | Target price: 30000c | Rating: Sell

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 loan growth in unsecured lending. Margins are under pressure potentially, given the impact of interest rate caps implemented by the Department of Trade & Industry. 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. Sell.

Valuation: We value Capitec using a two-stage Gordon Growth Model We multiply the expected year three book value by a terminal P/B multiple. We arrive at a terminal P/B multiple of 2.1x (assuming a sustainable ROE of 26%, 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) present 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. Capitec may declare higher than expected dividends.

Model updated:29 September 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Capitec Bank

Reuters: CPIJ.J Bloomberg: CPI SJ

Sell

Price (29 Jan 16)	ZAR 481.00
Target Price	ZAR 300.00
52 Week range	ZAR 377.00 - 610.00
Market Cap (m)	ZARm 55,617
	USDm 3,499

Company Profile

Capitec Bank, a retail bank, is a subsidiary of Capitec which 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	2013	2014	2015	2016E	2017E	2018E
Data Per Share						
EPS (stated)(ZAR)	15.19	17.52	22.08	27.02	31.52	36.82
EPS (DB) (ZAR)	14.98	17.40	22.06	26.91	31.39	36.67
Growth Rate - EPS (DB) (%)	36	16	27	22	17	17
DPS (ZAR)	5.74	6.63	8.36	11.26	14.33	16.74
BVPS (stated) (ZAR)	72.12	84.33	98.21	115.96	135.69	157.19
Tang. NAV p. sh. (ZAR)	70.93	82.58	96.47	114.16	133.81	155.23
Market Capitalisation (ZARm)	21,515.10	21,186.01	47,407.07	55,616.59	55,616.59	55,616.59
Shares in issue (m)	105.70	115.93	115.46	116.08	116.08	116.08
Valuation Ratios & Profitability Measures						
P/E (stated)	12.4	10.5	18.6	17.8	15.3	13.1
P/E (DB)	12.5	10.6	18.6	17.9	15.3	13.1
P/B (stated)	2.6	2.2	4.2	4.1	3.5	3.1
P/Tangible equity (DB)	2.65	2.22	4.25	4.21	3.59	3.10
ROE(stated)(%)	24.03	22.44	24.16	25.23	25.05	25.14
ROTE (tangible equity) (%)	24.41	22.87	24.64	25.66	25.42	25.48
ROIC (invested capital) (%)	24.0	22.4	24.2	25.2	25.0	25.1
Dividend yield(%)	2.8	3.3	3.2	2.3	3.0	3.5
Dividend cover(x)	2.6	2.6	2.6	2.4	2.2	2.2
Profit & Loss (ZARm)						
Net interest revenue	5,422	7,300	8,357	9,728	10,991	12,510
Non interest income	2,530	2,749	3,248	3,833	4,418	5,051
Commissions	2,502	2,768	3,227	3,831	4,406	5,039
Trading Revenue	0	0	0	0	0	0
Other revenue	29	-19	21	2	12	12
Total revenue	7,953	10,049	11,605	13,561	15,409	17,562
Total Operating Costs	3,016	3,242	4,031	4,935	5,591	6,238
Employee Costs	1,536	1,551	2,167	2,900	3,248	3,637
Other costs	1,480	1,690	1,864	2,036	2,343	2,600
Pre-Provision profit/(loss)	4,936	6,807	7,574	8,626	9,818	11,324
Bad debt expense	2,659	3,976	4,014	4,264	4,733	5,388
Operating Profit	2,277	2,831	3,560	4,362	5,085	5,937
Pre-tax associates	0	2	-1	-1	-1	-1
Pre-tax profit	2,277	2,833	3,559	4,361	5,084	5,935
Tax	673	795	995	1,221	1,423	1,662
Other post tax items	-21	-20	-18	-16	-16	-16
Stated net profit	1,584	2,017	2,546	3,124	3,644	4,257
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	1	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	1,584	2,017	2,547	3,124	3,644	4,257
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	26,497	29,766	34,171	38,272	43,630	50,611
Interest-earning assets	37,101	44,476	46,460	51,030	58,174	67,481
Customer Loans	27,935	30,053	32,484	36,388	41,482	48,119
Total Deposits	29,000	35,449	41,181	46,946	52,110	57,843
Stated Shareholder Equity	8,254	9,723	11,356	13,409	15,690	18,175
Equals: Tangible Equity	8,117.6	9,521.8	11,155.0	13,199.5	15,472.1	17,949.0
Tier 1 capital	8,237.9	9,249.8	11,376.5	13,360.8	15,633.4	18,110.3
Tier 1 ratio (%)	31	31	33	35	36	36
o/w core tier 1 capital ratio (%)	31	31	33	35	36	36
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 (%)	11.87	13.71	12.84	12.38	12.16	12.03
Bad debt/Pre-Provision Profit(%)	53.9	58.4	53.0	49.4	48.2	47.6
Growth Rates & Key Ratios						
Growth in revenues (%)	40	26	15	17	14	14
Growth in costs (%)	20	7	24	22	13	12
Growth in bad debts (%)	66	50	1	6	11	14
Growth in RWA (%)	70	12	15	12	14	16
Net int. margin (%)	18	18	18	20	20	20
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	96.33	84.78	78.88	77.51	79.60	83.19
ROTE Decomposition						
Revenue % ARWAs	37.83	35.72	36.30	37.44	37.63	37.27
Net interest revenue % ARWA	25.79	25.95	26.14	26.86	26.84	26.55
Non interest revenue % ARWA	12.04	9.77	10.16	10.58	10.79	10.72
Costs/income ratio (%)	37.9	32.3	34.7	36.4	36.3	35.5
Bad debts % ARWAs	12.65	14.13	12.56	11.77	11.56	11.43
Tax rate (%)	29.5	28.1	27.9	28.0	28.0	28.0
Adj. Attr. earnings % ARWA	7.53	7.16	7.97	8.63	8.90	9.04
Capital leverage (ARWA/Equity)	3.2	3.2	3.1	3.0	2.9	2.8
ROTE (Adj. earnings/Ave. equity)	24.4	22.9	24.6	25.7	25.4	25.5

Source: Company data, Deutsche Bank estimates

Stefan Swanepoel
+27 11 775-7483 stefan.swanepoel@db.com

South Africa – Banks | Price (29 January 2016): 4472c | Target price: 4750c | 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.34.1% 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 its long term average. Overall, we expect asset growth to be supported by a more balanced retail and corporate growth vs. the sector (that is largely dominated by corporate asset growth). We expect net interest margin to pick up in FY16 due to the 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. Excess capital remains a key driver for FirstRand as it continues to hold excess capital relative to both internal and regulatory requirements.

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. While the outlook is favourable, we believe it is 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.

Deutsche Securities (Pty) Ltd

Model updated:07 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

FirstRand

Reuters: FSRJ.J | Bloomberg: FSR SJ

Hold

Price (29 Jan 16)	ZAR 44.72
Target Price	ZAR 47.50
52 Week range	ZAR 35.57 - 58.00
Market Cap (m)	ZARm 248,221
	USDm 15,617

Company Profile

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

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Data Per Share						
EPS (stated)(ZAR)	2.76	3.40	3.81	4.25	4.85	5.56
EPS (DB) (ZAR)	2.75	3.41	3.81	4.19	4.77	5.48
Growth Rate - EPS (DB) (%)	21	24	12	10	14	15
DPS (ZAR)	1.36	1.74	2.10	2.50	2.85	3.27
BVPS (stated) (ZAR)	13.10	14.94	16.38	18.31	20.44	22.89
Tang. NAV p. sh. (ZAR)	12.89	14.75	16.18	18.10	20.21	22.63
Market Capitalisation (ZARm)	158,132.13	223,524.05	295,582.46	248,220.91	248,220.91	248,220.91
Shares in issue (m)	5,563.46	5,543.00	5,543.56	5,636.56	5,644.56	5,644.56
Valuation Ratios & Profitability Measures						
P/E (stated)	10.5	12.0	14.0	10.5	9.2	8.0
P/E (DB)	10.5	12.0	14.0	10.7	9.4	8.2
P/B (stated)	2.2	2.7	3.3	2.4	2.2	2.0
P/Tangible equity (DB)	2.24	2.76	3.29	2.47	2.21	1.98
ROE(stated)(%)	23.17	24.31	24.48	24.55	25.03	25.67
ROTE (tangible equity) (%)	23.98	24.97	24.78	24.83	25.32	25.96
ROIC (invested capital) (%)	24.0	25.0	24.8	24.8	25.3	26.0
Dividend yield(%)	4.6	5.1	4.3	5.6	6.4	7.3
Dividend cover(x)	2.0	2.0	1.8	1.7	1.7	1.7
Profit & Loss (ZARm)						
Net interest revenue	24,715	29,878	35,621	40,358	46,003	52,667
Non interest income	31,614	36,150	37,421	40,132	44,515	49,085
Commissions	22,542	23,663	25,604	27,432	30,641	33,743
Trading Revenue	6,781	9,357	8,206	8,793	9,598	10,598
Other revenue	2,291	3,130	3,611	3,908	4,276	4,744
Total revenue	56,329	66,028	73,042	80,490	90,518	101,751
Total Operating Costs	32,131	36,326	39,576	42,927	47,072	52,162
Employee Costs	17,075	19,532	21,840	23,806	25,948	28,802
Other costs	15,056	16,794	17,736	19,122	21,124	23,359
Pre-Provision profit/(loss)	24,198	29,702	33,466	37,563	43,446	49,590
Bad debt expense	4,812	5,252	5,150	5,726	7,132	7,867
Operating Profit	19,386	24,450	28,316	31,837	36,314	41,723
Pre-tax associates	824	927	1,539	1,355	1,497	1,655
Pre-tax profit	20,210	25,377	29,855	33,192	37,811	43,377
Tax	4,532	5,591	6,731	7,956	9,101	10,485
Other post tax items	-1,139	-1,346	-1,501	-1,621	-1,773	-1,964
Stated net profit	15,114	18,671	21,141	23,615	26,937	30,928
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	209	230	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	15,323	18,901	21,141	23,615	26,937	30,928
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	519,960	572,446	633,830	710,447	795,701	891,185
Interest-earning assets	688,420	790,429	898,345	991,939	1,113,452	1,269,660
Customer Loans	598,975	685,926	779,171	857,273	959,932	1,094,647
Total Deposits	697,005	768,234	865,521	926,107	990,935	1,060,300
Stated Shareholder Equity	71,618	81,959	90,778	101,646	113,594	127,370
Equals: Tangible Equity	70,449.0	80,912.2	89,710.0	100,470.7	112,301.7	125,949.0
Tier 1 capital	77,212.0	84,647.0	94,008.0	106,190.7	120,057.8	135,942.3
Tier 1 ratio (%)	15	15	15	15	15	15
o/w core tier 1 capital ratio (%)	15	15	15	15	15	15
Credit Quality						
Gross NPLs/Total Loans(%)	2.84	2.37	2.25	3.36	3.36	3.36
Risk Provisions/NPLs(%)	74	85	84	56	56	56
Bad debt / Avg loans (%)	0.86	0.82	0.70	0.70	0.78	0.77
Bad debt/Pre-Provision Profit(%)	19.9	17.7	15.4	15.2	16.4	15.9
Growth Rates & Key Ratios						
Growth in revenues (%)	10	17	11	10	12	12
Growth in costs (%)	11	13	9	8	10	11
Growth in bad debts (%)	-5	9	-2	11	25	10
Growth in RWA (%)	10	10	11	12	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 (%)	85.94	89.29	90.02	92.57	96.87	103.24
ROTE Decomposition						
Revenue % ARWAs	11.36	12.09	12.11	11.98	12.02	12.06
Net interest revenue % ARWA	4.99	5.47	5.91	6.00	6.11	6.24
Non interest revenue % ARWA	6.38	6.62	6.20	5.97	5.91	5.82
Costs/income ratio (%)	57.0	55.0	54.2	53.3	52.0	51.3
Bad debts % ARWAs	0.97	0.96	0.85	0.85	0.95	0.93
Tax rate (%)	23.4	22.9	23.8	25.0	25.1	25.1
Adj. Attr. earnings % ARWA	2.92	3.29	3.25	3.31	3.38	3.47
Capital leverage (ARWA/Equity)	7.8	7.2	7.1	7.1	7.1	7.1
ROTE (Adj. earnings/Ave. equity)	22.7	23.7	23.0	23.4	23.9	24.6

Source: Company data, Deutsche Bank estimates

Stefan Swanepoel
+27 11 775-7483 stefan.swanepoel@db.com

United Kingdom – Banks | Price (29 January 2016): 443p | Target price: 600p | 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 to date (but the forward P/E has compressed from c.14.7x to c.10x). We expect Investec to achieve earnings growth ahead of market expectations due to: the benefits from the recent rationalisation of operations are yet to fully materialise, the continued roll-off of legacy assets that (in retrospect) were incorrectly priced in relation to today's onerous capital requirements and a re-deployment of capital as businesses turns the corner is likely to be earnings accretive. 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 while likely to incur significant cost.

Model updated:27 January 2016

Running the numbers

Europe

United Kingdom

Banks

Investec Plc

Reuters: INVP.L Bloomberg: INVP LN

Buy

Price (29 Jan 16)	GBP 443.90
Target Price	GBP 600.00
52 Week range	GBP 405.20 - 647.00
Market Cap (m)	GBPm 3,901
	USDm 5,535

Company Profile

Investec Plc 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	2014	2015	2016E	2017E
Data Per Share				
EPS (stated)(GBp)	34.36	24.19	38.75	46.39
EPS (DB) (GBp)	35.85	37.24	37.57	44.78
Growth Rate - EPS (DB) (%)	3	4	1	19
DPS (GBp)	19.00	20.00	19.85	23.65
BVPS (stated) (GBp)	375.70	364.89	340.41	378.86
Tang. NAV p. sh. (GBp)	325.41	315.04	291.08	330.03
Market Capitalisation (GBPm)	4,178.98	4,880.14	3,901.41	3,901.41
Shares in issue (m)	914.40	910.59	922.81	932.34
Valuation Ratios & Profitability Measures				
P/E (stated)	14.1	23.2	11.5	9.6
P/E (DB)	13.5	15.0	11.8	9.9
P/B (stated)	1.3	1.5	1.3	1.2
P/Tangible equity (DB)	1.49	1.78	1.52	1.35
ROE(stated)(%)	9.00	6.51	10.99	12.90
ROTE (tangible equity) (%)	14.63	15.16	16.18	18.87
ROIC (invested capital) (%)	12.2	12.7	13.5	15.8
Dividend yield(%)	4.4	3.7	4.5	5.3
Dividend cover(x)	1.8	1.2	2.0	2.0
Profit & Loss (GBPm)				
Net interest revenue	652	635	551	610
Non interest income	1,289	1,323	1,349	1,486
Commissions	989	1,089	1,067	1,181
Trading Revenue	115	93	114	128
Other revenue	185	141	168	178
Total revenue	1,941	1,957	1,900	2,097
Total Operating Costs	1,312	1,325	1,279	1,391
Employee Costs	898	905	874	951
Other costs	414	419	405	441
Pre-Provision profit/(loss)	629	633	621	705
Bad debt expense	166	128	103	91
Operating Profit	463	504	518	614
Pre-tax associates	0	0	0	0
Pre-tax profit	463	504	518	614
Tax	72	117	92	106
Other post tax items	-94	-179	-87	-98
Stated net profit	296	209	339	410
Goodwill	26	20	15	16
Extraordinary & Other items	5	111	-8	-8
Bad Debt Provisioning	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0
DB adj. core earnings	328	339	347	417
Key Balance Sheet Items (GBPm) & Capital Ratios				
Risk-weighted assets	27,836	26,603	24,016	27,791
Interest-earning assets	35,081	33,300	28,410	32,095
Customer Loans	17,157	17,189	16,011	19,142
Total Deposits	22,610	22,615	21,203	25,016
Stated Shareholder Equity	3,239	3,174	2,992	3,364
Equals: Tangible Equity	2,227.2	2,246.5	2,039.5	2,385.9
Tier 1 capital	2,985.6	3,075.5	2,809.0	3,169.6
Tier 1 ratio (%)	11	12	12	11
o/w core tier 1 capital ratio (%)	9	10	10	10
Credit Quality				
Gross NPLs/Total Loans(%)	3.84	3.54	3.02	2.44
Risk Provisions/NPLs(%)	40	41	44	44
Bad debt / Avg loans (%)	0.93	0.75	0.62	0.52
Bad debt/Pre-Provision Profit(%)	26.4	20.3	16.6	13.0
Growth Rates & Key Ratios				
Growth in revenues (%)	-3	1	-3	10
Growth in costs (%)	-1	1	-3	9
Growth in bad debts (%)	-34	-23	-20	-11
Growth in RWA (%)	-7	-4	-10	16
Net int. margin (%)	2	2	2	2
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm
Total loans / Total deposits (%)	75.88	76.01	75.51	76.52
ROTE Decomposition				
Revenue % ARWAs	6.73	7.19	7.51	8.09
Net interest revenue % ARWA	2.26	2.33	2.18	2.36
Non interest revenue % ARWA	4.47	4.86	5.33	5.74
Costs/income ratio (%)	67.6	67.7	67.3	66.4
Bad debts % ARWAs	0.58	0.47	0.41	0.35
Tax rate (%)	15.5	23.1	17.7	17.2
Adj. Attr. earnings % ARWA	1.14	1.25	1.37	1.61
Capital leverage (ARWA/Equity)	12.9	12.2	11.8	11.7
ROTE (Adj. earnings/Ave. equity)	14.6	15.2	16.2	18.9

Source: Company data, Deutsche Bank estimates

Bankole Ubogu
+27 11 775-7254 bankole.ubogu@db.com

South Africa – Banks | Price (29 January 2016): 18744c | Target price: 25500c | Rating: Buy

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. Nedbank also recently acquired the remaining interest in Imperial Bank to boost its instalment 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 post the acquisition of Ecobank. Although Nedbank is part of the Old Mutual group, historically there was a stated interest to dispose of the bank by Old Mutual. Notwithstanding the fact that until more recently this desire was placed on the back burner, we think the new leadership at Old Mutual it may look at the potential of reorganising the group afresh.

Drivers: 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 had forced the bank to reduce its risk appetite, which it has managed to successfully achieve over the last year. We anticipate the bank will see the benefit of the de-risking of its books through the lowering of its through-the-cycle credit loss ratio range. Although impairments are expected to increase marginally, the book is defensively placed as the bank has shifted its focus to rather growing its corporate loan portfolio. Nedbank has been active in renewable energy deals, boosting its trading revenues off the back of hedging transactions. Expenses growth has been moderate as the bank is in the throes of implementing a new back office IT system.

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. We recommend Buy.

Valuation: We value Nedbank on a two-stage Gordon Growth Model that bases the target price on a discounted terminal value, and adds back the value of discounted interim dividends 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.

Model updated:07 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Nedbank

Reuters: NEDJ.J Bloomberg: NED SJ

Buy

Price (29 Jan 16)	ZAR 187.44
Target Price	ZAR 255.00
52 Week range	ZAR 165.75 - 271.02
Market Cap (m)	ZARm 89,155
	USDm 5,609

Company Profile

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

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(ZAR)	16.46	18.84	21.27	23.33	27.35	31.52
EPS (DB) (ZAR)	16.13	18.39	20.76	22.69	26.60	30.64
Growth Rate - EPS (DB) (%)	16	14	13	9	17	15
DPS (ZAR)	7.52	8.95	10.28	11.34	13.30	15.33
BVPS (stated) (ZAR)	117.97	131.44	143.94	153.13	167.92	183.64
Tang. NAV p. sh. (ZAR)	117.97	131.44	143.94	153.13	167.92	183.64
Market Capitalisation (ZARm)	85,973.02	96,850.63	115,945.09	89,154.51	89,154.51	89,154.51
Shares in issue (m)	470.57	474.12	478.24	484.42	491.92	496.92
Valuation Ratios & Profitability Measures						
P/E (stated)	11.4	11.1	11.7	8.0	6.9	5.9
P/E (DB)	11.7	11.4	12.0	8.3	7.0	6.1
P/B (stated)	1.6	1.6	1.7	1.2	1.1	1.0
P/Tangible equity (DB)	1.59	1.60	1.73	1.22	1.12	1.02
ROE(stated)(%)	14.60	15.14	15.48	15.70	17.03	17.93
ROTE (tangible equity) (%)	14.75	15.22	15.55	15.72	17.05	17.93
ROIC (invested capital) (%)	17.4	17.7	17.9	18.0	19.4	20.2
Dividend yield(%)	4.4	4.7	4.6	6.1	7.1	8.2
Dividend cover(x)	2.2	2.1	2.1	2.1	2.1	2.1
Profit & Loss (ZARm)						
Net interest revenue	19,680	21,220	22,961	23,896	27,309	30,873
Non interest income	17,324	19,361	20,312	22,319	24,820	27,799
Commissions	12,545	14,038	14,583	16,066	17,864	20,007
Trading Revenue	2,379	2,604	2,683	2,925	3,276	3,669
Other revenue	2,400	2,719	3,046	3,328	3,680	4,123
Total revenue	37,004	40,581	43,273	46,215	52,129	58,672
Total Operating Costs	21,089	23,012	25,169	26,947	29,069	31,575
Employee Costs	11,390	12,629	13,838	14,807	15,991	17,430
Other costs	9,699	10,383	11,331	12,140	13,078	14,144
Pre-Provision profit/(loss)	15,915	17,569	18,104	19,268	23,060	27,097
Bad debt expense	5,199	5,565	4,506	4,995	5,966	7,176
Operating Profit	10,716	12,004	13,598	14,273	17,094	19,921
Pre-tax associates	1	27	161	785	903	1,038
Pre-tax profit	10,717	12,031	13,759	15,059	17,997	20,959
Tax	2,875	3,016	3,468	3,662	4,502	5,306
Other post tax items	-366	-370	-495	-418	-419	-427
Stated net profit	7,510	8,670	9,880	10,978	13,076	15,227
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	78	49	47	13	12	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	7,588	8,719	9,927	10,992	13,087	15,227
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	359,658	392,926	440,696	475,920	517,403	569,833
Interest-earning assets	586,936	640,888	694,628	753,071	822,166	909,863
Customer Loans	527,166	579,372	613,021	662,258	715,791	778,546
Total Deposits	550,878	602,952	653,450	718,795	790,675	869,742
Stated Shareholder Equity	53,950	60,617	67,024	72,837	80,709	89,182
Equals: Tangible Equity	53,950.0	60,617.0	67,024.0	72,837.0	80,709.3	89,181.7
Tier 1 capital	45,519.0	53,605.0	55,130.0	60,712.3	67,394.5	82,621.1
Tier 1 ratio (%)	13	14	13	13	13	14
o/w core tier 1 capital ratio (%)	11	12	12	12	12	14
Credit Quality						
Gross NPLs/Total Loans(%)	3.66	3.01	2.58	2.47	2.36	2.24
Risk Provisions/NPLs(%)	56	66	70	70	72	78
Bad debt / Avg loans (%)	1.02	1.01	0.76	0.78	0.87	0.96
Bad debt/Pre-Provision Profit(%)	32.7	31.7	24.9	25.9	25.9	26.5
Growth Rates & Key Ratios						
Growth in revenues (%)	11	10	7	7	13	13
Growth in costs (%)	9	9	9	7	8	9
Growth in bad debts (%)	-2	7	-19	11	19	20
Growth in RWA (%)	8	9	12	8	9	10
Net int. margin (%)	3	3	3	3	3	4
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	95.70	96.09	93.81	92.13	90.53	89.51
ROTE Decomposition						
Revenue % ARWAs	10.70	10.78	10.38	10.08	10.50	10.79
Net interest revenue % ARWA	5.69	5.64	5.51	5.21	5.50	5.68
Non interest revenue % ARWA	5.01	5.15	4.87	4.87	5.00	5.11
Costs/income ratio (%)	57.0	56.7	58.2	58.3	55.8	53.8
Bad debts % ARWAs	1.50	1.48	1.08	1.09	1.20	1.32
Tax rate (%)	26.8	25.1	25.5	25.7	26.3	26.6
Adj. Attr. earnings % ARWA	2.19	2.31	2.34	2.23	2.45	2.61
Capital leverage (ARWA/Equity)	6.7	6.6	6.5	6.6	6.5	6.4
ROTE (Adj. earnings/Ave. equity)	14.7	15.2	15.3	14.6	15.9	16.7

Source: Company data, Deutsche Bank estimates

Stefan Swanepoel
+27 11 775-7483 stefan.swanepoel@db.com

South Africa – Banks | Price (29 January 2016): 5630c | Target price: 6500c | Rating: Hold

RMB Holdings Ltd

Stefan Swanepoel / Bankole Ubogu

Business description: RMB Holdings is a focused investment company, holding a c.34.1% 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 for the portion of debt that it has leveraged against its investment and the cost of the 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. Management's guidance remains firm that it will not look to introduce other assets into the RMB Holdings stable.

Outlook: RMB Holdings' only material asset is its c.34.1% 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.

Valuation: Using our FirstRand target price as a base indicator of value, we adjust the TP for the additional leverage as well as extra holding costs to reach our target price for RMB Holdings.

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:11 March 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

RMB Holdings Ltd

Reuters: RMHJ.J Bloomberg: RMH SJ

Hold

Price (29 Jan 16)	ZAR 56.30
Target Price	ZAR 65.00
52 Week range	ZAR 48.21 - 72.89
Market Cap (m)	ZARm 79,479
	USDm 5,000

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 Holding 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	5.02	5.73	6.76
EPS (DB) (ZAR)	2.98	3.74	4.48	4.91	5.60	6.62
Growth Rate - EPS (DB) (%)	199.4	25.7	19.7	9.7	14.0	18.2
DPS (ZAR)	1.26	1.71	2.27	2.64	3.01	3.56
BVPS (stated) (ZAR)	18.29	20.77	22.82	25.60	28.73	32.47
Tang. NAV p. sh. (ZAR)	18.29	20.77	22.82	25.60	28.73	32.47
Market Capitalisation	49,240	55,621	74,241	79,479	79,479	79,479
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	11.2	9.8	8.3
P/E (DB)	11.7	10.5	11.7	11.5	10.0	8.5
P/B (stated)	1.9	1.9	2.3	2.2	2.0	1.7
P/Tangible equity (DB)	1.9	1.9	2.3	2.2	2.0	1.7
ROE(stated)(%)	17.3	18.8	20.9	20.7	21.1	22.1
ROTE (tangible equity) (%)	16.1	19.1	20.5	20.3	20.6	21.7
ROIC (invested capital) (%)	16.1	19.1	20.5	20.3	20.6	21.7
Dividend yield(%)	4.4	4.3	4.9	4.7	5.4	6.3
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	115	45	49
Commissions	0	0	0	0	0	0
Trading Revenue	0	0	0	0	0	0
Other revenue	24	23	37	115	45	49
Total revenue	24	23	37	115	45	49
Total Operating Costs	139	141	125	155	164	178
Employee Costs	11	12	13	15	16	18
Other costs	128	129	112	141	148	160
Pre-Provision profit/(loss)	-115	-118	-88	-41	-119	-128
Bad debt expense	0	0	0	0	0	0
Operating Profit	-115	-118	-88	-41	-119	-128
Pre-tax associates	4,618	5,088	6,426	7,134	8,205	9,674
Pre-tax profit	4,503	4,970	6,338	7,093	8,086	9,546
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	7,092	8,084	9,545
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	6,935	7,910	9,353
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	36,142	40,557	45,839
Equals: Tangible Equity	25,822	29,318	32,220	36,142	40,557	45,839
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	210	-61	10
Growth in costs (%)	-6	1	-11	24	5	8
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	135.5	366.0	360.9
Bad debts % ARWAs	nm	nm	nm	nm	nm	nm
Tax rate (%)	-11.3	-0.8	-1.1	-2.7	-1.0	-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

Stefan Swanepoel
+27 11 775-7483 stefan.swanepoel@db.com

South Africa – Banks Price (29 January 2016): 11221c Target price: 16000c 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 operates in 20 African countries, with smaller representation outside Africa. Standard Bank owns 54% of Liberty (a listed insurance business) to strengthen its position in the wealth management and the long-term savings markets. Early in 2008, the Industrial and Commercial Bank of China (ICBC) purchased a 20% stake in the group, making it one of the largest investments of the ICBC outside Asia, at the time. 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 of its Argentinean business to the ICBC. In 2014, Standard Bank sold its 60% stake of the loss making London-based business (Standard Bank Plc) to ICBC. Standard Bank no longer has ambitions to buy or build additional businesses in markets outside Africa. It has identified key areas in Africa for further expansion, which among others includes 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. The life insurance and asset management operations are currently held through its stake in Liberty. The business is well diversified across geography with rest of Africa currently contributing c.22% of earnings. Regarding the retail operations, most attention will likely be focused 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 a steady deterioration in the macroeconomic environment and a bottoming of the impairment cycle. Standard Bank's Corporate and Investment Banking (CIB) operations remain focussed primarily on debt and commodities businesses although Standard Bank has expanded into areas such as equities. With domestic markets at a fairly mature stage, CIB is likely to be driven 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. In a lower rate environment, 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:07 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Standard Bank

Reuters: SBKJ.J | Bloomberg: SBK SJ

Buy

Price (29 Jan 16)	ZAR 112.21
Target Price	ZAR 160.00
52 Week range	ZAR 98.50 - 176.25
Market Cap (m)	ZARm 182,494
	USDm 11,482

Company Profile

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

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(ZAR)	9.19	10.65	10.70	13.80	16.20	18.76
EPS (DB) (ZAR)	9.27	10.71	10.74	14.13	16.19	18.73
Growth Rate - EPS (DB) (%)	9	15	0	32	15	16
DPS (ZAR)	4.55	5.33	5.98	6.87	8.49	9.82
BVPS (stated) (ZAR)	70.92	84.52	86.25	92.35	103.19	113.62
Tang. NAV p. sh. (ZAR)	61.77	72.96	73.17	80.64	92.69	104.22
Market Capitalisation (ZARm)	190,937.45	209,381.37	232,202.44	182,493.97	182,493.97	182,493.97
Shares in issue (m)	1,608.51	1,630.21	1,634.57	1,634.70	1,642.70	1,650.70
Valuation Ratios & Profitability Measures						
P/E (stated)	12.9	12.2	13.4	8.1	6.9	6.0
P/E (DB)	12.8	12.1	13.4	7.9	6.9	6.0
P/B (stated)	1.7	1.5	1.7	1.2	1.1	1.0
P/Tangible equity (DB)	1.92	1.77	1.96	1.39	1.21	1.08
ROE(stated)(%)	13.55	13.72	12.54	15.46	16.57	17.30
ROTE (tangible equity) (%)	15.79	16.07	14.85	18.51	18.82	19.16
ROIC (invested capital) (%)	15.8	16.1	14.8	18.5	18.8	19.2
Dividend yield(%)	4.1	4.6	4.4	6.1	7.6	8.8
Dividend cover(x)	2.0	2.0	1.8	2.0	1.9	1.9
Profit & Loss (ZARm)						
Net interest revenue	34,015	39,225	45,256	49,329	56,822	65,508
Non interest income	34,499	36,669	38,984	42,354	46,778	51,921
Commissions	21,319	23,147	26,250	28,329	31,403	34,854
Trading Revenue	8,868	10,202	9,216	10,139	11,067	12,278
Other revenue	4,312	3,320	3,518	3,886	4,307	4,790
Total revenue	68,514	75,894	84,240	91,683	103,600	117,428
Total Operating Costs	39,998	44,862	46,871	52,011	57,299	63,774
Employee Costs	22,195	24,760	24,961	27,707	29,923	32,616
Other costs	17,803	20,102	21,910	24,304	27,376	31,157
Pre-Provision profit/(loss)	28,516	31,032	37,369	39,672	46,301	53,655
Bad debt expense	8,800	9,214	9,009	9,340	11,676	13,865
Operating Profit	19,716	21,818	28,360	30,332	34,625	39,789
Pre-tax associates	675	673	665	265	317	509
Pre-tax profit	20,391	22,491	29,025	30,596	34,942	40,299
Tax	5,773	6,197	7,869	7,964	9,128	10,485
Other post tax items	1,490	781	-3,065	3,019	602	921
Stated net profit	14,664	17,194	17,323	22,393	26,417	30,734
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	255	263	233	705	175	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	14,919	17,457	17,556	23,099	26,592	30,909
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	789,613	841,272	915,213	980,395	1,091,928	1,216,040
Interest-earning assets	847,006	975,736	1,065,705	1,154,724	1,294,851	1,450,275
Customer Loans	813,892	899,375	929,544	1,032,895	1,163,963	1,309,653
Total Deposits	930,153	999,854	1,064,076	1,170,484	1,287,532	1,416,285
Stated Shareholder Equity	113,905	136,741	139,588	150,200	168,642	186,606
Equals: Tangible Equity	99,218.0	118,033.2	118,413.0	131,142.1	151,490.6	171,169.7
Tier 1 capital	86,808.0	110,834.0	117,851.0	129,183.2	145,593.0	161,361.3
Tier 1 ratio (%)	11	13	13	13	13	13
o/w core tier 1 capital ratio (%)	10	13	12	13	13	13
Credit Quality						
Gross NPLs/Total Loans(%)	3.91	3.38	3.28	4.08	4.59	4.59
Risk Provisions/NPLs(%)	56	64	61	48	41	42
Bad debt / Avg loans (%)	1.09	1.08	0.99	0.95	1.06	1.12
Bad debt/Pre-Provision Profit(%)	30.9	29.7	24.1	23.5	25.2	25.8
Growth Rates & Key Ratios						
Growth in revenues (%)	17	11	11	9	13	13
Growth in costs (%)	15	12	4	11	10	11
Growth in bad debts (%)	37	5	-2	4	25	19
Growth in RWA (%)	11	7	9	7	11	11
Net int. margin (%)	4	4	4	4	5	5
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	87.50	89.95	87.36	88.25	90.40	92.47
ROTE Decomposition						
Revenue % ARWAs	9.13	9.31	9.59	9.67	10.00	10.18
Net interest revenue % ARWA	4.53	4.81	5.15	5.20	5.48	5.68
Non interest revenue % ARWA	4.60	4.50	4.44	4.47	4.51	4.50
Costs/income ratio (%)	58.4	59.1	55.6	56.7	55.3	54.3
Bad debts % ARWAs	1.17	1.13	1.03	0.99	1.13	1.20
Tax rate (%)	29.3	28.4	27.7	26.3	26.4	26.4
Adj. Attr. earnings % ARWA	1.90	2.06	1.92	2.41	2.54	2.63
Capital leverage (ARWA/Equity)	7.9	7.5	7.4	7.6	7.3	7.2
ROTE (Adj. earnings/Ave. equity)	15.1	15.5	14.3	18.3	18.6	18.8

Source: Company data, Deutsche Bank estimates

Stefan Swanepoel
+27 11 775-7483 stefan.swanepoel@db.com

South Africa – Financial Services | Price (29 January 2016): 535c | Target price: 760c | Rating: Buy

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 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. While 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 offers a broad-based entry point into the South African retirement fund industry. 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 and 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.8% 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. Buy.

Valuation: We value AF on a sum-of-the-parts (SOTP) basis, using a one-year-forward P/E multiple. Our SOTP-based target price uses a one-year-forward multiple range of 10-14x; 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 (FSB) and National Treasury (NT) 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.

Model updated:27 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

Alexander Forbes

Reuters: AFHJ.J Bloomberg: AFH SJ

Buy

Price (29 Jan 16)	ZAR 5.35
Target Price	ZAR 7.60
52 Week range	ZAR 4.61 - 10.95
Market Cap (m)	ZARm 5,849
	USDm 368

Company Profile

Alexander Forbes is a specialized 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.

Fiscal year end 31-Mar	2013	2014	2015	2016E	2017E	2018E
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

Bankole Ubogu
+27 11 775-7254 bankole.ubogu@db.com

South Africa – Financial Services | Price (29 January 2016): 6107c | Target price: 5400c | Rating: Buy

Coronation Fund Managers Ltd

Bankole Ubogu / Stefan Swanepoel

Business description: Coronation was founded in Cape Town, South Africa in 1993. It is an investment-led, owner-managed business with staff owning 24% of the company. Coronation is solely focused on asset management and has a track record of delivering superior long-term returns to clients over the past two decades. An active investment manager with a long-term valuation-driven investment approach, Coronation currently manages in excess of R600bn in client assets (at December 2014).

Drivers: Coronation is solely focused on the business of active asset management and offers specialist equity, balanced and fixed income products. We believe the following are the most critical for the group over the medium term: the performance of global investment markets (especially emerging markets) and local investment markets, the performance of the South African rand and investor sentiment and willingness to invest in emerging market funds that is the next growth area for the business.

Outlook: A combination of new fund offerings, a five-year track record, a strong brand and a demonstrated competitive advantage in active management were not enough to see the company through a tough FY15 due to manager specific performance issues. Notwithstanding the near-term headwinds, Coronation's forward P/E multiple has come down significantly to c.10x and when compared with its 10-year average rating of c.13.2x, in the absence of a significant bear market we view short term negatives to be priced in. We see value in the name over the medium term at these rating levels, but do caution the road might be bumpy. Buy.

Valuation: We value Coronation using an equally weighted P/E methodology and dividend discount model. Based on the variability of performance fees, we separate our estimate of the sustainable earnings generated from base fees from performance fees. We value the sustainable earnings of the group using a higher multiple than our estimate of performance earnings, we value the two earnings streams on an interpolated one-year forward P/E of c.11.3x. In our DDM we use the following 1.05x Beta, COE 13.2% and terminal growth of 6%.

Risks: Downside risks include the adverse movements of equity markets given US Federal Reserve tapering, loss of key staff (which may result in a loss of mandates), investment markets entering into negative return territory impacting on asset levels, rand strength and fund outflows due to poor performance.

Model updated:27 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

Coronation

Reuters: CMLJ.J | Bloomberg: CML SJ

Buy

Price (29 Jan 16)	ZAR 61.07
Target Price	ZAR 54.00
52 Week range	ZAR 48.29 - 107.73
Market Cap (m)	ZARm 21,362
	USDm 1,344

Company Profile

Coronation was founded in Cape Town, South Africa in 1993. It is an investment-led, owner-managed business with staff owning 24% of the company. Coronation is solely focused on asset management and has a track record of delivering superior long-term returns to clients over the past two decades. An active investment manager with a long-term valuation-driven investment approach, Coronation currently manages in excess of R600bn in client assets (at December 2014).

Fiscal year end 30-Sep	2012	2013	2014	2015	2016E	2017E
Data Per Share						
EPS (stated)(ZAR)	5.40	9.48	5.72	5.20	4.41	4.42
EPS (DB) (ZAR)	4.86	9.01	5.71	5.18	4.38	4.40
Growth Rate - EPS (DB) (%)	176	85	-37	-9	-15	0
DPS (ZAR)	2.06	4.16	5.71	5.16	4.38	4.40
BVPS (stated) (ZAR)	4.68	5.73	6.26	6.20	6.66	6.35
Tang. NAV p. sh. (ZAR)	4.68	5.73	6.26	6.20	6.66	6.35
Market Capitalisation (ZARm)	8,462.67	22,016.12	32,902.94	22,838.38	21,362.23	21,362.23
Shares in issue (m)	349.62	349.76	349.80	349.80	351.55	353.30
Valuation Ratios & Profitability Measures						
P/E (stated)	5.0	6.6	16.4	12.6	13.9	13.8
P/E (DB)	5.5	7.0	16.5	12.6	13.9	13.9
P/B (stated)	5.7	11.0	15.0	10.5	9.2	9.6
P/Tangible equity (DB)	5.74	10.99	15.03	10.53	9.17	9.61
ROE(stated)(%)	118.77	181.21	95.47	83.43	68.53	67.93
ROTE (tangible equity) (%)	133.41	181.21	95.37	83.11	68.53	67.93
ROIC (invested capital) (%)	118.8	181.2	95.4	83.1	68.5	67.9
Dividend yield(%)	9.2	9.0	6.6	5.6	7.2	7.2
Dividend cover(x)	2.6	2.3	1.0	1.0	1.0	1.0
Profit & Loss (ZARm)						
Net interest revenue	13	27	38	17	0	0
Non interest income	1,978	3,638	4,788	4,470	3,923	3,959
Commissions	1,975	3,635	4,774	4,442	3,899	3,934
Trading Revenue	0	0	0	0	0	0
Other revenue	3	3	14	28	25	25
Total revenue	1,991	3,665	4,826	4,487	3,923	3,959
Total Operating Costs	0	0	2,171	2,084	1,888	1,909
Employee Costs	566	1,080	1,343	1,271	1,110	1,106
Other costs	-566	-1,080	828	814	778	803
Pre-Provision profit/(loss)	1,991	3,665	2,655	2,403	2,035	2,050
Bad debt expense	0	0	0	0	0	0
Operating Profit	1,991	3,665	2,655	2,403	2,035	2,050
Pre-tax associates	4	5	7	8	9	10
Pre-tax profit	1,995	3,670	2,662	2,411	2,044	2,060
Tax	295	518	658	595	505	509
Other post tax items	0	-2	-3	2	2	2
Stated net profit	1,701	3,150	2,001	1,818	1,541	1,553
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	-2	-7	0	0
DB adj. core earnings	1,701	3,150	1,999	1,811	1,541	1,553
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	1,474	2,003	2,189	2,169	2,329	2,244
Equals: Tangible Equity	1,473.7	2,003.0	2,189.0	2,169.0	2,328.9	2,244.1
Tier 1 capital	0.0	0.0	0.0	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 (%)	11	84	32	-7	-13	1
Growth in costs (%)	nm	nm	nm	-4	-9	1
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 (%)	100.00	100.00	100.00	100.00	100.00	100.00
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 (%)	0.0	0.0	45.0	46.4	48.1	48.2
Bad debts % ARWAs	nm	nm	nm	nm	nm	nm
Tax rate (%)	14.8	14.1	24.8	24.8	24.8	24.8
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

Bankole Ubogu
+27 11 775-7254 bankole.ubogu@db.com

South Africa – Financial Services | Price (29 January 2016): 12859c | Target price: 12500c | Rating: Hold

JSE Ltd

Bankole Ubogu / Stefan Swanepoel

Business description: The JSE Ltd (the JSE) is presently SA's only integrated exchange, offering secure, efficient primary and secondary capital markets, supported by post-trade and regulatory services. The JSE offers local and international investors exposure to capital markets in SA and the broader African continent.

The JSE is both horizontally (multiple products) and vertically (listing to clearing) integrated. It generates revenue from trade and post-trade activity, listing fees, documentation fees, sale of market data and dividends from Strate.

Drivers: The JSE Ltd is organised into four main business divisions: equity division and issue regulation, derivative market, interest rate market and market data. We believe the following are the most critical for the group over the medium term: the longer term development of the capital markets, velocity/volatility of trading on the capital markets, foreign investor sentiment towards emerging markets and the macroeconomic performance of domestic markets as corporate earnings will flow through to the market value of listed companies and the amount/number of IPOs that come to market.

Outlook: JSE Ltd has shown resilience in revenue growth, with revenues growing every year since FY04 (10-year CAGR of c.18%). In the medium term, we forecast robust free cash flow growth in excess of 10% as it gets over a capex hump in 2016 and earnings benefit from operational leverage present in this largely fixed-cost business. The JSE has historically benefited from its monopoly status and, more recently, the vertical and horizontal integration of exchanges through the acquisition and incorporation of the JSE Debt Market (previously Bond Exchange of South Africa) and its settlement and clearing facilities. While the group is in the process of enhancing operational efficiency across its value chain, we are concerned, from a longer-term perspective, about the impact that the introduction of competition will have on profitability. This leaves us lukewarm on longer-term earnings growth. Hold.

Valuation: We use a discounted cash flow model to calculate our 12-month forward value using a cost of equity of c.12.6% and a terminal growth rate of 6%, and we add back the value of discounted dividends to account for all expected cash flows to investors over our explicit forecast period. We have used a terminal growth rate of 6%, accounting for increased competition in the market, which will place pressure on fees, over the specific forecast horizon. Thereafter, we expect the business should grow at nominal GDP.

Risks: Downside risks include: a greater-than-anticipated impact of the potential entrant taking market share and reducing margins; slower growth in market activity as the markets consolidate; and poor functioning of systems, which may slow the adoption of new technology. Upside risks include: lower-than-anticipated erosion of market share by A2X; and greater capital market inflows as investors continue to purchase equity assets.

Model updated:27 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

JSE

Reuters: JSEJ.J Bloomberg: JSE SJ

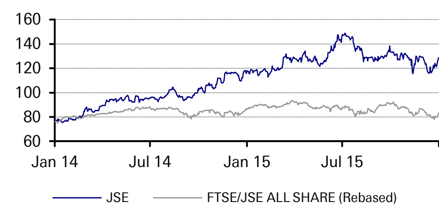
Hold

Price (29 Jan 16)	ZAR 128.59
Target Price	ZAR 125.00
52 Week range	ZAR 112.86 - 148.79
Market Cap (m)	ZARm 11,112
	USDm 699

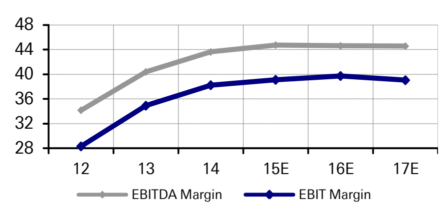
Company Profile

As South Africa's only licensed, full service securities exchange, the JSE is a key feature of the country's economics landscape. It connects buyers and sellers in a variety of financial markets.

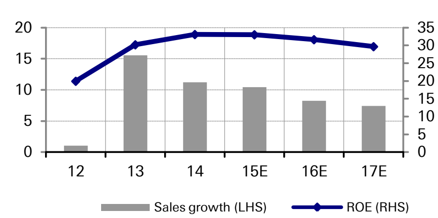
Price Performance



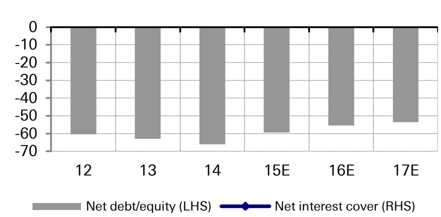
Margin Trends



Growth & Profitability



Solvency



Bankole Ubogu
+27 11 775-7254 bankole.ubogu@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	3.50	5.89	7.34	8.32	9.11	9.62
Reported EPS (ZAR)	3.50	5.89	7.34	8.32	9.11	9.62
DPS (ZAR)	2.50	4.00	4.80	5.55	6.07	6.41
BVPS (ZAR)	17.8	20.9	23.3	26.9	30.5	34.1
Weighted average shares (m)	86	86	86	86	86	86
Average market cap (ZARm)	5,700	6,229	8,035	11,112	11,112	11,112
Enterprise value (ZARm)	4,777	5,084	6,694	9,759	9,707	9,640
Valuation Metrics						
P/E (DB) (x)	18.9	12.3	12.7	15.5	14.1	13.4
P/E (Reported) (x)	18.9	12.3	12.7	15.5	14.1	13.4
P/BV (x)	3.94	3.98	5.00	4.79	4.22	3.78
FCF Yield (%)	5.9	9.7	8.6	4.3	5.3	6.1
Dividend Yield (%)	3.8	5.5	5.2	4.3	4.7	5.0
EV/Sales (x)	3.3	3.1	3.6	4.8	4.4	4.1
EV/EBITDA (x)	9.8	7.6	8.3	10.7	9.9	9.2
EV/EBIT (x)	11.8	8.8	9.5	12.3	11.1	10.4
Income Statement (ZARm)						
Sales revenue	1,432	1,654	1,840	2,032	2,199	2,362
Gross profit	490	668	803	910	982	1,053
EBITDA	490	668	803	910	982	1,053
Depreciation	47	50	59	64	55	76
Amortisation	37	41	41	51	53	55
EBIT	406	578	704	795	874	923
Net interest income(expense)	80	118	127	148	159	167
Associates/affiliates	35	40	37	42	46	50
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	521	736	868	985	1,079	1,139
Income tax expense	219	229	233	266	291	307
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	302	507	634	719	787	831
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	302	507	634	719	787	831
Cash Flow (ZARm)						
Cash flow from operations	431	686	818	695	746	804
Net Capex	-98	-81	-125	-221	-161	-125
Free cash flow	334	604	694	474	584	679
Equity raised/(bought back)	-27	-35	-43	0	0	0
Dividends paid	-217	-217	-347	-474	-519	-548
Net inc/(dec) in borrowings	-3	-5	-5	0	0	0
Other investing/financing cash flows	12	-67	4	0	0	0
Net cash flow	98	280	302	0	65	132
Change in working capital	*-5*	*-4*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,129	1,379	1,631	1,690	1,796	1,953
Tangible fixed assets	164	162	162	199	253	247
Goodwill/intangible assets	315	259	283	353	365	380
Associates/investments	120	142	159	181	203	203
Other assets	15,351	19,433	26,975	33,650	38,758	42,798
Total assets	17,078	21,375	29,211	36,072	41,376	45,581
Interest bearing debt	0	0	0	0	0	0
Other liabilities	15,207	19,187	26,737	33,221	38,134	41,938
Total liabilities	15,207	19,187	26,737	33,221	38,134	41,938
Shareholders' equity	1,545	1,812	2,025	2,333	2,647	2,959
Minorities	326	376	449	517	594	684
Total shareholders' equity	1,871	2,188	2,474	2,850	3,241	3,643
Net debt	*-1,129*	*-1,379*	*-1,631*	*-1,690*	*-1,796*	*-1,953*
Key Company Metrics						
Sales growth (%)	1.1	15.5	11.2	10.5	8.2	7.4
DB EPS growth (%)	-11.9	68.4	24.7	13.3	9.5	5.6
EBITDA Margin (%)	34.2	40.4	43.6	44.8	44.6	44.6
EBIT Margin (%)	28.3	34.9	38.3	39.1	39.7	39.1
Payout ratio (%)	71.5	68.0	65.4	66.7	66.7	66.7
ROE (%)	19.9	30.2	33.1	33.0	31.6	29.7
Capex/sales (%)	6.9	4.9	6.8	10.9	7.3	5.3
Capex/depreciation (x)	1.2	0.9	1.3	1.9	1.5	1.0
Net debt/equity (%)	-60.3	-63.0	-65.9	-59.3	-55.4	-53.6
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Financial Services | Price (29 January 2016): 2729c | Target price: 3300c | Rating: Buy

Peregrine Holdings Ltd

Bankole Ubogu / Stefan Swanepoel

Business description: Peregrine is a predominantly South African financial services provider, providing individuals and institutions investment management solutions in wealth and alternative assets. The group invests both clients and proprietary capital and manages related transactions. Peregrine has four primary business lines: Citadel (private client wealthcare), Peregrine Capital (SA and global funds-of-funds and single manager hedge funds), Stenham (the international hedge fund and trust business) and the highly ranked derivatives, equity and prime broking operations in Peregrine Securities. These subsidiaries are aligned to the three key business segments of Wealth Management, Asset Management and Broking & Structuring (while underlying operating businesses may be supported by making capital investments). Total AUM at of 31 March 2015 was c.R96bn.

Drivers: Peregrine is organised into four main business divisions: Asset Management, Wealth Management, Broking & Structuring and Advisory. 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 performance of the South African rand and the success of recent (and potential) acquisitions.

Outlook: The gems in the Peregrine stable are leaders in their respective industries (Wealth Management and (Alternative) Asset Management) and we see good long-term growth potential in both these sectors. Notwithstanding the tough base created by an outstanding year in FY15 – thanks to the exceptional performance of the hedge fund – a sizable increase in scale during the current year as well as good organic growth prospects are likely to result in low, double-digit earnings growth over the medium term. While it cannot be denied that asset managers such as Peregrine and Coronation are vulnerable to some disappointment at this point of the cycle, we remain more positive on the industry's longer term outlook. In addition, 15-20% of Peregrine's earnings are in hard currency, adding an attractive rand hedge quality to the stock over what admittedly may be a turbulent time for SA nearer term. Buy.

Valuation: We value Peregrine using a SOTP-weighted methodology including P/E relative trading multiples of comparable companies and a price to book ratio. We value the Wealth Management, Asset Management and Stenham businesses using a P/E multiple, and we value group investments based on a price-to-book multiple. Lastly, we value Java Capital based on the acquisition price.

Risks: Downside risks further poor acquisitions, cyclical downturn in economically sensitive activities, the loss of key staff, weakness in equity markets impacting asset growth and margins and the hedge fund industry falling foul of regulators and investors.

Model updated:27 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

Peregrine

Reuters: PGRJ.J Bloomberg: PGR SJ

Buy

Price (29 Jan 16)	ZAR 27.29
Target Price	ZAR 33.00
52 Week range	ZAR 22.30 - 33.02
Market Cap (m)	ZARm 5,571
	USDm 350

Company Profile

Peregrine is a predominantly South African financial services provider, providing individuals and institutions investment management solutions in wealth and alternative assets. The group invests both clients' and proprietary capital and manages related transactions. Peregrine has four primary business lines: Citadel (private client wealth-care), Peregrine Capital (SA and global funds-of-funds and single manager hedge funds), Stenham (the international hedge fund and trust business) and the highly ranked derivatives, equity and prime broking operations in Peregrine Securities

Fiscal year end 31-Mar	2013	2014	2015	2016E	2017E	2018E
Data Per Share						
EPS (stated)(ZAR)	1.39	2.04	2.84	2.93	3.32	3.65
EPS (DB) (ZAR)	1.37	1.95	2.76	2.85	3.23	3.56
Growth Rate - EPS (DB) (%)	-25	43	41	3	13	10
DPS (ZAR)	0.72	1.00	1.50	1.40	1.59	1.77
BVPS (stated) (ZAR)	na	na	na	na	na	na
Tang. NAV p. sh. (ZAR)	5.91	7.45	10.20	11.67	13.27	14.99
Market Capitalisation (ZARm)	1,859.25	3,298.45	5,034.52	5,570.94	5,570.94	5,570.94
Shares in issue (m)	209.59	201.41	202.90	209.19	210.88	213.13
Valuation Ratios & Profitability Measures						
P/E (stated)	6.8	8.4	8.7	9.3	8.2	7.5
P/E (DB)	6.9	8.8	9.0	9.6	8.5	7.7
P/B (stated)	na	na	na	na	na	na
P/Tangible equity (DB)	1.60	2.30	2.43	2.34	2.06	1.82
ROE(stated)(%)	nm	nm	nm	nm	nm	nm
ROTE (tangible equity) (%)	28.70	30.34	31.95	26.81	26.60	25.84
ROIC (invested capital) (%)	nm	nm	nm	nm	nm	nm
Dividend yield(%)	7.8	8.1	7.1	5.1	5.8	6.5
Dividend cover(x)	1.9	2.0	1.9	2.1	2.1	2.1
Profit & Loss (ZARm)						
Net interest revenue	47	50	69	82	90	99
Non interest income	1,723	2,064	2,589	2,595	2,877	3,178
Commissions	1,217	1,394	1,689	1,639	1,797	1,957
Trading Revenue	385	561	668	835	926	1,019
Other revenue	121	110	232	121	154	202
Total revenue	1,770	2,114	2,658	2,677	2,967	3,276
Total Operating Costs	1,304	1,459	1,737	1,728	1,908	2,097
Employee Costs	0	0	0	0	0	0
Other costs	1,304	1,459	1,737	1,728	1,908	2,097
Pre-Provision profit/(loss)	467	655	921	948	1,059	1,179
Bad debt expense	0	0	0	0	0	0
Operating Profit	467	655	921	948	1,059	1,179
Pre-tax associates	57	46	71	89	98	109
Pre-tax profit	524	701	992	1,037	1,157	1,288
Tax	93	145	220	203	208	232
Other post tax items	-898	-158	-95	-237	-268	-298
Stated net profit	286	394	560	597	681	758
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	286	394	560	597	681	758
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	1,707	2,064	2,661	2,973	3,328	3,719
Equals: Tangible Equity	1,161.1	1,433.8	2,070.6	2,383.1	2,737.8	3,128.5
Tier 1 capital	0.0	0.0	0.0	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 (%)	-15	19	26	1	11	10
Growth in costs (%)	-4	12	19	-1	10	10
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 (%)	73.6	69.0	65.4	64.6	64.3	64.0
Bad debts % ARWAs	nm	nm	nm	nm	nm	nm
Tax rate (%)	19.8	22.1	23.9	21.4	19.7	19.7
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

Bankole Ubogu
+27 11 775-7254 bankole.ubogu@db.com

South Africa – Financial Services | Price (29 January 2016): 1098c | Target price: 1300c | Rating: Buy

Transaction Capital Ltd

Bankole Ubogu / Stefan Swanepoel

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 risk services businesses 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 collection business (MBD Services) and the credit consulting and analysis businesses (Principa and Rand Trust). 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 risk services businesses (MBD, Principa and Rand Trust). 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 of excess capital in the business to utilise for corporate action.

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 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, possible 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 TCP 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 2.2x (based on assumptions of ROE: 25%; COE: 14.8%, g: 6%). For the services operations we value the business based on a P/E multiple of 14.5x, on one year forward earnings - due to the anticipation of superior medium term growth prospects over 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:27 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

Transaction Capital

Reuters: TCPJ.J Bloomberg: TCP SJ

Buy

Price (29 Jan 16)	ZAR 10.98
Target Price	ZAR 13.00
52 Week range	ZAR 8.13 - 12.49
Market Cap (m)	ZARm 6,260
	USDm 394

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, Invoice Discounting, Credit and Collection Services in Southern Africa.

Fiscal year end 30-Sep	2013	2014	2015	2016E	2017E	2018E
Data Per Share						
EPS (stated)(ZAR)	0.93	1.63	0.69	0.84	0.99	1.14
EPS (DB) (ZAR)	0.93	0.57	0.69	0.84	0.98	1.14
Growth Rate - EPS (DB) (%)	21	-39	21	21	18	16
DPS (ZAR)	0.21	0.16	0.22	0.27	0.33	0.38
BVPS (stated) (ZAR)	6.69	5.20	4.60	5.15	5.79	6.53
Tang. NAV p. sh. (ZAR)	5.63	4.83	4.19	4.71	5.31	6.00
Market Capitalisation (ZARm)	2,825.93	3,918.85	5,681.00	6,259.71	6,259.71	6,259.71
Shares in issue (m)	583.60	577.33	569.30	572.15	575.01	577.88
Valuation Ratios & Profitability Measures						
P/E (stated)	5.2	4.2	14.4	13.1	11.1	9.6
P/E (DB)	5.2	12.0	14.5	13.1	11.2	9.7
P/B (stated)	0.7	1.3	2.2	2.1	1.9	1.7
P/Tangible equity (DB)	0.86	1.42	2.38	2.33	2.07	1.83
ROE(stated)(%)	15.81	27.33	14.39	17.27	18.11	18.61
ROTE (tangible equity) (%)	20.51	10.94	15.31	18.91	19.78	20.28
ROIC (invested capital) (%)	15.8	9.6	14.1	17.3	18.1	18.6
Dividend yield(%)	4.3	2.8	2.5	2.5	3.0	3.5
Dividend cover(x)	4.4	10.2	3.2	3.1	3.0	3.0
Profit & Loss (ZARm)						
Net interest revenue	1,735	814	821	895	1,019	1,151
Non interest income	1,910	1,133	1,195	1,353	1,526	1,709
Commissions	1,910	1,133	1,195	1,353	1,526	1,709
Trading Revenue	0	0	0	0	0	0
Other revenue	0	0	0	0	0	0
Total revenue	3,645	1,947	2,016	2,248	2,545	2,860
Total Operating Costs	1,990	1,220	1,295	1,413	1,541	1,693
Employee Costs	0	0	0	0	0	0
Other costs	1,990	1,220	1,295	1,413	1,541	1,693
Pre-Provision profit/(loss)	1,655	727	721	835	1,004	1,167
Bad debt expense	1,038	322	233	247	311	363
Operating Profit	617	405	488	588	693	804
Pre-tax associates	4	4	11	0	0	0
Pre-tax profit	621	409	499	588	693	804
Tax	100	79	94	109	128	147
Other post tax items	23	607	-4	0	0	0
Stated net profit	544	937	401	479	566	657
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	-607	-8	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	544	330	393	479	566	657
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	14,284	9,690	9,703	11,272	12,903	14,619
Interest-earning assets	10,185	6,386	6,160	7,209	8,243	9,274
Customer Loans	10,185	6,386	6,160	7,209	8,243	9,274
Total Deposits	0	0	0	0	0	0
Stated Shareholder Equity	3,895	2,963	2,611	2,936	3,313	3,752
Equals: Tangible Equity	3,280.0	2,752.0	2,382.0	2,684.2	3,036.3	3,446.9
Tier 1 capital	3,895.0	2,963.0	2,611.0	2,936.1	3,313.4	3,751.7
Tier 1 ratio (%)	27	31	27	26	26	26
o/w core tier 1 capital ratio (%)	27	31	27	26	26	26
Credit Quality						
Gross NPLs/Total Loans(%)	31.92	32.13	18.47	18.07	17.63	17.17
Risk Provisions/NPLs(%)	51	17	49	50	50	52
Bad debt / Avg loans (%)	10.95	3.89	3.71	3.70	4.02	4.14
Bad debt/Pre-Provision Profit(%)	62.7	44.3	32.3	29.6	30.9	31.1
Growth Rates & Key Ratios						
Growth in revenues (%)	5	-47	4	12	13	12
Growth in costs (%)	-9	-39	6	9	9	10
Growth in bad debts (%)	40	-69	-28	6	26	17
Growth in RWA (%)	14	-32	0	16	14	13
Net int. margin (%)	18	10	13	13	13	13
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	27.19	16.24	20.79	21.43	21.05	20.78
Net interest revenue % ARWA	12.94	6.79	8.47	8.54	8.43	8.36
Non interest revenue % ARWA	14.25	9.45	12.32	12.90	12.62	12.42
Costs/income ratio (%)	54.6	62.7	64.2	62.8	60.5	59.2
Bad debts % ARWAs	7.74	2.69	2.40	2.36	2.57	2.64
Tax rate (%)	16.2	19.5	19.3	18.6	18.4	18.2
Adj. Attr. earnings % ARWA	4.03	2.72	3.94	4.57	4.68	4.78
Capital leverage (ARWA/Equity)	5.1	4.0	3.8	4.1	4.2	4.2
ROTE (Adj. earnings/Ave. equity)	20.4	10.8	14.9	18.9	19.8	20.3

Source: Company data, Deutsche Bank estimates

Bankole Ubogu
+27 11 775-7254 bankole.ubogu@db.com

South Africa – Property | Price (29January 2016): 1685c | Target price: 2530c | 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.
- The continuation of Attacq's strategy to expand and diversify into foreign markets and regions.

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, 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 Attacq will not seek REIT status in the near term. Attacq 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. Attacq 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:01 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Attacq

Reuters: ATTJ.J | Bloomberg: ATT SJ

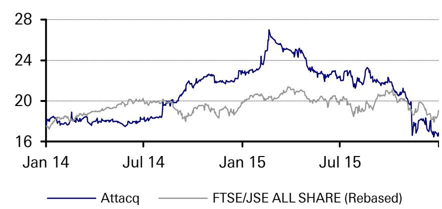
Buy

Price (29 Jan 16)	ZAR 16.85
Target Price	ZAR 25.30
52 Week range	ZAR 16.47 - 27.02
Market Cap (m)	ZARm 11,812
	USDm 743

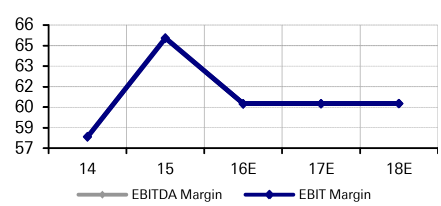
Company Profile

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. It 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.

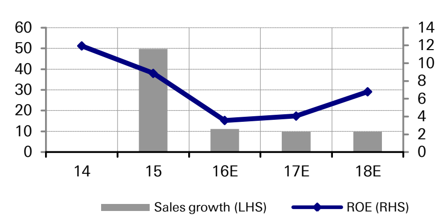
Price Performance



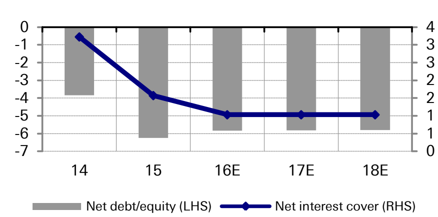
Margin Trends



Growth & Profitability



Solvency



Ryan Eichstadt
+27 11 7757249 ryan.eichstadt@db.com

Fiscal year end 30-Jun	2014	2015	2016E	2017E	2018E
Financial Summary					
DB EPS (ZAR)	1.51	1.40	0.67	0.87	1.59
Reported EPS (ZAR)	1.41	1.40	0.66	0.86	1.58
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	15.1	17.1	20.1	22.2	24.5
Weighted average shares (m)	671	701	701	701	701
Average market cap (ZARm)	11,828	15,396	11,812	11,812	11,812
Enterprise value (ZARm)	7,964	11,876	8,218	7,780	7,281
Valuation Metrics					
P/E (DB) (x)	11.7	15.6	25.1	19.5	10.6
P/E (Reported) (x)	12.5	15.7	25.4	19.6	10.6
P/BV (x)	1.17	1.30	0.84	0.76	0.69
FCF Yield (%)	2.3	0.6	11.2	4.2	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	9.1	9.0	5.6	4.9	4.1
EV/EBITDA (x)	15.7	13.9	9.3	8.0	6.9
EV/EBIT (x)	15.7	13.9	9.3	8.0	6.9
Income Statement (ZARm)					
Sales revenue	877	1,313	1,460	1,604	1,763
Gross profit	647	954	993	1,091	1,199
EBITDA	507	854	879	967	1,063
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	507	854	879	967	1,063
Net interest income(expense)	-157	-543	-852	-937	-1,030
Associates/affiliates	-58	51	51	51	51
Exceptionals/extraordinaries	939	1,094	821	837	1,354
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	1,230	1,455	898	917	1,438
Income tax expense	218	471	427	310	322
Minorities	66	6	6	6	6
Other post-tax income/(expense)	0	0	0	0	0
Net profit	946	979	465	602	1,111
DB adjustments (including dilution)	66	6	6	6	6
DB Net profit	1,012	984	471	607	1,116
Cash Flow (ZARm)					
Cash flow from operations	277	86	1,325	492	-1,634
Net Capex	0	0	0	0	0
Free cash flow	277	86	1,325	492	-1,634
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net inc/(dec) in borrowings	3,751	2,454	1,036	794	847
Other investing/financing cash flows	-3,971	0	0	0	0
Net cash flow	57	2,540	2,361	1,286	-786
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	389	747	822	904	994
Tangible fixed assets	12,829	16,188	19,315	21,021	22,864
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	3,474	2,772	2,772	3,128	3,537
Other assets	1,772	3,593	3,880	4,190	4,524
Total assets	18,465	23,301	26,789	29,243	31,919
Interest bearing debt	0	0	0	0	0
Other liabilities	8,338	11,336	12,713	13,708	14,772
Total liabilities	8,338	11,336	12,713	13,708	14,772
Shareholders' equity	10,127	11,964	14,077	15,535	17,147
Minorities	0	0	0	0	0
Total shareholders' equity	10,127	11,964	14,077	15,535	17,147
Net debt	*-389*	*-747*	*-822*	*-904*	*-994*
Key Company Metrics					
Sales growth (%)	nm	49.7	11.2	9.9	9.9
DB EPS growth (%)	na	-6.9	-52.2	29.0	83.9
EBITDA Margin (%)	57.8	65.0	60.3	60.3	60.3
EBIT Margin (%)	57.8	65.0	60.3	60.3	60.3
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	12.0	8.9	3.6	4.1	6.8
Capex/sales (%)	0.0	0.0	0.0	0.0	0.0
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	-3.8	-6.2	-5.8	-5.8	-5.8
Net interest cover (x)	3.2	1.6	1.0	1.0	1.0

Source: Company data, Deutsche Bank estimates

South Africa – Property | Price (29 January 2016): 2279c | Target price: 2800c | Rating: Buy

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 Growthpoint 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.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect in-force escalations to be 6-7.5% 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 (~4.4%) in the retail and industrial (3.6%) space, but to start showing improved levels in the office (8%) arena over FY16. Continued strong cost control is a key driver in FY16 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 5-6% for FY16E. 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. 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: 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.

Model updated:01 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Growthpoint

Reuters: GRTJ.J Bloomberg: GRT SJ

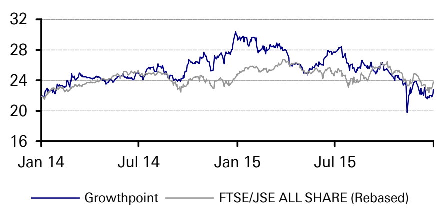
Buy

Price (29 Jan 16)	ZAR 22.79
Target Price	ZAR 28.00
52 Week range	ZAR 19.81 - 29.78
Market Cap (m)	ZARm 61,087
	USDm 3,843

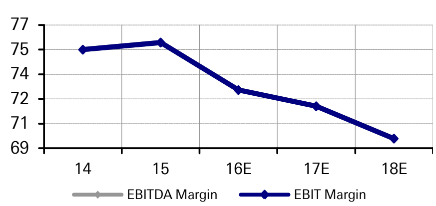
Company Profile

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.

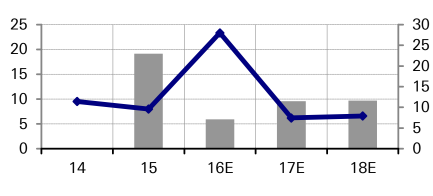
Price Performance



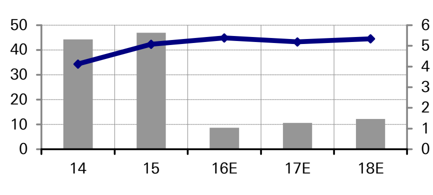
Margin Trends



Growth & Profitability



Solvency



Ryan Eichstadt
+27 11 7757249 ryan.eichstadt@db.com

Fiscal year end 30-Jun	2014	2015	2016E	2017E	2018E
Financial Summary					
DB EPS (ZAR)	1.53	0.62	1.13	1.26	1.41
Reported EPS (ZAR)	2.78	2.35	8.84	2.78	3.21
DPS (ZAR)	1.61	1.73	1.84	1.97	2.11
BVPS (ZAR)	29.2	27.2	36.0	38.8	42.0
Weighted average shares (m)	1,997	2,680	2,680	2,680	2,680
Average market cap (ZARm)	48,300	71,087	61,087	61,087	61,087
Enterprise value (ZARm)	68,072	98,264	62,791	65,110	67,547
Valuation Metrics					
P/E (DB) (x)	15.8	42.7	20.2	18.1	16.2
P/E (Reported) (x)	8.7	11.3	2.6	8.2	7.1
P/BV (x)	0.85	0.97	0.63	0.59	0.54
FCF Yield (%)	nm	nm	42.2	nm	nm
Dividend Yield (%)	6.7	6.5	8.1	8.6	9.3
EV/Sales (x)	10.3	12.5	7.5	7.1	6.7
EV/EBITDA (x)	13.7	16.6	10.4	10.0	9.7
EV/EBIT (x)	13.7	16.6	10.4	10.0	9.7
Income Statement (ZARm)					
Sales revenue	6,605	7,870	8,337	9,136	10,022
Gross profit	5,221	6,240	6,369	6,890	7,361
EBITDA	4,954	5,937	6,048	6,538	6,975
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	4,954	5,937	6,048	6,538	6,975
Net interest income(expense)	-1,203	-1,170	-1,124	-1,260	-1,306
Associates/affiliates	91	484	0	0	0
Exceptionals/extraordinaries	2,295	2,260	19,670	3,304	4,072
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	6,137	7,511	24,594	8,582	9,741
Income tax expense	160	264	-41	172	194
Minorities	398	949	949	949	949
Other post-tax income/(expense)	0	0	0	0	0
Net profit	5,579	6,298	23,687	7,461	8,598
DB adjustments (including dilution)	-2,499	-4,634	-20,660	-4,081	-4,827
DB Net profit	3,080	1,664	3,026	3,380	3,771
Cash Flow (ZARm)					
Cash flow from operations	-34	-1,506	-981	-970	-958
Net Capex	-7,253	-2,283	26,735	-1,618	-1,759
Free cash flow	-7,287	-3,789	25,754	-2,588	-2,717
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	5,742	3,781	-25,703	2,644	2,778
Net cash flow	-1,545	-8	51	56	61
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	375	505	556	611	672
Tangible fixed assets	69,648	93,035	91,175	101,104	112,324
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	5,987	7,003	6,723	6,991	7,271
Other assets	7,234	5,860	6,094	6,338	6,592
Total assets	83,244	106,403	104,547	115,045	126,860
Interest bearing debt	26,134	34,685	8,982	11,625	14,404
Other liabilities	-1,145	-1,077	-917	-523	-85
Total liabilities	24,989	33,608	8,065	11,102	14,319
Shareholders' equity	58,255	72,795	96,482	103,943	112,541
Minorities	0	0	0	0	0
Total shareholders' equity	58,255	72,795	96,482	103,943	112,541
Net debt	*25,759*	*34,180*	*8,426*	*11,014*	*13,731*
Key Company Metrics					
Sales growth (%)	nm	19.2	5.9	9.6	9.7
DB EPS growth (%)	na	-59.5	81.9	11.7	11.6
EBITDA Margin (%)	75.0	75.4	72.5	71.6	69.6
EBIT Margin (%)	75.0	75.4	72.5	71.6	69.6
Payout ratio (%)	nm	nm	20.8	70.7	65.9
ROE (%)	11.4	9.6	28.0	7.4	7.9
Capex/sales (%)	109.8	29.0	-320.7	17.7	17.6
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	44.2	47.0	8.7	10.6	12.2
Net interest cover (x)	4.1	5.1	5.4	5.2	5.3

Source: Company data, Deutsche Bank estimates

South Africa – Property | Price (29 January 2016): 10112c | Target price: 13500c | Rating: Buy

Hyprop Investments Ltd

Ryan Eichstadt / Sean Holmes

Business description: Hyprop specialises in prime shopping and retail centres that account for 96% of its total net income. Hyprop is a listed REIT. The total value of Hyprop's portfolio at December 2015 was R27bn, while the fund's market capitalisation is R24bn. Among its holdings are Canal Walk, The Glen, Hyde Park, CapeGate Mall, The Mall of Rosebank, and Southcoast Mall. Rental contribution is 96% retail, and 4% office. 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 ~9% over the past five years.

Drivers:

- The completion and ramp-up of Achimota Mall in Accra (Ghana) and Kumasi City Mall (Ghana).
- 20% of total GLA (m^2) is up for lease renewals in FY16. 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 15% was achieved in FY15. We expect FY16E distribution growth to grow by 10-12%. 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. Hyprop'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%. Deteriorating occupancy levels, together with consumer pressure, would be key downside risks.

Model updated:01 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Hyprop

Reuters: HYPJ.J Bloomberg: HYP SJ

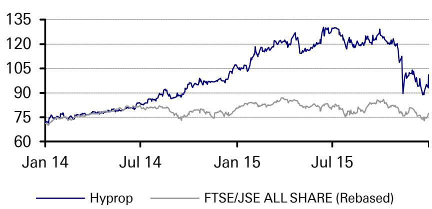
Buy

Price (29 Jan 16)	ZAR 101.12
Target Price	ZAR 135.00
52 Week range	ZAR 88.75 - 130.41
Market Cap (m)	ZARm 24,592
	USDm 1,547

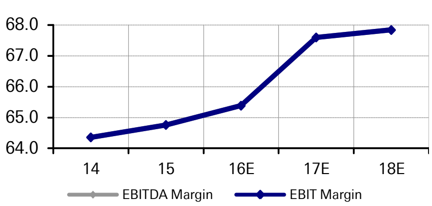
Company Profile

Hyprop, a listed REIT, specialises in prime shopping and retail centres that account for 93% of its total investment property. The total value of its portfolio at December 2015 was R27bn. Its holdings include Canal Walk, The Glen, Hyde Park, CapeGate Mall, The Mall of Rosebank, and Southcoast Mall, and recently acquired Somerset Mall. Rental contribution is 95% retail, and 5% office. It received its first dividend from Atterbury Africa in 2013. Hyprop's portfolio is defensive due to prime locations and diverse tenant mix, dominated by blue-chip retailers.

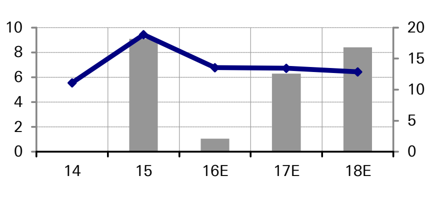
Price Performance



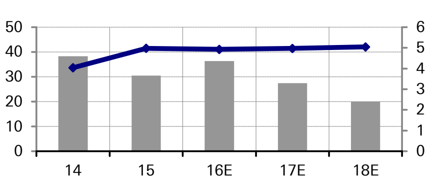
Margin Trends



Growth & Profitability



Solvency



Ryan Eichstadt
+27 11 7757249 ryan.eichstadt@db.com

Fiscal year end 30-Jun	2014	2015	2016E	2017E	2018E
Financial Summary					
DB EPS (ZAR)	5.04	5.44	5.85	6.45	7.04
Reported EPS (ZAR)	8.05	15.62	12.94	14.70	16.05
DPS (ZAR)	4.72	5.43	6.03	6.63	7.23
BVPS (ZAR)	76.6	89.1	102.0	116.7	132.7
Weighted average shares (m)	243	243	243	243	243
Average market cap (ZARm)	18,312	24,663	24,592	24,592	24,592
Enterprise value (ZARm)	25,400	31,217	33,602	32,379	31,038
Valuation Metrics					
P/E (DB) (x)	14.9	18.6	17.3	15.7	14.4
P/E (Reported) (x)	9.4	6.5	7.8	6.9	6.3
P/BV (x)	1.04	1.36	0.99	0.87	0.76
FCF Yield (%)	nm	3.1	nm	5.0	5.5
Dividend Yield (%)	6.3	5.4	6.0	6.6	7.2
EV/Sales (x)	10.3	11.5	12.3	11.2	9.9
EV/EBITDA (x)	15.9	17.8	18.8	16.5	14.5
EV/EBIT (x)	15.9	17.8	18.8	16.5	14.5
Income Statement (ZARm)					
Sales revenue	2,478	2,703	2,731	2,903	3,147
Gross profit	1,640	1,815	1,797	1,966	2,132
EBITDA	1,594	1,751	1,786	1,962	2,135
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	1,594	1,751	1,786	1,962	2,135
Net interest income(expense)	-395	-352	-363	-395	-423
Associates/affiliates	0	1	0	0	0
Exceptionals/extraordinaries	783	2,419	1,754	2,046	2,239
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	1,983	3,818	3,177	3,614	3,950
Income tax expense	18	19	31	39	47
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	1,965	3,799	3,146	3,575	3,903
DB adjustments (including dilution)	-740	-2,477	-1,723	-2,008	-2,191
DB Net profit	1,226	1,323	1,423	1,567	1,712
Cash Flow (ZARm)					
Cash flow from operations	218	98	1,300	1,429	1,563
Net Capex	-1,392	667	-3,703	-206	-223
Free cash flow	-1,174	765	-2,403	1,223	1,340
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	1,180	-752	2,411	-1,214	-1,330
Net cash flow	5	12	8	9	10
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	77	84	92	101	112
Tangible fixed assets	23,998	24,926	30,418	32,663	35,117
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	34	54	1	1	1
Other assets	2,756	3,792	3,958	4,120	4,288
Total assets	26,865	28,856	34,470	36,885	39,518
Interest bearing debt	7,199	6,692	9,103	7,889	6,559
Other liabilities	1,041	505	562	616	676
Total liabilities	8,240	7,197	9,665	8,506	7,235
Shareholders' equity	18,625	21,659	24,805	28,380	32,283
Minorities	0	0	0	0	0
Total shareholders' equity	18,625	21,659	24,805	28,380	32,283
Net debt	*7,122*	*6,608*	*9,011*	*7,788*	*6,447*
Key Company Metrics					
Sales growth (%)	nm	9.1	1.0	6.3	8.4
DB EPS growth (%)	na	7.9	7.6	10.1	9.2
EBITDA Margin (%)	64.4	64.8	65.4	67.6	67.8
EBIT Margin (%)	64.4	64.8	65.4	67.6	67.8
Payout ratio (%)	99.0	103.7	46.6	45.1	45.1
ROE (%)	11.1	18.9	13.5	13.4	12.9
Capex/sales (%)	56.2	-24.7	135.6	7.1	7.1
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	38.2	30.5	36.3	27.4	20.0
Net interest cover (x)	4.0	5.0	4.9	5.0	5.0

Source: Company data, Deutsche Bank estimates

South Africa – Property | Price (29 January 2016): 950c | Target price: 1250c | 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 FY15 is 40% retail, 40% office and 20% 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. 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 ~25%. 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 FY16E, we expect ~7%. 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. 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 ~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:01 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Redefine Properties Ltd

Reuters: RDFJ.J — Bloomberg: RDF SJ

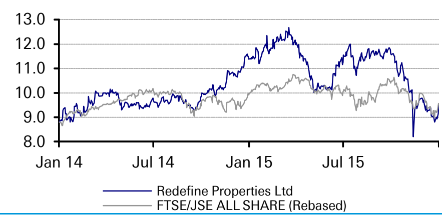
Buy

Price (29 Jan 16)	ZAR 9.50
Target Price	ZAR 12.50
52 Week range	ZAR 8.20 - 12.68
Market Cap (m)	ZARm 36,086
	USDm 2,270

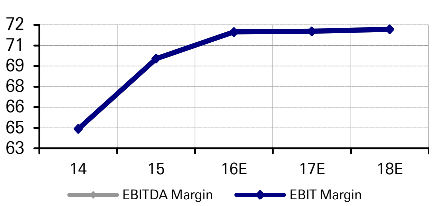
Company Profile

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 R40bn, with R41bn assets managed. The rental contribution is 40% retail, 40% office and 20% industrial. Redefine is a hybrid fund, with listed holdings in Hyprop, Arrowhead, Fountainhead and Cromwell Property Group.

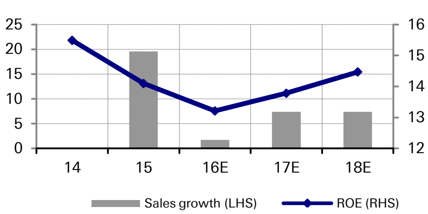
Price Performance



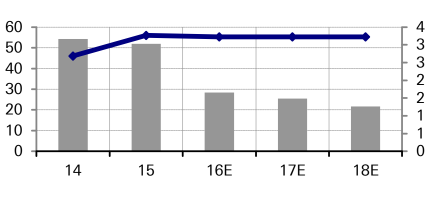
Margin Trends



Growth & Profitability



Solvency



Ryan Eichstadt
+27 11 7757249 ryan.eichstadt@db.com

Fiscal year end 31-Aug	2014	2015	2016E	2017E	2018E
Financial Summary					
DB EPS (ZAR)	0.95	0.84	1.71	1.84	1.98
Reported EPS (ZAR)	1.27	1.50	1.62	1.80	2.03
DPS (ZAR)	0.74	0.80	0.85	0.92	0.99
BVPS (ZAR)	10.5	10.1	10.8	11.6	12.5
Weighted average shares (m)	3,091	3,799	3,799	3,799	3,799
Average market cap (ZARm)	29,640	41,224	36,086	36,086	36,086
Enterprise value (ZARm)	42,122	53,864	37,469	36,414	34,856
Valuation Metrics					
P/E (DB) (x)	10.1	12.9	5.6	5.2	4.8
P/E (Reported) (x)	7.6	7.2	5.9	5.3	4.7
P/BV (x)	0.91	1.13	0.88	0.82	0.76
FCF Yield (%)	nm	nm	26.8	1.2	2.8
Dividend Yield (%)	7.8	7.4	9.0	9.7	10.4
EV/Sales (x)	7.8	8.3	5.7	5.2	4.6
EV/EBITDA (x)	12.1	12.0	8.0	7.2	6.4
EV/EBIT (x)	12.1	12.0	8.0	7.2	6.4
Income Statement (ZARm)					
Sales revenue	5,408	6,467	6,581	7,068	7,592
Gross profit	3,501	4,382	4,525	4,853	5,213
EBITDA	3,485	4,498	4,704	5,056	5,442
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	3,485	4,498	4,704	5,056	5,442
Net interest income(expense)	-1,298	-1,377	-1,458	-1,567	-1,687
Associates/affiliates	440	453	0	0	0
Exceptionals/extraordinaries	859	1,956	-374	-110	231
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	3,486	5,530	2,871	3,378	3,986
Income tax expense	-31	-171	-41	11	12
Minorities	0	0	0	0	0
Other post-tax income/(expense)	1,116	0	3,245	3,489	3,755
Net profit	4,633	5,701	6,158	6,855	7,730
DB adjustments (including dilution)	-1,170	-2,507	333	122	-219
DB Net profit	3,463	3,194	6,491	6,977	7,510
Cash Flow (ZARm)					
Cash flow from operations	185	6,461	-436	-439	-441
Net Capex	-5,871	-10,626	10,120	865	1,452
Free cash flow	-5,686	-4,165	9,685	427	1,011
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	5,560	3,826	-9,790	-531	-1,113
Net cash flow	-127	-339	-105	-104	-103
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	351	130	143	157	173
Tangible fixed assets	40,954	49,934	41,294	43,358	45,526
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	6,924	10,812	12,266	12,777	13,206
Other assets	9,262	9,301	9,673	10,060	10,463
Total assets	57,490	70,178	63,377	66,353	69,368
Interest bearing debt	19,757	23,582	13,792	13,262	12,149
Other liabilities	1,998	1,450	1,527	1,667	1,821
Total liabilities	21,754	25,032	15,319	14,929	13,969
Shareholders' equity	35,736	45,145	48,058	51,425	55,399
Minorities	0	0	0	0	0
Total shareholders' equity	35,736	45,145	48,058	51,425	55,399
Net debt	*19,406*	*23,452*	*13,649*	*13,105*	*11,976*
Key Company Metrics					
Sales growth (%)	nm	19.6	1.8	7.4	7.4
DB EPS growth (%)	na	-11.3	103.2	7.5	7.6
EBITDA Margin (%)	64.4	69.5	71.5	71.5	71.7
EBIT Margin (%)	64.4	69.5	71.5	71.5	71.7
Payout ratio (%)	102.1	102.4	52.7	50.9	48.6
ROE (%)	15.5	14.1	13.2	13.8	14.5
Capex/sales (%)	108.6	164.3	-153.8	-12.2	-19.1
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	54.3	51.9	28.4	25.5	21.6
Net interest cover (x)	2.7	3.3	3.2	3.2	3.2

Source: Company data, Deutsche Bank estimates

South Africa – Property | Price (29 January 2016): 1600c | Target price: 2700c | Rating: Buy

The Pivotal Fund Ltd

Ryan Eichstadt / Sean Holmes

Business description: Pivotal is a property investment and development company with an A-grade portfolio of completed income producing properties and developments. It focuses on creating sustainable value for investors by achieving above average growth in the capital value of its portfolio, which is currently valued at R8.6bn. The income generated from the properties is re-invested into value-enhancing property upgrades, acquisitions and developments. Developments currently comprise R1.6bn worth of properties, either in or held for development. It is estimated the developments' value will be ~R10.8bn when complete.

Drivers:

- Consolidation and integration of the newly formed Mara Delta.
- It is critical for Pivotal 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, office and industrial tenants given slow growth forecasts and pressures on the South African consumer.
- The bedding down of the newly secured industrial development pipeline.

Outlook: We have a Buy rating on Pivotal based on strong management credentials, sustainable earnings, a healthy pipeline of high quality developments and our expectation of above-sector average growth in high-quality assets. Pivotal, in contrast to listed REITs, is a development company that has developed most of its assets. Its strategy is to provide consistent capital growth, and as a result, it does not intend to seek REIT status in the near term. Pivotal's total portfolio, including developments, is split between office (24%), retail (26%), industrial (2%), current developments (18%) and future developments (30%) on GLA (m^2). Rental revenue from retail assets makes up c.51% of total rental revenue. Key retail assets include: Goldfields Mall (37,741m^2), Cradlestone Mall (80,000m^2), Wonderboom Junction (39,547m^2), Centurion Lifestyle (54,733m^2), Alice Lane Buildings 1 & 2 (36,431m^2) and Riverside Office (25,128m^2). In our opinion, the retail sub-sector will continue to outperform office and industrial space. The high quality nature of the property portfolio and development pipeline, coupled with strong management credentials, makes Pivotal a unique and attractive play, in our view.

Valuation: Our 12-month target price is calculated using our adjusted 24m fwd rolling net asset value per share (NAVPS). We have applied a 1.0x P/NAV multiple to our 24m forward NAVPS to derive our 12m forward target price. Pivotal does not intend to seek REIT status in the near term, given its strategy to focus on capital rather than income growth. It has chosen not to pay out its distributable income, but to reinvest it into new and existing developments.

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

Model updated:01 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Property

Pivotal

Reuters: PIVJ.J | Bloomberg: PIV SJ

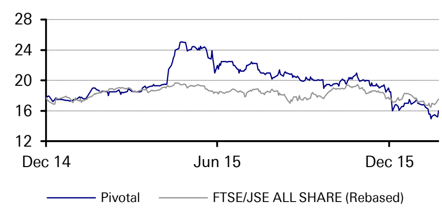
Buy

Price (29 Jan 16)	ZAR 16.00
Target Price	ZAR 27.00
52 Week range	ZAR 14.95 - 25.10
Market Cap (m)	ZARm 4,772
	USDm 300

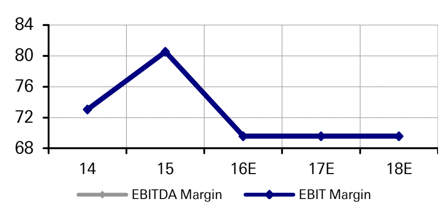
Company Profile

Pivotal is a property investment and development company with an A-grade portfolio of completed income producing properties and developments. It focuses on creating sustainable value for investors by achieving above average growth in the capital value of its portfolio, currently valued at R8.6bn. Income generated from the properties is re-invested into value-enhancing property upgrades, acquisitions and developments. Developments currently comprise R1.6bn worth of properties, either in or held for development.

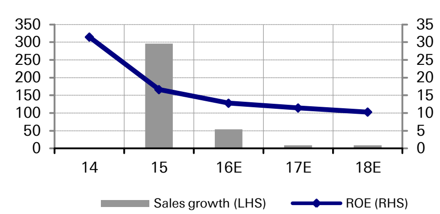
Price Performance



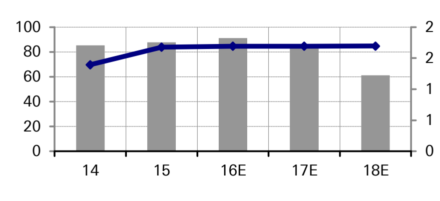
Margin Trends



Growth & Profitability



Solvency



Ryan Eichstadt
+27 11 7757249 ryan.eichstadt@db.com

Fiscal year end 28-Feb	2014	2015	2016E	2017E	2018E
Financial Summary					
DB EPS (ZAR)	1.46	0.47	0.83	0.91	0.99
Reported EPS (ZAR)	4.11	2.81	2.31	2.50	2.72
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	14.3	16.3	19.9	23.7	29.3
Weighted average shares (m)	63	177	298	298	298
Average market cap (ZARm)	na	3,204	4,772	4,772	4,772
Enterprise value (ZARm)	na	7,458	10,184	10,745	10,116
Valuation Metrics					
P/E (DB) (x)	na	38.4	19.2	17.6	16.2
P/E (Reported) (x)	na	6.4	6.9	6.4	5.9
P/BV (x)	0.00	1.13	0.80	0.68	0.55
FCF Yield (%)	na	nm	nm	nm	13.2
Dividend Yield (%)	na	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	13.6	12.0	11.6	10.0
EV/EBITDA (x)	nm	16.9	17.3	16.7	14.4
EV/EBIT (x)	nm	16.9	17.3	16.7	14.4
Income Statement (ZARm)					
Sales revenue	139	549	847	925	1,009
Gross profit	104	472	635	693	757
EBITDA	101	442	589	643	702
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	101	442	589	643	702
Net interest income(expense)	-73	-264	-348	-380	-414
Associates/affiliates	27	9	9	9	9
Exceptionals/extraordinaries	266	433	475	524	573
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	321	621	726	797	870
Income tax expense	63	122	37	53	57
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	258	499	689	744	812
DB adjustments (including dilution)	-167	-416	-441	-473	-517
DB Net profit	92	83	249	271	295
Cash Flow (ZARm)					
Cash flow from operations	-31	173	671	658	1,358
Net Capex	-685	-1,985	-1,827	-1,220	-729
Free cash flow	-716	-1,812	-1,157	-562	630
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	766	1,992	1,181	589	-600
Net cash flow	49	180	24	27	29
Change in working capital	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	63	243	268	294	324
Tangible fixed assets	1,875	8,350	8,822	9,505	10,242
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	27	1	0	0	0
Other assets	433	1,716	3,555	4,624	4,988
Total assets	2,398	10,310	12,645	14,423	15,553
Interest bearing debt	1,052	4,498	5,679	6,268	5,668
Other liabilities	189	962	1,026	1,089	1,158
Total liabilities	1,241	5,461	6,706	7,357	6,826
Shareholders' equity	1,157	4,850	5,939	7,066	8,727
Minorities	0	0	0	0	0
Total shareholders' equity	1,157	4,850	5,939	7,066	8,727
Net debt	*989*	*4,255*	*5,412*	*5,974*	*5,344*
Key Company Metrics					
Sales growth (%)	nm	296.2	54.3	9.1	9.1
DB EPS growth (%)	na	-67.7	77.4	8.9	8.9
EBITDA Margin (%)	73.1	80.5	69.6	69.6	69.6
EBIT Margin (%)	73.1	80.5	69.6	69.6	69.6
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	31.5	16.6	12.8	11.4	10.3
Capex/sales (%)	494.4	361.4	215.7	131.9	72.2
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	85.4	87.7	91.1	84.5	61.2
Net interest cover (x)	1.4	1.7	1.7	1.7	1.7

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (29 January 2016): 5708c | Target price: 6000c | 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: 65%) 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 some growth opportunities at the Khumani iron ore mine, which is commissioning the expansion to 14mtpa of iron ore, but the main opportunity medium term is in manganese. Manganese volumes are predominantly by rail with prices no longer supporting trucking. As rail expansion comes through, should pricing permit, Assmang has material growth opportunities in manganese. 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: 30%) 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. Grades are expected to remain stable and the operation is cash flow neutral at current prices. Two Rivers has performed well from a cost perspective but Modikwa has struggled. There is limited opportunity to grow capacity at either.

Harmony (5% of NAV) is predominantly a South African gold producer; with most production remaining in South Africa. ARM holds 15% of Harmony; we expect it to retain this stake in the short to medium term.

Copper and coal (-5% of NAV). ARM's copper business 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 is owned through a BEE structure with Glencore, the business has seen significant capital invested in an effort to convert PCB's underground operations to open pit. The shareholder loans within the coal operations from Glencore are greater than any future cash generation. As a result we ascribe no value to the coal assets for ARM.

Drivers:

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

While there is some modest growth in platinum and coal and a long term potential expansion in manganese, we expect no material production growth from ARM.

Outlook: ARM has predominantly focused on developing the resources within its portfolio since its listing in 2004, but this has now come to an end. The main focus of modest growth is expected to be on the ferrous side. In general we expect the emphasis to be on cost out and some modest organic growth rather than transformational acquisitions. The parent company is relatively unlevered and the ferrous nickel assets and Two Rivers are unencumbered. When pricing recovers, there should be a nice dividend story within ARM. At just over 0.5x NPV, we see value for long term investors (with a constructive view on iron ore) in ARM and little balance sheet risk. 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. We exclude the negative coal and copper valuations as there is no recourse on the debt, only considering the equity injected into copper for 2017/18.

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 potential volume growth; slowing Chinese growth and the potential for ARM to make a value destructive acquisition.

Model updated:17 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

ARM

Reuters: ARIJ.J   Bloomberg: ARI SJ

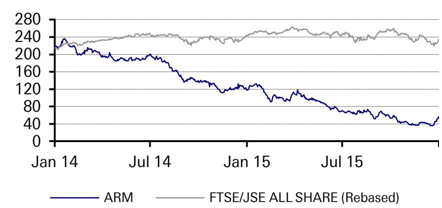
Buy

Price (29 Jan 16)	ZAR 57.08
Target Price	ZAR 60.00
52 Week range	ZAR 35.97 - 132.50
Market Cap (m)	ZARm 12,412
	USDm 781

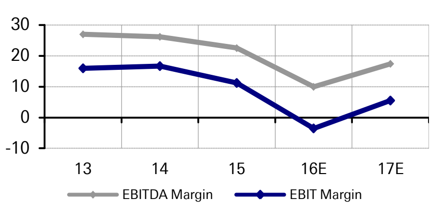
Company Profile

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.

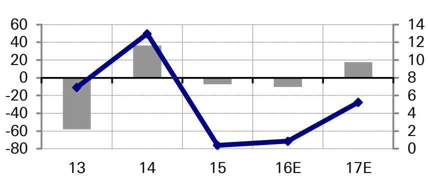
Price Performance



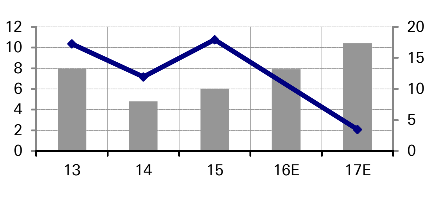
Margin Trends



Growth & Profitability



Solvency



Rene Kleyweg De Monchy
+44 20 754-18178   rene.kleyweg@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E
Financial Summary					
DB EPS (ZAR)	17.19	18.86	7.99	3.03	6.07
Reported EPS (ZAR)	7.52	15.10	0.48	0.98	6.07
DPS (ZAR)	5.10	6.00	3.50	3.50	3.50
BVPS (ZAR)	111.6	123.1	117.3	114.8	117.4
Weighted average shares (m)	216	216	217	217	217
Average market cap (ZARm)	36,693	41,532	28,916	12,412	12,412
Enterprise value (ZARm)	23,703	26,629	15,243	-560	-585
Valuation Metrics					
P/E (DB) (x)	9.9	10.2	16.7	18.8	9.4
P/E (Reported) (x)	22.6	12.7	279.3	58.0	9.4
P/BV (x)	1.31	1.52	0.71	0.50	0.49
FCF Yield (%)	3.2	5.8	8.2	2.5	0.2
Dividend Yield (%)	3.0	3.1	2.6	6.1	6.1
EV/Sales (x)	3.2	2.7	1.6	-0.1	-0.1
EV/EBITDA (x)	12.0	10.2	7.3	-0.7	-0.3
EV/EBIT (x)	20.2	15.9	14.7	nm	-1.1
Income Statement (ZARm)					
Sales revenue	7,342	10,004	9,263	8,314	9,791
Gross profit	1,982	2,620	2,087	829	1,707
EBITDA	1,982	2,620	2,087	829	1,707
Depreciation	808	949	1,047	1,120	1,166
Amortisation	0	0	0	0	0
EBIT	1,174	1,671	1,040	-291	542
Net interest income(expense)	-68	-140	-58	42	-156
Associates/affiliates	3,049	3,175	1,103	440	1,224
Exceptionals/extraordinaries	-2,457	-616	-1,659	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	1,698	4,090	426	190	1,610
Income tax expense	-84	546	353	36	219
Minorities	148	255	-31	-60	68
Other post-tax income/(expense)	0	0	0	0	0
Net profit	1,634	3,289	104	215	1,323
DB adjustments (including dilution)	2,103	819	1,640	447	0
DB Net profit	3,737	4,108	1,744	662	1,323
Cash Flow (ZARm)					
Cash flow from operations	2,790	3,415	3,634	1,694	1,434
Net Capex	-1,606	-1,015	-1,271	-1,385	-1,410
Free cash flow	1,184	2,400	2,363	309	24
Equity raised/(bought back)	28	62	30	0	0
Dividends paid	-1,021	-1,338	-1,579	-761	-755
Net inc/(dec) in borrowings	446	-821	-334	0	0
Other investing/financing cash flows	-66	-203	-704	0	0
Net cash flow	571	100	-224	-452	-731
Change in working capital	*1,646*	*-312*	*676*	*185*	*-384*
Balance Sheet (ZARm)					
Cash and other liquid assets	1,965	2,150	2,257	1,805	1,074
Tangible fixed assets	11,499	11,930	12,367	12,631	12,876
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	16,410	17,766	16,684	16,374	17,198
Other assets	3,965	4,612	3,975	3,926	4,431
Total assets	33,839	36,458	35,283	34,737	35,579
Interest bearing debt	3,992	3,502	3,882	3,882	3,882
Other liabilities	4,384	4,757	4,496	4,557	4,762
Total liabilities	8,376	8,259	8,378	8,439	8,644
Shareholders' equity	24,070	26,688	25,519	24,973	25,541
Minorities	1,393	1,511	1,386	1,326	1,394
Total shareholders' equity	25,463	28,199	26,905	26,298	26,935
Net debt	*2,027*	*1,352*	*1,625*	*2,077*	*2,808*
Key Company Metrics					
Sales growth (%)	-58.1	36.3	-7.4	-10.2	17.8
DB EPS growth (%)	7.4	9.7	-57.6	-62.0	100.0
EBITDA Margin (%)	27.0	26.2	22.5	10.0	17.4
EBIT Margin (%)	16.0	16.7	11.2	-3.5	5.5
Payout ratio (%)	67.3	39.5	731.1	354.8	57.5
ROE (%)	6.9	13.0	0.4	0.8	5.2
Capex/sales (%)	21.9	11.3	13.8	22.1	18.5
Capex/depreciation (x)	2.0	1.2	1.2	1.6	1.6
Net debt/equity (%)	8.0	4.8	6.0	7.9	10.4
Net interest cover (x)	17.3	11.9	17.9	nm	3.5

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (29 January 2016): 6300c | Target price: 7000c | Rating: Hold

Anglo American plc

Rene Kleyweg / Anna Mulholland, CFA

Business description: Anglo American (Anglo) is the most diversified of the major miners. The company has six main divisions, metallurgical (NPV US$5.0bn) and thermal coal (US$1.5bn), iron ore (US$5.0bn), copper (US$7.0bn), diamonds (US$7.8bn) and platinum (US$2.9bn). The company's latest strategy is to focus the portfolio down from ~50 assets to around 20-25 assets and exit bulks medium term (coal, manganese and iron ore). The key assets going forward will be Mogalakwena in platinum, Collahuasi, Los Bronces and the Quellaveco project in copper, Orapa, Jwaneng and Venetia in diamonds. South African coal is expected to be sold in 2016, along with niobium and phosphates, potentially the Chagres copper smelter in Chile and the Brazilian nickel assets. The Kumba iron ore assets will undergo further restructuring and Minas Rio will seek a buyer once it enters commercial production.

Having appointed Mark Cutifani as its CEO in April 2013, we find ourselves almost three years late with progress on restructuring and cost out progressing too slowly for the markets liking and the current commodity price environment. The latest version of the future of Anglo is, in our opinion, Mr Cutifani's last chance to get the business on a sustainable path. The market is no longer willing to give the CEO the benefit of the doubt and 2016 will show whether he has the appetite for the restructuring battle ahead.

As a result, Anglo trades at a significant discount to its NPV and on a materially lower rating than its diversified mining peers. This discount will only narrow when the market believes management is doing what is necessary on the disposal programme, operational cost out. However, without an improvement in commodity prices, inroads into the company's debt ratios are likely to be modest even with disposals, implying that the potential for a rights issue remains should management credibility improve.

Drivers:

- Progress on disposals and cost out.
- Rand and A$.
- PGMs, copper, coal and iron ore prices.

Management's ability to convey urgency around the simplification process and deliver on targeted disposals will be the key drivers of the share price for us in 2016. Operationally, 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: While we believe that Anglo American management has the right strategy to turn around the group's performance, we are concerned about the lack of apparent urgency to implement the plan, particularly given our forecast for further commodity price weakness in 2016. The main drivers of improving FCF of cost-out and disposals have been flagged to the market but delivered too slowly. While we agree that suspending the dividend was the right thing to do, it does not stem the cash burn: management has guided to a cash outflow of US$1bn in 2016 at spot prices and FX. Planned disposals would reduce debt by US$2bn, but we believe a doubling of this is required in combination with faster cost out progress to move the balance sheet back into a more comfortable position: net debt of US$10bn would leave net debt/EBITDA at ~2.5x for 2017, compared with c.4x today. In our view, there is a lack of commitment from management to a clear timeframe and details to achieving this debt reduction – in addition, we think the market now needs to see actual delivery of the plan. We have a Hold rating – we are cognisant of the fundamental upside to our fair value should we see delivery, and the downside risks given the balance sheet should we not.

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 0.7x, to reflect the ranking we assign to Anglo within our coverage universe. Our rankings are derived from debt reduction, P/E valuation, near-term earnings growth, and management action taken to control cash flow.

Risks: Upside and downside risks include weaker/stronger-than-expected operating currencies (rand, A$) and higher/lower commodity prices than we forecast, in particular PGMs, copper and iron ore. More specific risks include delays in taking out costs or faster-than-expected delivery of cost cuts, increased risks regarding security of tenure in South Africa, further delays in the Minas Rio ramp-up, a significant improvement or deterioration in diamond demand, strike/labour disputes in the group's platinum mines, and faster or slower than planned non-core asset disposals.

Model updated:12 January 2016

Running the numbers

Europe

United Kingdom

Metals & Mining

Anglo American

Reuters: AGLJ.J Bloomberg: AGL SJ

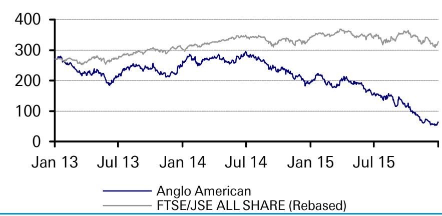
Hold

Price (29 Jan 16)	ZAR 63.00
Target Price	ZAR 70.00
52 Week range	ZAR 53.30 - 223.17
Market Cap (m)	ZARm 81,144
	USDm 5,105

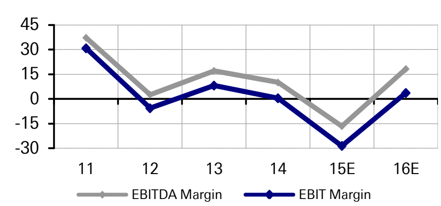
Company Profile

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.

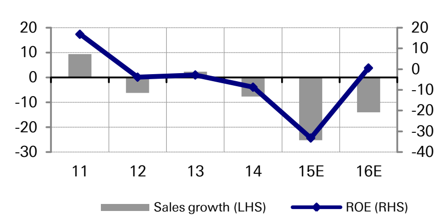
Price Performance



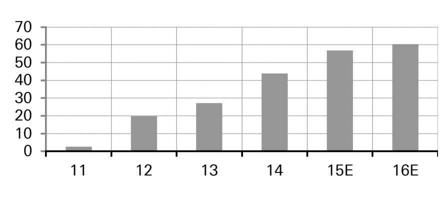
Margin Trends



Growth & Profitability



Solvency



Rene Kleyweg De Monchy
+44 20 754-18178 rene.kleyweg@db.com

Fiscal year end 31-Dec	2011	2012	2013	2014	2015E	2016E
Financial Summary						
DB EPS (USD)	4.85	2.27	2.08	1.73	0.72	0.08
Reported EPS (USD)	4.89	-1.17	-0.75	-1.96	-5.62	0.08
DPS (USD)	0.74	0.85	0.85	0.85	0.32	0.00
BVPS (USD)	32.3	30.0	24.7	20.6	13.4	13.5
Weighted average shares (m)	1,210	1,254	1,281	1,284	1,288	1,288
Average market cap (USDm)	53,916	42,291	31,455	30,562	5,105	5,105
Enterprise value (USDm)	63,668	54,084	44,410	48,136	22,678	23,557
Valuation Metrics						
P/E (DB) (x)	9.2	14.8	11.8	13.8	5.5	50.7
P/E (Reported) (x)	9.1	nm	nm	nm	nm	50.7
P/BV (x)	1.13	1.02	0.88	0.91	0.30	0.29
FCF Yield (%)	4.5	nm	0.3	nm	nm	nm
Dividend Yield (%)	1.7	2.5	3.5	3.6	8.1	0.0
EV/Sales (x)	2.1	1.9	1.5	1.8	1.1	1.4
EV/EBITDA (x)	5.6	69.9	8.8	17.6	nm	7.4
EV/EBIT (x)	6.7	nm	18.5	348.8	nm	36.5
Income Statement (USDm)						
Sales revenue	30,580	28,680	29,342	27,073	20,240	17,398
Gross profit	11,406	774	5,045	2,729	-3,333	3,185
EBITDA	11,406	774	5,045	2,729	-3,333	3,185
Depreciation	1,967	2,374	2,638	2,591	2,431	2,540
Amortisation	0	0	0	0	0	0
EBIT	9,439	-1,600	2,407	138	-5,764	646
Net interest income(expense)	668	418	271	242	115	36
Associates/affiliates	977	421	168	208	82	101
Exceptionals/extraordinaries	183	1,396	-469	-385	-155	0
Other pre-tax income/(expense)	-485	-806	-677	-462	-400	-669
Profit before tax	10,782	-171	1,700	-259	-6,123	113
Income tax expense	2,860	393	1,274	1,265	814	-14
Minorities	1,753	906	1,387	989	305	27
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,169	-1,470	-961	-2,513	-7,242	101
DB adjustments (including dilution)	-49	4,330	3,634	4,730	8,169	0
DB Net profit	6,120	2,860	2,673	2,217	927	101
Cash Flow (USDm)						
Cash flow from operations	8,555	4,787	6,078	5,435	3,302	2,207
Net Capex	-6,126	-5,541	-5,985	-5,903	-4,006	-3,058
Free cash flow	2,429	-754	93	-468	-704	-851
Equity raised/(bought back)	-347	24	14	-97	-27	14
Dividends paid	-2,222	-2,237	-2,237	-1,922	-1,285	-20
Net inc/(dec) in borrowings	4,667	5,834	1,043	1,825	1,633	-1,639
Other investing/financing cash flows	1,106	-5,678	-148	-179	1,235	0
Net cash flow	5,633	-2,811	-1,235	-841	853	-2,496
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	7,490	4,994
Tangible fixed assets	40,549	45,089	41,505	38,475	29,989	30,692
Goodwill/intangible assets	2,322	4,571	4,083	3,912	3,802	3,802
Associates/investments	8,976	6,291	7,548	6,775	3,868	3,868
Other assets	8,863	14,324	10,325	10,100	9,585	9,497
Total assets	72,442	79,369	71,165	66,010	54,733	52,853
Interest bearing debt	12,873	17,754	17,848	20,859	20,613	18,990
Other liabilities	16,380	17,828	15,953	12,974	11,054	10,676
Total liabilities	29,253	35,582	33,801	33,833	31,667	29,666
Shareholders' equity	39,092	37,657	31,671	26,417	17,268	17,383
Minorities	4,097	6,130	5,693	5,760	5,798	5,805
Total shareholders' equity	43,189	43,787	37,364	32,177	23,067	23,188
Net debt	*1,141*	*8,660*	*10,144*	*14,111*	*13,123*	*13,996*
Key Company Metrics						
Sales growth (%)	9.4	-6.2	2.3	-7.7	-25.2	-14.0
DB EPS growth (%)	23.0	-53.2	-8.4	-17.0	-58.3	-89.2
EBITDA Margin (%)	37.3	2.7	17.2	10.1	-16.5	18.3
EBIT Margin (%)	30.9	-5.6	8.2	0.5	-28.5	3.7
Payout ratio (%)	14.5	nm	nm	nm	nm	0.0
ROE (%)	16.8	-3.8	-2.8	-8.7	-33.2	0.6
Capex/sales (%)	20.3	19.6	20.9	22.1	19.9	17.6
Capex/depreciation (x)	3.2	2.4	2.3	2.3	1.7	1.2
Net debt/equity (%)	2.6	19.8	27.1	43.9	56.9	60.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (29 January 2016): 15240c | Target price: 22000c | Rating: Hold

BHP Billiton plc

Rene Kleyweg / Anna Mulholland, CFA

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 (~60% of operating assets), North America (20%) and South America (20%). The group is also well diversified from a commodity perspective, with exposure to petroleum, natural gas, iron ore, metallurgical coal, thermal coal, copper, nickel and potash.

Following the spin-off of South32 in 2015, 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, however, is 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. While 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. What is in doubt is the sustainability of the progressive dividend and without it, what management's intentions are regarding acquisitions and growth – given the limited assets that are likely to be up for sale that meet the constraining requirements referred to earlier. We expect operational performance to remain the key objective of the CEO, Andrew Mackenzie rather than growth.

Drivers: BHP's FY16 earnings profile remains dominated by carbon the steel materials – iron ore and coking coal (~50% of EBITDA); the energy (petroleum and thermal coal are ~35% of EBITDA) and base metals ~15%. Key currency exposures include the A$ and CHP, impacting US$ operating costs and earnings.

Outlook: The long-term BHP Billiton story remains one of: (i) production, earnings and cash flow growth from its low-cost mining and oil projects through brownfields expansions, (ii) growth through approving high-returning projects and adding more projects to the portfolio. The company's capital allocation strategy is to manage its balance sheet to maintain the A credit rating and its progressive dividend, fund organic growth, with a focus on returns, returning excess cash to shareholders (likely share buybacks) or grow further through opportunistic acquisitions (likely oil and copper). BHP Billiton's assets are long-life, low-operating-cost, and in low- to moderate-risk countries (Australia, North America, Brazil, Chile) and overall are considered premium quality relative to the minerals sector, offering above-average returns and operating margins. We rate BHP a Hold: the stock offers good upside potential to our NPV valuation, but the company's Cu Eq growth outlook is flat as oil production has peaked and minerals growth projects are long-dated, which introduces M&A risk, in our view. We also like to see a decision on the sustainability of the current progressive dividend and any resulting change in strategy.

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$67/bbl, WTI oil of US$62/bbl, US natural gas of US$3.20/mmbtu, iron ore fines of US$66/t (CIF Asia), coking coal of US$127/t, copper US$3.22/lb (all real). To derive our target price we apply a 1x multiple to NPV.

Risks: The key risks to our forecasts include variance in commodity prices and exchange rates vs. our estimates.. Delivery risk exists on Jansen potash, and the petroleum growth projects (both US Onshore and the GoM). Further potential slowdown on Chinese steel demand may result in lower iron ore and coking coal demand and therefore lower bulk commodity prices vs. our LT forecasts.

Model updated:27 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

BHP Billiton Plc

Reuters: BILJ.J   Bloomberg: BIL SJ

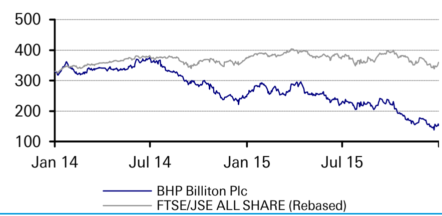
Hold

Price (29 Jan 16)	ZAR 152.40
Target Price	ZAR 220.00
52 Week range	ZAR 138.06 - 296.08
Market Cap (m)	ZARm 810,945
	USDm 51,021

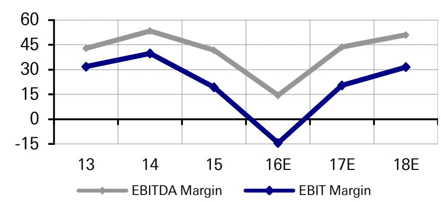
Company Profile

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).

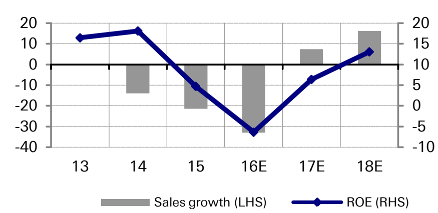
Price Performance



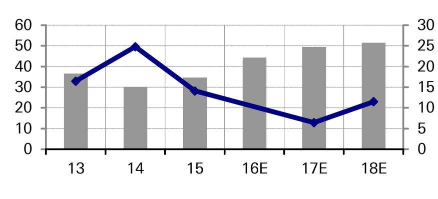
Margin Trends



Growth & Profitability



Solvency



Rene Kleyweg De Monchy
+44 20 754-18178   rene.kleyweg@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (USD)	2.29	2.47	1.61	0.21	0.63	1.21
Reported EPS (USD)	2.10	2.54	0.64	-0.71	0.63	1.21
DPS (USD)	1.16	1.21	1.24	1.24	1.24	1.24
BVPS (USD)	13.3	14.9	12.2	10.3	9.5	9.0
Weighted average shares (m)	5,321	5,321	5,318	5,321	5,321	5,321
Average market cap (USDm)	163,492	162,046	134,578	51,021	51,021	51,021
Enterprise value (USDm)	193,746	191,635	161,828	81,032	82,627	83,648
Valuation Metrics						
P/E (DB) (x)	13.4	12.3	15.7	46.4	15.1	7.9
P/E (Reported) (x)	14.6	12.0	39.6	nm	15.1	7.9
P/BV (x)	1.94	2.18	1.63	0.93	1.01	1.07
FCF Yield (%)	0.2	6.8	5.7	9.7	12.4	15.1
Dividend Yield (%)	3.8	4.0	4.9	12.9	12.9	12.9
EV/Sales (x)	2.9	3.4	3.6	2.7	2.6	2.2
EV/EBITDA (x)	6.8	6.3	8.7	18.7	5.9	4.4
EV/EBIT (x)	9.2	8.5	18.7	nm	12.5	7.1
Income Statement (USDm)						
Sales revenue	65,953	56,762	44,636	29,948	32,175	37,360
Gross profit	24,433	29,140	18,142	4,325	14,065	19,054
EBITDA	28,380	30,365	18,638	4,325	14,065	19,054
Depreciation	7,378	7,716	9,986	8,609	7,461	7,237
Amortisation	0	0	0	0	0	0
EBIT	21,002	22,649	8,652	-4,284	6,604	11,817
Net interest income(expense)	-1,276	-914	-614	-986	-1,023	-1,025
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	-146	-161	-357
Profit before tax	19,726	21,735	8,038	-5,416	5,420	10,435
Income tax expense	6,906	6,780	3,666	-1,675	1,843	3,548
Minorities	1,597	1,392	968	56	199	444
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	11,223	13,563	3,404	-3,796	3,378	6,443
DB adjustments (including dilution)	985	-385	5,199	4,900	0	0
DB Net profit	12,208	13,178	8,603	1,104	3,378	6,443
Cash Flow (USDm)						
Cash flow from operations	20,154	25,364	19,296	12,160	11,734	13,583
Net Capex	-19,905	-14,346	-11,625	-7,215	-5,405	-5,902
Free cash flow	249	11,018	7,671	4,945	6,329	7,681
Equity raised/(bought back)	21	14	9	0	0	0
Dividends paid	-6,167	-6,387	-6,498	-6,617	-6,617	-6,617
Net inc/(dec) in borrowings	7,157	-1,011	-728	5,000	1,000	-800
Other investing/financing cash flows	-364	224	-649	-912	-915	-1,211
Net cash flow	896	3,858	-195	2,416	-202	-947
Change in working capital	*-7,514*	*116*	*-187*	*2,130*	*-832*	*-2,197*
Balance Sheet (USDm)						
Cash and other liquid assets	5,677	8,803	6,753	9,169	8,967	8,019
Tangible fixed assets	100,565	108,787	94,072	87,778	85,723	84,388
Goodwill/intangible assets	5,496	5,439	4,292	4,678	4,996	5,329
Associates/investments	1,880	2,436	2,944	2,944	2,944	2,944
Other assets	25,560	25,948	16,519	12,552	13,012	14,346
Total assets	139,178	151,413	124,580	117,121	115,641	115,026
Interest bearing debt	33,187	34,589	31,170	36,170	37,170	36,370
Other liabilities	30,700	31,442	22,865	20,102	21,435	23,535
Total liabilities	63,887	66,031	54,035	56,272	58,605	59,905
Shareholders' equity	70,667	79,143	64,768	54,894	50,689	47,899
Minorities	4,624	6,239	5,777	5,954	6,347	7,221
Total shareholders' equity	75,291	85,382	70,545	60,849	57,036	55,120
Net debt	*27,510*	*25,786*	*24,417*	*27,001*	*28,203*	*28,351*
Key Company Metrics						
Sales growth (%)	nm	-13.9	-21.4	-32.9	7.4	16.1
DB EPS growth (%)	na	7.9	-34.7	-87.2	206.0	90.7
EBITDA Margin (%)	43.0	53.5	41.8	14.4	43.7	51.0
EBIT Margin (%)	31.8	39.9	19.4	-14.3	20.5	31.6
Payout ratio (%)	55.0	47.5	193.7	nm	195.3	102.4
ROE (%)	16.4	18.1	4.7	-6.3	6.4	13.1
Capex/sales (%)	33.7	26.8	26.8	24.1	16.8	15.8
Capex/depreciation (x)	3.0	2.0	1.2	0.8	0.7	0.8
Net debt/equity (%)	36.5	30.2	34.6	44.4	49.4	51.4
Net interest cover (x)	16.5	24.8	14.1	nm	6.5	11.5

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (29 January 2016): 2061c | Target price: 3000c | Rating: Buy

Glencore plc

Rene Kleyweg / Rob Clifford / Anna Mulholland, CFA

Business description: Glencore became the world's third largest mining company by market capitalisation following the merger with Xstrata in 2013, but has since slipped. 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 ~100% of 2015 earnings. Within the industrial assets, copper dominates accounting for 47% of industrial NPV, coal (21%) zinc (21%) and nickel (9%), thereafter. While 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.

Focus has switched from growth to balance sheet repair in 2015, with management seeking to reduce net debt to below US$20bn. This has resulted in a capital raise equal to the interim dividend in 2015 and a suspension of the dividend for 2016. The balance sheet, somewhat unfairly in our view, remains a concern for the market, with the CDS trading at over 1,100. Medium term, Glencore remains reluctant to develop large scale greenfield 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.

Drivers: Capital expenditure is declining rapidly and working capital is being reduced in marketing. The company is also seeking to make modest disposals. Delivery on the net debt reductions targeted during 2016 should start the revaluation of both the company's debt and equity. 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.

Outlook: Glencore's 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. Having had a wobble in 1H15, the FY15 guidance is very much in line with guidance – no mean feat given the turmoil we have seen in global markets. We believe that during 2016 the company will demonstrate that its liquidity position is safe and that its debt reduction plan has worked. Hence, we now expect a re-rating and have a Buy recommendation on the name. However, it still has work to do to rebuild the confidence of the equity market to achieve a full rerating. This includes 1) Increased trading consistency, 2) More asset sale transactions, and 3) Demonstrate margin improvement in its operations.

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%). Given recent management performance and leverage concerns, our TP is based on a 0.7x P/NPV multiple.

Risks: Weaker commodity prices or stronger operating currencies than expected are key risks to our earnings and valuation forecasts. 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. The balance sheet remains the main concern and the company may be less successful than hoped on disposals. If the proposed debt reduction plan is unsuccessful, this could have a negative impact on the ratings agencies ratings and therefore cost of debt for the company.

Model updated:17 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Mining

Glencore

Reuters: GLNJ.J Bloomberg: GLN SJ

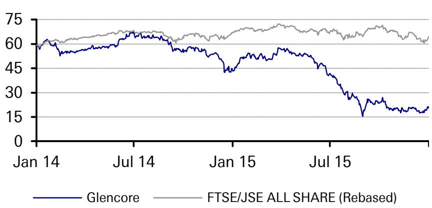
Buy

Price (29 Jan 16)	ZAR 20.61
Target Price	ZAR 30.00
52 Week range	ZAR 15.41 - 57.54
Market Cap (m)	ZARm 273,379
	USDm 17,200

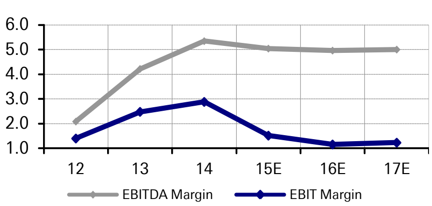
Company Profile

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.

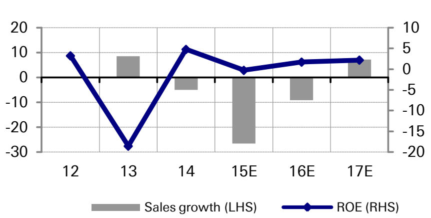
Price Performance



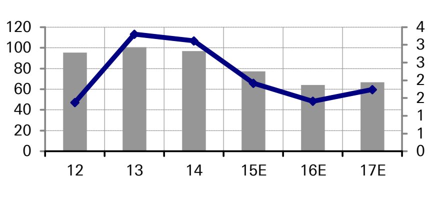
Margin Trends



Growth & Profitability



Solvency



Rene Kleyweg De Monchy
+44 20 754-18178 rene.kleyweg@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (USD)	0.07	0.32	0.33	0.11	0.06	0.08
Reported EPS (USD)	0.14	-0.65	0.18	-0.01	0.06	0.08
DPS (USD)	0.16	0.17	0.18	0.06	0.12	0.19
BVPS (USD)	4.4	3.7	3.7	3.4	3.5	3.4
Weighted average shares (m)	7,011	11,141	13,099	13,264	14,245	14,245
Average market cap (USDm)	na	60,374	71,318	17,200	17,200	17,200
Enterprise value (USDm)	na	94,993	107,223	44,665	39,840	40,176
Valuation Metrics						
P/E (DB) (x)	na	16.8	16.7	12.2	21.7	16.8
P/E (Reported) (x)	na	nm	31.0	nm	21.7	16.8
P/BV (x)	0.00	1.42	1.28	0.39	0.37	0.38
FCF Yield (%)	na	nm	nm	45.8	18.3	11.5
Dividend Yield (%)	na	3.0	3.3	4.6	9.3	14.4
EV/Sales (x)	nm	0.4	0.5	0.3	0.3	0.3
EV/EBITDA (x)	nm	9.7	9.1	5.4	5.4	5.1
EV/EBIT (x)	nm	16.4	16.8	18.1	23.3	20.6
Income Statement (USDm)						
Sales revenue	214,436	232,694	221,073	162,502	147,635	158,308
Gross profit	5,474	9,825	11,825	8,201	7,331	7,926
EBITDA	4,477	9,825	11,825	8,201	7,331	7,926
Depreciation	1,473	4,049	5,448	5,735	5,619	5,976
Amortisation	0	0	0	0	0	0
EBIT	3,004	5,776	6,377	2,466	1,711	1,950
Net interest income(expense)	-2,184	-1,751	-2,050	-1,286	-1,212	-1,121
Associates/affiliates	367	0	0	0	0	0
Exceptionals/extraordinaries	0	-11,068	-74	-1,027	0	0
Other pre-tax income/(expense)	-111	-1	0	-256	0	0
Profit before tax	1,076	-7,044	4,253	-104	500	829
Income tax expense	-76	254	1,809	203	-226	-149
Minorities	148	104	136	-167	-127	-122
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,004	-7,402	2,308	-140	853	1,100
DB adjustments (including dilution)	-466	11,068	1,977	1,558	0	0
DB Net profit	538	3,666	4,285	1,418	853	1,100
Cash Flow (USDm)						
Cash flow from operations	4,381	9,184	8,136	13,154	6,863	5,822
Net Capex	-3,005	-9,329	-8,854	-5,281	-3,490	-3,699
Free cash flow	1,376	-145	-718	7,873	3,373	2,122
Equity raised/(bought back)	0	10	-767	2,191	0	0
Dividends paid	-1,066	-2,062	-2,244	-2,348	0	-2,656
Net inc/(dec) in borrowings	6,123	558	-559	-3,421	-3,020	-2,352
Other investing/financing cash flows	-4,956	1,706	4,263	1,532	1,452	197
Net cash flow	1,477	67	-25	5,827	1,805	-2,688
Change in working capital	*727*	*2,599*	*-703*	*7,126*	*826*	*-993*
Balance Sheet (USDm)						
Cash and other liquid assets	2,782	2,849	2,824	8,651	10,456	7,768
Tangible fixed assets	23,238	67,233	70,110	68,404	66,275	63,998
Goodwill/intangible assets	2,664	9,158	8,866	8,707	8,707	8,707
Associates/investments	25,353	21,073	16,902	16,420	15,770	15,770
Other assets	51,500	53,799	53,503	45,154	43,735	46,597
Total assets	105,537	154,112	152,205	147,336	144,943	142,840
Interest bearing debt	35,526	55,173	52,693	49,143	45,473	43,121
Other liabilities	35,711	47,008	48,032	45,701	44,882	46,752
Total liabilities	71,237	102,181	100,725	94,844	90,355	89,873
Shareholders' equity	31,266	48,563	48,542	49,099	51,194	49,574
Minorities	3,034	3,368	2,938	3,393	3,393	3,393
Total shareholders' equity	34,300	51,931	51,480	52,492	54,587	52,967
Net debt	*32,744*	*52,324*	*49,869*	*40,492*	*35,017*	*35,353*
Key Company Metrics						
Sales growth (%)	nm	8.5	-5.0	-26.5	-9.1	7.2
DB EPS growth (%)	na	345.9	0.9	-67.3	-44.0	29.0
EBITDA Margin (%)	2.1	4.2	5.3	5.0	5.0	5.0
EBIT Margin (%)	1.4	2.5	2.9	1.5	1.2	1.2
Payout ratio (%)	111.0	nm	102.2	nm	200.5	241.3
ROE (%)	3.2	-18.5	4.8	-0.3	1.7	2.2
Capex/sales (%)	1.5	4.1	4.1	3.3	2.4	2.3
Capex/depreciation (x)	2.1	2.4	1.7	0.9	0.6	0.6
Net debt/equity (%)	95.5	100.8	96.9	77.1	64.1	66.7
Net interest cover (x)	1.4	3.3	3.1	1.9	1.4	1.7

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (29 January 2016): 3478c | Target price: 5100c | Rating: Buy

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 by volume listed quality seaborne iron ore producer globally. Kumba's fortunes have deteriorated dramatically in recent years from a high growth potential story to now shrinking to survive. Its main asset, Sishen is targeting a 10mtpa cut in production in an effort to reduce costs to an appropriate level. At current exchange rates this should prove sufficient, but should the rand appreciate as we forecast, additional cost out efforts may be required that could lead to a shortening of mine life.

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% – an investment that is now larger than the market value of its entire holding. The shareholder agreement at SIOC expires at the end of this year, which may facilitate an exit for Anglo or Exxaro, who has a 20% stake in SIOC.

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.
- Lump premiums for 60%+ of its sales.
- ZAR/USD exchange rate.
- Management's cost reduction efforts

Kumba is chiefly exposed to the ZAR/USD exchange rate.

Outlook: Kumba Iron Ore (Kumba) has a 74% stake in the Sishen Iron Ore Company (SIOC). SIOC is now going through a much tougher period as lower iron ore prices and poor operating decisions made in the past undermine the longevity of the mine from here. We expect the new mine plan to de-risk execution and ensure FCF breakeven even at current prices, given the weakness of the Rand. But aggressive cost out efforts need to be pursued, especially at the Sishen mine, which remains an inefficient operation. Anglo American has stated its desire to exit bulk materials medium term, suggesting either a distribution in specie to Anglo shareholders of Kumba shares, or a sale. Buy.

Valuation: We fundamentally value Kumba on a NPV basis (12.5% WACC) to establish long-term valuation expectations, but due to the relatively short nature of the mine life and current market uncertainty, have adopted a 7x target P/E on spot 2017E EPS to set our price target. By 2017, on our new assumptions, there will be 10 years of mine life remaining at Sishen. A fair P/E multiple for that on a 7% real cost of capital is 7x (10 years of stable real earnings discounted at 7% real). To therefore get 20% upside to fair value would require a 5.8x 2017e P/E multiple.

Risks: The main risks are sustained strengthening of the rand, weaker iron ore prices, or continued operational issues. The appreciating rand would not only hurt costs in US$ but also increase debt in US$ as all loans are in rand. Weaker lump premiums and higher freight rates can also affect realised pricing. Operational uncertainty persists despite recent efforts to correct several years of poor mine planning. This could continue if any new mine is again not executed properly.

Model updated:17 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

Kumba Iron Ore Ltd

Reuters: KIOJ.J Bloomberg: KIO SJ

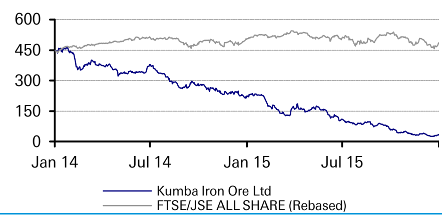
Buy

Price (29 Jan 16)	ZAR 34.78
Target Price	ZAR 51.00
52 Week range	ZAR 25.35 - 236.98
Market Cap (m)	ZARm 11,154
	USDm 702

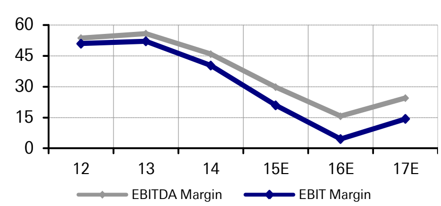
Company Profile

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.

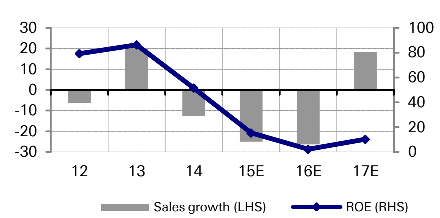
Price Performance



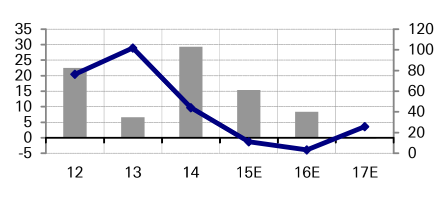
Margin Trends



Growth & Profitability



Solvency



Rene Kleyweg De Monchy
+44 20 754-18178 rene.kleyweg@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	37.98	48.02	34.26	10.23	1.52	7.43
Reported EPS (ZAR)	37.96	48.03	33.38	10.20	1.52	7.43
DPS (ZAR)	31.70	40.04	23.34	0.00	0.00	4.43
BVPS (ZAR)	46.5	64.7	64.5	68.0	69.5	75.3
Weighted average shares (m)	321	321	321	321	321	321
Average market cap (ZARm)	171,397	154,856	110,398	11,154	11,154	11,154
Enterprise value (ZARm)	179,356	162,262	123,767	21,295	19,496	17,538
Valuation Metrics						
P/E (DB) (x)	14.1	10.0	10.0	3.4	22.9	4.7
P/E (Reported) (x)	14.1	10.0	10.3	3.4	22.9	4.7
P/BV (x)	12.24	6.86	3.72	0.51	0.50	0.46
FCF Yield (%)	7.8	10.7	8.0	59.3	17.5	28.8
Dividend Yield (%)	5.9	8.3	6.8	0.0	0.0	12.7
EV/Sales (x)	3.9	3.0	2.6	0.6	0.7	0.6
EV/EBITDA (x)	7.4	5.3	5.7	2.0	4.7	2.3
EV/EBIT (x)	7.7	5.7	6.4	2.8	16.3	3.9
Income Statement (ZARm)						
Sales revenue	45,446	54,461	47,597	35,742	26,336	31,144
Gross profit	24,398	30,424	21,828	10,655	4,119	7,623
EBITDA	24,398	30,424	21,828	10,655	4,119	7,623
Depreciation	1,245	2,039	2,636	3,163	2,919	3,144
Amortisation	0	0	0	0	0	0
EBIT	23,153	28,385	19,192	7,492	1,200	4,479
Net interest income(expense)	-303	-279	-435	-667	-358	-173
Associates/affiliates	0	-46	-5	-1	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	22,850	28,060	18,752	6,824	841	4,305
Income tax expense	6,750	7,760	4,604	2,546	201	1,171
Minorities	3,888	4,854	3,424	1,006	154	752
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	12,212	15,446	10,724	3,271	487	2,383
DB adjustments (including dilution)	8	-3	282	11	0	0
DB Net profit	12,220	15,443	11,006	3,282	487	2,383
Cash Flow (ZARm)						
Cash flow from operations	18,728	23,022	17,319	12,157	4,124	5,569
Net Capex	-5,399	-6,453	-8,477	-5,545	-2,170	-2,355
Free cash flow	13,329	16,569	8,842	6,612	1,953	3,214
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-18,974	-13,707	-15,178	-3,301	0	-680
Net inc/(dec) in borrowings	2,678	-3,332	6,744	5,407	0	-2,500
Other investing/financing cash flows	-19	259	310	227	0	0
Net cash flow	-2,986	-211	718	8,945	1,953	34
Change in working capital	*-2,698*	*-1,520*	*-1,205*	*2,234*	*564*	*-710*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,527	1,053	1,664	10,609	12,562	12,596
Tangible fixed assets	24,765	29,922	35,170	37,531	36,782	35,993
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	728	743	797	815	815	815
Other assets	9,516	12,820	13,268	9,955	9,171	10,079
Total assets	36,536	44,538	50,899	58,910	59,330	59,483
Interest bearing debt	5,869	2,849	9,593	15,000	15,000	12,500
Other liabilities	11,358	14,505	14,305	15,453	15,232	15,430
Total liabilities	17,227	17,354	23,898	30,453	30,232	27,930
Shareholders' equity	14,964	20,831	20,764	21,892	22,379	24,258
Minorities	4,345	6,353	6,237	6,565	6,719	7,294
Total shareholders' equity	19,309	27,184	27,001	28,457	29,098	31,553
Net debt	*4,342*	*1,796*	*7,929*	*4,391*	*2,438*	*-96*
Key Company Metrics						
Sales growth (%)	-6.4	19.8	-12.6	-24.9	-26.3	18.3
DB EPS growth (%)	-28.3	26.4	-28.7	-70.1	-85.2	389.3
EBITDA Margin (%)	53.7	55.9	45.9	29.8	15.6	24.5
EBIT Margin (%)	50.9	52.1	40.3	21.0	4.6	14.4
Payout ratio (%)	83.4	83.3	69.8	0.0	0.0	59.6
ROE (%)	79.3	86.3	51.6	15.3	2.2	10.2
Capex/sales (%)	11.9	11.8	17.8	15.5	8.2	7.6
Capex/depreciation (x)	4.3	3.2	3.2	1.8	0.7	0.7
Net debt/equity (%)	22.5	6.6	29.4	15.4	8.4	-0.3
Net interest cover (x)	76.4	101.7	44.1	11.2	3.3	25.8

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (29 January 2016): 1100c | Target price: 1900c | Rating: Buy

South32 Ltd

Rene Kleyweg / Anna Mulholland, CFA

Business description: South32 was born out of BHP in May 2015. The diversified miner has exposure to aluminium, alumina, thermal coal, nickel, silver, zinc and manganese. Geographically, Australia dominates, accounting for ~60% of NPV, South Africa ~30% and Latin America ~10%. By commodity, it is the alumina/aluminium division that dominates at 60% of NPV, followed by manganese ~15%, South African energy coal at 13%. The nickel operations in Colombia carry a big negative NPV valuation of ~7% of NPV on our price deck. Several of the assets have relatively short mine lives or proven reserves. We believe South32 is well positioned with its debt free balance sheet to benefit from forced asset sales and potential mergers in the sector. The company also has significant opportunities for further cost reductions and is the only name under our coverage with an appropriate dividend policy. What remains unproven as yet is its ability to deliver on acquisitions.

Drivers:

- Improved pricing for alumina and manganese from a sentiment perspective.
- Clarification on corporate strategy beyond cost out. What commodities, what jurisdictions would it like to pursue M&A opportunities.
- Closure of loss making operations – Colombian nickel, SA manganese?

Outlook: South32 is a new global mid-cap mining company with a strong balance sheet and reasonable cash flow from what we think is a mixed asset base. We think the group's three most valuable assets are the Worsley alumina refinery, the Hillside aluminium smelter and the Alumar alumina refinery. We forecast South32's copper equivalent production to fall around 3% per year, so commodity prices, fixed cost reductions and currency deprecation are the key drivers of earnings growth. The two areas of upside are cost-cutting and mine-life extensions – we expect cost-cutting to be management's focus over the next 12 months. South32 faces a number of challenges in the next 12 months including uncertainty over its status within BEE legislation and steep power price increases in South Africa, plus grade declines at Cannington. We are positive on the outlook for alumina, aluminium and nickel over the medium term but are cautious on manganese and coal. Acquisition opportunities are also likely to feature highly in 2016. We rate South32 a Buy on valuation.

Valuation: We derive our valuation for South32 from a sum-of-the-parts DCF model, aggregating life of mine cash flows for each asset. We derive a group NPV using a nominal WACC of 10.5% (COE 11.5%, Rf 4%, Rp 6.0%; COD 6% on a D/E of 15%; Beta of 1.25) and assuming real long-term FX and prices of: AUD/USD of 0.75, ZAR/USD 12.88, aluminium US88c/lb, nickel US749c/lb, manganese US$3.30/dmtu, alumina US$330/t, coking coal US$127/t, export South African thermal coal of US$54/t and zinc of US105c/lb. We set our target price in line with our NPV.

Risks: The key downside risks to our estimates are:(i) higher sustaining capex, particularly for the aluminium assets; (ii) more severe grade declines, resulting in larger falls in copper equivalent production; (iii) changes in BEE legislation in South Africa; (iv) more severe electricity price increases in South Africa; (v) lower commodity prices and stronger FX rates than we forecast; and (vi) poor acquisitions.

Model updated:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

South32

Reuters: S32J.J   Bloomberg: S32 SJ

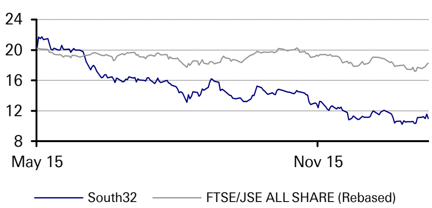
Buy

Price (29 Jan 16)	ZAR 11.00
Target Price	ZAR 19.00
52 Week range	ZAR 10.25 - 21.75
Market Cap (m)	ZARm 58,564
	USDm 3,685

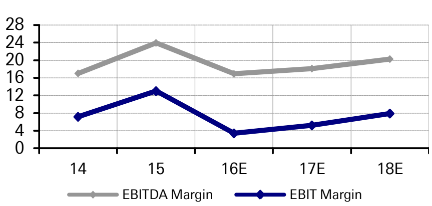
Company Profile

South32 is a diversified miner whose assets were previously owned by BHP Billiton. The portfolio includes the Illawarra met coal complex, Cannington base metals mine, GEMCO manganese mine, the Worsley bauxite mine and alumina refinery all in Australia; Energy Coal mines and Samancor Manganese in South Africa, Mozal aluminium smelter in Mozambique, MRN bauxite mine in Brazil, Cerro Matoso nickel mine in Colombia.

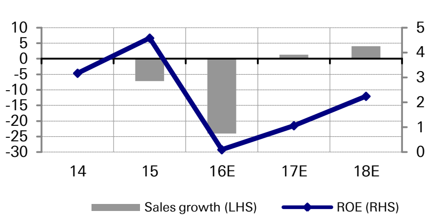
Price Performance



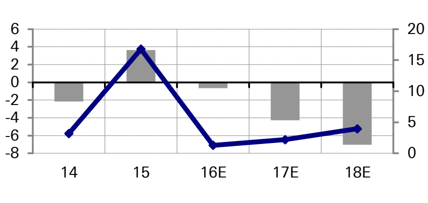
Margin Trends



Growth & Profitability



Solvency



Rene Kleyweg De Monchy
+44 20 754-18178   rene.kleyweg@db.com

Fiscal year end 30-Jun	2014	2015	2016E	2017E	2018E
Financial Summary					
DB EPS (USD)	0.08	0.11	0.00	0.02	0.05
Reported EPS (USD)	0.08	0.11	0.00	0.02	0.05
DPS (USD)	0.00	0.00	0.00	0.01	0.02
BVPS (USD)	2.6	2.1	2.1	2.2	2.2
Weighted average shares (m)	5,321	5,324	5,324	5,324	5,324
Average market cap (USDm)	na	9,128	3,685	3,685	3,685
Enterprise value (USDm)	na	9,452	3,532	3,110	2,776
Valuation Metrics					
P/E (DB) (x)	na	15.9	330.7	30.1	14.0
P/E (Reported) (x)	na	15.9	330.7	30.1	14.0
P/BV (x)	0.00	0.65	0.32	0.32	0.31
FCF Yield (%)	na	13.2	15.5	13.3	15.5
Dividend Yield (%)	na	0.0	0.1	1.3	2.9
EV/Sales (x)	nm	1.2	0.6	0.5	0.4
EV/EBITDA (x)	nm	5.1	3.5	2.9	2.2
EV/EBIT (x)	nm	9.4	17.6	10.0	5.7
Income Statement (USDm)					
Sales revenue	8,344	7,743	5,882	5,956	6,194
Gross profit	1,715	1,840	925	1,221	1,434
EBITDA	1,421	1,855	995	1,080	1,256
Depreciation	823	848	795	768	766
Amortisation	0	0	0	0	0
EBIT	598	1,007	201	311	490
Net interest income(expense)	-187	-60	-154	-141	-124
Associates/affiliates	62	-6	-30	37	75
Exceptionals/extraordinaries	343	547	0	0	0
Other pre-tax income/(expense)	-323	-482	0	0	0
Profit before tax	150	459	17	207	441
Income tax expense	47	431	6	85	178
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	446	575	11	122	263
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	446	575	11	122	263
Cash Flow (USDm)					
Cash flow from operations	1,419	1,838	1,125	995	1,063
Net Capex	-590	-629	-554	-503	-493
Free cash flow	829	1,209	571	491	570
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	0	0	0	-1	-107
Net inc/(dec) in borrowings	-205	0	-50	0	0
Other investing/financing cash flows	-488	-658	-70	-68	-129
Net cash flow	136	551	451	422	334
Change in working capital	*1,562*	*136*	*0*	*0*	*0*
Balance Sheet (USDm)					
Cash and other liquid assets	364	644	1,088	1,510	1,844
Tangible fixed assets	13,393	9,550	9,309	9,044	8,771
Goodwill/intangible assets	290	306	306	306	306
Associates/investments	107	77	77	77	77
Other assets	2,887	4,912	4,912	4,912	4,912
Total assets	17,041	15,489	15,692	15,850	15,910
Interest bearing debt	62	1,046	1,014	1,014	1,014
Other liabilities	2,904	3,408	3,301	3,193	3,094
Total liabilities	2,966	4,454	4,315	4,207	4,108
Shareholders' equity	14,075	11,036	11,378	11,643	11,803
Minorities	0	-1	-1	-1	-1
Total shareholders' equity	14,075	11,035	11,377	11,642	11,802
Net debt	*-302*	*402*	*-74*	*-496*	*-830*
Key Company Metrics					
Sales growth (%)	nm	-7.2	-24.0	1.3	4.0
DB EPS growth (%)	na	29.3	-98.1	998.2	114.9
EBITDA Margin (%)	17.0	24.0	16.9	18.1	20.3
EBIT Margin (%)	7.2	13.0	3.4	5.2	7.9
Payout ratio (%)	0.0	0.0	40.0	40.0	40.0
ROE (%)	3.2	4.6	0.1	1.1	2.2
Capex/sales (%)	7.1	8.1	9.4	8.5	8.0
Capex/depreciation (x)	0.7	0.7	0.7	0.7	0.6
Net debt/equity (%)	-2.1	3.6	-0.7	-4.3	-7.0
Net interest cover (x)	3.2	16.8	1.3	2.2	4.0

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (28 January 2016): 13200c | Target price: 14800c | 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, Brazil, Argentina and Australia; as well as projects in Colombia. Around 25% of group attributable production comes from South Africa, and AngloGold is, therefore, less geographically exposed to the region than 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. Relatively new mines with competitive cost positions in the portfolio include Kibali in the DRC (joint venture with RandGold Resources) and Tropicana in Australia (70% owned). AngloGold has achieved success in its response to the lower gold price over recent years; successful steps taken include the sale of CC&V in the US for US$820m in 2H15, the proceeds used to repurchase a portion of high-coupon bonds; cost-saving programmes and the cutting of non-essential corporate and exploration costs. US$ gold prices are holding up at around the US$1,000-1,100/oz range and AngloGold is currently benefitting from weak emerging market (producer) currencies and lower input-costs from the fall in the oil price.

Drivers: Key value drivers for AngloGold include:

- The gold price.
- Finding JV-partners or other alternatives to plugging cash flow drains at projects (Obuasi) and exploration (Colombia).
- Wage and electricity cost inflation.

Outlook: AngloGold's management has diligently followed a shareholder-friendly, return-focused approach over the past few years. We forecast sustainable tail winds to earnings and cash flows over the medium term as a result, despite our near-term weak US$ gold price forecast. AngloGold has 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. With AngloGold trading at a discount to our valuation and our forecast for improving earnings and cash flow, we have a Buy recommendation.

Valuation: We value AngloGold based on a sum-of-the-parts DCF model of individual operations and projects (mines held for sale are carried at sales price). 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 CY16 we use a gold price forecast of US$1,033/ounce and a ZAR/USD forecast of 14.90. We derive our one-year forward target price from rolling our DCF forward at the cost of equity (11.7%) less the expected dividend yield.

Risks: Downside risks to our target price include an inability to conclude the joint venture agreement at Obuasi; renewed strain on the balance sheet from the requirement to recapitalise Obuasi for redevelopment; interruptions to production from i) labour unrest in South Africa due to 2015 wage negotiations that spill over into 2016 and/or ii) load-curtailment as a result of electricity shortages in South Africa; and a slower-than-expected implementation of the development plans for Obuasi. 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:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Gold

AngloGold Ashanti

Reuters: ANGJ.J Bloomberg: ANG SJ

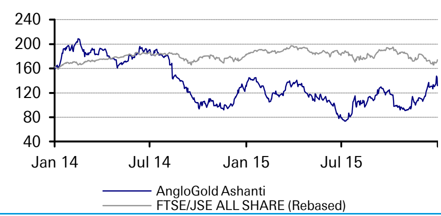
Buy

Price (28 Jan 16)	ZAR 132.00
Target Price	ZAR 148.00
52 Week range	ZAR 73.76 - 147.50
Market Cap (m)	ZARm 53,793
	USDm 3,320

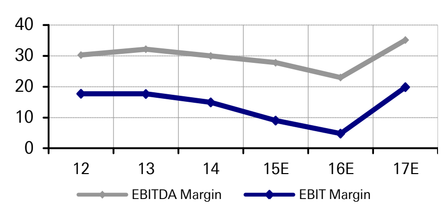
Company Profile

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 maximising free cash flow and lowering net debt from an improving portfolio.

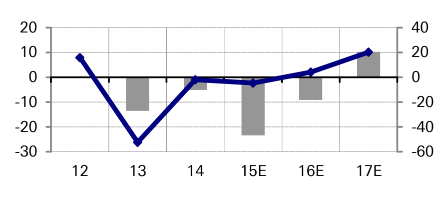
Price Performance



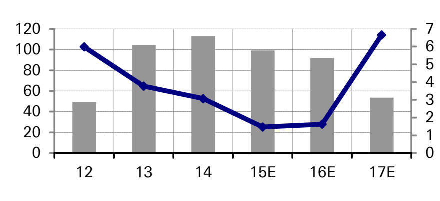
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (USD)	2.39	1.53	0.00	0.06	0.25	1.38
Reported EPS (USD)	2.15	-5.68	-0.14	-0.30	0.25	1.38
DPS (USD)	0.36	0.06	0.00	0.00	0.00	0.00
BVPS (USD)	14.1	7.8	7.0	5.9	6.1	7.5
Weighted average shares (m)	387	393	408	408	408	408
Average market cap (USDm)	13,614	6,909	5,944	3,320	3,320	3,320
Enterprise value (USDm)	15,267	8,852	7,796	4,282	4,151	3,415
Valuation Metrics						
P/E (DB) (x)	14.7	11.5	nm	145.8	32.7	5.9
P/E (Reported) (x)	16.4	nm	nm	nm	32.7	5.9
P/BV (x)	2.19	1.49	1.26	1.44	1.33	1.09
FCF Yield (%)	nm	nm	0.2	1.9	3.3	20.9
Dividend Yield (%)	1.0	0.3	0.0	0.0	0.0	0.0
EV/Sales (x)	2.4	1.6	1.5	1.1	1.1	0.9
EV/EBITDA (x)	7.9	5.0	5.0	3.9	5.0	2.4
EV/EBIT (x)	13.6	9.1	10.0	11.9	23.8	4.3
Income Statement (USDm)						
Sales revenue	6,352	5,497	5,218	3,996	3,632	4,002
Gross profit	3,087	2,150	1,814	1,408	1,103	1,584
EBITDA	1,923	1,769	1,565	1,110	835	1,407
Depreciation	797	799	786	750	661	612
Amortisation	0	0	0	0	0	0
EBIT	1,126	970	779	361	174	795
Net interest income(expense)	-188	-257	-254	-245	-107	-119
Associates/affiliates	-28	-162	-25	81	57	82
Exceptionals/extraordinaries	0	-3,468	-260	-178	0	0
Other pre-tax income/(expense)	260	384	-24	41	0	0
Profit before tax	1,198	-2,371	241	100	68	676
Income tax expense	321	-333	255	168	19	189
Minorities	19	30	19	12	4	8
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	830	-2,230	-58	-121	102	562
DB adjustments (including dilution)	94	2,829	57	144	0	0
DB Net profit	924	599	-1	23	102	562
Cash Flow (USDm)						
Cash flow from operations	1,692	1,069	996	749	765	1,304
Net Capex	-1,779	-1,491	-982	-684	-657	-612
Free cash flow	-87	-422	14	65	108	692
Equity raised/(bought back)	1	0	0	0	0	0
Dividends paid	-230	-62	-17	-4	0	0
Net inc/(dec) in borrowings	1,215	858	-150	-802	-68	-400
Other investing/financing cash flows	-1,119	-638	-7	680	0	0
Net cash flow	-220	-264	-160	-61	40	292
Change in working capital	*-219*	*-171*	*101*	*750*	*24*	*-13*
Balance Sheet (USDm)						
Cash and other liquid assets	892	648	468	406	446	739
Tangible fixed assets	7,648	4,815	4,863	3,809	3,805	3,805
Goodwill/intangible assets	315	267	225	165	165	165
Associates/investments	1,060	1,328	1,427	1,477	1,534	1,614
Other assets	2,780	2,616	2,151	1,553	1,517	1,502
Total assets	12,695	9,674	9,134	7,410	7,467	7,825
Interest bearing debt	3,583	3,891	3,721	2,809	2,771	2,401
Other liabilities	3,643	2,676	2,542	2,177	2,166	2,326
Total liabilities	7,226	6,567	6,263	4,986	4,937	4,727
Shareholders' equity	5,447	3,079	2,845	2,389	2,490	3,052
Minorities	22	28	26	35	40	47
Total shareholders' equity	5,469	3,107	2,871	2,424	2,530	3,099
Net debt	*2,691*	*3,243*	*3,253*	*2,403*	*2,325*	*1,662*
Key Company Metrics						
Sales growth (%)	nm	-13.5	-5.1	-23.4	-9.1	10.2
DB EPS growth (%)	na	-36.2	na	na	346.3	452.6
EBITDA Margin (%)	30.3	32.2	30.0	27.8	23.0	35.2
EBIT Margin (%)	17.7	17.6	14.9	9.0	4.8	19.9
Payout ratio (%)	16.8	nm	nm	nm	0.0	0.0
ROE (%)	15.8	-52.3	-2.0	-4.6	4.2	20.3
Capex/sales (%)	28.1	27.3	19.4	17.2	18.1	15.3
Capex/depreciation (x)	2.2	1.9	1.3	0.9	1.0	1.0
Net debt/equity (%)	49.2	104.4	113.3	99.1	91.9	53.6
Net interest cover (x)	6.0	3.8	3.1	1.5	1.6	6.7

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (28 January 2016): 5465c | Target price: 4000c | 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. After the spin-out of Sibanye Gold in 2013, the sole asset remaining in South Africa is South Deep. This mine has significant potential to deliver value for Gold Fields, with a 70-year-plus life of mine and amenable to mechanised mining methods (seen as a significant benefit in a South African context where labour-intensive conventional mining has struggled in recent years with disruptions and high inflation). However, South Deep has proved a tough nut to crack since acquired by Gold Fields in 2007 and Gold Fields abandoned all but the shortest term targets for South Deep when it adopted a "back-to-basics" approach under new management at the beginning of 2015. Key challenges experienced at South Deep include a lack of mechanised skills and availability of machinery.

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.
- Wage and electricity cost inflation.

Outlook: We believe Gold Fields' investment case rests almost solely on its South Deep asset. After many years of variable performance, we believe there is low visibility into this asset's potential. We have a Hold recommendation on Gold Fields as the stock is reasonably valued and we see an equal chance of positive/negative catalysts around South Deep, as well as other unknowns.

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. For CY15 we use a gold price forecast of US$1,033/ounce and a ZAR/USD forecast of 14.90.

Risks: Risks include a better-/worse-than-expected operational performance at South Deep; rate of discoveries/ replenishment of resources and reserves in Australia; the gold price and the ZAR/USD rate.

Model updated:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Gold

Gold Fields

Reuters: GFIJ.J — Bloomberg: GFI SJ

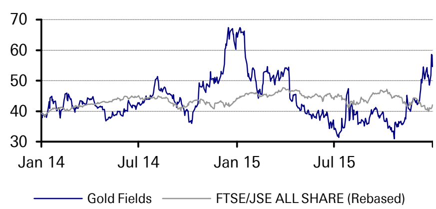
Hold

Price (28 Jan 16)	ZAR 54.65
Target Price	ZAR 40.00
52 Week range	ZAR 31.00 - 67.40
Market Cap (m)	ZARm 42,336
	USDm 2,613

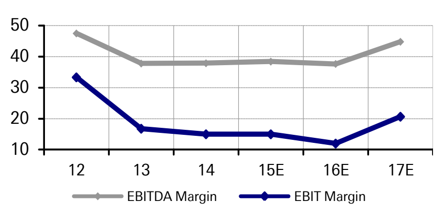
Company Profile

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.2.2Mozpa from Australia, but remains with a primary listing on South Africa's JSE.

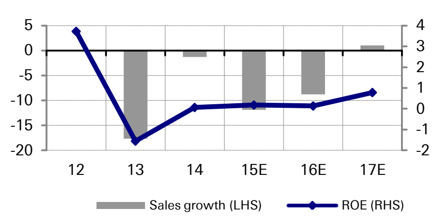
Price Performance



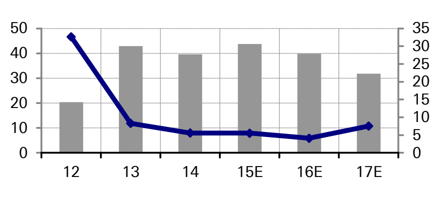
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (USD)	0.61	0.08	0.11	0.07	0.04	0.20
Reported EPS (USD)	0.95	-0.40	0.02	0.05	0.04	0.20
DPS (USD)	0.50	0.02	0.04	0.02	0.01	0.06
BVPS (USD)	8.5	5.3	4.6	4.0	4.0	4.1
Weighted average shares (m)	729	743	769	775	776	776
Average market cap (USDm)	9,698	4,715	3,015	2,613	2,613	2,613
Enterprise value (USDm)	10,683	6,191	4,335	3,882	3,761	3,547
Valuation Metrics						
P/E (DB) (x)	21.7	80.7	35.3	51.3	96.1	16.9
P/E (Reported) (x)	14.0	nm	235.6	72.2	96.1	16.9
P/BV (x)	1.45	0.59	0.99	0.89	0.85	0.82
FCF Yield (%)	2.1	nm	8.1	4.7	5.5	9.4
Dividend Yield (%)	3.8	0.3	0.9	0.6	0.4	1.8
EV/Sales (x)	3.0	2.1	1.5	1.5	1.6	1.5
EV/EBITDA (x)	6.4	5.6	4.0	4.0	4.3	3.4
EV/EBIT (x)	9.1	12.7	10.1	10.3	13.6	7.4
Income Statement (USDm)						
Sales revenue	3,531	2,906	2,869	2,528	2,305	2,330
Gross profit	1,868	1,239	1,191	1,066	971	1,147
EBITDA	1,676	1,098	1,086	970	868	1,044
Depreciation	500	611	657	592	592	563
Amortisation	0	0	0	0	0	0
EBIT	1,177	487	430	378	276	481
Net interest income(expense)	-36	-59	-77	-68	-67	-64
Associates/affiliates	-50	-18	-2	-5	-5	-5
Exceptionals/extraordinaries	204	-647	-126	-32	-16	-16
Other pre-tax income/(expense)	-117	-91	-86	-77	-66	-67
Profit before tax	843	-597	141	201	127	334
Income tax expense	454	-20	118	153	96	170
Minorities	33	-12	8	7	-1	4
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	691	-296	13	36	27	155
DB adjustments (including dilution)	-244	354	73	15	0	0
DB Net profit	447	58	85	51	27	155
Cash Flow (USDm)						
Cash flow from operations	1,441	529	849	740	628	721
Net Capex	-1,239	-729	-604	-617	-485	-476
Free cash flow	203	-200	245	123	144	246
Equity raised/(bought back)	2	1	0	0	0	0
Dividends paid	-376	-62	-40	-20	-23	-28
Net inc/(dec) in borrowings	-40	206	-128	2	0	0
Other investing/financing cash flows	122	-276	56	-44	0	0
Net cash flow	-88	-331	133	61	120	217
Change in working capital	*-120*	*10*	*84*	*79*	*10*	*-1*
Balance Sheet (USDm)						
Cash and other liquid assets	606	325	458	519	640	857
Tangible fixed assets	6,258	5,389	4,896	4,498	4,391	4,303
Goodwill/intangible assets	520	431	386	322	322	322
Associates/investments	278	259	258	244	244	244
Other assets	3,410	892	860	784	774	775
Total assets	11,073	7,296	6,858	6,366	6,370	6,500
Interest bearing debt	1,869	2,060	1,911	1,913	1,913	1,913
Other liabilities	3,013	1,191	1,284	1,267	1,267	1,267
Total liabilities	4,882	3,251	3,194	3,180	3,180	3,180
Shareholders' equity	6,191	4,045	3,539	3,067	3,071	3,198
Minorities	0	0	125	119	119	123
Total shareholders' equity	6,191	4,045	3,663	3,186	3,190	3,320
Net debt	*1,263*	*1,735*	*1,453*	*1,393*	*1,273*	*1,056*
Key Company Metrics						
Sales growth (%)	nm	-17.7	-1.3	-11.9	-8.8	1.1
DB EPS growth (%)	na	-87.2	41.0	-40.7	-46.7	469.2
EBITDA Margin (%)	47.5	37.8	37.9	38.4	37.7	44.8
EBIT Margin (%)	33.3	16.8	15.0	15.0	12.0	20.6
Payout ratio (%)	52.8	nm	222.3	42.8	37.1	30.0
ROE (%)	3.7	-1.6	0.1	0.2	0.1	0.8
Capex/sales (%)	35.1	25.4	21.2	24.5	21.0	20.4
Capex/depreciation (x)	2.5	1.2	0.9	1.0	0.8	0.8
Net debt/equity (%)	20.4	42.9	39.7	43.7	39.9	31.8
Net interest cover (x)	32.6	8.3	5.6	5.5	4.1	7.6

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (28 January 2016): 3143c | Target price: 2500c | Rating: Buy

Harmony Gold Mining Co Ltd

Patrick Mann

Business description: Harmony Gold produces around 1.1m ounces of gold a year from a portfolio of 10 underground mines in South Africa, SA surface ops and a 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 released an updated pre feasibility study (PFS) on the Golpu project in December 2014 and the next step is to release an FS on Stage 1 and PFS on Stage 2. 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 through generating cash from South African assets to provide the balance sheet room to do so.

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, aiming to be debt free to improve Harmony's ability to progress the project. With the rand gold price at close to all-time highs and the 1QFY16 delivering underground grade of 5g/t, as targeted, Harmony is well positioned to do so. A significant risk on the horizon is AMCU's strategy with respect to the gold sector wage agreement signed by the other three unions in 2015. AMCU has refused to sign the agreement and, despite Harmony having a company-wide NUM majority, AMCU is a tail-risk to labour stability in 2016.

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 Buy: the rand gold price has risen sharply and costs are under control; the two factors together will deliver enormous leveraged growth in earnings and cash flow. The rand gold price has moved sharply higher in the final quarter of 2015 while Harmony is a high cost producer with almost all of its production in South Africa. We expect the stock to be volatile and trade on short-term news flow and rand gold price movements. We see a skew to upside catalysts from the weak rand and the outcome of plans to increase grades at SA underground mines. We view the recently released PFS on Golpu (PNG) to have a muted effect on valuation and share price in the short term; as funding will be required for the project and Stage 1 is essentially free cash flow neutral for shareholders as it appears intended to fund the initial infrastructure and development capex.

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 CY16 we use a gold price forecast of US$1,033/ounce and a ZAR/USD forecast of 14.90. 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.

Risks: Downside risks include Harmony's exposure to a rising inflationary environment in South Africa and the resultant pressure on its operating margins, 2015 wage negotiations in South Africa that will continue into 2016, and potential production interruptions from load curtailment as a result of electricity shortages in South Africa. 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. Further downside risks are lower gold prices and stronger ZAR/USD exchange rate.

Model updated:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Gold

Harmony

Reuters: HARJ.J | Bloomberg: HAR SJ

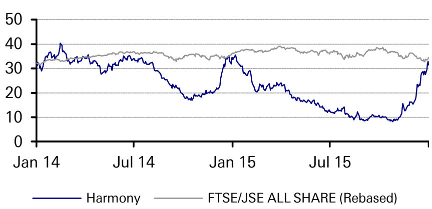
Buy

Price (28 Jan 16)	ZAR 31.43
Target Price	ZAR 25.00
52 Week range	ZAR 8.13 - 35.50
Market Cap (m)	ZARm 13,675
	USDm 844

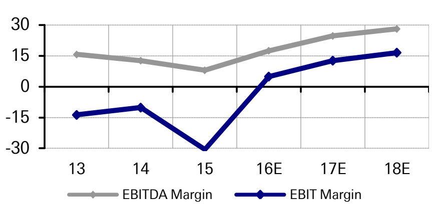
Company Profile

Harmony Gold is a South African based producer of about 1.1moz pa. In South Africa (over 90% of group production) the company has nine underground mines, one open-pit mine and several surface operations. In Papua New Guinea, operations are part of a 50-50 joint venture with Newcrest and comprise one mine (Hidden Valley) and one project (Golpu).

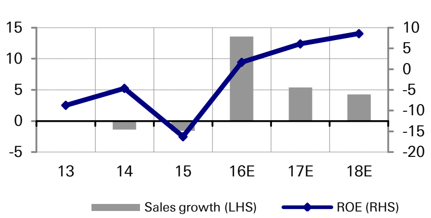
Price Performance



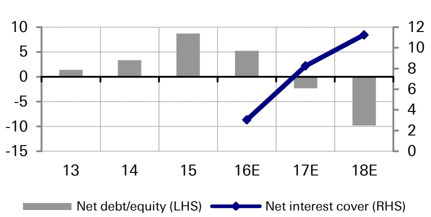
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	0.47	0.26	-1.87	1.05	3.79	5.19
Reported EPS (ZAR)	-5.47	-2.92	-10.35	1.05	3.79	5.19
DPS (ZAR)	0.50	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	74.8	71.7	61.6	63.1	66.9	72.1
Weighted average shares (m)	432	433	434	435	435	435
Average market cap (ZARm)	27,070	14,402	10,862	13,675	13,675	13,675
Enterprise value (ZARm)	27,366	15,429	13,109	15,025	12,922	10,509
Valuation Metrics						
P/E (DB) (x)	132.9	126.9	nm	30.1	8.3	6.1
P/E (Reported) (x)	nm	nm	nm	29.9	8.3	6.1
P/BV (x)	0.48	0.43	0.25	0.50	0.47	0.44
FCF Yield (%)	nm	nm	nm	9.4	14.9	17.1
Dividend Yield (%)	0.8	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	1.7	1.0	0.8	0.9	0.7	0.5
EV/EBITDA (x)	11.0	7.7	10.6	4.9	2.8	1.9
EV/EBIT (x)	nm	nm	nm	17.3	5.5	3.3
Income Statement (ZARm)						
Sales revenue	15,902	15,682	15,435	17,533	18,480	19,266
Gross profit	4,109	3,176	2,325	4,537	5,498	5,955
EBITDA	2,494	1,991	1,235	3,072	4,572	5,419
Depreciation	1,942	2,143	2,472	2,205	2,225	2,223
Amortisation	2,733	1,439	3,471	0	0	0
EBIT	-2,181	-1,591	-4,708	867	2,347	3,196
Net interest income(expense)	-256	-277	-264	-284	-284	-284
Associates/affiliates	0	-108	-25	0	0	0
Exceptionals/extraordinaries	51	37	-481	2	0	0
Other pre-tax income/(expense)	358	390	238	220	228	228
Profit before tax	-2,028	-1,549	-5,240	805	2,291	3,140
Income tax expense	655	-279	-704	348	641	879
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	314	0	0	0	0	0
Net profit	-2,369	-1,270	-4,536	458	1,649	2,261
DB adjustments (including dilution)	2,573	1,384	3,715	-2	0	0
DB Net profit	204	114	-821	456	1,649	2,261
Cash Flow (ZARm)						
Cash flow from operations	2,855	2,138	2,006	3,317	4,197	4,561
Net Capex	-3,713	-2,528	-2,827	-2,037	-2,162	-2,217
Free cash flow	-858	-390	-821	1,280	2,035	2,344
Equity raised/(bought back)	3	0	0	0	0	0
Dividends paid	-435	0	0	0	0	0
Net inc/(dec) in borrowings	345	144	148	300	0	0
Other investing/financing cash flows	1,261	-14	-89	47	68	68
Net cash flow	316	-260	-762	1,627	2,103	2,412
Change in working capital	*16*	*-159*	*259*	*122*	*-42*	*-24*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,089	1,829	1,067	2,694	4,797	7,210
Tangible fixed assets	32,820	33,069	29,548	29,600	29,536	29,530
Goodwill/intangible assets	2,191	886	885	882	882	882
Associates/investments	153	4	85	85	85	85
Other assets	4,971	5,082	4,552	4,624	4,734	4,865
Total assets	42,224	40,870	36,137	37,885	40,035	42,572
Interest bearing debt	2,538	2,860	3,399	4,129	4,129	4,129
Other liabilities	7,380	6,968	5,985	6,287	6,788	7,064
Total liabilities	9,918	9,828	9,384	10,416	10,917	11,193
Shareholders' equity	32,306	31,042	26,753	27,469	29,118	31,379
Minorities	0	0	0	0	0	0
Total shareholders' equity	32,306	31,042	26,753	27,469	29,118	31,379
Net debt	*449*	*1,031*	*2,332*	*1,435*	*-668*	*-3,081*
Key Company Metrics						
Sales growth (%)	nm	-1.4	-1.6	13.6	5.4	4.3
DB EPS growth (%)	na	-44.4	na	na	262.1	37.1
EBITDA Margin (%)	15.7	12.7	8.0	17.5	24.7	28.1
EBIT Margin (%)	-13.7	-10.1	-30.5	4.9	12.7	16.6
Payout ratio (%)	nm	nm	nm	0.0	0.0	0.0
ROE (%)	-8.7	-4.6	-16.3	1.7	6.1	8.6
Capex/sales (%)	23.3	16.1	18.3	11.6	11.7	11.5
Capex/depreciation (x)	1.9	1.2	1.1	0.9	1.0	1.0
Net debt/equity (%)	1.4	3.3	8.7	5.2	-2.3	-9.8
Net interest cover (x)	nm	nm	nm	3.1	8.3	11.3

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (28 January 2016): 3673c | Target price: 2600c | Rating: Hold

Sibanye Gold Ltd

Patrick Mann

Business description: Sibanye Gold is a purely South African-focused company. 2016 is the year in which Sibanye announces its arrival in the South African platinum sector with the acquisition of Aquarius Platinum and Rustenburg Platinum mines (from Amplats) that will make it a significant global producer; although these deals are subject to outstanding conditions precedent such as SA Competition Commission approval and DMR approval, to date all appears to be on track. The company has come a long way since it was unbundled from Gold Fields with three main assets (Kloof, Driefontein and Beatrix). Sibanye delivered efficiency gains and cost savings at these operations and 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 before the strategic decision to enter platinum. Sibanye's strategy is underpinned by its desire 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 sustainability of dividends given corporate action is balanced by the potential for higher-than-expected dividend payouts as a result of the company's strong cash flow generation from gold-assets at spot rand gold prices.

Drivers: Key value drivers for Sibanye include:

- The gold price, PGM prices and the ZAR/USD exchange rate.
- Conclusion of in process M&A activity and the potential for further corporate action.
- 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: In its gold business, Sibanye should be able to deliver its free cash flow driven strategy at both spot rand gold and the rand gold price environment that DB forecasts. In platinum, the acquisitions it is making (Aquarius, 1H16; and Rustenburg, expected end CY16) provide entry into an industry where we see attractive longer term fundamentals and forecast rising rand PGM prices. Sibanye, with a stronger balance sheet and cash inflows from gold, is in a unique position to weather the current low rand PGM prices and sustain its position in the platinum sector. We see a balance of upside/downside risks at the current share price: Hold.

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 CY16 we use a gold price forecast of US$1,033/ounce; a platinum price forecast of US$933/oz; and a ZAR/USD forecast of 14.90.

Risks: Upside/downside risks include: substantially different cash flows from base case estimates as a result of further corporate action and/or investments in projects in the pipeline; rand and PGM prices different to forecasts; entry into new commodity-production markets (such as coal) also poses both an upside and downside risk to valuation. Downside risks exist from production interruptions from safety incidents and labour relations unrest.

Model updated:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Mining

Sibanye Gold

Reuters: SGLJ.J Bloomberg: SGL SJ

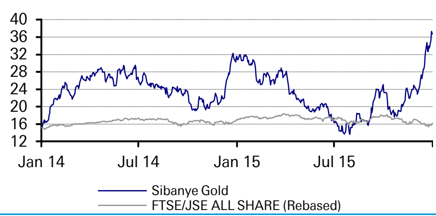
Hold

Price (28 Jan 16)	ZAR 36.73
Target Price	ZAR 26.00
52 Week range	ZAR 13.66 - 37.35
Market Cap (m)	ZARm 33,483
	USDm 2,066

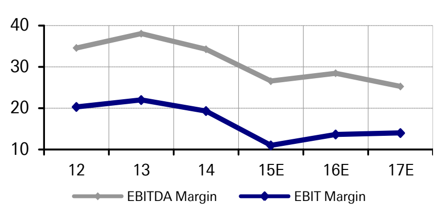
Company Profile

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

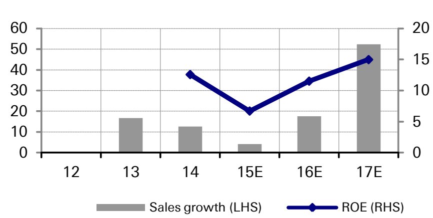
Price Performance



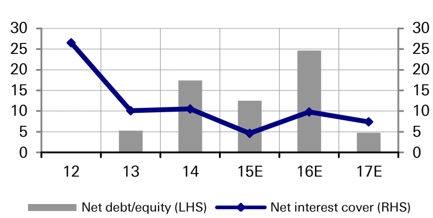
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	2.55	3.15	1.68	1.10	2.01	3.00
Reported EPS (ZAR)	2.55	2.30	1.84	1.11	2.01	3.00
DPS (ZAR)	0.00	1.12	1.12	0.45	0.70	1.05
BVPS (ZAR)	-9.7	12.8	16.7	16.7	18.1	21.9
Weighted average shares (m)	1,000	734	836	912	914	914
Average market cap (ZARm)	na	8,128	19,430	33,483	33,483	33,483
Enterprise value (ZARm)	na	8,114	21,742	35,235	37,276	34,047
Valuation Metrics						
P/E (DB) (x)	na	3.5	13.9	33.3	18.3	12.3
P/E (Reported) (x)	na	4.8	12.6	33.0	18.3	12.3
P/BV (x)	nm	0.96	1.35	2.20	2.03	1.68
FCF Yield (%)	na	46.1	9.4	4.3	5.7	7.2
Dividend Yield (%)	na	10.1	4.8	1.2	1.9	2.9
EV/Sales (x)	nm	0.4	1.0	1.6	1.4	0.8
EV/EBITDA (x)	nm	1.1	2.9	5.8	4.9	3.3
EV/EBIT (x)	nm	1.9	5.2	14.1	10.2	6.0
Income Statement (ZARm)						
Sales revenue	16,554	19,331	21,781	22,692	26,679	40,630
Gross profit	5,730	7,358	7,469	6,028	7,602	10,274
EBITDA	5,730	7,358	7,469	6,028	7,602	10,274
Depreciation	2,363	3,104	3,255	3,524	3,952	4,576
Amortisation	0	0	0	0	0	0
EBIT	3,367	4,254	4,214	2,504	3,651	5,699
Net interest income(expense)	-127	-420	-400	-542	-372	-767
Associates/affiliates	93	52	-471	95	105	114
Exceptionals/extraordinaries	124	-1,294	-63	-207	-62	0
Other pre-tax income/(expense)	-544	-636	-960	-588	-651	-1,030
Profit before tax	2,914	1,955	2,320	1,263	2,671	4,016
Income tax expense	365	256	828	370	801	1,205
Minorities	1	6	-45	-122	37	71
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,548	1,692	1,536	1,016	1,833	2,740
DB adjustments (including dilution)	-2	617	-134	-10	0	0
DB Net profit	2,546	2,310	1,402	1,006	1,833	2,740
Cash Flow (ZARm)						
Cash flow from operations	3,352	6,632	5,058	4,957	6,012	7,568
Net Capex	-3,102	-2,889	-3,228	-3,510	-4,115	-5,154
Free cash flow	250	3,744	1,830	1,446	1,897	2,415
Equity raised/(bought back)	0	17,246	0	0	0	1,500
Dividends paid	-731	-272	-1,005	-658	-642	-800
Net inc/(dec) in borrowings	-52	-19,328	-673	450	3,950	0
Other investing/financing cash flows	462	-189	-1,081	0	-3,404	0
Net cash flow	-72	1,201	-930	1,238	1,801	3,115
Change in working capital	*-648*	*569*	*215*	*379*	*277*	*275*
Balance Sheet (ZARm)						
Cash and other liquid assets	292	1,492	563	1,801	3,602	6,717
Tangible fixed assets	16,376	15,151	22,704	22,695	26,241	26,798
Goodwill/intangible assets	0	0	737	737	737	737
Associates/investments	220	515	295	165	271	386
Other assets	2,810	2,837	3,623	4,021	4,355	5,417
Total assets	19,698	19,995	27,922	29,417	35,206	40,055
Interest bearing debt	2,000	1,991	3,170	3,716	7,666	7,666
Other liabilities	27,370	8,581	9,766	10,420	11,031	12,368
Total liabilities	29,370	10,572	12,936	14,136	18,697	20,034
Shareholders' equity	-9,673	9,421	14,986	15,287	16,516	20,027
Minorities	0	2	0	0	0	0
Total shareholders' equity	-9,673	9,423	14,986	15,287	16,516	20,027
Net debt	*1,708*	*499*	*2,607*	*1,916*	*4,064*	*950*
Key Company Metrics						
Sales growth (%)	nm	16.8	12.7	4.2	17.6	52.3
DB EPS growth (%)	na	23.5	-46.7	-34.2	81.8	49.5
EBITDA Margin (%)	34.6	38.1	34.3	26.6	28.5	25.3
EBIT Margin (%)	20.3	22.0	19.3	11.0	13.7	14.0
Payout ratio (%)	0.0	48.6	60.9	40.6	35.0	35.0
ROE (%)	nm	nm	12.6	6.7	11.5	15.0
Capex/sales (%)	18.8	15.0	14.9	15.5	15.4	12.7
Capex/depreciation (x)	1.3	0.9	1.0	1.0	1.0	1.1
Net debt/equity (%)	nm	5.3	17.4	12.5	24.6	4.7
Net interest cover (x)	26.5	10.1	10.5	4.6	9.8	7.4

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (29 January 2016): 23141c | Target price: 17000c | Rating: Hold

Anglo American Platinum Ltd

Patrick Mann

Business description: Amplats is the world's largest platinum miner, with nine mining complexes owned or JVd, three smelting complexes, a base metal refinery and a precious metal refinery. Amplats has prioritised capital allocation and the disposal of non-core mining assets in the current low price environment. Major project capital decisions have been deferred until at least 2017. The Rustenburg mining complex assets (mines and concentrators) are in the process of being sold to Sibanye; the Union mine is up for disposal and interests in operations such as Atlatsa's Bokoni mine and Pandora are regarded as non-core. Amplats is focusing on its open-pit and mechanised operations; operations that have the potential to be mechanised; and its downstream business (smelting, refining and marketing). Amplats is also focusing on stringent cost control and its next phase of restructuring is targeted at regional managerial layers to reduce costs further and keep cash conservation as a key focus.

Amplats' open-cast Mogalakwena mine is a flagship operation and provides a significant value underpin for the group. Platinum group metals (PGM) production at Mogalakwena is complemented by significant production of nickel by-product. Palladium (a metal for which fundamentals are the strongest of the PGMs) is also produced in a far higher ratio than industry-average at this operation. Amplats' main competitors include Impala (gross platinum production of c.1.5moz pa) and Lonmin (total platinum production of ±0.7mozpa). The industry is concentrated 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 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 from an asset perspective, due both to its broad range of assets by type as well as its ownership of the most PGM resources and reserves of all producers. However, in the current low price environment, its defensive properties have led to a rich valuation relative to peers and we view it as fairly valued on balanced risk-reward. Its defensive qualities are largely attributable to 1) the flagship open-cast Mogalakwena mine on the Northern Limb of South Africa's Bushveld Complex (a key asset firmly entrenched at the lower end of the cost-curve) and 2) exposure to low-cost mechanised production, mainly through JVs, giving it an attractive range of options for a shift in production mix. Hold.

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 CY16 we use a platinum price forecast of US$933/ounce and a ZAR/USD forecast of R14.90.

Risks: Upside/downside risks to our view include: a disposal price for Union higher/lower than our NPV valuation; higher/lower than forecast production from Mogalakwena; higher/lower than forecast capex required at key assets. Downside-specific risks include a capital raise should spot prices persist for longer than we anticipate; underspending on capex impairing the longer term production base, operational difficulties that could be encountered as a result of the electricity shortage in South Africa leading to load-curtailment, disruptions from labour unrest and strikes related to union rivalry in South Africa. Both upside and downside risks are posed by the company's management of cost inflation and restructuring; as well as rand PGM prices, among others.

Model updated:25 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Amplats

Reuters: AMSJ.J Bloomberg: AMS SJ

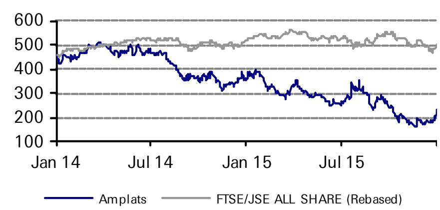
Hold

Price (29 Jan 16)	ZAR 231.41
Target Price	ZAR 170.00
52 Week range	ZAR 165.08 - 393.00
Market Cap (m)	ZARm 60,444
	USDm 3,803

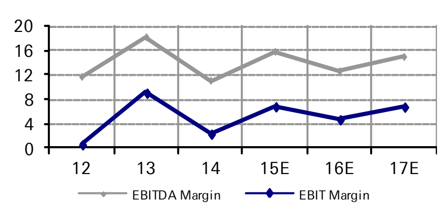
Company Profile

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 Aquarius Platinum, ARM, and Xstrata in four 50:50 JV mines. Amplats has interests in Bokoni and BRPM mines 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.

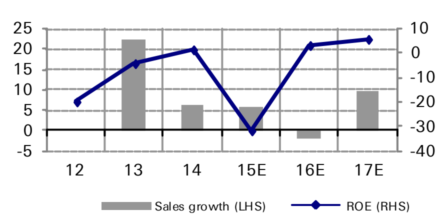
Price Performance



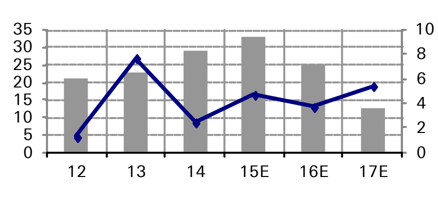
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	-5.62	5.56	3.01	0.37	5.53	9.79
Reported EPS (ZAR)	-25.58	-5.25	2.39	-46.36	5.53	9.79
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	190.9	186.6	189.7	145.3	149.7	169.3
Weighted average shares (m)	261	261	261	261	261	261
Average market cap (ZARm)	123,059	99,997	112,660	60,444	60,444	60,444
Enterprise value (ZARm)	122,969	101,341	116,311	69,424	66,825	62,324
Valuation Metrics						
P/E (DB) (x)	nm	68.9	143.3	624.1	41.8	23.6
P/E (Reported) (x)	nm	nm	180.5	nm	41.8	23.6
P/BV (x)	2.34	2.11	1.80	1.59	1.55	1.37
FCF Yield (%)	nm	nm	nm	4.1	4.7	8.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	2.9	1.9	2.1	1.2	1.2	1.0
EV/EBITDA (x)	24.5	10.6	18.9	7.4	9.1	6.5
EV/EBIT (x)	452.1	21.2	87.9	17.1	24.3	14.3
Income Statement (ZARm)						
Sales revenue	42,838	52,404	55,612	58,952	57,898	63,630
Gross profit	5,637	10,970	7,482	11,069	8,293	10,516
EBITDA	5,019	9,556	6,161	9,336	7,316	9,539
Depreciation	4,747	4,774	4,838	5,277	4,568	5,189
Amortisation	0	0	0	0	0	0
EBIT	272	4,782	1,323	4,059	2,748	4,350
Net interest income(expense)	-215	-618	-537	-858	-737	-799
Associates/affiliates	-659	-298	-128	-270	0	0
Exceptionals/extraordinaries	-7,069	-2,356	-405	-15,208	0	0
Other pre-tax income/(expense)	54	-833	201	-2,735	0	0
Profit before tax	-7,617	677	454	-15,012	2,011	3,551
Income tax expense	-897	2,191	82	-2,761	566	994
Minorities	-43	-144	-252	-142	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-6,677	-1,370	624	-12,109	1,445	2,557
DB adjustments (including dilution)	5,209	2,821	162	12,206	0	0
DB Net profit	-1,468	1,451	786	97	1,445	2,557
Cash Flow (ZARm)						
Cash flow from operations	1,925	6,120	4,713	7,895	6,407	9,677
Net Capex	-7,085	-6,234	-6,827	-5,413	-3,560	-4,863
Free cash flow	-5,160	-114	-2,114	2,482	2,847	4,813
Equity raised/(bought back)	-236	8	-327	-124	-124	-124
Dividends paid	-590	-35	-84	-114	-127	-193
Net inc/(dec) in borrowings	6,706	-50	3,204	-535	-500	-2,000
Other investing/financing cash flows	-842	-821	-639	-291	4	4
Net cash flow	-122	-1,012	40	1,418	2,100	2,501
Change in working capital	*-3,313*	*-3,019*	*1,290*	*470*	*-92*	*1,425*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,174	1,162	1,202	2,620	4,720	7,221
Tangible fixed assets	53,095	53,108	55,033	45,053	44,045	43,720
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	10,861	10,238	10,757	3,286	3,286	3,286
Other assets	19,817	24,519	23,007	21,517	21,986	21,300
Total assets	85,947	89,027	89,999	72,476	74,038	75,526
Interest bearing debt	12,665	12,618	15,820	15,285	14,785	12,785
Other liabilities	23,182	26,401	23,653	18,732	19,599	17,848
Total liabilities	35,847	39,019	39,473	34,017	34,384	30,633
Shareholders' equity	49,820	49,882	50,736	38,859	40,054	45,294
Minorities	280	126	-210	-399	-399	-399
Total shareholders' equity	50,100	50,008	50,526	38,460	39,655	44,895
Net debt	*10,491*	*11,456*	*14,618*	*12,665*	*10,065*	*5,564*
Key Company Metrics						
Sales growth (%)	nm	22.3	6.1	6.0	-1.8	9.9
DB EPS growth (%)	na	na	-45.9	-87.7	1,392.2	76.9
EBITDA Margin (%)	11.7	18.2	11.1	15.8	12.6	15.0
EBIT Margin (%)	0.6	9.1	2.4	6.9	4.7	6.8
Payout ratio (%)	nm	nm	0.0	nm	0.0	0.0
ROE (%)	-19.6	-3.9	1.7	-31.4	3.5	6.0
Capex/sales (%)	16.8	12.1	12.3	9.2	8.7	7.8
Capex/depreciation (x)	1.5	1.3	1.4	1.0	1.1	1.0
Net debt/equity (%)	20.9	22.9	28.9	32.9	25.4	12.4
Net interest cover (x)	1.3	7.7	2.5	4.7	3.7	5.4

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (29 January 2016): 287c | Target price: 285c | Rating: Buy

Aquarius Platinum Ltd

Patrick Mann

Business description: Aquarius shareholders have approved a purchase offer of c.US$300m (0.195 US¢ps) for the entire share capital from Sibanye. The main condition outstanding is Competition authorities (in South Africa) approval; post which the transaction should be concluded and Aquarius delisted in 1H16 (preliminary timing suggests early April 2016). Aquarius' primary assets comprise a 100% holding in Aquarius Platinum South Africa (that in turn holds 50% shareholdings in Kroondal (50/50 with Amplats) and a 50% stake in Mimosa (a Zimbabwean mine, co-owned by Implats) and a 92% stake in Platinum Mile (tailings re-treatment). Aquarius' attributable production is c.250kozpa (platinum). Aquarius sells its concentrate to the majors (Amplats and Impala) for a percentage of the value of metal contained in the concentrate (we estimate at 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); but integration with the Amplats' Rustenburg assets being acquired by Sibanye will extend the life-of-mine by making contiguous resources available and optimising the use of existing surface infrastructure. 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:

- Successful completion of Sibanye's purchase.
- ZAR/USD exchange rate.
- Platinum group metals (PGM) prices, mainly platinum, palladium, and rhodium.
- Wage and electricity cost inflation.
- Zimbabwean regulatory environment situation and changes.

Outlook: We have a Buy recommendation on Aquarius for three main reasons: (i) Kroondal is running at above nameplate, ensuring maximum operating cash flow; (ii) the significant increase in cash held by Aquarius, from the sale of Everest for R450m to Northam, the sale of another non-core asset, a rights issue and the delivery of corporate cost savings; (iii) the successful repurchase of convertible debt due end 2015 – we think the early timing of preparing the balance sheet for this was sensible, alleviating pressure in a tough operating environment. Sibanye Gold bid US$294m for the entire issued share capital of Aquarius Platinum on 6 October 2015. On a per share basis, this is 19.5 US¢, a 60.3% premium to AQP's closing price on 5 October. The offer has been unanimously recommended by the Aquarius board and is subject to a shareholder vote in January 2016.

Valuation: Sibanye Gold has offered US$294m in cash for Aquarius' equity. We think this will be a cap for the share price and we set our target price at the offer price of 12.9 GBp per share.

Risks: The downside risk to our price target is a failure of Sibanye's bid for Aquarius. The bid is subject to a vote by Aquarius shareholders and also needs the approvals of the South African Competition Commission and Competition Tribunal. Competition Approval is expected to be obtained by the end of March 2016 and, subject to Aquarius shareholders approving the transaction, completion of the deal should take place by the end of April 2016.

Model updated:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Aquarius Platinum

Reuters: AQPJ.J Bloomberg: AQP SJ

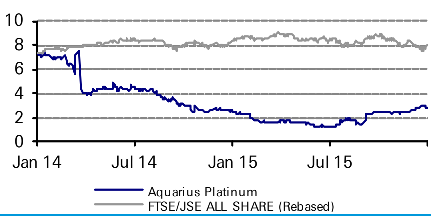
Buy

Price (29 Jan 16)	ZAR 2.87
Target Price	ZAR 2.85
52 Week range	ZAR 1.17 - 3.02
Market Cap (m)	ZARm 4,320
	USDm 272

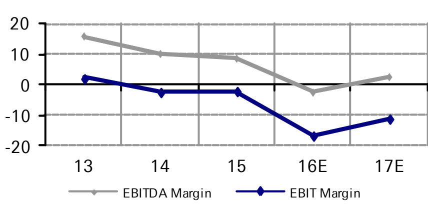
Company Profile

Aquarius Platinum Limited 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 mine and a tailing retreatment facility in South Africa. The company also has a 50% stake in the Mimosa Platinum Mine in Zimbabwe. Aquarius is under cash offer from Sibanye, with the board recommending the offer be accepted.

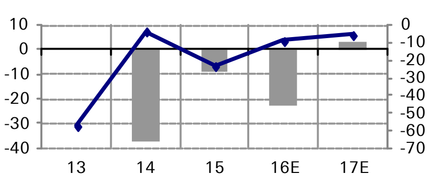
Price Performance



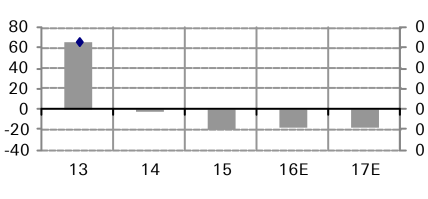
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E
Financial Summary					
DB EPS (USD)	-0.11	-0.01	-0.03	-0.02	-0.01
Reported EPS (USD)	-0.58	-0.01	-0.07	-0.02	-0.01
DPS (USD)	0.00	0.00	0.00	0.00	0.00
BVPS (USD)	0.6	0.5	0.2	0.2	0.2
Weighted average shares (m)	480	943	1,461	1,505	1,505
Average market cap (USDm)	353	600	352	272	272
Enterprise value (USDm)	547	583	282	207	210
Valuation Metrics					
P/E (DB) (x)	nm	nm	nm	nm	nm
P/E (Reported) (x)	nm	nm	nm	nm	nm
P/BV (x)	1.00	0.80	0.45	0.80	0.84
FCF Yield (%)	nm	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	1.5	2.5	1.3	1.3	1.2
EV/EBITDA (x)	9.2	24.6	15.3	nm	47.4
EV/EBIT (x)	66.3	nm	nm	nm	nm
Income Statement (USDm)					
Sales revenue	373	233	213	165	171
Gross profit	74	31	25	0	9
EBITDA	60	24	18	-4	4
Depreciation	51	29	23	23	23
Amortisation	0	0	0	0	0
EBIT	8	-5	-4	-27	-19
Net interest income(expense)	-31	-28	-15	-11	-3
Associates/affiliates	0	5	-48	-8	-5
Exceptionals/extraordinaries	-281	-2	-9	0	0
Other pre-tax income/(expense)	-21	18	-14	0	0
Profit before tax	-324	-13	-90	-46	-27
Income tax expense	-44	1	8	-15	-8
Minorities	-1	0	-2	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	-279	-13	-96	-31	-18
DB adjustments (including dilution)	226	2	46	0	0
DB Net profit	-53	-11	-51	-31	-18
Cash Flow (USDm)					
Cash flow from operations	8	21	18	8	13
Net Capex	-54	-28	-23	-16	-16
Free cash flow	-45	-7	-5	-8	-3
Equity raised/(bought back)	0	218	-1	0	0
Dividends paid	0	0	0	0	0
Net inc/(dec) in borrowings	-10	-1	2	-124	0
Other investing/financing cash flows	-22	26	72	4	0
Net cash flow	-77	236	67	-128	-3
Change in working capital	*-4*	*-43*	*0*	*0*	*0*
Balance Sheet (USDm)					
Cash and other liquid assets	103	137	196	68	65
Tangible fixed assets	261	100	101	94	87
Goodwill/intangible assets	59	54	18	18	18
Associates/investments	0	230	151	143	138
Other assets	341	196	129	129	129
Total assets	765	717	594	451	436
Interest bearing debt	300	120	127	3	3
Other liabilities	168	123	110	110	110
Total liabilities	468	244	237	113	113
Shareholders' equity	297	474	357	339	323
Minorities	0	0	0	0	0
Total shareholders' equity	297	474	357	339	323
Net debt	*197*	*-17*	*-69*	*-65*	*-62*
Key Company Metrics					
Sales growth (%)	nm	-37.6	-8.6	-22.5	3.5
DB EPS growth (%)	na	89.8	-207.1	40.7	41.3
EBITDA Margin (%)	15.9	10.2	8.7	-2.5	2.6
EBIT Margin (%)	2.2	-2.3	-1.9	-16.5	-11.0
Payout ratio (%)	nm	nm	nm	nm	nm
ROE (%)	-57.3	-3.4	-23.2	-8.9	-5.5
Capex/sales (%)	14.4	12.0	10.9	9.9	9.4
Capex/depreciation (x)	1.0	1.0	1.0	0.7	0.7
Net debt/equity (%)	66.4	-3.5	-19.3	-19.1	-19.1
Net interest cover (x)	0.3	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (29 January 2016): 3288c | Target price: 4000c | Rating: Buy

Impala Platinum Holdings Ltd

Patrick Mann

Business description: Impala Platinum is the world's second largest platinum miner with production of gross refined platinum of c.1,475koz in the year to June 2015E. The company is recovering from the severe disruptions of the five month platinum sector strike in 2014. 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 Lease produces significantly less per annum than its historical rates of c.1mozpa and is targeting 815-830kozpa by 2020 as Impala focuses on its most profitable production and places less emphasis on fixed production targets. 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 development and falling productivity levels. This mine's successful recovery is highly dependent on two new vertical shafts ramping up as intended as older shafts deplete; to this end Impala raised R4bn in equity in 2HCY15 to fund the remaining capex on 16- and 20-shaft. 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 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.
- Platinum group metal (PGM) prices, mainly platinum, palladium, and rhodium.
- Successful delivery of 16- and 20-shaft at the Lease Area.
- Wage and electricity cost inflation.
- Zimbabwean regulatory environment situation and changes.

Outlook: Impala's flagship Lease Area mine, which produced over 1mozpa from 1996 through to 2009, could reclaim its prestige and become the biggest single platinum mine by 2020 if it achieves its planned ramp-up to 815-830kozpa. We believe negatives to be largely priced in and that rising prices and production growth (albeit off of a low-base) from the Lease Area will provide a catalyst for the shares over the next 12 months. Buy.

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 only 49% of Impala's ownership in these mines. For CY15 we use a platinum price forecast of US$933/ounce and a ZAR/USD forecast of 14.90.

Risks: Risks include: lower-than-forecast rand PGM prices; a liquidity crunch should spot prices persist for longer than forecast; strikes or production interruptions, including those related to load-curtailment as a result of electricity shortages in South Africa; deterioration in safety trends leading to increased production stoppages; higher-than-expected mining cost inflation; further delays to the roll out of new vertical shafts at the Lease Area (specifically 16- and 20-shafts). Risks relating to the Zimbabwean regulatory environment include: an unfavourable outcome on indigenisation agreements and/or valuation; further mining taxes and levies that may be imposed; a ban on the export of material for further processing in South Africa; and increased government pressure for Impala to contribute to the capital costs of a precious metals refinery in Zimbabwe.

Model updated:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Impala Platinum

Reuters: IMPJ.J | Bloomberg: IMP SJ

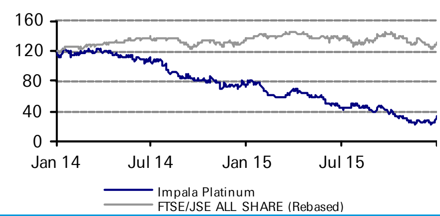
Buy

Price (29 Jan 16)	ZAR 32.88
Target Price	ZAR 40.00
52 Week range	ZAR 23.24 - 81.60
Market Cap (m)	ZARm 23,333
	USDm 1,468

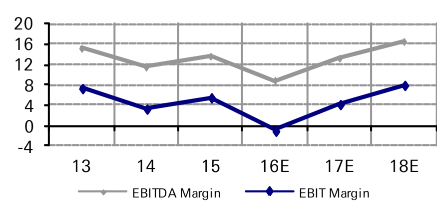
Company Profile

Impala Platinum owns and operates the Impala mine on the Western Limb of SA's Bushveld Complex. The mine is commissioning two new shafts in a bid to ramp-up to c.815-830kozpa Pt by 2020. On the Eastern Limb, it owns and operates 73% of the Marula mine and 49% of Two Rivers, managed by JV partner ARM. In Zimbabwe, Impala owns and operates 87% of the Zimplats mine, ramping up to 260koz pa Pt in 2016, and 50% of the Mimosa mine with JV partner Aquarius. Impala also provides refining services for precious and base metal producers.

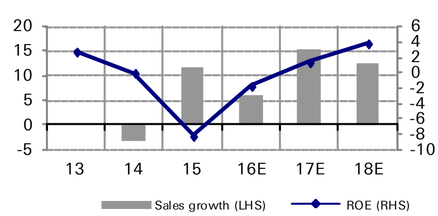
Price Performance



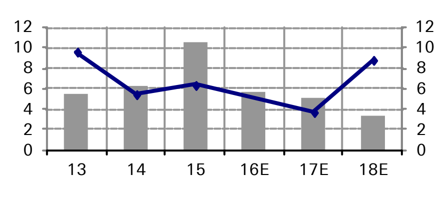
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	3.30	0.86	0.36	-1.06	0.88	2.74
Reported EPS (ZAR)	1.68	0.01	-6.02	-1.06	0.88	2.74
DPS (ZAR)	0.95	0.00	0.00	0.00	0.00	0.78
BVPS (ZAR)	85.8	86.3	82.5	75.2	76.1	78.3
Weighted average shares (m)	607	607	607	710	710	710
Average market cap (ZARm)	82,849	70,441	48,182	23,333	23,333	23,333
Enterprise value (ZARm)	87,107	73,093	52,117	25,230	25,247	24,606
Valuation Metrics						
P/E (DB) (x)	41.4	134.7	218.5	nm	37.3	12.0
P/E (Reported) (x)	81.1	nm	nm	nm	37.3	12.0
P/BV (x)	1.08	1.24	0.66	0.44	0.43	0.42
FCF Yield (%)	nm	nm	nm	nm	0.6	5.0
Dividend Yield (%)	0.7	0.0	0.0	0.0	0.0	2.4
EV/Sales (x)	2.9	2.5	1.6	0.7	0.6	0.6
EV/EBITDA (x)	19.2	22.0	11.8	8.3	4.8	3.3
EV/EBIT (x)	39.2	74.7	28.7	nm	14.9	6.9
Income Statement (ZARm)						
Sales revenue	30,032	29,028	32,477	34,422	39,729	44,656
Gross profit	7,214	5,583	4,221	4,054	6,352	8,613
EBITDA	4,538	3,320	4,411	3,041	5,241	7,356
Depreciation	2,314	2,341	2,593	3,377	3,546	3,767
Amortisation	0	0	0	0	0	0
EBIT	2,224	979	1,818	-336	1,695	3,589
Net interest income(expense)	-230	-178	-284	-517	-451	-405
Associates/affiliates	163	365	377	-362	-231	-40
Exceptionals/extraordinaries	0	-1,000	-5,847	0	0	0
Other pre-tax income/(expense)	242	-151	-420	0	0	0
Profit before tax	2,399	15	-4,356	-1,216	1,012	3,144
Income tax expense	1,476	144	-217	-365	304	943
Minorities	-99	-137	-476	-98	81	253
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,022	8	-3,663	-753	627	1,948
DB adjustments (including dilution)	979	515	3,884	0	0	0
DB Net profit	2,001	523	221	-753	627	1,948
Cash Flow (ZARm)						
Cash flow from operations	5,786	4,096	2,328	2,501	4,507	6,042
Net Capex	-6,258	-4,436	-4,466	-4,330	-4,363	-4,876
Free cash flow	-472	-340	-2,138	-1,829	144	1,166
Equity raised/(bought back)	36	8	1	4,000	0	0
Dividends paid	-580	-371	-10	0	0	-371
Net inc/(dec) in borrowings	4,466	-16	-264	-497	-522	0
Other investing/financing cash flows	308	911	703	132	152	164
Net cash flow	3,758	192	-1,708	1,806	-226	959
Change in working capital	*-487*	*1,649*	*338*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	5,308	4,305	2,597	4,403	4,177	5,135
Tangible fixed assets	50,263	50,276	47,633	48,586	49,403	50,512
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	1,335	3,380	3,802	3,440	3,208	3,144
Other assets	23,813	21,906	23,183	23,183	23,183	23,183
Total assets	80,719	79,867	77,215	79,611	79,971	81,974
Interest bearing debt	8,322	7,787	8,076	7,579	7,057	7,057
Other liabilities	17,781	17,163	16,777	16,501	16,674	16,847
Total liabilities	26,103	24,950	24,853	24,080	23,731	23,904
Shareholders' equity	52,037	52,367	50,104	53,351	53,978	55,555
Minorities	2,579	2,550	2,258	2,160	2,242	2,495
Total shareholders' equity	54,616	54,917	52,362	55,511	56,219	58,049
Net debt	*3,014*	*3,482*	*5,479*	*3,176*	*2,881*	*1,922*
Key Company Metrics						
Sales growth (%)	nm	-3.3	11.9	6.0	15.4	12.4
DB EPS growth (%)	na	-73.9	-57.9	na	na	210.7
EBITDA Margin (%)	15.1	11.4	13.6	8.8	13.2	16.5
EBIT Margin (%)	7.4	3.4	5.6	-1.0	4.3	8.0
Payout ratio (%)	56.4	0.0	nm	nm	0.0	28.6
ROE (%)	2.8	0.0	-8.2	-1.7	1.4	3.9
Capex/sales (%)	21.2	15.5	13.9	12.6	11.0	10.9
Capex/depreciation (x)	2.7	1.9	1.7	1.3	1.2	1.3
Net debt/equity (%)	5.5	6.3	10.5	5.7	5.1	3.3
Net interest cover (x)	9.7	5.5	6.4	nm	3.8	8.9

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (29 January 2016): 1190c | Target price: 1000c | Rating: Sell

Lonmin plc

Patrick Mann

Business description: Lonmin is the third largest platinum producer in the world. Lonmin's assets consist primarily of an effective 86% holding in its South African subsidiary, Lonplats, which owns the group's Marikana mine and processing assets. Other assets include its Limpopo assets and the Akanani project. Lonmin recently completed an enormously discounted US$400m rights issue priced at 1 GBpps (December 2015) as it struggles to contend with low platinum group metals (PGM) prices. Lonmin has implemented a restructuring plan to reduce platinum production by 100kozpa to c.650kozpa on a sustainable basis while aiming to hold unit costs flat in nominal terms by cutting higher cost production. This plan, however, does require significant improvements in efficiency, including an improvement in labour productivity. This latest rights issues follows Lonmin's US$800m rights issue in 2012. At this stage, it implemented a "Renewal Plan" following the 2012 labour unrest and associated events. Lonmin managed through the extended stoppage at its operations during the five month platinum sector strike in 2014 and operations recovered relatively well with the company returning to normal levels of production in 1Q15. Despite hitting its operational targets, its balance sheet has been unable to weather the prolonged downturn in PGM prices in 2015. Lonmin is also currently operating on low levels of capex (while it has stated US$250m is a sustainable level p.a.).

Drivers: Key value drivers for Lonmin include:

- ZAR/USD exchange rate.
- Labour productivity and risks of labour disruption in upcoming wage negotiations in 2016.
- PGM prices, mainly platinum, palladium, and rhodium.
- Wage and electricity cost inflation.

Outlook: As a marginal producer, our price forecasts (based on marginal costs) leave Lonmin leaking cash slowly but steadily over time. Lonmin's position as the marginal producer with a single mine complex also leaves the group's balance sheet vulnerable to both operational risks (strikes, safety stoppages, operational failures) as well as to prices declining further. We believe higher-than-forecast prices (i.e. above marginal cost) are unlikely in the medium term given the well-supplied PGM metals market, and alternative sources of metal for end-users from recycling and above-ground stocks. Lonmin has performed operationally, assisted by its high ore reserve availability, and has no further obvious levers to pull in our view. Management has already made the tough decision to lower production: output from the Marikana complex will reduce by 100koz to 650kozpa over FY16 and FY17 as the Hossy and Newman shafts are closed and some of the smaller, contractor-operated mines are put onto care-and-maintenance. We see a concentration of downside risks to being exposed to the high-cost producer in an industry under pressure, and with low-prices expected to persist for the medium term we have a Sell recommendation.

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%).

Risks: Risks include a weaker-than-expected rand and/or higher-than-expected PGM prices leading to stronger-than-forecast cash flow, taking pressure off the balance sheet. Additional risks include corporate action or an approach for Lonmin given its distressed position; better-than-expected production as a result of unexpected improvements in productivity; grades; recoveries or a combination of the above.

Model updated:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Lonmin Plc

Reuters: LONJ.J Bloomberg: LON SJ

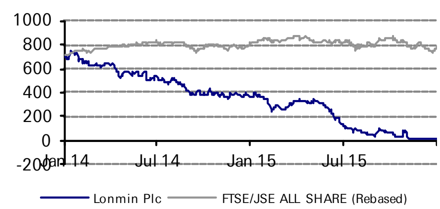
Sell

Price (29 Jan 16)	ZAR 11.90
Target Price	ZAR 10.00
52 Week range	ZAR 8.70 - 401.88
Market Cap (m)	ZARm 7,017
	USDm 441

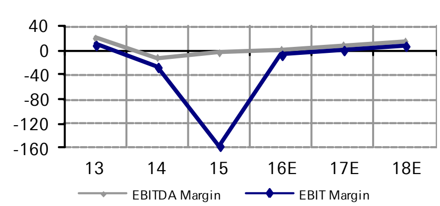
Company Profile

Lonmin specialises in the mining of PGMs (platinum group metals). The group operates a number of platinum mines, concentrators, smelters and a refinery in its core Marikana operations, all situated in the Bushveld Igneous Complex of South Africa. The company's target is to produce 700koz in FY16, and 650kozpa in the two years thereafter.

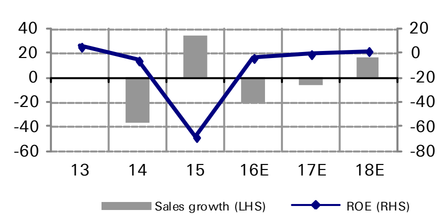
Price Performance



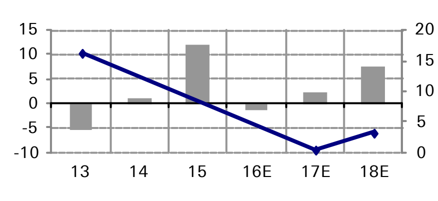
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 30-Sep	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (USD)	0.20	0.05	-0.16	-0.11	-0.03	0.14
Reported EPS (USD)	0.31	-0.33	-2.86	-0.11	-0.03	0.14
DPS (USD)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (USD)	6.4	5.7	2.8	3.2	6.7	6.9
Weighted average shares (m)	532	570	582	590	282	282
Average market cap (USDm)	31,245	32,518	14,024	441	441	441
Enterprise value (USDm)	30,779	32,304	13,953	132	175	258
Valuation Metrics						
P/E (DB) (x)	287.8	nm	nm	nm	nm	5.2
P/E (Reported) (x)	189.0	nm	nm	nm	nm	5.2
P/BV (x)	10.11	6.60	1.13	0.23	0.11	0.11
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	20.2	33.5	10.8	0.1	0.2	0.2
EV/EBITDA (x)	101.2	nm	nm	8.9	2.1	1.5
EV/EBIT (x)	209.4	nm	nm	nm	13.3	2.8
Income Statement (USDm)						
Sales revenue	1,520	965	1,293	1,016	951	1,107
Gross profit	304	-113	-52	15	84	168
EBITDA	304	-113	-52	15	84	168
Depreciation	157	142	1,966	81	71	75
Amortisation	0	0	0	0	0	0
EBIT	147	-255	-2,018	-67	13	93
Net interest income(expense)	-9	-64	-239	-34	-27	-29
Associates/affiliates	4	-6	-5	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-2	-1	0	0	0	0
Profit before tax	140	-326	-2,262	-101	-14	64
Income tax expense	-58	-123	-363	-28	-4	18
Minorities	32	-15	-238	-9	-1	6
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	166	-188	-1,661	-63	-9	40
DB adjustments (including dilution)	-57	219	1,567	0	0	0
DB Net profit	109	31	-94	-63	-9	40
Cash Flow (USDm)						
Cash flow from operations	16	-116	-12	-8	66	110
Net Capex	-159	-93	-136	-132	-110	-188
Free cash flow	-143	-209	-148	-140	-44	-78
Equity raised/(bought back)	824	1	3	407	0	0
Dividends paid	-11	-37	-19	-19	-19	-19
Net inc/(dec) in borrowings	-742	175	331	-135	0	0
Other investing/financing cash flows	-42	12	10	-38	0	0
Net cash flow	-114	-58	177	75	-63	-97
Change in working capital	*-223*	*32*	*60*	*50*	*9*	*-11*
Balance Sheet (USDm)						
Cash and other liquid assets	201	143	320	395	332	236
Tangible fixed assets	2,908	2,882	1,477	1,528	1,567	1,680
Goodwill/intangible assets	502	497	94	94	94	94
Associates/investments	466	392	147	147	147	147
Other assets	539	451	391	265	238	258
Total assets	4,616	4,365	2,429	2,429	2,378	2,415
Interest bearing debt	0	172	505	370	370	370
Other liabilities	1,006	811	404	289	272	281
Total liabilities	1,006	983	909	659	642	651
Shareholders' equity	3,409	3,233	1,629	1,907	1,895	1,935
Minorities	201	149	-109	-137	-158	-171
Total shareholders' equity	3,610	3,382	1,520	1,770	1,737	1,764
Net debt	*-201*	*29*	*185*	*-25*	*38*	*134*
Key Company Metrics						
Sales growth (%)	nm	-36.5	34.0	-21.4	-6.4	16.4
DB EPS growth (%)	na	-73.6	na	33.8	70.6	na
EBITDA Margin (%)	20.0	-11.7	-4.0	1.5	8.8	15.1
EBIT Margin (%)	9.7	-26.4	-156.1	-6.6	1.4	8.4
Payout ratio (%)	0.0	nm	nm	nm	nm	0.0
ROE (%)	5.6	-5.7	-68.3	-3.6	-0.5	2.1
Capex/sales (%)	10.5	9.6	10.5	13.0	11.6	17.0
Capex/depreciation (x)	1.0	0.7	0.1	1.6	1.6	2.5
Net debt/equity (%)	-5.6	0.9	12.2	-1.4	2.2	7.6
Net interest cover (x)	16.3	nm	nm	nm	0.5	3.3

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (29 January 2016): 3148c | Target price: 1800c | Rating: Sell

Northam Platinum Ltd

Patrick Mann

Business description: Northam is a mid-tier platinum group metals (PGM) miner with significant growth potential. It is producing around 200-210koz p.a. of platinum from its Zondereinde mine in the northern part of the Western Limb of the Bushveld Complex and finalising the ramp up of the first stage of the new, low-cost and mechanised operation on the Eastern Limb, Booysendal. The company is targeting growth in a countercyclical move intended to pick up assets at the bottom of the cycle and position the company to grow production into higher forecast prices in the medium term. To do this, it raised (expensive) preference share debt in 1H15 as part of its BEE deal; priced at South African Prime + 350bps (currently 13.25%), raising cash of R4bn to target growth opportunities. This debt is due from Zambezi Platinum (Northam's BEE partner) in 2024, but is guaranteed by Northam. This debt effectively "falls away" if Northam's ordinary shares set aside for Zambezi are trading ahead of the preference share liability at the time of redemption (as Northam will not be called on in terms of its guarantee).

We believe the organic growth opportunities at Booysendal are the most promising, with the infrastructure on site easily scalable to double the current targeted steady-state of 80kozpa. Northam is evaluating either an increase in volumes at the existing mine (UG2) or potentially a mechanised Merensky decline nearby. The next stages in growth projects should be the delivery of a PFS on Booysendal Merensky and an FS on Booysendal South.

Drivers: Key value drivers for Northam include:

- ZAR/USD exchange rate.
- PGM prices, mainly platinum, palladium, and rhodium.
- Outcomes of project studies on Booysendal Merensky, Booysendal South and Booysendal North expansion.
- Wage and electricity cost inflation.

Outlook: We believe the share price more than reflects the prospect of organic production growth and higher-than-spot rand PGM prices. Thus, despite a strong liquidity position and the potential for mechanised production growth at Booysendal, we see a skew of negative/downside risks relative to valuation in the stock. Northam's Booysendal mine, a mechanised operation on the Eastern Limb of the Bushveld Igneous Complex, will be competitively placed on the industry cost curve and has significant organic growth potential. 2016 is the first year of full production from the initial phase of this mine complex. Free cash flow should improve rapidly as project capex rolls off and production and prices increase in CY16, with Northam poised to increase low-cost ounces if PGM prices should rise further. We highlight dilutionary risk, however, from the cumulative preference shares, issued by Zambezi Platinum (Northam's BEE investor), which are guaranteed by Northam and due in May 2025. These are accruing cumulative preference dividends at a rate of Prime + 350bps (currently 13.25%), and represent potential to dilute ordinary shareholders should Northam be required to redeem them/be called on its guarantee. For valuation reasons, our recommendation is Sell.

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 CY16 we use a platinum price forecast of US$933/ounce and a ZAR/USD forecast of 14.90.

Risks: Risks include higher rand PGM prices; value-enhancing corporate action; and a better-than-expected ramp-up profile of the Booysendal mine. Forecast cash flows may also be better than forecast should the Booysendal North expansion, Booysendal Merensky, and/or Booysendal South mine projects be approved.

Model updated:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Northam

Reuters: NHMJ.J Bloomberg: NHM SJ

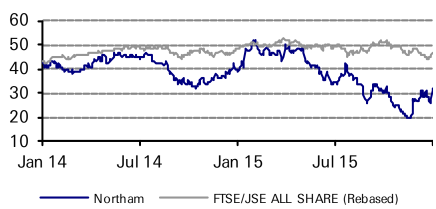
Sell

Price (29 Jan 16)	ZAR 31.48
Target Price	ZAR 18.00
52 Week range	ZAR 19.30 - 51.65
Market Cap (m)	ZARm 11,014
	USDm 693

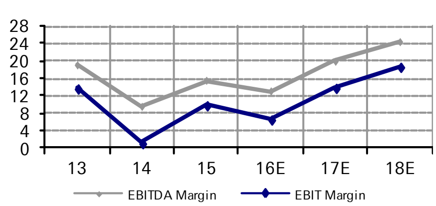
Company Profile

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 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 p.a. PGM (4E) ounces. 2016 is also the first calendar year of full production from the first phase of Booysendal North, a mechanised UG2 mine on the Eastern Limb.

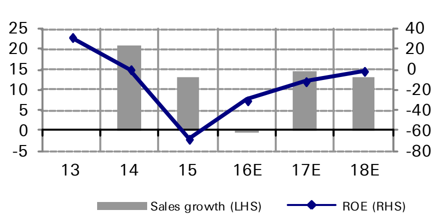
Price Performance



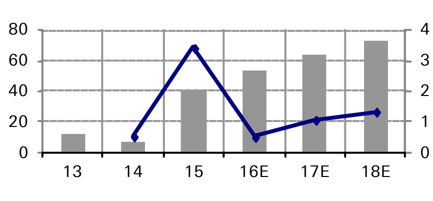
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	1.36	0.02	-2.03	-1.34	-0.52	-0.05
Reported EPS (ZAR)	1.32	0.02	-2.64	-1.34	-0.52	-0.05
DPS (ZAR)	0.00	0.00	0.00	0.00	0.84	1.21
BVPS (ZAR)	28.2	29.1	23.5	25.0	23.9	23.0
Weighted average shares (m)	383	391	392	350	350	350
Average market cap (ZARm)	12,639	16,012	16,500	11,014	11,014	11,014
Enterprise value (ZARm)	13,406	16,272	19,993	15,385	15,973	16,535
Valuation Metrics						
P/E (DB) (x)	24.2	nm	nm	nm	nm	nm
P/E (Reported) (x)	25.0	nm	nm	nm	nm	nm
P/BV (x)	1.13	1.56	1.71	1.26	1.32	1.37
FCF Yield (%)	nm	nm	nm	1.4	5.6	8.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	2.7	3.8
EV/Sales (x)	3.0	3.0	3.3	2.5	2.3	2.1
EV/EBITDA (x)	15.9	32.1	21.4	19.5	11.6	8.7
EV/EBIT (x)	22.1	264.7	33.6	38.6	16.7	11.3
Income Statement (ZARm)						
Sales revenue	4,421	5,339	6,036	6,035	6,908	7,807
Gross profit	842	507	936	788	1,374	1,906
EBITDA	842	507	936	788	1,374	1,906
Depreciation	235	446	340	390	416	443
Amortisation	0	0	0	0	0	0
EBIT	608	61	596	398	959	1,463
Net interest income(expense)	15	-116	-174	-780	-895	-1,092
Associates/affiliates	14	3	29	26	30	34
Exceptionals/extraordinaries	0	0	-1,551	0	0	0
Other pre-tax income/(expense)	60	97	232	53	53	53
Profit before tax	697	46	-868	-303	147	457
Income tax expense	169	26	166	167	327	472
Minorities	23	10	2	-1	0	2
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	505	9	-1,036	-469	-181	-16
DB adjustments (including dilution)	17	-1	241	0	0	0
DB Net profit	522	9	-795	-469	-181	-16
Cash Flow (ZARm)						
Cash flow from operations	400	709	196	795	1,268	1,629
Net Capex	-1,743	-894	-1,098	-641	-656	-691
Free cash flow	-1,342	-185	-901	154	613	938
Equity raised/(bought back)	2	579	0	0	0	0
Dividends paid	-22	-11	-4	0	-294	-424
Net inc/(dec) in borrowings	1,516	-134	4,596	0	0	0
Other investing/financing cash flows	39	118	-218	0	0	0
Net cash flow	194	367	3,472	154	319	514
Change in working capital	*-281*	*271*	*-221*	*-15*	*26*	*-10*
Balance Sheet (ZARm)						
Cash and other liquid assets	299	666	4,138	4,292	4,612	5,126
Tangible fixed assets	11,931	11,940	12,702	12,953	13,193	13,440
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	495	497	276	301	331	365
Other assets	1,633	1,638	2,035	2,214	2,288	2,424
Total assets	14,358	14,741	19,151	19,761	20,423	21,355
Interest bearing debt	1,551	1,418	7,906	8,966	9,902	11,010
Other liabilities	1,991	1,931	2,028	2,049	2,165	2,308
Total liabilities	3,542	3,349	9,935	11,014	12,067	13,318
Shareholders' equity	10,806	11,386	9,216	8,747	8,356	8,036
Minorities	10	5	0	-1	-1	1
Total shareholders' equity	10,816	11,392	9,216	8,746	8,356	8,037
Net debt	*1,253*	*752*	*3,768*	*4,673*	*5,291*	*5,885*
Key Company Metrics						
Sales growth (%)	nm	20.8	13.0	0.0	14.5	13.0
DB EPS growth (%)	na	-98.4	na	33.9	61.5	90.9
EBITDA Margin (%)	19.1	9.5	15.5	13.1	19.9	24.4
EBIT Margin (%)	13.7	1.2	9.9	6.6	13.9	18.7
Payout ratio (%)	0.0	0.0	nm	nm	nm	nm
ROE (%)	32.3	0.6	-67.7	-29.9	-11.1	-1.0
Capex/sales (%)	39.5	16.8	18.3	10.6	9.5	8.9
Capex/depreciation (x)	7.4	2.0	3.2	1.6	1.6	1.6
Net debt/equity (%)	11.6	6.6	40.9	53.4	63.3	73.2
Net interest cover (x)	nm	0.5	3.4	0.5	1.1	1.3

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (29 January 2016): 2826c | Target price: 2700c | Rating: Buy

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 and to deliver organic growth from its Styldrift project.

RBPlat has one operating asset, the Boschkoppie mine, which is at steady-state of around 180koz of platinum p.a. in concentrate, 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 – a mechanised Merensky mine contiguous to Boschkoppie on the group's Western Limb property. Styldrift has been placed on a revised construction programme in light of low prevailing platinum group metals (PGM) prices to protect the balance sheet (currently in a net cash position). Work planned for 2016 is progression of processing upgrades; on-reef development. Non-critical underground development has been deferred. The current plan envisions a de-risked ramp-up accelerating significantly in 2019 and delivering 200koz p.a. of platinum in concentrate from 2020e. The mine should be in the lower half of the cost curve, in our opinion, given that it is relatively shallow, will use mechanised mining methods and mine Merensky reef. RBPlat does not plan to pay a dividend until the completion of the Styldrift project.

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 industry: a net cash position, production is predominately high-margin Merensky, fully empowered in terms of South Africa's BEE requirements, enviable relative labour relations, and a low-cost high-margin project, Styldrift, which is well advanced and de-risked. With a favourable industry position and with low-cost potential ounces for when/if prices recover, we have a Buy rating for RBPlat.

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 CY16 we use a platinum price forecast of US$933/ounce and a ZAR/USD forecast of 14.90.

Risks: Downside risks include: a higher-than-expected increase to the rand capital expenditure cost (for imported equipment) for Styldrift given the deferral of the project and the sharply weaker currency; slippage to the delivery of Styldrift as well as changes to the final Styldrift design; an escalation in unit costs at the Boschkoppie mine when South Shaft closes (c.1/3 of production scheduled to close in 2018); availability of electrical power as a result of delays to Eskom's substations being built that are critical to Styldrift's completion and/or load-curtailment as a result of electricity shortages in South Africa; concentrator performance as the sole existing concentrator is being upgraded while remaining fully operational; lower rand PGM prices, and higher-than-forecast costs and/or capital expenditure, among others.

Model updated:13 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

RBPlat

Reuters: RBPJ.J | Bloomberg: RBP SJ

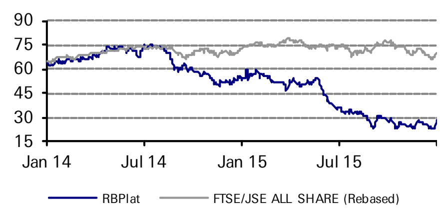
Buy

Price (29 Jan 16)	ZAR 28.26
Target Price	ZAR 27.00
52 Week range	ZAR 22.35 - 59.96
Market Cap (m)	ZARm 5,410
	USDm 340

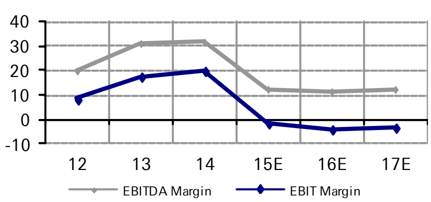
Company Profile

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.

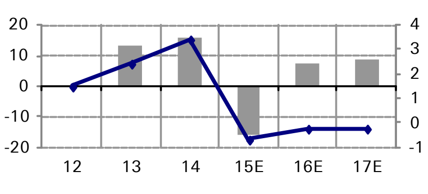
Price Performance



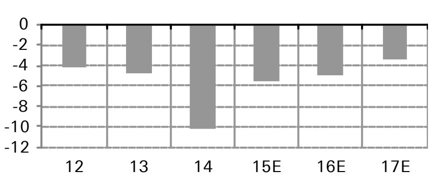
Margin Trends



Growth & Profitability



Solvency



Patrick Mann
+27 11 775-7282 patrick.mann@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	1.04	1.73	2.38	-0.49	-0.17	-0.16
Reported EPS (ZAR)	1.04	1.73	2.38	-0.49	-0.17	-0.16
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	70.2	72.2	75.3	72.3	72.2	72.0
Weighted average shares (m)	164	164	185	191	191	191
Average market cap (ZARm)	8,985	9,152	12,091	5,410	5,410	5,410
Enterprise value (ZARm)	12,039	12,507	14,513	8,724	8,820	9,055
Valuation Metrics						
P/E (DB) (x)	52.9	32.3	27.5	nm	nm	nm
P/E (Reported) (x)	52.9	32.2	27.5	nm	nm	nm
P/BV (x)	0.82	0.82	0.70	0.39	0.39	0.39
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	4.2	3.8	3.9	2.8	2.6	2.5
EV/EBITDA (x)	21.3	12.4	12.2	22.6	23.0	20.2
EV/EBIT (x)	50.6	21.8	19.3	nm	nm	nm
Income Statement (ZARm)						
Sales revenue	2,865	3,251	3,768	3,156	3,395	3,680
Gross profit	667	1,035	1,300	458	471	554
EBITDA	566	1,007	1,188	386	383	448
Depreciation	272	372	370	369	442	485
Amortisation	56	61	65	63	76	83
EBIT	238	574	753	-47	-135	-120
Net interest income(expense)	56	39	91	102	69	54
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	67	0	0	0	0	0
Profit before tax	361	613	845	55	-66	-65
Income tax expense	86	165	246	131	-19	-18
Minorities	105	164	158	18	-16	-15
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	170	284	441	-94	-32	-31
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	170	284	441	-94	-32	-31
Cash Flow (ZARm)						
Cash flow from operations	733	908	1,427	871	676	461
Net Capex	-1,174	-1,036	-1,676	-1,779	-788	-711
Free cash flow	-441	-129	-249	-908	-112	-250
Equity raised/(bought back)	0	0	1,479	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	-8	252	-138	34	0	0
Net cash flow	-449	123	1,091	-874	-112	-250
Change in working capital	*-13*	*-134*	*50*	*430*	*247*	*-17*
Balance Sheet (ZARm)						
Cash and other liquid assets	650	773	1,864	991	879	628
Tangible fixed assets	8,899	9,621	10,890	12,305	12,651	12,878
Goodwill/intangible assets	9,023	8,966	8,907	8,849	8,774	8,691
Associates/investments	261	0	0	0	0	0
Other assets	1,269	1,458	1,843	1,951	1,902	2,016
Total assets	20,101	20,818	23,504	24,096	24,205	24,212
Interest bearing debt	0	0	0	0	0	0
Other liabilities	4,621	4,831	5,308	5,946	6,103	6,157
Total liabilities	4,621	4,831	5,308	5,946	6,103	6,157
Shareholders' equity	11,516	11,858	13,910	13,846	13,814	13,782
Minorities	3,965	4,128	4,286	4,305	4,289	4,273
Total shareholders' equity	15,481	15,986	18,196	18,150	18,102	18,055
Net debt	*-650*	*-773*	*-1,864*	*-991*	*-879*	*-628*
Key Company Metrics						
Sales growth (%)	nm	13.5	15.9	-16.2	7.6	8.4
DB EPS growth (%)	na	66.7	37.9	na	66.1	1.4
EBITDA Margin (%)	19.7	31.0	31.5	12.2	11.3	12.2
EBIT Margin (%)	8.3	17.6	20.0	-1.5	-4.0	-3.3
Payout ratio (%)	0.0	0.0	0.0	nm	nm	nm
ROE (%)	1.5	2.4	3.4	-0.7	-0.2	-0.2
Capex/sales (%)	41.0	31.9	44.5	56.4	23.2	19.3
Capex/depreciation (x)	3.6	2.4	3.9	4.1	1.5	1.3
Net debt/equity (%)	-4.2	-4.8	-10.2	-5.5	-4.9	-3.5
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Oil & Gas | Price (28 January 2016): 42500c | Target price: 41000c | Rating: Hold

Sasol Ltd

Alexander Burgansky / Patrick Mann

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: Although negative effects of lower oil prices have been somewhat offset by a weaker rand, we believe investors will look for the visibility of an oil price rebound to price in the upside from the Lake Charles project. The recent appointment of co-CEOs suggests to us that completing the project on time and within budget is the company's most significant near-term priority, and that any further strategic moves are unlikely. We continue to estimate that Sasol's balance sheet will comfortably survive the downturn in oil prices with its net debt/EBITDA ratio peaking at 2.0 in FY19 at DB oil price deck, while the peak will be more pronounced (3.8 in FY20) if we were to assume a flat US$40/bbl Brent oil price.

2016 may see the long-expected introduction of the carbon tax in South Africa as part of the annual Budget process, culminating five years of consultations. Our research shows that Sasol is under-taxed relative to other global oil & gas producers. A carbon tax in South Africa can be viewed as the equivalent of the royalty tax widely levered on oil & gas producers globally. Our analysis suggests that the carbon tax for Sasol may rise to over US$6/boe by FY25, which would be broadly in line with the last five-year average production tax paid by the international super majors, but would still be less than half the average production tax burden in emerging markets. We therefore see the tax introduction as likely, and see 9% potential downside risk to our target price.

Outlook: Sasol's Lake Charles chemicals project is valued at c.50% of its market cap and will likely drive investors' perception of the stock in the medium term. We see the project still profitable (remaining IRR at 9.5%), but below the company's hurdle rate (10.4%) affected by a weaker outlook on commodities prices. Growing capex needs will likely cap dividend payout ratio, although we see leverage stay within comfort zone at DB oil price deck. With the rest of the oil & gas sector striving to cut capex and preserve dividends, we see Sasol's counter-flow investment cycle limit equity upside. Hold.

Valuation: We value Sasol based on a DCF model with WACC of 10.9%. It assumes a beta of 1x, risk-free rate of 8.5%, an equity risk premium of 4.5% and a long-term growth rate of 2%.

Risks: We value Sasol based on a DCF model with WACC of 10.9%. It assumes a beta of 1x, risk-free rate of 8.5%, an equity risk premium of 4.5% and a long-term growth rate of 2%. Main risks include commodity prices and ZAR/USD exchange rate. Given significant expansion plans, we highlight the risk of project capex overruns and delays in operational start-up.

Model updated:26 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Oil & Gas Producers

Sasol

Reuters: SOLJ.J Bloomberg: SOL SJ

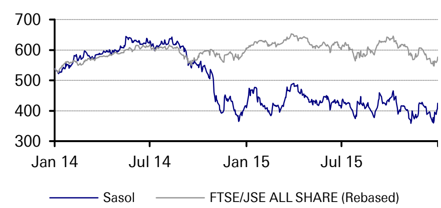
Hold

Price (28 Jan 16)	ZAR 425.00
Target Price	ZAR 410.00
52 Week range	ZAR 358.79 - 490.06
Market Cap (m)	ZARm 259,293
	USDm 16,002

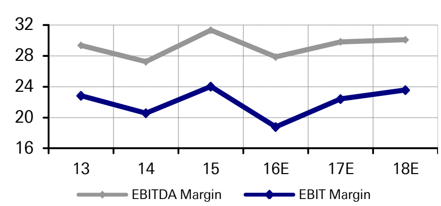
Company Profile

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.

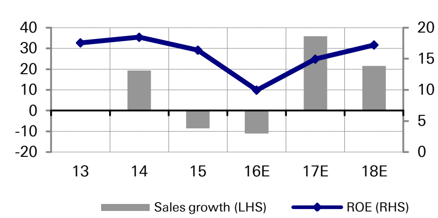
Price Performance



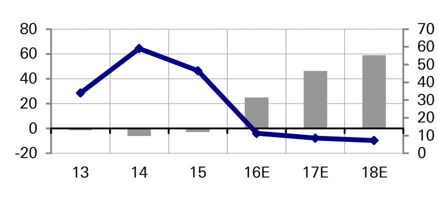
Margin Trends



Growth & Profitability



Solvency



Alexander Burgansky
+971 4 428 3 861 alexander.burgansky@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	42.32	48.27	49.01	32.08	50.97	64.20
Reported EPS (ZAR)	42.32	47.65	48.70	32.08	50.97	64.20
DPS (ZAR)	19.00	21.50	18.50	12.68	20.15	25.38
BVPS (ZAR)	245.6	280.8	314.1	322.2	351.8	385.0
Weighted average shares (m)	609	609	610	610	610	610
Average market cap (ZARm)	232,692	321,052	305,343	259,293	259,293	259,293
Enterprise value (ZARm)	222,294	304,038	292,823	303,050	356,309	397,957
Valuation Metrics						
P/E (DB) (x)	9.0	10.9	10.2	13.2	8.3	6.6
P/E (Reported) (x)	9.0	11.1	10.3	13.2	8.3	6.6
P/BV (x)	1.76	2.25	1.43	1.32	1.21	1.10
FCF Yield (%)	4.0	1.7	nm	nm	nm	nm
Dividend Yield (%)	5.0	4.1	3.7	3.0	4.7	6.0
EV/Sales (x)	1.3	1.5	1.6	1.8	1.6	1.5
EV/EBITDA (x)	4.5	5.5	5.0	6.6	5.3	4.9
EV/EBIT (x)	5.7	7.3	6.6	9.8	7.1	6.2
Income Statement (ZARm)						
Sales revenue	169,891	202,683	185,266	164,738	223,796	272,026
Gross profit	93,274	113,459	105,097	90,606	123,088	149,614
EBITDA	49,900	55,190	58,059	45,884	66,759	81,843
Depreciation	11,121	13,516	13,567	14,964	16,634	17,760
Amortisation	0	0	0	0	0	0
EBIT	38,779	41,674	44,492	30,920	50,125	64,084
Net interest income(expense)	-1,139	-705	-956	-2,749	-5,842	-8,796
Associates/affiliates	2,066	4,144	2,057	729	1,633	2,546
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	37,640	40,969	43,536	28,172	44,283	55,288
Income tax expense	12,595	14,696	14,431	8,959	14,234	17,928
Minorities	837	837	1,446	598	950	1,197
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	26,274	29,580	29,716	19,343	30,732	38,708
DB adjustments (including dilution)	0	386	187	0	0	0
DB Net profit	26,274	29,966	29,903	19,343	30,732	38,708
Cash Flow (ZARm)						
Cash flow from operations	39,184	43,975	40,936	21,757	28,711	32,632
Net Capex	-29,889	-38,594	-44,634	-77,117	-81,020	-73,082
Free cash flow	9,295	5,381	-3,698	-55,360	-52,309	-40,451
Equity raised/(bought back)	727	373	144	0	0	0
Dividends paid	-297	-372	-365	0	0	0
Net inc/(dec) in borrowings	8,049	905	13,286	45,000	40,000	50,000
Other investing/financing cash flows	-324	1,239	5,644	0	0	0
Net cash flow	17,450	7,526	15,011	-10,360	-12,309	9,549
Change in working capital	*-3,278*	*-2,143*	*5,439*	*1,234*	*-6,950*	*-6,547*
Balance Sheet (ZARm)						
Cash and other liquid assets	25,247	37,155	48,329	37,650	25,341	34,891
Tangible fixed assets	100,989	111,449	135,822	157,858	183,225	207,465
Goodwill/intangible assets	1,992	2,526	2,293	2,293	2,293	2,293
Associates/investments	11,575	10,170	11,870	11,870	11,870	11,870
Other assets	106,362	118,964	125,285	156,271	208,964	251,890
Total assets	246,165	280,264	323,599	365,942	431,693	508,409
Interest bearing debt	23,114	26,519	42,806	87,806	127,806	177,806
Other liabilities	70,158	78,976	84,310	76,093	82,817	88,113
Total liabilities	93,272	105,495	127,116	163,899	210,623	265,919
Shareholders' equity	149,583	170,977	191,610	196,572	214,649	234,871
Minorities	3,310	3,792	4,873	5,471	6,422	7,619
Total shareholders' equity	152,893	174,769	196,483	202,043	221,071	242,490
Net debt	*-2,133*	*-10,636*	*-5,523*	*50,156*	*102,465*	*142,915*
Key Company Metrics						
Sales growth (%)	nm	19.3	-8.6	-11.1	35.8	21.6
DB EPS growth (%)	na	14.1	1.5	-34.5	58.9	26.0
EBITDA Margin (%)	29.4	27.2	31.3	27.9	29.8	30.1
EBIT Margin (%)	22.8	20.6	24.0	18.8	22.4	23.6
Payout ratio (%)	44.0	44.3	38.0	40.0	40.0	40.0
ROE (%)	17.6	18.5	16.4	10.0	14.9	17.2
Capex/sales (%)	17.9	19.1	24.3	46.8	36.2	26.9
Capex/depreciation (x)	2.7	2.9	3.3	5.2	4.9	4.1
Net debt/equity (%)	-1.4	-6.1	-2.8	24.8	46.3	58.9
Net interest cover (x)	34.0	59.1	46.5	11.2	8.6	7.3

Source: Company data, Deutsche Bank estimates

UK – Paper | Price (28 January 2016): 1124p | Target price: 1650p | Rating: Buy

Mondi plc

Matthias Pfeifenberger

Business description: Mondi is an internationally leading packaging and paper company, having generated revenues of €6.5bn 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 (recovered paper, energy).
- 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 and Swiecie mills in Russia and Poland and very cost-competitive forestry operations in Russia and South Africa offering superior returns across the cycle (15% ROCE targeted). 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 sales synergies and double-digit earnings accretion, Mondi has strengthened its consumer packaging footprint and added to the business' overall resilience. Post cash outflows on recent acquisitions, strong CF generation should leave leverage at quite low levels again, enabling the company to make additional return-enhancing one-off investments (energy, de-bottlenecking, etc.) and more value- and earnings-accretive acquisitions. If no additional acquisition targets are found, we believe Mondi could raise its dividend payout or even pay extra dividends. In the shorter term, incremental price increases across main packaging paper grades should lead to a positive earnings impact in 2015/16 and support corrugated packaging prices.

Valuation: Our target price is derived from DCF valuation, employing WACC of 7.5% (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 2016E (average European packaging peers).

Risks: The main risks relate to a European demand slowdown, structural demand decline for uncoated fine paper, year-end price negotiations in industrial bags, and 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 a mild negative, likely offset by price increases (as Mondi gains pricing power as a local producer), though with 80% of country volumes supplied to domestic buyers (RU is c.10% of group revenues), current political turmoil could have a negative impact.

Model updated:24 January 2016

Running the numbers

Europe

United Kingdom

Paper & Forest Products

Mondi

Reuters: MNDI.L Bloomberg: MNDI LN

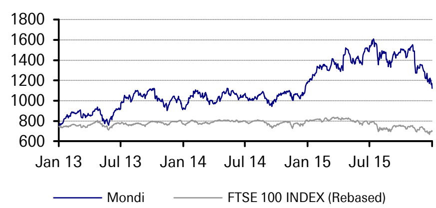
Buy

Price (28 Jan 16)	GBP 1,124.00
Target Price	GBP 1,650.00
52 Week range	GBP 1,124.00 - 1,611.00
Market Cap (m)	GBPm 5,436
	USDm 7,822

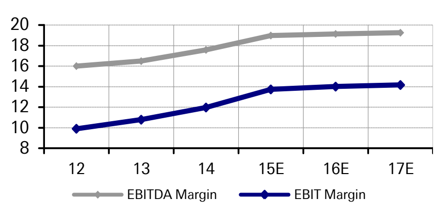
Company Profile

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).

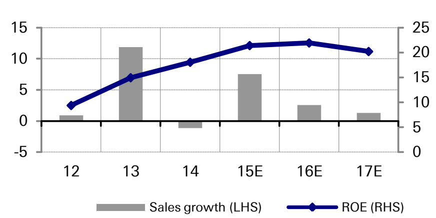
Price Performance



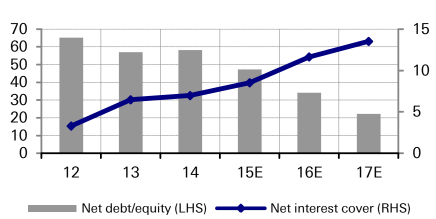
Margin Trends



Growth & Profitability



Solvency



Matthias Pfeifenberger
+43 1 53181-153 matthias.pfeifenberger@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (EUR)	0.69	0.95	1.07	1.32	1.45	1.50
Reported EPS (EUR)	0.50	0.80	0.97	1.24	1.45	1.50
DPS (EUR)	0.28	0.36	0.42	0.55	0.65	0.70
BVPS (EUR)	5.3	5.4	5.4	6.2	7.0	7.9
Weighted average shares (m)	483	484	484	484	484	484
Average market cap (EURm)	3,454	5,247	6,212	7,150	7,150	7,150
Enterprise value (EURm)	5,849	7,335	8,413	9,272	8,959	8,591
Valuation Metrics						
P/E (DB) (x)	10.4	11.4	12.0	11.2	10.2	9.8
P/E (Reported) (x)	14.3	13.6	13.2	11.9	10.2	9.8
P/BV (x)	1.55	2.35	2.48	2.47	2.10	1.88
FCF Yield (%)	0.5	9.5	5.0	6.5	9.4	10.6
Dividend Yield (%)	3.9	3.3	3.3	3.7	4.4	4.7
EV/Sales (x)	1.0	1.1	1.3	1.3	1.3	1.2
EV/EBITDA (x)	6.3	6.9	7.5	7.1	6.6	6.2
EV/EBIT (x)	10.2	10.5	11.0	9.8	9.1	8.5
Income Statement (EURm)						
Sales revenue	5,790	6,476	6,402	6,884	7,061	7,154
Gross profit	2,766	3,085	3,088	3,421	3,495	3,541
EBITDA	927	1,068	1,126	1,307	1,352	1,378
Depreciation	353	369	359	361	362	364
Amortisation	0	0	0	0	0	0
EBIT	574	699	767	946	990	1,014
Net interest income(expense)	-174	-108	-110	-111	-85	-75
Associates/affiliates	-5	2	1	0	0	0
Exceptionals/extraordinaries	-27	-94	-39	-39	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	368	499	619	796	905	939
Income tax expense	91	85	122	156	176	183
Minorities	35	28	26	38	26	26
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	242	386	471	602	702	729
DB adjustments (including dilution)	92	74	48	36	0	0
DB Net profit	334	460	519	638	702	729
Cash Flow (EURm)						
Cash flow from operations	744	911	954	1,066	1,175	1,206
Net Capex	-727	-412	-643	-600	-500	-450
Free cash flow	17	499	311	466	675	756
Equity raised/(bought back)	-332	-30	-22	0	0	0
Dividends paid	-157	-198	-206	-235	-290	-327
Net inc/(dec) in borrowings	417	-87	-21	-80	-250	-300
Other investing/financing cash flows	-101	-96	-91	-111	-85	-75
Net cash flow	-156	88	-29	41	50	55
Change in working capital	*-80*	*-16*	*-87*	*-70*	*-23*	*-12*
Balance Sheet (EURm)						
Cash and other liquid assets	56	130	56	97	146	201
Tangible fixed assets	3,709	3,428	3,432	3,671	3,769	3,815
Goodwill/intangible assets	695	675	658	658	658	658
Associates/investments	32	0	0	0	0	0
Other assets	2,131	2,007	2,202	2,341	2,391	2,418
Total assets	6,623	6,240	6,348	6,767	6,965	7,092
Interest bearing debt	1,929	1,752	1,741	1,661	1,411	1,111
Other liabilities	1,821	1,642	1,713	1,802	1,852	1,890
Total liabilities	3,750	3,394	3,454	3,463	3,263	3,001
Shareholders' equity	2,572	2,591	2,628	2,995	3,407	3,809
Minorities	301	255	266	308	295	281
Total shareholders' equity	2,873	2,846	2,894	3,304	3,701	4,090
Net debt	*1,873*	*1,622*	*1,685*	*1,564*	*1,265*	*910*
Key Company Metrics						
Sales growth (%)	0.9	11.8	-1.1	7.5	2.6	1.3
DB EPS growth (%)	2.3	37.7	12.8	22.9	10.0	3.9
EBITDA Margin (%)	16.0	16.5	17.6	19.0	19.1	19.3
EBIT Margin (%)	9.9	10.8	12.0	13.7	14.0	14.2
Payout ratio (%)	55.9	45.1	43.1	44.2	44.8	46.4
ROE (%)	9.4	15.0	18.0	21.4	21.9	20.2
Capex/sales (%)	6.2	6.9	9.4	8.7	7.1	6.3
Capex/depreciation (x)	1.0	1.2	1.7	1.7	1.4	1.2
Net debt/equity (%)	65.2	57.0	58.2	47.4	34.2	22.2
Net interest cover (x)	3.3	6.5	7.0	8.5	11.6	13.5

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (28 January 2016): 25999c | Target price: 37500c | Rating: Buy

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:

- Anti-coagulants franchise: We believe Aspen's focus over the near/medium term will be on growing its anti-coagulant franchise. Over the next 12 months we expect Aspen to deliver improved margins through the integration of its recently acquired anti-coagulant production facility. The threat of new oral anti-coagulants is a concern and Aspen needs to protect its current market share. Further on, significant opportunity exists for Aspen to increase anti-coagulant sales in emerging market territories through product registrations and increased promotional activity.
- Infant milk formula (IMF) opportunity: Aspen has acquired significant IMF production capacity in recent times. The attraction of the IMF industry is compelling – strong brand loyalty that leads to strong pricing. Aspen's willingness to enter the Chinese IMF market (accounts for ~40% of global IMF consumption) seems to have subsided and we are interested to see whether management looks at alternative IMF acquisitions.
- 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.
- US$ strength a concern: The majority (~40-50%) of Aspen's raw material costs are US$ based. Drug pricing is regulated in both South Africa and Australia, restricting Aspen's ability to push through cost inflation to consumers. We, therefore, expect to see continued margin pressure in both of these regions. Furthermore, ~50% of Aspen's debt is US$ denominated, creating pressure on cash flows when this debt falls due.

Outlook: Aspen has shown a willingness to reduce its exposure to slowing Australian and South African pharmaceutical markets in favour of more robust EM growth. Aspen's focus on improving the production process of its anti-coagulant portfolio is set to deliver material margin expansion. The company has expanded aggressively offshore and now offers investors access to a diverse set of pharmaceutical markets. At this stage we do not include any value for potential new deals, but highlight management's plans to grow its anti-coagulant and infant milk formulae portfolio. Buy.

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 FY20 and then calculate a terminal value using a long-term growth rate of 3.3% (based on weighted growth rates across Aspen divisions). We then roll forward this calculated fair value at our group WACC (9.6%) to arrive at a 12-month forward target price.

Risks: Aspen's aggressive M&A activity creates significant execution risk. Aspen could deliver 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. We also highlight the risk to margins should the US$ strengthen further.

Model updated:11 September 2015

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Aspen

Reuters: APNJ.J Bloomberg: APN SJ

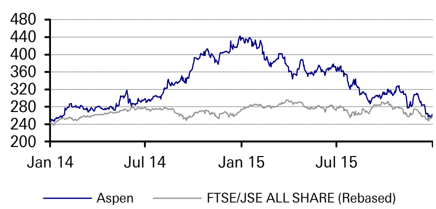
Buy

Price (28 Jan 16)	ZAR 259.99
Target Price	ZAR 375.00
52 Week range	ZAR 254.81 - 438.78
Market Cap (m)	ZARm 118,646
	USDm 7,322

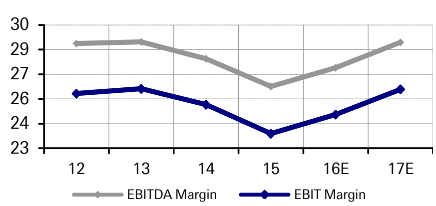
Company Profile

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.

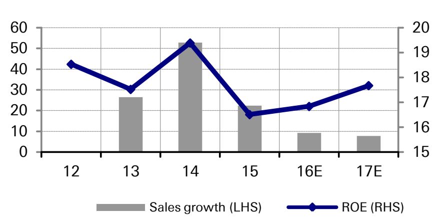
Price Performance



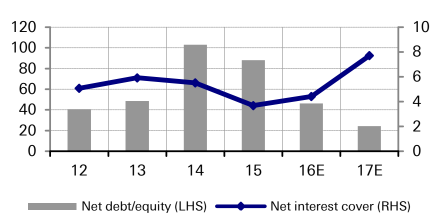
Margin Trends



Growth & Profitability



Solvency



Avinash Kalkapersad
+27 11 775 7355 avinash.kalkapersad@db.com

Fiscal year end 30-Jun	2012	2013	2014	2015	2016E	2017E
Financial Summary						
DB EPS (ZAR)	6.37	8.36	10.64	12.19	13.96	17.36
Reported EPS (ZAR)	6.23	7.72	10.98	11.40	13.96	17.36
DPS (ZAR)	1.05	1.57	1.88	2.16	2.47	3.08
BVPS (ZAR)	38.2	50.0	63.4	74.9	91.2	105.5
Weighted average shares (m)	436	455	456	456	456	456
Average market cap (ZARm)	43,404	75,634	119,502	168,028	118,646	118,646
Enterprise value (ZARm)	50,509	86,681	148,741	197,485	137,258	129,822
Valuation Metrics						
P/E (DB) (x)	15.6	19.9	24.6	30.2	18.6	15.0
P/E (Reported) (x)	16.0	21.5	23.9	32.3	18.6	15.0
P/BV (x)	3.26	4.54	4.72	4.81	2.85	2.46
FCF Yield (%)	0.8	nm	2.4	1.8	5.8	7.4
Dividend Yield (%)	1.1	0.9	0.7	0.6	1.0	1.2
EV/Sales (x)	3.3	4.5	5.0	5.5	3.5	3.1
EV/EBITDA (x)	11.5	15.5	18.0	20.8	12.7	10.5
EV/EBIT (x)	12.8	17.2	20.0	23.4	14.2	11.7
Income Statement (ZARm)						
Sales revenue	15,256	19,308	29,515	36,127	39,489	42,562
Gross profit	7,276	9,231	13,722	17,254	18,560	20,004
EBITDA	4,406	5,594	8,249	9,489	10,821	12,321
Depreciation	253	295	434	552	634	722
Amortisation	212	256	390	487	490	493
EBIT	3,941	5,043	7,425	8,450	9,698	11,106
Net interest income(expense)	-776	-853	-1,346	-2,295	-2,195	-1,440
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	159	0	0	0	0	0
Other pre-tax income/(expense)	275	299	278	383	492	248
Profit before tax	3,599	4,489	6,357	6,538	7,995	9,913
Income tax expense	772	975	1,351	1,339	1,621	1,990
Minorities	9	-6	-2	-2	1	1
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,818	3,520	5,008	5,201	6,373	7,922
DB adjustments (including dilution)	79	293	-154	362	0	0
DB Net profit	2,897	3,813	4,854	5,564	6,373	7,922
Cash Flow (ZARm)						
Cash flow from operations	2,908	3,986	3,836	4,838	8,604	10,653
Net Capex	-2,579	-4,308	-1,024	-1,821	-1,702	-1,814
Free cash flow	330	-322	2,812	3,018	6,902	8,839
Equity raised/(bought back)	6	-12	-20	-23	0	0
Dividends paid	-460	-715	-716	-858	-1,128	-1,402
Net inc/(dec) in borrowings	138	4,336	20,183	-1,366	-7,168	-19,857
Other investing/financing cash flows	223	-1,861	-19,514	-75	5,072	0
Net cash flow	237	1,426	2,746	697	3,678	-12,420
Change in working capital	*-870*	*-590*	*-2,188*	*-1,467*	*773*	*1,182*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,315	6,019	8,226	8,666	12,344	1,457
Tangible fixed assets	3,807	4,343	7,151	7,917	8,735	9,577
Goodwill/intangible assets	17,214	24,906	42,341	45,548	45,125	44,699
Associates/investments	37	109	1,026	1,084	1,084	1,084
Other assets	7,347	10,045	23,804	25,203	22,153	21,543
Total assets	31,719	45,422	82,547	88,418	89,441	78,360
Interest bearing debt	10,381	17,076	37,991	38,714	31,546	13,222
Other liabilities	3,939	5,547	15,681	15,542	16,305	17,027
Total liabilities	14,320	22,623	53,671	54,256	47,851	30,249
Shareholders' equity	17,389	22,794	28,874	34,139	41,566	48,086
Minorities	9	5	2	23	24	25
Total shareholders' equity	17,398	22,799	28,876	34,162	41,590	48,111
Net debt	*7,067*	*11,058*	*29,765*	*30,048*	*19,202*	*11,766*
Key Company Metrics						
Sales growth (%)	nm	26.6	52.9	22.4	9.3	7.8
DB EPS growth (%)	na	31.4	27.2	14.6	14.6	24.3
EBITDA Margin (%)	28.9	29.0	27.9	26.3	27.4	28.9
EBIT Margin (%)	25.8	26.1	25.2	23.4	24.6	26.1
Payout ratio (%)	16.3	20.3	17.1	19.0	17.7	17.7
ROE (%)	18.5	17.5	19.4	16.5	16.8	17.7
Capex/sales (%)	17.1	22.4	3.8	5.6	4.3	4.3
Capex/depreciation (x)	5.6	7.8	1.4	1.9	1.5	1.5
Net debt/equity (%)	40.6	48.5	103.1	88.0	46.2	24.5
Net interest cover (x)	5.1	5.9	5.5	3.7	4.4	7.7

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial | Price (28 January 2016): 7000c | Target price: 9500c | Rating: Buy

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 the equipment order book starting to stabilise but find its predictive power less useful 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. In equipment, servicing existing machines looks to partially offset weaker new equipment demand. The company is not just equipment with its Automotive and Logistics divisions generating c.40-45% of group profits. Overall, we expect modest earnings growth in the next few years; Buy.

Valuation: We use an equally-weighted methodology including P/E relative, trading multiples of comparable companies, DCF analysis, and SOTP. On a P/E relative, we value Barloworld at a P/E relative of 0.66 to the JSE All Share Index. Using trading multiples of comparable companies, we value Barloworld at a 10.0x FY16E P/E multiple below the average of its peer group. Previously, we used a 12.0x fwd multiple but reduce our multiple in face of weaker macro (commodity prices and capex), subpar earnings growth and no meaningful improvement in group returns. 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 11.5%. 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 that we estimate to be loss-making.

Risks: Risks 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:18 November 2015

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Barloworld

Reuters: BAWJ.J Bloomberg: BAW SJ

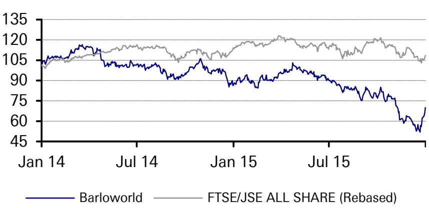
Buy

Price (28 Jan 16)	ZAR 70.00
Target Price	ZAR 95.00
52 Week range	ZAR 51.92 - 103.10
Market Cap (m)	ZARm 14,907
	USDm 920

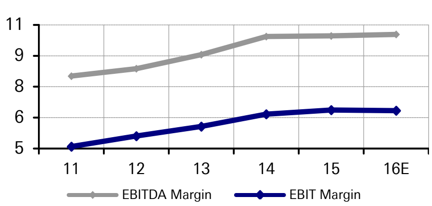
Company Profile

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.

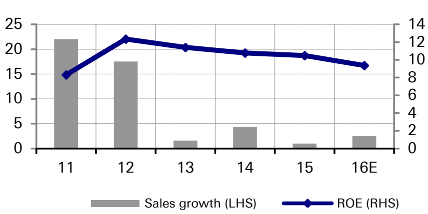
Price Performance



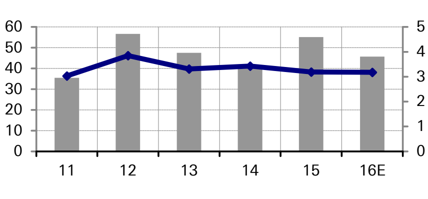
Margin Trends



Growth & Profitability



Solvency



John Kim
+27 11 775-7013 john.kim-sa@db.com

Fiscal year end 30-Sep	2011	2012	2013	2014	2015	2016E
Financial Summary						
DB EPS (ZAR)	4.61	6.75	8.17	8.52	9.22	9.77
Reported EPS (ZAR)	4.61	6.75	8.17	8.83	9.22	9.77
DPS (ZAR)	1.55	2.30	2.68	3.23	3.41	3.83
BVPS (ZAR)	58.4	60.6	72.9	79.6	91.4	97.6
Weighted average shares (m)	212	212	212	212	213	213
Average market cap (ZARm)	13,734	17,069	18,041	21,614	19,687	14,907
Enterprise value (ZARm)	17,075	23,642	24,613	27,740	29,070	23,176
Valuation Metrics						
P/E (DB) (x)	14.0	11.9	10.4	12.0	10.0	7.2
P/E (Reported) (x)	14.0	11.9	10.4	11.5	10.0	7.2
P/BV (x)	1.03	1.19	1.31	1.16	0.82	0.72
FCF Yield (%)	9.0	nm	2.4	0.7	nm	10.2
Dividend Yield (%)	2.4	2.9	3.2	3.2	3.7	5.5
EV/Sales (x)	0.3	0.4	0.4	0.4	0.5	0.4
EV/EBITDA (x)	4.3	4.8	4.6	4.5	4.7	3.6
EV/EBIT (x)	7.5	7.9	7.4	7.2	7.3	5.7
Income Statement (ZARm)						
Sales revenue	49,823	58,554	59,498	62,101	62,720	64,305
Gross profit	3,993	4,905	5,389	6,170	6,251	6,456
EBITDA	3,993	4,905	5,389	6,170	6,251	6,456
Depreciation	1,620	1,806	1,940	2,198	2,132	2,251
Amortisation	84	111	136	142	124	129
EBIT	2,289	2,988	3,313	3,830	3,995	4,077
Net interest income(expense)	-755	-776	-1,000	-1,117	-1,252	-1,283
Associates/affiliates	71	141	185	217	287	353
Exceptionals/extraordinaries	62	190	0	0	0	0
Other pre-tax income/(expense)	-65	-93	-47	-156	-198	-198
Profit before tax	1,531	2,309	2,266	2,557	2,545	2,596
Income tax expense	584	815	729	837	808	866
Minorities	63	76	108	195	121	200
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	955	1,559	1,614	1,742	1,903	1,883
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	955	1,559	1,614	1,742	1,903	1,883
Cash Flow (ZARm)						
Cash flow from operations	4,932	2,677	5,255	4,031	2,128	5,423
Net Capex	-3,699	-4,591	-4,825	-3,880	-4,730	-3,903
Free cash flow	1,233	-1,914	430	151	-2,602	1,520
Equity raised/(bought back)	-15	-13	-153	-38	-28	0
Dividends paid	-257	-443	-598	-742	-814	-460
Net inc/(dec) in borrowings	-163	2,728	-473	1,199	1,619	0
Other investing/financing cash flows	22	-488	-1,256	-617	-655	110
Net cash flow	820	-130	-2,050	-47	-2,480	1,170
Change in working capital	*-27*	*-3,128*	*538*	*313*	*3,659*	*-1,115*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,754	2,624	2,695	4,162	2,372	3,586
Tangible fixed assets	8,743	9,473	11,356	12,614	14,380	15,530
Goodwill/intangible assets	2,513	2,808	3,219	3,041	3,240	3,240
Associates/investments	1,411	1,189	1,448	1,632	2,286	2,286
Other assets	15,511	19,716	21,889	22,557	25,680	24,977
Total assets	30,932	35,810	40,607	44,006	47,958	49,620
Interest bearing debt	7,243	10,088	10,253	11,316	13,425	13,425
Other liabilities	11,037	12,555	14,447	15,204	14,645	14,685
Total liabilities	18,280	22,643	24,700	26,520	28,070	28,110
Shareholders' equity	12,389	12,869	15,445	16,882	19,426	20,794
Minorities	263	298	462	604	616	716
Total shareholders' equity	12,652	13,167	15,907	17,486	20,042	21,510
Net debt	*4,489*	*7,464*	*7,558*	*7,154*	*11,053*	*9,839*
Key Company Metrics						
Sales growth (%)	22.0	17.5	1.6	4.4	1.0	2.5
DB EPS growth (%)	170.8	46.3	21.1	4.3	8.2	6.0
EBITDA Margin (%)	8.0	8.4	9.1	9.9	10.0	10.0
EBIT Margin (%)	4.6	5.1	5.6	6.2	6.4	6.3
Payout ratio (%)	33.6	34.1	32.8	36.7	36.8	39.0
ROE (%)	8.3	12.3	11.4	10.8	10.5	9.4
Capex/sales (%)	7.8	8.3	8.3	6.7	7.9	6.1
Capex/depreciation (x)	2.3	2.5	2.4	1.8	2.2	1.6
Net debt/equity (%)	35.5	56.7	47.5	40.9	55.1	45.7
Net interest cover (x)	3.0	3.9	3.3	3.4	3.2	3.2

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28January 2016): 8492c | Target price: 10100c | 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% p.a. 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 comparatively limited upside over the next 12 months given its 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.

Risks: Upside risks: 1) Scheduled medicine sales contribute c25% 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 here 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 constrained, should there be delays in the granting of new licenses.

Model updated:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Clicks Group Ltd

Reuters: CLSJ.J Bloomberg: CLS SJ

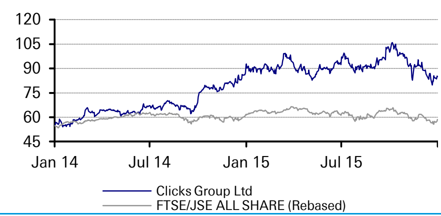
Hold

Price (28 Jan 16)	ZAR 84.92
Target Price	ZAR 101.00
52 Week range	ZAR 79.80 - 106.00
Market Cap (m)	ZARm 20,432
	USDm 1,261

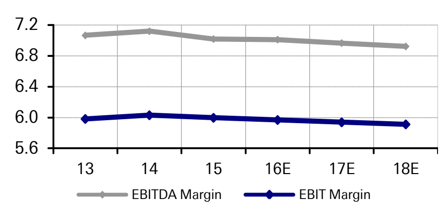
Company Profile

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.

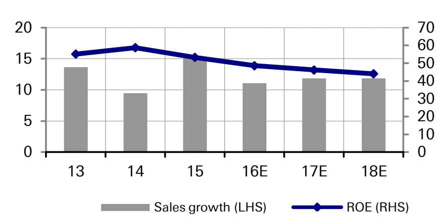
Price Performance



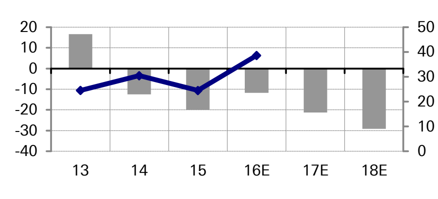
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292 sean.holmes@db.com

Fiscal year end 31-Aug	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	2.97	3.37	3.84	4.31	4.93	5.60
Reported EPS (ZAR)	2.97	3.48	3.81	4.31	4.93	5.60
DPS (ZAR)	1.69	1.91	2.35	2.64	3.02	3.43
BVPS (ZAR)	5.6	6.5	8.4	10.1	12.1	14.4
Weighted average shares (m)	250	245	241	241	241	241
Average market cap (ZARm)	14,772	14,998	20,250	20,432	20,432	20,432
Enterprise value (ZARm)	15,000	14,803	19,849	20,146	19,815	19,428
Valuation Metrics						
P/E (DB) (x)	19.9	18.1	21.9	19.7	17.2	15.2
P/E (Reported) (x)	19.9	17.6	22.1	19.7	17.2	15.2
P/BV (x)	9.83	10.69	10.91	8.38	7.00	5.90
FCF Yield (%)	2.0	2.5	2.8	1.3	1.6	1.9
Dividend Yield (%)	2.9	3.1	2.8	3.1	3.6	4.0
EV/Sales (x)	0.8	0.7	0.9	0.8	0.7	0.6
EV/EBITDA (x)	11.5	10.3	12.1	11.1	9.8	8.7
EV/EBIT (x)	13.6	12.2	14.2	13.1	11.5	10.2
Income Statement (ZARm)						
Sales revenue	18,455	20,198	23,280	25,863	28,931	32,363
Gross profit	4,694	5,172	5,735	6,365	7,055	7,824
EBITDA	1,304	1,438	1,634	1,813	2,015	2,241
Depreciation	200	220	238	270	297	327
Amortisation	0	0	0	0	0	0
EBIT	1,104	1,218	1,396	1,544	1,718	1,913
Net interest income(expense)	-45	-40	-57	-40	0	40
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-8	29	-10	0	0	0
Profit before tax	1,051	1,207	1,329	1,504	1,718	1,953
Income tax expense	-299	-342	-375	-424	-485	-551
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	752	865	954	1,079	1,233	1,402
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	752	865	954	1,079	1,233	1,402
Cash Flow (ZARm)						
Cash flow from operations	599	678	926	689	776	871
Net Capex	-308	-299	-369	-433	-439	-482
Free cash flow	291	379	557	256	337	390
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-724	-675	-509	-661	-755	-858
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-224	-632	-225	0	0	0
Net cash flow	-657	-928	-177	-405	-418	-468
Change in working capital	*24*	*332*	*-126*	*-371*	*-6*	*-2*
Balance Sheet (ZARm)						
Cash and other liquid assets	116	195	401	286	617	1,004
Tangible fixed assets	1,058	1,135	1,222	1,385	1,527	1,681
Goodwill/intangible assets	453	475	501	501	501	501
Associates/investments	0	0	0	0	0	0
Other assets	3,822	4,387	5,432	5,410	6,061	6,791
Total assets	5,449	6,192	7,556	7,582	8,706	9,977
Interest bearing debt	344	0	0	0	0	0
Other liabilities	3,728	4,625	5,544	5,151	5,796	6,524
Total liabilities	4,072	4,625	5,544	5,151	5,796	6,524
Shareholders' equity	1,377	1,567	2,012	2,431	2,909	3,453
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,377	1,567	2,012	2,431	2,909	3,453
Net debt	*228*	*-195*	*-401*	*-286*	*-617*	*-1,004*
Key Company Metrics						
Sales growth (%)	13.7	9.4	15.3	11.1	11.9	11.9
DB EPS growth (%)	9.1	13.6	13.9	12.3	14.3	13.7
EBITDA Margin (%)	7.1	7.1	7.0	7.0	7.0	6.9
EBIT Margin (%)	6.0	6.0	6.0	6.0	5.9	5.9
Payout ratio (%)	56.3	54.2	59.3	58.8	58.8	58.8
ROE (%)	55.2	58.8	53.3	48.6	46.2	44.1
Capex/sales (%)	1.7	1.5	1.6	1.7	1.5	1.5
Capex/depreciation (x)	1.5	1.4	1.6	1.6	1.5	1.5
Net debt/equity (%)	16.6	-12.4	-19.9	-11.8	-21.2	-29.1
Net interest cover (x)	24.5	30.5	24.5	38.6	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Transport | Price (28 January 2016): 11309c | Target price: 13600c | Rating: Buy

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:

- Vehicle Import, Distribution and Dealerships (17% of group operating profit). Imperial is the largest auto dealership group in southern Africa through two divisions. This division includes dealerships groups across a wide variety of OEM brands (AMH/AAD) that Imperial imports and distributes including auto brands (Kia/Hyundai) as well as International, Hino, DAF trucks, Isuzu and Renault commercial vehicles.
- Vehicle Retail, Rental and Aftermarket Parts (28% of operating profit). The group has a c.38% market share of the car rental industry. It trades under the Europcar brand in the car rental industry while Imperial has largely exited its tourism-related businesses (Springbok). Also included are the non-OEM autoparts business Midas.
- Logistics (44% 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 particularly in the rest of Africa.
- Financial services (11% of group operating profit). The division provides non-regulated insurance products and services to the Imperial group and its clients

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. The company may pursue a transformative off-shore transaction but may struggle for organic growth near-term. Imperial is developing a set of logistic assets in Africa that may prove difficult to replicate, providing long-term value coupled to African growth.

Outlook: Imperial in a nutshell: The company has executed well against weak macro-economic conditions but we fear those conditions could get worse before they get better. Our view is that earnings contracts this year absent a major deal could be under pressure for several years due to weakening consumer demand and forex. Rand exchange rates are well above Imperial's forward cover and this presents problems in 2HFY16 and possibly beyond for its automotive businesses (particularly VID&D). Growth initiatives in its Rest of Africa logistics businesses yielded results this year (M&A driven) and we look for organic growth and bedding down of existing assets to be the primary driver for the region. Imperial cannot escape its markets and the company has guided for contraction of the South African vehicle market. We concur. We look for the company to be conservative with its auto businesses this year and we don't see the company achieving its return targets of 20%+ ROE this year. Despite the negative macro, we believe the share has over-reacted and we rate the shares Buy based on valuation.

Valuation: We value Imperial using an equally-weighted methodology including P/E relative, trading multiples of comparable companies, DCF analysis, and SOTP on our FY16 estimates. On a P/E relative, we value Imperial at a P/E relative of 0.55 to the JSE Industrials Index. Historically, Imperial has traded at a one-year average of 0.55 and a three-year average of 0.61 vs. the index. Using trading multiples of comparable companies, we value Imperial at a 9.0x forward 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.

Risks: Key risks relate to earnings growth as the company needs to build/buy its logistics presence in the rest of Africa and internationally to offset weakness in vehicles and South African and European logistics. 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 Vehicle Import, Distribution and Dealerships. In logistics, execution risks include build-out/construction and adoption risk from customers of Imperial and their customers.

Model updated:14 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Industrial Transportation

Imperial

Reuters: IPLJ.J Bloomberg: IPL SJ

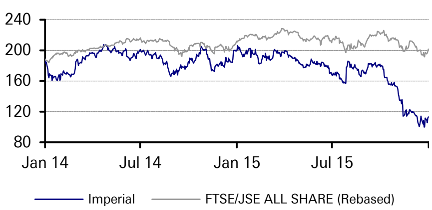
Buy

Price (28 Jan 16)	ZAR 113.09
Target Price	ZAR 136.00
52 Week range	ZAR 99.99 - 206.18
Market Cap (m)	ZARm 22,437
	USDm 1,385

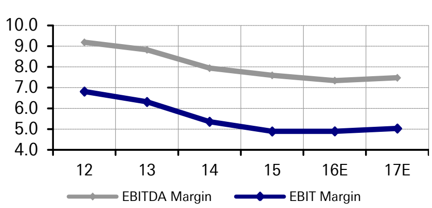
Company Profile

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.

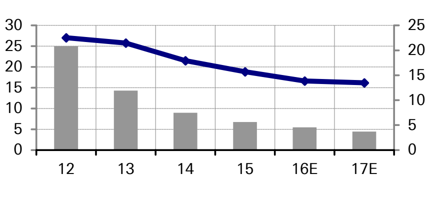
Price Performance



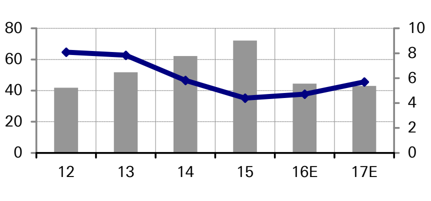
Margin Trends



Growth & Profitability



Solvency



John Kim
+27 11 775-7013 john.kim-sa@db.com

Fiscal year end 30-Jun	2012	2013	2014	2015	2016E	2017E
Financial Summary						
DB EPS (ZAR)	14.87	17.31	16.06	14.46	14.78	16.48
Reported EPS (ZAR)	14.87	17.31	16.06	14.46	14.78	16.48
DPS (ZAR)	6.80	8.20	8.20	7.95	7.64	8.46
BVPS (ZAR)	69.9	78.6	84.4	93.0	115.6	124.5
Weighted average shares (m)	204	202	200	198	198	199
Average market cap (ZARm)	25,256	38,315	39,580	37,382	22,437	22,437
Enterprise value (ZARm)	28,628	43,004	47,777	51,313	32,669	33,079
Valuation Metrics						
P/E (DB) (x)	8.3	10.9	12.3	13.1	7.7	6.9
P/E (Reported) (x)	8.3	10.9	12.3	13.1	7.7	6.9
P/BV (x)	2.32	2.62	2.37	1.99	0.98	0.91
FCF Yield (%)	10.5	5.2	0.5	5.3	14.3	15.0
Dividend Yield (%)	5.5	4.3	4.1	4.2	6.8	7.5
EV/Sales (x)	0.4	0.5	0.5	0.5	0.3	0.3
EV/EBITDA (x)	3.9	5.3	6.0	6.3	3.9	3.7
EV/EBIT (x)	5.2	7.4	8.9	9.8	5.9	5.6
Income Statement (ZARm)						
Sales revenue	80,830	92,382	100,662	107,453	113,327	118,367
Gross profit	7,428	8,157	7,995	8,163	8,322	8,851
EBITDA	7,428	8,157	7,995	8,163	8,322	8,851
Depreciation	1,596	1,915	2,061	2,276	2,145	2,257
Amortisation	322	409	539	631	628	638
EBIT	5,510	5,833	5,395	5,256	5,550	5,957
Net interest income(expense)	-681	-744	-926	-1,194	-1,176	-1,045
Associates/affiliates	46	86	78	33	27	27
Exceptionals/extraordinaries	-12	-178	36	0	0	0
Other pre-tax income/(expense)	-93	93	-74	29	0	0
Profit before tax	4,770	5,090	4,509	4,124	4,401	4,939
Income tax expense	1,382	1,404	1,171	1,035	1,210	1,358
Minorities	408	392	355	274	319	358
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,980	3,294	2,983	2,815	2,871	3,222
DB adjustments (including dilution)	21	43	60	44	60	60
DB Net profit	3,001	3,337	3,043	2,859	2,931	3,282
Cash Flow (ZARm)						
Cash flow from operations	5,237	5,053	3,780	6,518	5,785	5,620
Net Capex	-2,592	-3,077	-3,599	-4,519	-2,576	-2,239
Free cash flow	2,645	1,976	181	1,999	3,209	3,381
Equity raised/(bought back)	-105	-859	-610	-184	0	0
Dividends paid	-1,350	-1,755	-1,940	-1,724	-1,263	-1,418
Net inc/(dec) in borrowings	-1,534	672	1,805	487	0	0
Other investing/financing cash flows	-1,688	-1,488	1,614	-6,539	3,498	-455
Net cash flow	-2,032	-1,454	1,050	-5,961	5,444	1,509
Change in working capital	*-758*	*-1,604*	*-2,701*	*-50*	*249*	*-428*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,545	1,844	3,103	2,271	5,970	5,560
Tangible fixed assets	14,737	16,348	18,094	20,180	22,356	24,257
Goodwill/intangible assets	4,234	5,206	6,766	7,193	7,593	7,931
Associates/investments	4,494	5,776	5,254	2,841	2,841	2,841
Other assets	18,688	22,462	25,804	33,227	29,001	29,806
Total assets	45,698	51,636	59,021	65,712	67,761	70,394
Interest bearing debt	10,188	11,009	14,985	17,205	17,205	17,205
Other liabilities	19,621	22,914	25,927	29,274	26,750	27,579
Total liabilities	29,809	33,923	40,912	46,479	43,955	44,784
Shareholders' equity	14,666	16,413	17,540	18,868	23,441	25,246
Minorities	1,223	1,300	1,569	1,838	1,838	1,838
Total shareholders' equity	15,889	17,713	19,109	20,706	25,279	27,084
Net debt	*6,643*	*9,165*	*11,882*	*14,934*	*11,235*	*11,645*
Key Company Metrics						
Sales growth (%)	25.0	14.3	9.0	6.7	5.5	4.4
DB EPS growth (%)	15.4	16.4	-7.3	-9.9	2.2	11.5
EBITDA Margin (%)	9.2	8.8	7.9	7.6	7.3	7.5
EBIT Margin (%)	6.8	6.3	5.4	4.9	4.9	5.0
Payout ratio (%)	43.4	45.4	50.5	54.5	51.4	50.7
ROE (%)	22.5	21.5	17.9	15.7	13.9	13.5
Capex/sales (%)	3.2	3.3	3.6	4.2	2.3	1.9
Capex/depreciation (x)	1.4	1.5	1.6	1.8	1.1	0.9
Net debt/equity (%)	41.8	51.7	62.2	72.1	44.4	43.0
Net interest cover (x)	8.1	7.8	5.8	4.4	4.7	5.7

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 4230c | Target price: 5400c | 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 a percentage 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. 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 its ability to lower revenue yields – therefore negatively impact on the group's growth.

Model updated:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Furniture & Appliances

Lewis Group Ltd

Reuters: LEWJ.J Bloomberg: LEW SJ

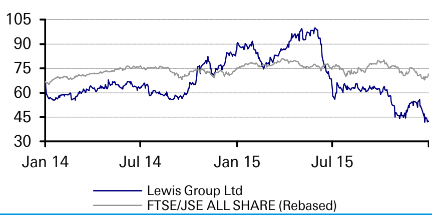
Hold

Price (28 Jan 16)	ZAR 42.30
Target Price	ZAR 54.00
52 Week range	ZAR 41.91 - 100.00
Market Cap (m)	ZARm 3,756
	USDm 232

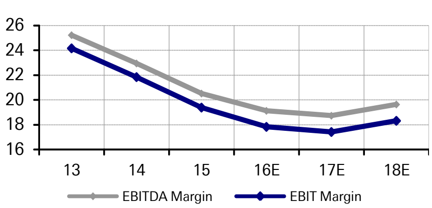
Company Profile

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

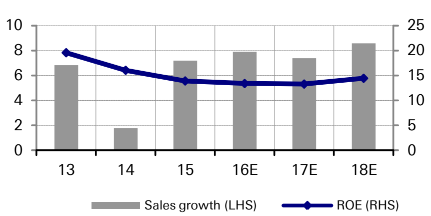
Price Performance



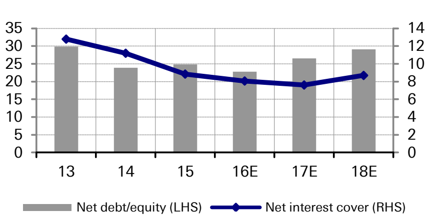
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292 sean.holmes@db.com

Fiscal year end 31-Mar	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	9.97	9.13	8.38	8.37	8.75	10.13
Reported EPS (ZAR)	9.97	9.13	8.38	8.37	8.75	10.13
DPS (ZAR)	5.14	5.17	5.17	5.17	5.17	5.17
BVPS (ZAR)	49.4	54.5	55.6	58.5	61.8	66.3
Weighted average shares (m)	89	89	89	89	89	89
Average market cap (ZARm)	6,286	5,552	6,157	3,756	3,756	3,756
Enterprise value (ZARm)	7,732	6,830	7,509	5,062	5,365	5,647
Valuation Metrics						
P/E (DB) (x)	7.1	6.8	8.3	5.1	4.8	4.2
P/E (Reported) (x)	7.1	6.8	8.3	5.1	4.8	4.2
P/BV (x)	1.31	1.06	1.39	0.72	0.68	0.64
FCF Yield (%)	0.7	11.5	3.6	6.8	7.6	10.8
Dividend Yield (%)	7.3	8.3	7.5	12.2	12.2	12.2
EV/Sales (x)	1.5	1.3	1.3	0.8	0.8	0.8
EV/EBITDA (x)	5.9	5.6	6.5	4.3	4.4	4.0
EV/EBIT (x)	6.2	5.9	6.8	4.6	4.7	4.3
Income Statement (ZARm)						
Sales revenue	5,188	5,281	5,661	6,108	6,559	7,122
Gross profit	3,665	3,757	4,017	4,366	4,719	5,127
EBITDA	1,309	1,212	1,162	1,169	1,229	1,399
Depreciation	55	58	64	79	86	94
Amortisation	0	0	0	0	0	0
EBIT	1,254	1,154	1,098	1,090	1,143	1,305
Net interest income(expense)	-98	-103	-124	-135	-150	-150
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	112	126	148	88	97	106
Profit before tax	1,268	1,177	1,122	1,043	1,090	1,262
Income tax expense	356	335	316	293	306	354
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	912	842	806	750	784	908
DB adjustments (including dilution)	-19	-24	-55	0	0	0
DB Net profit	893	818	751	750	784	908
Cash Flow (ZARm)						
Cash flow from operations	304	553	171	366	407	538
Net Capex	-257	88	48	-111	-121	-131
Free cash flow	47	641	219	255	286	407
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-425	-462	-463	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-65	-250	-175	126	0	0
Net cash flow	-443	-71	-419	381	286	407
Change in working capital	*0*	*-333*	*-155*	*-209*	*-588*	*-689*
Balance Sheet (ZARm)						
Cash and other liquid assets	60	480	222	394	92	-191
Tangible fixed assets	333	327	353	385	419	457
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	6,873	7,183	7,445	7,859	8,510	9,279
Total assets	7,266	7,990	8,020	8,638	9,021	9,545
Interest bearing debt	1,506	1,758	1,574	1,700	1,700	1,700
Other liabilities	913	890	997	1,202	1,265	1,345
Total liabilities	2,419	2,648	2,571	2,902	2,965	3,045
Shareholders' equity	4,847	5,342	5,449	5,736	6,056	6,501
Minorities	0	0	0	0	0	0
Total shareholders' equity	4,847	5,342	5,449	5,736	6,056	6,501
Net debt	*1,446*	*1,278*	*1,352*	*1,306*	*1,608*	*1,891*
Key Company Metrics						
Sales growth (%)	6.8	1.8	7.2	7.9	7.4	8.6
DB EPS growth (%)	14.1	-8.4	-8.2	-0.1	4.5	15.8
EBITDA Margin (%)	25.2	23.0	20.5	19.1	18.7	19.6
EBIT Margin (%)	24.2	21.9	19.4	17.8	17.4	18.3
Payout ratio (%)	50.0	54.5	57.0	61.2	58.6	50.6
ROE (%)	19.6	16.1	13.9	13.4	13.3	14.5
Capex/sales (%)	5.0	-1.7	-0.8	1.8	1.8	1.8
Capex/depreciation (x)	4.7	-1.5	-0.8	1.4	1.4	1.4
Net debt/equity (%)	29.8	23.9	24.8	22.8	26.6	29.1
Net interest cover (x)	12.8	11.2	8.9	8.1	7.6	8.7

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (28 January 2016): 3394c | Target price: 3600c | Rating: Buy

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:

- 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. 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, albeit 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. Life's international expansion plans are only expected to deliver in the medium/long term.
- Valuation: Valuation is key to our Buy recommendation. On our numbers, the stock now trades on a 12m forward PE of 16.2x (average of 16.9x since listing) and a dividend yield of 5.2% (average 4%). Life's current dividend yield is significantly ahead of peers, Netcare (3.5%) and Mediclinic (1.3%). We see this as a good opportunity to buy into Life's solid defensive earnings, strong cash generation and long-term growth potential in Poland and India.

Outlook: The South African private medical insurance market has started to slow. Nevertheless, an aging population, high burdens of disease and selective bed expansion should provide continued volume growth for the hospitals over the medium term. Furthermore pricing power remains strong given the oligopolistic competitive market. Life has committed to aggressive acquisitive growth and bed expansion in India and Poland, both structurally attractive healthcare markets. Buy.

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 11.1% (risk-free rate 8.5%, equity risk premium 4.5%, beta 0.72x) and a terminal growth rate of 4%. Our risk-free rate and equity risk premium are constant across all South African equities. We believe a long-term growth rate of 4% 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 11.5%. Our cost of equity of 13% 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. Life has guided to continued international expansion raising execution risk.

Model updated:27 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Life HC

Reuters: LHCJ.J | Bloomberg: LHC SJ

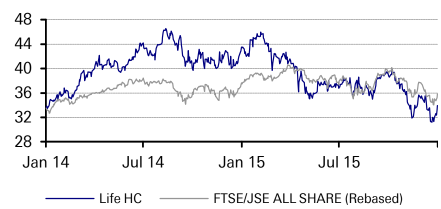
Buy

Price (28 Jan 16)	ZAR 33.94
Target Price	ZAR 36.00
52 Week range	ZAR 31.24 - 45.98
Market Cap (m)	ZARm 35,376
	USDm 2,183

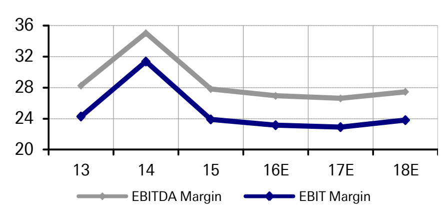
Company Profile

Life Healthcare is a private healthcare provider in South Africa, Poland and India. The South African operations' primary business is acute hospital care and primarily serves the market for insured individuals, representing approximately 8.8m people. International operations include Polish acquisitions and a 46.25% stake in Max Healthcare.

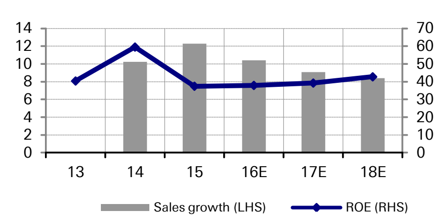
Price Performance



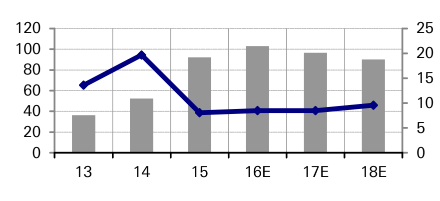
Margin Trends



Growth & Profitability



Solvency



Avinash Kalkapersad
+27 11 775 7355 avinash.kalkapersad@db.com

Fiscal year end 30-Sep	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	1.50	1.77	1.79	1.93	2.11	2.45
Reported EPS (ZAR)	1.65	2.67	1.79	1.93	2.11	2.45
DPS (ZAR)	1.26	2.41	1.54	1.64	1.80	2.09
BVPS (ZAR)	4.3	4.6	5.0	5.2	5.6	5.9
Weighted average shares (m)	1,038	1,037	1,037	1,042	1,044	1,044
Average market cap (ZARm)	32,559	40,669	41,644	35,376	35,376	35,376
Enterprise value (ZARm)	34,591	44,067	46,629	40,602	40,862	41,132
Valuation Metrics						
P/E (DB) (x)	20.9	22.1	22.4	17.6	16.1	13.9
P/E (Reported) (x)	19.0	14.7	22.4	17.6	16.1	13.9
P/BV (x)	7.61	9.51	7.18	6.52	6.10	5.72
FCF Yield (%)	5.3	3.9	4.2	5.2	5.5	6.4
Dividend Yield (%)	4.0	6.1	3.8	4.8	5.3	6.1
EV/Sales (x)	2.9	3.4	3.2	2.5	2.3	2.2
EV/EBITDA (x)	10.3	9.6	11.4	9.3	8.7	7.8
EV/EBIT (x)	12.0	10.8	13.3	10.8	10.1	9.0
Income Statement (ZARm)						
Sales revenue	11,834	13,046	14,647	16,172	17,638	19,119
Gross profit	8,804	9,760	10,996	12,455	13,537	14,752
EBITDA	3,344	4,570	4,074	4,356	4,694	5,252
Depreciation	354	355	445	481	522	566
Amortisation	116	122	127	129	131	133
EBIT	2,874	4,093	3,502	3,746	4,041	4,553
Net interest income(expense)	-211	-208	-433	-440	-475	-475
Associates/affiliates	70	39	14	40	84	138
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	31	49	29	0	0	0
Profit before tax	2,764	3,973	3,112	3,346	3,651	4,217
Income tax expense	760	875	884	939	1,013	1,158
Minorities	293	324	362	391	429	497
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,711	2,774	1,866	2,016	2,209	2,561
DB adjustments (including dilution)	-148	-930	0	0	0	0
DB Net profit	1,563	1,844	1,866	2,016	2,209	2,561
Cash Flow (ZARm)						
Cash flow from operations	2,610	2,536	2,939	2,946	3,169	3,576
Net Capex	-885	-962	-1,181	-1,112	-1,210	-1,312
Free cash flow	1,725	1,574	1,758	1,834	1,959	2,263
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,313	-2,446	-1,520	-1,724	-1,875	-2,174
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-147	-25	-2,739	-1,315	-172	-179
Net cash flow	266	-897	-2,501	-1,205	-88	-90
Change in working capital	*-21*	*125*	*-97*	*-31*	*-37*	*-43*
Balance Sheet (ZARm)						
Cash and other liquid assets	67	267	255	255	255	255
Tangible fixed assets	4,518	5,901	7,101	7,732	8,420	9,167
Goodwill/intangible assets	2,084	2,318	2,964	2,835	2,704	2,571
Associates/investments	1,171	884	2,312	3,472	3,514	3,583
Other assets	1,897	2,288	2,746	2,977	3,207	3,444
Total assets	9,737	11,658	15,378	17,271	18,100	19,020
Interest bearing debt	2,109	3,351	6,191	7,396	7,484	7,575
Other liabilities	2,021	2,407	2,739	2,939	3,131	3,326
Total liabilities	4,130	5,758	8,930	10,335	10,616	10,900
Shareholders' equity	4,525	4,792	5,168	5,460	5,794	6,181
Minorities	1,082	1,108	1,280	1,476	1,690	1,938
Total shareholders' equity	5,607	5,900	6,448	6,936	7,484	8,120
Net debt	*2,042*	*3,084*	*5,936*	*7,141*	*7,229*	*7,320*
Key Company Metrics						
Sales growth (%)	nm	10.2	12.3	10.4	9.1	8.4
DB EPS growth (%)	na	17.9	1.1	7.5	9.4	15.9
EBITDA Margin (%)	28.3	35.0	27.8	26.9	26.6	27.5
EBIT Margin (%)	24.3	31.4	23.9	23.2	22.9	23.8
Payout ratio (%)	76.4	90.1	85.6	85.0	85.0	85.0
ROE (%)	40.4	59.5	37.5	37.9	39.3	42.8
Capex/sales (%)	7.5	7.4	8.1	6.9	6.9	6.9
Capex/depreciation (x)	1.9	2.0	2.1	1.8	1.9	1.9
Net debt/equity (%)	36.4	52.3	92.1	103.0	96.6	90.1
Net interest cover (x)	13.6	19.7	8.1	8.5	8.5	9.6

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 8642c | Target price: 12100c | 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 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. 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 that 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; therefore we 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 (that 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:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Massmart

Reuters: MSMJ.J Bloomberg: MSM SJ

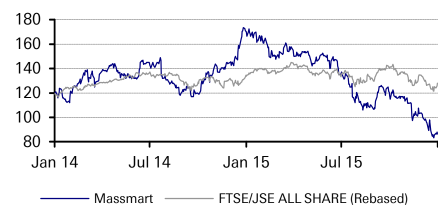
Hold

Price (28 Jan 16)	ZAR 86.42
Target Price	ZAR 121.00
52 Week range	ZAR 83.20 - 172.50
Market Cap (m)	ZARm 18,744
	USDm 1,157

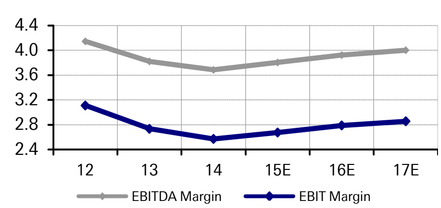
Company Profile

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.

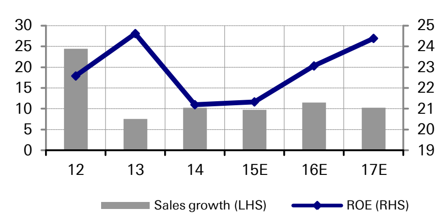
Price Performance



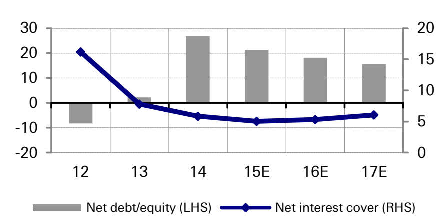
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292 sean.holmes@db.com

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (ZAR)	4.68	5.77	5.21	5.63	6.67	7.78
Reported EPS (ZAR)	4.68	5.77	5.27	5.63	6.67	7.78
DPS (ZAR)	4.21	4.21	4.21	3.31	3.92	4.58
BVPS (ZAR)	22.7	24.7	25.5	27.8	30.6	33.8
Weighted average shares (m)	216	217	217	217	217	217
Average market cap (ZARm)	37,237	37,777	28,546	18,744	18,744	18,744
Enterprise value (ZARm)	36,830	37,898	30,028	20,029	19,946	19,885
Valuation Metrics						
P/E (DB) (x)	36.8	30.2	25.3	15.3	13.0	11.1
P/E (Reported) (x)	36.8	30.2	25.0	15.3	13.0	11.1
P/BV (x)	8.40	5.26	5.61	3.11	2.83	2.56
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	2.4	2.4	3.2	3.8	4.5	5.3
EV/Sales (x)	0.6	0.5	0.4	0.2	0.2	0.2
EV/EBITDA (x)	13.4	14.0	10.4	6.1	5.3	4.7
EV/EBIT (x)	17.9	19.5	14.9	8.7	7.5	6.6
Income Statement (ZARm)						
Sales revenue	66,050	71,036	78,319	85,938	95,840	105,672
Gross profit	12,487	13,302	14,708	16,486	18,503	20,497
EBITDA	2,739	2,716	2,888	3,271	3,762	4,231
Depreciation	683	772	872	970	1,086	1,210
Amortisation	0	0	0	0	0	0
EBIT	2,056	1,944	2,016	2,301	2,676	3,021
Net interest income(expense)	-127	-249	-345	-457	-503	-498
Associates/affiliates	-349	134	-1	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	1,580	1,829	1,670	1,844	2,173	2,523
Income tax expense	549	555	483	550	648	752
Minorities	-54	-59	-58	-61	-64	-67
Other post-tax income/(expense)	5	0	0	0	0	0
Net profit	972	1,215	1,129	1,233	1,461	1,704
DB adjustments (including dilution)	55	51	26	0	0	0
DB Net profit	1,027	1,266	1,155	1,233	1,461	1,704
Cash Flow (ZARm)						
Cash flow from operations	1,416	1,227	1,029	1,478	1,688	1,912
Net Capex	-2,421	-2,876	-2,153	-2,052	-2,107	-2,300
Free cash flow	-1,005	-1,649	-1,124	-574	-419	-388
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	-182	692	1,232	177	186	196
Net cash flow	-1,187	-957	108	-397	-233	-192
Change in working capital	*1,670*	*1,121*	*-237*	*772*	*502*	*449*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,032	2,196	2,067	2,442	2,711	2,968
Tangible fixed assets	3,868	5,988	7,239	8,291	9,283	10,342
Goodwill/intangible assets	2,945	2,929	2,959	2,989	3,018	3,049
Associates/investments	0	0	0	0	0	0
Other assets	14,175	15,035	16,641	17,635	19,497	21,403
Total assets	23,020	26,148	28,906	31,357	34,510	37,761
Interest bearing debt	1,625	2,317	3,549	3,726	3,913	4,108
Other liabilities	16,480	18,461	19,830	21,596	23,960	26,315
Total liabilities	18,105	20,778	23,379	25,322	27,873	30,423
Shareholders' equity	4,915	5,370	5,527	6,035	6,636	7,338
Minorities	0	0	0	0	0	0
Total shareholders' equity	4,915	5,370	5,527	6,035	6,636	7,338
Net debt	*-407*	*121*	*1,482*	*1,285*	*1,202*	*1,141*
Key Company Metrics						
Sales growth (%)	24.4	7.5	10.3	9.7	11.5	10.3
DB EPS growth (%)	14.9	23.2	-9.7	8.1	18.5	16.6
EBITDA Margin (%)	4.1	3.8	3.7	3.8	3.9	4.0
EBIT Margin (%)	3.1	2.7	2.6	2.7	2.8	2.9
Payout ratio (%)	93.6	75.2	80.9	58.3	58.3	58.3
ROE (%)	22.6	24.6	21.2	21.3	23.1	24.4
Capex/sales (%)	3.7	4.0	2.7	2.4	2.2	2.2
Capex/depreciation (x)	3.5	3.7	2.5	2.1	1.9	1.9
Net debt/equity (%)	-8.3	2.3	26.8	21.3	18.1	15.5
Net interest cover (x)	16.2	7.8	5.8	5.0	5.3	6.1

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (28 January 2016): 12100c | Target price: 12500c | Rating: Hold

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. It also has a 29.9% stake in Spire Healthcare, a London-listed company with operations in the UK. Switzerland was the largest contributor to FY15 EBITDA (50%), followed by South Africa (37%) and the UAE (13%).

Drivers:

- Al Noor takeover: In our opinion, Mediclinic's imminent reverse takeover of Al Noor is a solid strategic move. It gives Mediclinic access to Abu Dhabi, a market it has struggled to enter successfully. A larger UAE business also provides a potential launch pad into other lucrative Middle East healthcare markets. A London listing should provide Mediclinic with access to a larger investor base making potential capital raises easier. Furthermore, low interest rates in the developed world may provide an opportunity for Mediclinic to raise relatively cheap debt. Further acquisitions are likely, in our view, consolidating and perhaps improving Mediclinic's current position as the world's third largest multi territory hospital group.
- 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 the Government Employment Medical Scheme (GEMS), not low cost schemes; and the majority of GEMS members are still on costlier options (80% 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 have 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 bolt-on 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 underpinning 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.

Outlook: Structurally, we continue to favour the private hospital space in South Africa and Mediclinic's aggressive bed expansion plans and high exposure to GEMS is likely to continue to support earnings growth from the division. Mediclinic has a strong established presence in all international territories in which it operates. Despite regulatory uncertainty across its divisions, underlying demand for private healthcare remains strong and Mediclinic remains well placed to benefit. Furthermore, it will benefit materially from a weaker rand. However, we believe the company's premium valuation fairly reflects its potential. Hold.

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 divisions individually in their respective currencies and then translate our derived value using spot exchange rates to obtain a rand target price. We use a WACC of 9.8% (risk free rate 8.5%, equity risk premium 4.5%, beta 0.88x) and a terminal growth rate of 4.0% for SA. We use a WACC of 5.3% (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 9.3% (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. We value Mediclinic's stake in Spire Healthcare at the current listed price of the share.

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

Model updated:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Mediclinic

Reuters: MDCJ.J Bloomberg: MDC SJ

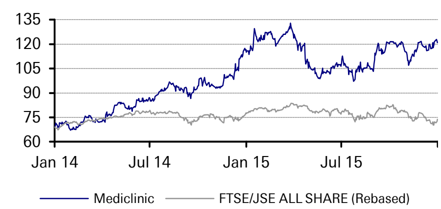
Hold

Price (28 Jan 16)	ZAR 121.00
Target Price	ZAR 125.00
52 Week range	ZAR 97.25 - 133.00
Market Cap (m)	ZARm 109,884
	USDm 6,782

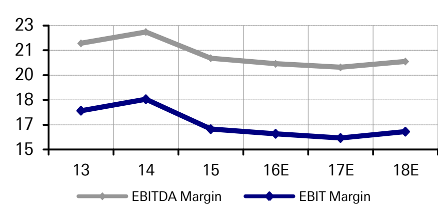
Company Profile

Mediclinic International, founded in 1983, is an international private hospital group with operations in South Africa, Namibia, Switzerland and the United Arab Emirates. Mediclinic recently acquired a 29.9% stake in UK based Spire Healthcare. Mediclinic has been listed on the Johannesburg Stock Exchange since 1986. It focusses on providing acute care, specialist-orientated, multidisciplinary hospital services and related service offerings.

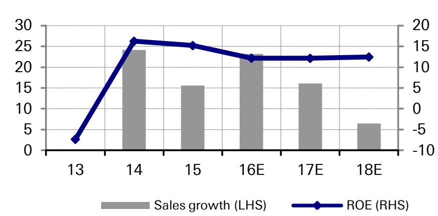
Price Performance



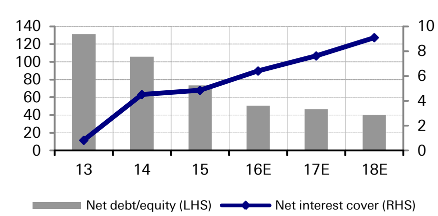
Margin Trends



Growth & Profitability



Solvency



Avinash Kalkapersad
+27 11 775 7355 avinash.kalkapersad@db.com

Fiscal year end 31-Mar	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	2.66	3.69	4.01	5.11	5.97	6.71
Reported EPS (ZAR)	-1.31	4.09	5.00	5.11	5.97	6.71
DPS (ZAR)	0.86	0.96	1.07	1.28	1.49	1.68
BVPS (ZAR)	21.3	30.3	37.5	47.4	51.9	57.0
Weighted average shares (m)	742	809	843	908	954	954
Average market cap (ZARm)	32,872	57,070	80,430	109,884	109,884	109,884
Enterprise value (ZARm)	57,095	84,643	105,735	125,470	125,176	123,557
Valuation Metrics						
P/E (DB) (x)	16.7	19.1	23.8	23.7	20.3	18.0
P/E (Reported) (x)	nm	17.2	19.1	23.7	20.3	18.0
P/BV (x)	2.99	2.47	3.25	2.55	2.33	2.12
FCF Yield (%)	4.8	3.6	3.3	0.9	1.4	2.7
Dividend Yield (%)	1.9	1.4	1.1	1.1	1.2	1.4
EV/Sales (x)	2.3	2.8	3.0	2.9	2.5	2.3
EV/EBITDA (x)	10.8	12.6	14.6	14.3	12.4	11.3
EV/EBIT (x)	13.4	15.4	18.5	18.1	15.8	14.3
Income Statement (ZARm)						
Sales revenue	24,562	30,495	35,238	43,410	50,408	53,658
Gross profit	10,717	13,306	15,505	19,144	22,230	23,663
EBITDA	5,263	6,744	7,235	8,765	10,070	10,910
Depreciation	980	1,219	1,492	1,815	2,131	2,255
Amortisation	19	20	20	20	20	20
EBIT	4,264	5,505	5,723	6,930	7,919	8,634
Net interest income(expense)	-5,166	-1,221	-1,179	-1,082	-1,039	-949
Associates/affiliates	2	3	2	259	459	522
Exceptionals/extraordinaries	0	0	-1	0	0	0
Other pre-tax income/(expense)	599	75	196	0	0	0
Profit before tax	-301	4,362	4,741	6,107	7,338	8,207
Income tax expense	442	776	206	1,117	1,247	1,364
Minorities	259	201	238	270	300	334
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-1,002	3,385	4,297	4,720	5,790	6,510
DB adjustments (including dilution)	3,029	-333	-854	0	0	0
DB Net profit	2,027	3,052	3,443	4,720	5,790	6,510
Cash Flow (ZARm)						
Cash flow from operations	3,554	4,615	6,008	5,477	7,201	8,326
Net Capex	-1,989	-2,578	-3,331	-4,496	-5,605	-5,254
Free cash flow	1,565	2,037	2,677	981	1,596	3,073
Equity raised/(bought back)	4,896	0	3,114	0	0	0
Dividends paid	-488	-688	-822	-1,250	-1,461	-1,642
Net inc/(dec) in borrowings	-2,945	-851	-2,461	0	0	0
Other investing/financing cash flows	-3,998	-25	-1,455	-270	-300	-334
Net cash flow	-970	473	1,053	-539	-165	1,097
Change in working capital	*152*	*-637*	*103*	*-1,089*	*-582*	*-270*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,705	3,521	4,779	6,179	6,179	6,179
Tangible fixed assets	40,137	49,597	53,776	56,457	59,931	62,929
Goodwill/intangible assets	7,279	9,210	11,565	11,545	11,525	11,505
Associates/investments	230	199	170	9,029	9,487	10,010
Other assets	6,391	8,007	8,889	11,132	12,873	13,681
Total assets	56,742	70,534	79,179	94,342	99,995	104,304
Interest bearing debt	26,362	30,370	29,156	29,695	29,860	28,763
Other liabilities	12,378	14,773	16,861	18,015	19,173	19,711
Total liabilities	38,740	45,143	46,017	47,710	49,033	48,474
Shareholders' equity	17,206	24,468	32,064	45,534	49,864	54,731
Minorities	796	923	1,098	1,098	1,098	1,098
Total shareholders' equity	18,002	25,391	33,162	46,632	50,962	55,829
Net debt	*23,657*	*26,849*	*24,377*	*23,516*	*23,681*	*22,584*
Key Company Metrics						
Sales growth (%)	nm	24.2	15.6	23.2	16.1	6.4
DB EPS growth (%)	na	38.9	8.6	27.5	16.8	12.4
EBITDA Margin (%)	21.4	22.1	20.5	20.2	20.0	20.3
EBIT Margin (%)	17.4	18.1	16.2	16.0	15.7	16.1
Payout ratio (%)	nm	23.0	20.9	24.6	24.6	24.6
ROE (%)	-7.3	16.2	15.2	12.2	12.1	12.4
Capex/sales (%)	8.3	8.6	9.7	10.4	11.1	9.8
Capex/depreciation (x)	2.0	2.1	2.3	2.4	2.6	2.3
Net debt/equity (%)	131.4	105.7	73.5	50.4	46.5	40.5
Net interest cover (x)	0.8	4.5	4.9	6.4	7.6	9.1

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 15458c | Target price: 19200c | Rating: Buy

Mr Price Group Ltd

Sean Holmes / Ryan Eichstadt

Business description: Mr Price Group is a fashion value retailer, selling predominantly for cash. The group retails apparel, homeware and sportswear and is one of the fastest-growing retailers in South Africa.

Drivers:

- Market share gains: an ongoing shift towards affordable fashion and room to take market share from a vulnerable Edcon, could underpin Mr Price's sales growth over the next five years.
- Sell-help margin opportunities: we see EBIT margins benefiting from better sourcing and supply chain management, improved cost efficiencies (reduction in unprofitable space, extending over-traded apparel stores, more efficient staff scheduling).

Outlook: In our opinion, Mr Price is well poised to deliver above sector earnings growth over the next four years, underpinned by scope to grow its market share from 12% FY15 to c.15% FY20E. The company has a number of "self-help" margin opportunities (cutting unproductive space, improving supply chain, growing high margin value added services), which will add further support to its EBIT margins. Buy.

Valuation: Our SOTP P/E and DY derived target price is based on an exit 12-month forward DY of 3.5% (in line with its current rating). Our 3.5% DY (COE less terminal growth) is based on COE of 13% and a 10% terminal growth rate (sustainable ROE x earnings retention ratio). The 9.5% terminal growth is based on the assumption that Mr Price can sustain a c.40% ROE and a 25% earnings retention ratio.

Risks: Downside risks include: weaker rand, increased competition, higher interest rates and a prolonged weak consumer environment.

Model updated:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Mr Price

Reuters: MRPJ.J | Bloomberg: MRP SJ

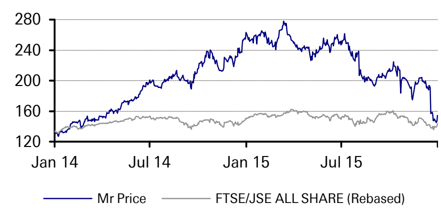
Buy

Price (28 Jan 16)	ZAR 154.58
Target Price	ZAR 192.00
52 Week range	ZAR 145.25 - 278.24
Market Cap (m)	ZARm 38,519
	USDm 2,377

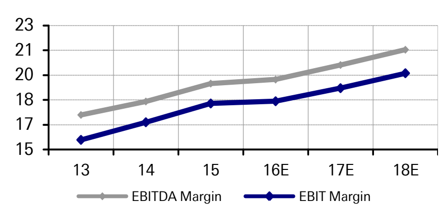
Company Profile

Mr Price Group is a fashion value retailer, selling predominantly for cash. The group retails apparel, homeware and sportswear and is one of the fastest-growing retailers in South Africa.

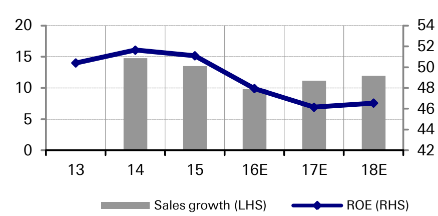
Price Performance



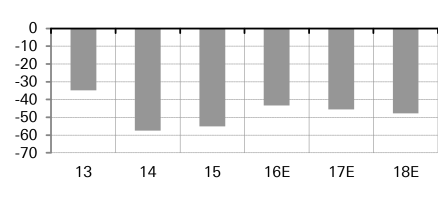
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292 sean.holmes@db.com

Fiscal year end 31-Mar	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	5.80	7.15	8.60	9.33	9.98	11.51
Reported EPS (ZAR)	5.80	7.15	8.60	9.33	9.98	11.51
DPS (ZAR)	3.98	4.82	5.80	6.28	6.71	7.74
BVPS (ZAR)	13.5	15.9	20.1	23.4	26.9	30.9
Weighted average shares (m)	244	247	249	249	249	249
Average market cap (ZARm)	27,338	32,587	51,570	39,371	39,371	39,371
Enterprise value (ZARm)	26,188	30,335	48,806	36,768	36,227	35,642
Valuation Metrics						
P/E (DB) (x)	19.3	18.5	24.1	16.9	15.8	13.7
P/E (Reported) (x)	19.3	18.5	24.1	16.9	15.8	13.7
P/BV (x)	8.01	9.49	12.71	6.75	5.87	5.11
FCF Yield (%)	4.0	7.6	4.8	nm	1.4	1.5
Dividend Yield (%)	3.6	3.6	2.8	4.0	4.2	4.9
EV/Sales (x)	2.0	2.0	2.8	2.0	1.8	1.6
EV/EBITDA (x)	11.5	11.1	14.9	10.6	9.4	8.0
EV/EBIT (x)	12.7	12.0	15.9	11.4	10.2	8.7
Income Statement (ZARm)						
Sales revenue	13,266	15,227	17,285	18,605	20,145	22,352
Gross profit	5,522	6,320	7,099	7,420	8,127	9,119
EBITDA	2,269	2,728	3,284	3,468	3,854	4,434
Depreciation	200	191	208	248	295	335
Amortisation	0	0	0	0	0	0
EBIT	2,069	2,537	3,076	3,220	3,559	4,098
Net interest income(expense)	0	0	0	0	0	0
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	121	0	0
Other pre-tax income/(expense)	56	63	87	104	125	150
Profit before tax	2,125	2,600	3,163	3,445	3,684	4,249
Income tax expense	591	733	878	965	1,032	1,190
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,534	1,867	2,285	2,481	2,652	3,059
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,534	1,867	2,285	2,481	2,652	3,059
Cash Flow (ZARm)						
Cash flow from operations	1,431	2,862	2,862	1,163	1,098	1,216
Net Capex	-335	-381	-381	-1,325	-557	-632
Free cash flow	1,096	2,481	2,481	-161	541	585
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	-1,101	-1,377	-1,377	0	0	0
Net cash flow	-5	1,104	1,104	-161	541	585
Change in working capital	*0*	*730*	*248*	*636*	*437*	*336*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,150	2,252	2,764	2,603	3,144	3,729
Tangible fixed assets	660	718	838	1,914	2,176	2,472
Goodwill/intangible assets	106	215	325	325	325	325
Associates/investments	0	0	0	0	0	0
Other assets	2,982	3,378	3,940	4,118	4,438	4,900
Total assets	4,898	6,563	7,867	8,960	10,082	11,425
Interest bearing debt	0	0	0	0	0	0
Other liabilities	1,589	2,641	2,846	3,127	3,380	3,721
Total liabilities	1,589	2,641	2,846	3,127	3,380	3,721
Shareholders' equity	3,309	3,922	5,021	5,834	6,702	7,704
Minorities	0	0	0	0	0	0
Total shareholders' equity	3,309	3,922	5,021	5,834	6,702	7,704
Net debt	*-1,150*	*-2,252*	*-2,764*	*-2,603*	*-3,144*	*-3,729*
Key Company Metrics						
Sales growth (%)	nm	14.8	13.5	7.6	8.3	11.0
DB EPS growth (%)	na	23.3	20.2	8.6	6.9	15.3
EBITDA Margin (%)	17.1	17.9	19.0	18.6	19.1	19.8
EBIT Margin (%)	15.6	16.7	17.8	17.3	17.7	18.3
Payout ratio (%)	63.4	63.7	63.2	63.0	63.0	63.0
ROE (%)	50.4	51.6	51.1	45.7	42.3	42.5
Capex/sales (%)	2.5	2.5	2.2	7.1	2.8	2.8
Capex/depreciation (x)	1.7	2.0	1.8	5.3	1.9	1.9
Net debt/equity (%)	-34.8	-57.4	-55.0	-44.6	-46.9	-48.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial | Price (28 January 2016): 1946c | Target price: 2100c | 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 (i.e. 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 was the sole beverage can manufacturer in sub-Saharan Africa and now operates either as a monopoly or a duopoly in these countries/regions. 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. Operations have been down-sized to focus on just the Rest of Africa.

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 risky 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. Turnaround in its glass operations was the more important variable for FY16 earnings growth. Now the biggest concern is potential cash flow issues in Africa where both Angola and Nigeria may require support. In light of this, we believe the dividend may be under pressure with the share having de-rated significantly. We've reduced our FY16 and FY17 earnings estimates to reflect the current situation and exclude the dividend from valuation. We have a Hold in light of these risks and de-rating in the share and its prospects.

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 10.5%, beta 0.95, WACC 12.3%, terminal growth of 5.0%) and sum-of-the-parts (25%) using FY16 estimates.

Risks: Downside risks include slowing growth in consumer demand and continual currency/liquidity issues in the Rest of Africa. Upside risks include stronger demand and corporate action.

Model updated:22 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Nampak

Reuters: NPKJ.J | Bloomberg: NPK SJ

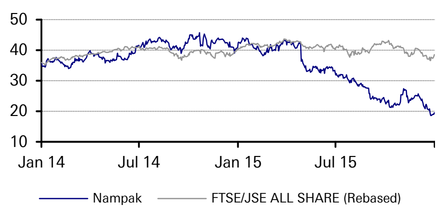
Hold

Price (28 Jan 16)	ZAR 19.46
Target Price	ZAR 21.00
52 Week range	ZAR 18.61 - 43.99
Market Cap (m)	ZARm 12,528
	USDm 773

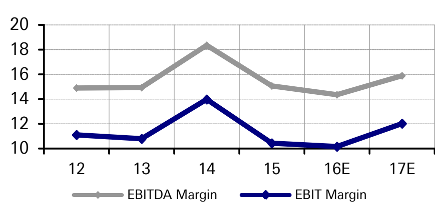
Company Profile

Nampak is Africa's largest packaging manufacturer. In South Africa the company manufactures packaging products ranging from metal, glass, paper to plastics which 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.

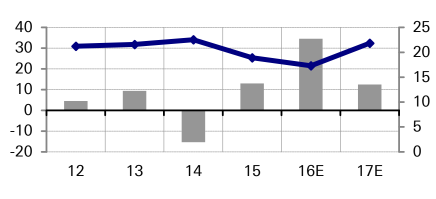
Price Performance



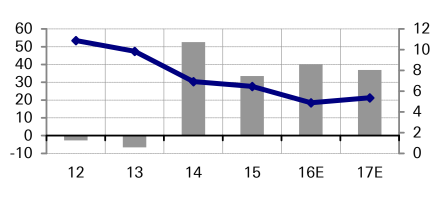
Margin Trends



Growth & Profitability



Solvency



John Kim
+27 11 775-7013 john.kim-sa@db.com

Fiscal year end 30-Sep	2012	2013	2014	2015	2016E	2017E
Financial Summary						
DB EPS (ZAR)	1.94	1.93	2.14	2.06	2.34	3.15
Reported EPS (ZAR)	1.94	1.93	2.27	2.06	2.34	3.15
DPS (ZAR)	1.30	1.40	1.53	1.34	1.42	1.93
BVPS (ZAR)	10.6	12.2	12.6	14.0	14.7	16.1
Weighted average shares (m)	622	640	650	637	644	650
Average market cap (ZARm)	13,913	19,971	24,436	24,433	12,528	12,528
Enterprise value (ZARm)	13,668	19,196	28,317	27,830	16,741	16,760
Valuation Metrics						
P/E (DB) (x)	11.5	16.2	17.5	18.6	8.3	6.2
P/E (Reported) (x)	11.5	16.2	16.6	18.6	8.3	6.2
P/BV (x)	2.60	2.55	3.26	1.85	1.32	1.21
FCF Yield (%)	3.7	1.7	nm	nm	1.0	9.5
Dividend Yield (%)	5.8	4.5	4.1	3.5	7.3	9.9
EV/Sales (x)	0.8	1.1	1.9	1.6	0.7	0.6
EV/EBITDA (x)	5.5	7.1	10.1	10.7	5.0	4.0
EV/EBIT (x)	7.4	9.8	13.2	15.4	7.1	5.3
Income Statement (ZARm)						
Sales revenue	16,530	18,086	15,306	17,291	23,263	26,176
Gross profit	5,558	5,238	-290	468	1,395	5,418
EBITDA	2,463	2,700	2,810	2,605	3,339	4,159
Depreciation	599	711	630	900	937	972
Amortisation	28	38	41	-97	39	41
EBIT	1,836	1,951	2,139	1,803	2,362	3,146
Net interest income(expense)	-169	-198	-309	-279	-484	-587
Associates/affiliates	8	16	34	-4	10	10
Exceptionals/extraordinaries	0	20	0	0	0	0
Other pre-tax income/(expense)	5	5	0	0	3	3
Profit before tax	1,681	1,794	1,864	1,520	1,891	2,572
Income tax expense	448	381	142	-58	331	450
Minorities	-15	-19	34	18	27	36
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,248	1,433	1,688	1,560	1,534	2,086
DB adjustments (including dilution)	-38	-158	-406	-185	-27	-36
DB Net profit	1,210	1,275	1,282	1,375	1,507	2,050
Cash Flow (ZARm)						
Cash flow from operations	1,591	1,759	2,157	841	1,525	2,648
Net Capex	-1,082	-1,414	-2,605	-2,124	-1,400	-1,441
Free cash flow	509	345	-448	-1,283	125	1,207
Equity raised/(bought back)	0	-288	0	-418	0	0
Dividends paid	-678	-819	-904	-946	-902	-1,227
Net inc/(dec) in borrowings	465	2,528	1,327	-2,000	282	197
Other investing/financing cash flows	-890	1,672	-3,337	35	0	0
Net cash flow	-594	3,438	-3,362	-4,613	-495	177
Change in working capital	*-340*	*-203*	*-189*	*-669*	*-1,011*	*-487*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,780	4,421	1,128	1,587	1,053	1,231
Tangible fixed assets	6,612	7,284	9,864	11,026	11,488	11,916
Goodwill/intangible assets	715	815	3,420	4,119	4,119	4,119
Associates/investments	24	219	213	44	44	44
Other assets	6,119	6,885	7,267	7,485	10,005	11,234
Total assets	15,250	19,624	21,891	24,261	26,710	28,543
Interest bearing debt	1,613	3,945	5,273	4,659	4,941	5,137
Other liabilities	7,421	8,488	8,735	10,576	12,085	12,827
Total liabilities	9,034	12,433	14,008	15,235	17,026	17,964
Shareholders' equity	6,271	7,271	7,934	8,802	9,314	10,209
Minorities	-55	-80	-51	370	370	370
Total shareholders' equity	6,216	7,191	7,883	9,172	9,684	10,579
Net debt	*-167*	*-476*	*4,145*	*3,071*	*3,887*	*3,907*
Key Company Metrics						
Sales growth (%)	4.5	9.4	-15.4	13.0	34.5	12.5
DB EPS growth (%)	10.5	-0.7	11.0	-4.0	13.8	34.7
EBITDA Margin (%)	14.9	14.9	18.4	15.1	14.4	15.9
EBIT Margin (%)	11.1	10.8	14.0	10.4	10.2	12.0
Payout ratio (%)	64.5	66.5	73.3	64.4	58.8	58.8
ROE (%)	21.2	21.6	22.5	18.9	17.3	21.8
Capex/sales (%)	6.5	7.8	17.0	12.3	6.0	5.5
Capex/depreciation (x)	1.7	1.9	3.9	2.6	1.4	1.4
Net debt/equity (%)	-2.7	-6.6	52.6	33.5	40.1	36.9
Net interest cover (x)	10.9	9.8	6.9	6.5	4.9	5.4

Source: Company data, Deutsche Bank estimates

South Africa – Media | Price (28 January 2016): 193600c | Target price: 237500c | 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 DTV 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 and we expect 2016 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 position in multiple emerging markets 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:19 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Media

Naspers

Reuters: NPNJn.J Bloomberg: NPN SJ

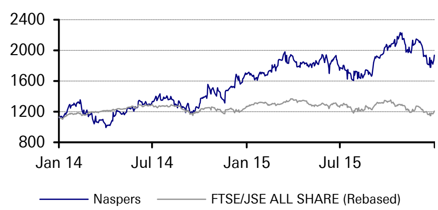
Buy

Price (28 Jan 16)	ZAR 1,936.00
Target Price	ZAR 2,375.00
52 Week range	ZAR 1,606.59 - 2,233.00
Market Cap (m)	ZARm 805,689
	USDm 49,724

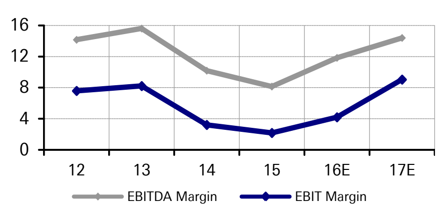
Company Profile

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).

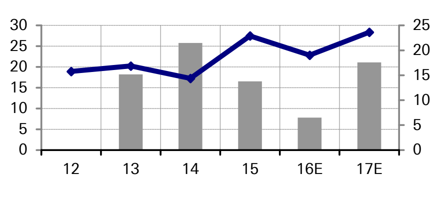
Price Performance



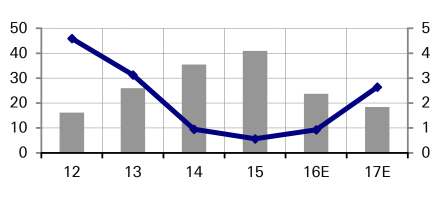
Margin Trends



Growth & Profitability



Solvency



John Kim
+27 11 775-7013 john.kim-sa@db.com

Fiscal year end 31-Mar	2012	2013	2014	2015	2016E	2017E
Financial Summary						
DB EPS (ZAR)	17.85	21.64	21.25	27.17	46.53	77.99
Reported EPS (ZAR)	17.85	21.64	21.25	27.17	46.53	77.99
DPS (ZAR)	3.35	3.85	4.25	4.70	5.27	5.35
BVPS (ZAR)	126.5	139.6	167.4	200.0	297.1	366.9
Weighted average shares (m)	376	385	395	404	416	418
Average market cap (ZARm)	138,811	197,246	360,671	559,932	805,689	805,689
Enterprise value (ZARm)	118,239	178,668	336,256	520,087	732,156	704,316
Valuation Metrics						
P/E (DB) (x)	20.7	23.7	43.0	51.1	41.6	24.8
P/E (Reported) (x)	20.7	23.7	43.0	51.1	41.6	24.8
P/BV (x)	3.38	4.10	6.94	9.35	6.52	5.28
FCF Yield (%)	2.4	3.7	nm	nm	nm	0.4
Dividend Yield (%)	0.9	0.8	0.5	0.3	0.3	0.3
EV/Sales (x)	2.8	3.6	5.4	7.1	9.3	7.4
EV/EBITDA (x)	19.8	22.9	52.6	87.3	78.5	51.3
EV/EBIT (x)	36.9	43.6	166.6	326.1	221.3	81.6
Income Statement (ZARm)						
Sales revenue	42,183	49,869	62,728	73,092	78,793	95,404
Gross profit	5,974	7,786	6,391	5,956	9,327	13,741
EBITDA	5,974	7,786	6,391	5,956	9,327	13,741
Depreciation	489	1,493	1,942	2,205	4,871	3,679
Amortisation	2,283	2,194	2,431	2,156	1,148	1,427
EBIT	3,202	4,099	2,018	1,595	3,308	8,634
Net interest income(expense)	-697	-1,310	-2,127	-2,824	-3,562	-3,266
Associates/affiliates	3,869	8,778	10,835	16,384	19,526	31,543
Exceptionals/extraordinaries	-834	-2,286	-1,302	2,626	0	0
Other pre-tax income/(expense)	0	0	0	0	3,465	0
Profit before tax	5,540	9,281	9,424	17,781	22,737	36,912
Income tax expense	2,059	2,533	2,895	3,757	4,146	5,125
Minorities	587	701	778	1	1,030	1,530
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,894	6,047	5,751	14,023	17,562	30,256
DB adjustments (including dilution)	4,057	2,486	2,865	-2,795	1,879	2,490
DB Net profit	6,951	8,533	8,616	11,228	19,441	32,746
Cash Flow (ZARm)						
Cash flow from operations	5,394	10,035	3,274	1,671	-3,245	8,453
Net Capex	-2,033	-2,745	-4,442	-2,287	-3,561	-5,247
Free cash flow	3,361	7,290	-1,168	-616	-6,806	3,206
Equity raised/(bought back)	0	0	1,649	0	34,911	0
Dividends paid	-1,012	-1,291	-1,526	-1,925	-3,439	-2,225
Net inc/(dec) in borrowings	1,355	4,067	3,352	10,434	7,790	0
Other investing/financing cash flows	-2,314	-4,484	-3,954	-5,907	-16,470	0
Net cash flow	1,390	5,582	-1,647	1,986	15,986	981
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	9,825	15,653	13,664	14,881	25,265	26,246
Tangible fixed assets	8,879	13,716	17,053	17,300	18,150	19,544
Goodwill/intangible assets	21,768	26,395	31,513	28,432	27,390	27,390
Associates/investments	30,659	35,195	50,675	77,268	107,597	135,986
Other assets	10,147	12,304	15,697	19,162	30,778	35,615
Total assets	81,278	103,263	128,602	157,043	209,179	244,780
Interest bearing debt	17,851	30,158	37,872	49,204	55,506	55,506
Other liabilities	13,851	17,252	22,525	24,031	26,193	30,455
Total liabilities	31,702	47,410	60,397	73,235	81,699	85,961
Shareholders' equity	47,515	53,741	66,153	80,708	123,657	153,466
Minorities	2,061	2,112	2,052	3,100	3,823	5,353
Total shareholders' equity	49,576	55,853	68,205	83,808	127,480	158,819
Net debt	*8,026*	*14,505*	*24,208*	*34,323*	*30,241*	*29,260*
Key Company Metrics						
Sales growth (%)	nm	18.2	25.8	16.5	7.8	21.1
DB EPS growth (%)	na	21.2	-1.8	27.9	71.3	67.6
EBITDA Margin (%)	14.2	15.6	10.2	8.1	11.8	14.4
EBIT Margin (%)	7.6	8.2	3.2	2.2	4.2	9.1
Payout ratio (%)	18.1	17.4	19.5	16.9	11.3	6.8
ROE (%)	15.8	16.9	14.4	22.9	19.0	23.6
Capex/sales (%)	5.1	5.7	7.4	3.1	4.5	5.5
Capex/depreciation (x)	1.5	1.1	1.7	0.8	0.5	1.1
Net debt/equity (%)	16.2	26.0	35.5	41.0	23.7	18.4
Net interest cover (x)	4.6	3.1	0.9	0.6	0.9	2.6

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (28 January 2016): 3240c | Target price: 4100c | 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 FY15 (51%) than the UK (49%); however, on a net adjusted earnings basis, the UK contributed just 3%.

Drivers:

- Strong bed growth in SA: 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 Netcare adding 6.1% to bed capacity during FY15. Positively, its two new hospitals are in attractive areas and we expect occupancy rates to ramp up relatively quickly.
- Margins expansion: We believe Netcare will deliver higher margins in South Africa on the back of improved employee productivity. We note Netcare's employee/bed ratio of 2x is still materially above Life Healthcare's 1.6x.
- Structural upside in the UK: The NHS remains under severe pressure to curtail costs whilst still providing a decent level of care. We believe it will continue to outsource work to the private sector with Netcare's BMI hospitals well placed to benefit. Higher NHS volumes will improve occupancy rates (currently ~50%) that should in turn lead to a recovery of margins.

Outlook: Netcare's South African division is the process of a large scale bed expansion. We believe these new beds will ramp up relatively quickly given their geographical location. Furthermore, Netcare's focus on the more efficient use of employees is expected to deliver margin improvement. We continue to see longer 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 4% 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 the spot 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.

Deutsche Securities (Pty) Ltd

Model updated:24 November 2015

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Netcare

Reuters: NTCJ.J Bloomberg: NTC SJ

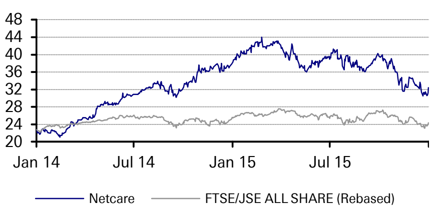
Buy

Price (28 Jan 16)	ZAR 32.40
Target Price	ZAR 39.00
52 Week range	ZAR 30.55 - 44.00
Market Cap (m)	ZARm 43,983
	USDm 2,714

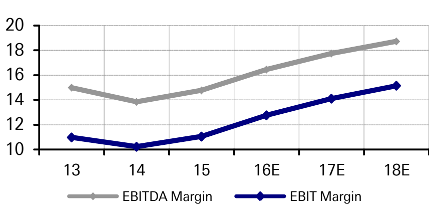
Company Profile

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.

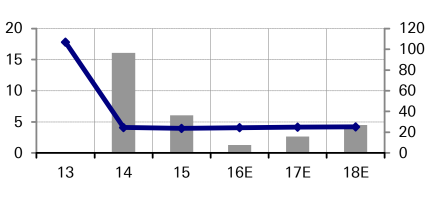
Price Performance



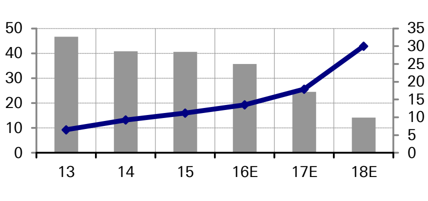
Margin Trends



Growth & Profitability



Solvency



Avinash Kalkapersad
+27 11 775 7355 avinash.kalkapersad@db.com

Fiscal year end 30-Sep	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	1.37	1.55	1.70	2.06	2.35	2.67
Reported EPS (ZAR)	3.73	1.54	1.75	2.06	2.35	2.67
DPS (ZAR)	0.68	0.80	0.92	1.06	1.20	1.37
BVPS (ZAR)	5.9	6.9	8.1	9.1	10.2	11.5
Weighted average shares (m)	1,322	1,334	1,345	1,358	1,370	1,383
Average market cap (ZARm)	27,115	35,429	51,269	43,983	43,983	43,983
Enterprise value (ZARm)	33,937	42,560	59,446	52,166	51,024	49,697
Valuation Metrics						
P/E (DB) (x)	14.9	17.2	22.4	15.7	13.8	12.1
P/E (Reported) (x)	5.5	17.2	21.8	15.7	13.8	12.1
P/BV (x)	4.09	4.55	4.47	3.56	3.17	2.82
FCF Yield (%)	3.3	3.5	1.3	3.4	6.5	7.5
Dividend Yield (%)	3.3	3.0	2.4	3.3	3.7	4.2
EV/Sales (x)	1.2	1.3	1.8	1.5	1.5	1.4
EV/EBITDA (x)	8.3	9.7	11.9	9.3	8.2	7.2
EV/EBIT (x)	11.3	13.1	15.9	12.0	10.3	9.0
Income Statement (ZARm)						
Sales revenue	27,382	31,783	33,711	34,139	35,041	36,612
Gross profit	11,814	13,556	14,327	14,509	14,892	15,560
EBITDA	4,108	4,404	4,981	5,618	6,220	6,857
Depreciation	1,006	1,045	1,140	1,138	1,154	1,186
Amortisation	92	105	114	121	121	121
EBIT	3,010	3,254	3,728	4,360	4,945	5,550
Net interest income(expense)	-464	-351	-333	-322	-276	-185
Associates/affiliates	89	75	114	116	120	125
Exceptionals/extraordinaries	3,257	0	0	0	0	0
Other pre-tax income/(expense)	-193	-80	-134	0	0	0
Profit before tax	5,699	2,898	3,375	4,154	4,789	5,489
Income tax expense	642	801	936	1,098	1,263	1,445
Minorities	-41	-57	-22	142	178	213
Other post-tax income/(expense)	-47	-52	-55	-55	-55	-55
Net profit	5,051	2,102	2,406	2,859	3,293	3,776
DB adjustments (including dilution)	-3,192	4	-65	0	0	0
DB Net profit	1,859	2,106	2,341	2,859	3,293	3,776
Cash Flow (ZARm)						
Cash flow from operations	2,281	3,111	3,252	4,200	4,684	5,231
Net Capex	-1,395	-1,865	-2,585	-2,694	-1,781	-1,870
Free cash flow	886	1,246	667	1,506	2,903	3,361
Equity raised/(bought back)	0	149	337	0	0	0
Dividends paid	-860	-1,019	-1,215	-1,486	-1,704	-1,945
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-66	-395	-1,704	116	120	125
Net cash flow	-40	-19	-1,915	137	1,319	1,540
Change in working capital	*167*	*-101*	*53*	*1*	*3*	*5*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,686	1,712	2,551	2,551	2,551	2,551
Tangible fixed assets	10,487	11,504	13,622	15,178	15,805	16,489
Goodwill/intangible assets	3,873	4,316	4,879	4,759	4,638	4,518
Associates/investments	677	723	938	938	938	938
Other assets	7,196	8,462	9,674	9,753	9,922	10,215
Total assets	23,919	26,717	31,664	33,179	33,854	34,710
Interest bearing debt	6,557	6,684	8,341	8,204	6,885	5,345
Other liabilities	6,930	7,861	9,042	9,123	9,295	9,593
Total liabilities	13,487	14,545	17,383	17,328	16,180	14,938
Shareholders' equity	7,804	9,290	10,956	12,384	14,029	15,915
Minorities	2,628	2,882	3,325	3,467	3,645	3,858
Total shareholders' equity	10,432	12,172	14,281	15,851	17,674	19,773
Net debt	*4,871*	*4,972*	*5,790*	*5,653*	*4,334*	*2,794*
Key Company Metrics						
Sales growth (%)	nm	16.1	6.1	1.3	2.6	4.5
DB EPS growth (%)	na	12.6	10.0	21.0	14.2	13.6
EBITDA Margin (%)	15.0	13.9	14.8	16.5	17.8	18.7
EBIT Margin (%)	11.0	10.2	11.1	12.8	14.1	15.2
Payout ratio (%)	17.7	50.8	51.4	50.1	50.1	50.1
ROE (%)	106.9	24.6	23.8	24.5	24.9	25.2
Capex/sales (%)	5.1	6.1	7.9	7.9	5.1	5.1
Capex/depreciation (x)	1.3	1.7	2.1	2.1	1.4	1.4
Net debt/equity (%)	46.7	40.8	40.5	35.7	24.5	14.1
Net interest cover (x)	6.5	9.3	11.2	13.5	17.9	30.0

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 5682c | Target price: 6300c | Rating: Hold

Pick n Pay Stores Ltd

Sean Holmes / Ryan Eichstadt

Business description: Pick n Pay is one of South Africa's largest supermarkets, with c.30% market share.

Drivers: The retail division concentrates on the group's core business of hypermarkets, supermarkets, family and mini market franchise stores, and home shopping. 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:** Africa contributes 5% to group sales and has shown solid growth potential in recent years.
- **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 the retailer could 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:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Pick'n Pay Stores

Reuters: PIKJ.J Bloomberg: PIK SJ

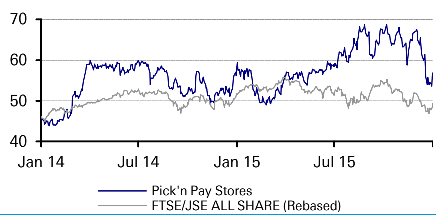
Hold

Price (28 Jan 16)	ZAR 56.82
Target Price	ZAR 63.00
52 Week range	ZAR 49.00 - 68.79
Market Cap (m)	ZARm 27,183
	USDm 1,678

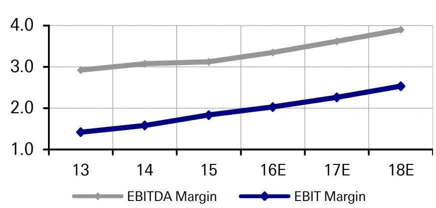
Company Profile

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.

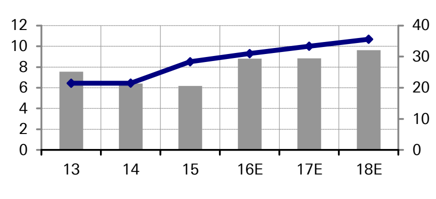
Price Performance



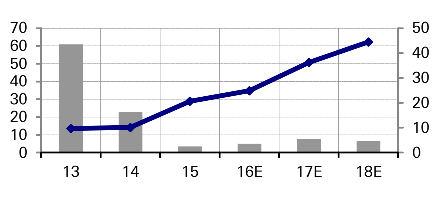
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292 sean.holmes@db.com

Fiscal year end 28-Feb	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	1.06	1.13	1.70	2.12	2.61	3.22
Reported EPS (ZAR)	1.06	1.13	1.70	2.12	2.61	3.22
DPS (ZAR)	0.84	0.92	1.18	1.42	1.74	2.14
BVPS (ZAR)	5.0	5.6	6.4	7.3	8.4	9.7
Weighted average shares (m)	477	478	478	478	478	478
Average market cap (ZARm)	20,908	20,569	26,321	27,183	27,183	27,183
Enterprise value (ZARm)	22,379	21,184	26,431	27,361	27,492	27,488
Valuation Metrics						
P/E (DB) (x)	41.3	38.1	32.4	26.7	21.8	17.7
P/E (Reported) (x)	41.3	38.1	32.4	26.7	21.8	17.7
P/BV (x)	8.89	8.02	8.23	7.80	6.79	5.86
FCF Yield (%)	nm	0.6	1.0	nm	nm	nm
Dividend Yield (%)	1.9	2.1	2.1	2.5	3.1	3.8
EV/Sales (x)	0.4	0.3	0.4	0.4	0.3	0.3
EV/EBITDA (x)	12.8	10.8	12.5	11.1	9.5	8.0
EV/EBIT (x)	26.3	21.0	21.3	18.3	15.2	12.4
Income Statement (ZARm)						
Sales revenue	59,790	63,618	67,544	73,492	79,976	87,676
Gross profit	10,854	11,541	12,550	13,649	14,928	16,491
EBITDA	1,748	1,958	2,110	2,462	2,895	3,420
Depreciation	896	948	870	969	1,082	1,198
Amortisation	0	0	0	0	0	0
EBIT	852	1,010	1,240	1,493	1,813	2,223
Net interest income(expense)	-88	-100	-60	-60	-50	-50
Associates/affiliates	23	32	14	16	19	21
Exceptionals/extraordinaries	-34	-34	-34	0	0	0
Other pre-tax income/(expense)	22	-109	11	0	0	0
Profit before tax	809	833	1,205	1,449	1,781	2,194
Income tax expense	258	249	344	414	508	626
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	518	551	828	1,035	1,273	1,568
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	518	551	828	1,035	1,273	1,568
Cash Flow (ZARm)						
Cash flow from operations	-82	1,346	1,248	1,389	1,609	1,848
Net Capex	-1,117	-1,220	-991	-2,159	-2,226	-2,236
Free cash flow	-1,199	126	257	-769	-617	-388
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-557	-424	-494	-615	-746	-917
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-342	-574	-871	0	0	0
Net cash flow	-2,098	-872	-1,108	-1,385	-1,362	-1,305
Change in working capital	*0*	*730*	*248*	*702*	*486*	*391*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,258	1,540	1,174	1,106	975	979
Tangible fixed assets	4,866	5,027	5,197	6,386	7,530	8,568
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	6,897	7,538	7,734	7,901	8,351	9,058
Total assets	13,021	14,105	14,105	15,394	16,857	18,604
Interest bearing debt	2,729	2,155	1,284	1,284	1,284	1,284
Other liabilities	7,876	9,247	9,691	10,560	11,496	12,593
Total liabilities	10,605	11,402	10,975	11,844	12,780	13,877
Shareholders' equity	2,416	2,703	3,130	3,550	4,077	4,727
Minorities	0	0	0	0	0	0
Total shareholders' equity	2,416	2,703	3,130	3,550	4,077	4,727
Net debt	*1,471*	*615*	*110*	*178*	*309*	*305*
Key Company Metrics						
Sales growth (%)	7.5	6.4	6.2	8.8	8.8	9.6
DB EPS growth (%)	-29.3	6.5	50.4	25.1	22.9	23.2
EBITDA Margin (%)	2.9	3.1	3.1	3.4	3.6	3.9
EBIT Margin (%)	1.4	1.6	1.8	2.0	2.3	2.5
Payout ratio (%)	77.4	80.2	68.2	65.4	65.4	65.4
ROE (%)	21.5	21.5	28.4	31.0	33.4	35.6
Capex/sales (%)	1.9	1.9	1.5	2.9	2.8	2.5
Capex/depreciation (x)	1.2	1.3	1.1	2.2	2.1	1.9
Net debt/equity (%)	60.9	22.8	3.5	5.0	7.6	6.5
Net interest cover (x)	9.7	10.1	20.7	24.9	36.3	44.5

Source: Company data, Deutsche Bank estimates

South Africa – Luxury Goods | Price (28 January 2016): 10500c | Target price: 12700c | Rating: Buy

Richemont

Avinash Kalkapersad / Francesca DiPasquantonio

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:

- In the absence of growth, productivity becomes key: Growth has been easy for the luxury goods sector to achieve in the past decade: store footprint, price, and mix have been the drivers to capture booming demand and mechanically grow profits. This was helped by demographics in China and emerging markets. Today, the luxury market is more competitive and crowded, demand has moderated, and consumers are less predictable. However, luxury brands have opportunities to improve productivity in stores, leading to unprecedented cash generation, hence our refocus on EV and FCF metrics. Productivity, cash flow, and valuation metrics identify Richemont as a leader in the sector.
- Class leading brands, attractive valuation: Richemont's key brand Cartier is a best-in-class on most metrics and valuation is attractive. The stock has underperformed the industry in the past 12 months and is now looking attractive on both valuation and fundamental opportunity: €5.5bn cash on the balance sheet, a March 2017 P/E below 15x, EV/EBITDA 8.2X and a 6.3% FCF yield.
- Making the right moves: Richemont is the largest jewellery player worldwide: the sector is poised for solid structural growth, and Richemont is making the right decisions in terms of footprint and of merchandising, successfully developing both the high-end jewellery segment and product lines across a wide range of price points. As the destocking cycle has remained very harsh in Asia, we think this might turn over the next 6-12 months, offering some respite to forecasts, while one of the best global footprints allows Richemont brands to capture changing travel flows easily
- Concerns: Given a weak demand environment, lower commodity prices and the continued strength of the CHF, 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: The stock has underperformed the industry in the past 12 months and is now looking attractive on fundamentals and valuation: Buy. Richemont is the largest jewellery player worldwide: the sector is poised for solid structural growth, and Richemont is making the right decisions in terms of footprint and merchandising, successfully developing both the high-end jewellery segment and product lines across a wide range of price points. As the destocking cycle has remained very harsh in Asia, we think this might turn over the next 6-12 months, offering some respite to forecasts, while one of the best global footprints allows Richemont brands to capture changing travel flows easily.

Valuation: We value Richemont using a DCF valuation (WACC: 8.5%, risk free rate: 3.5%, equity risk premium: 4.5%, long term EBIT margin 24.5%. The WACC reflects the cost of equity of the business as it is currently debt free and uses a beta of 1.1x to reflect the high-beta nature of the luxury industry. We use a perpetuity growth rate of 2.5% to reflect the above-average growth prospects in the sector.

Risks: The luxury sector is driven by momentum. Clearly a slowdown in global demand or a marked change in consumer confidence would see the momentum slow and 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.

Model updated:17 December 2015

Running the numbers

Sub-Saharan Africa

South Africa

Personal Goods

Richemont

Reuters: CFRJ.J Bloomberg: CFR SJ

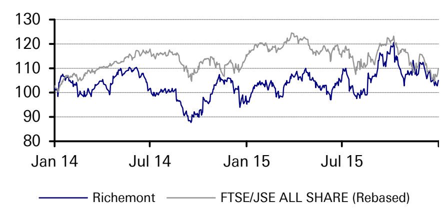
Buy

Price (28 Jan 16)	ZAR 105.00
Target Price	ZAR 127.00
52 Week range	ZAR 95.25 - 120.58
Market Cap (m)	ZARm 591,780
	USDm 36,522

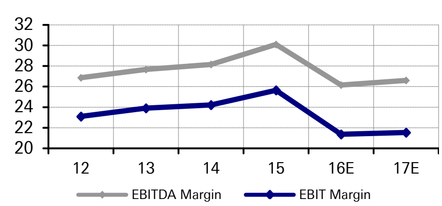
Company Profile

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.

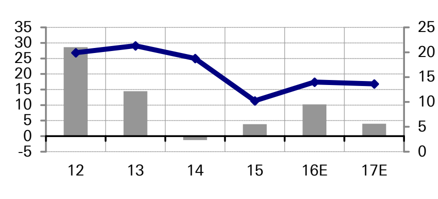
Price Performance



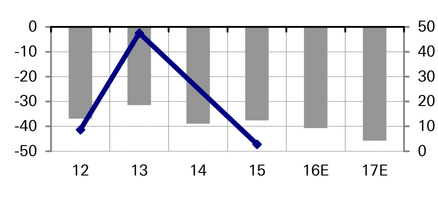
Margin Trends



Growth & Profitability



Solvency



Avinash Kalkapersad
+27 11 775 7355 avinash.kalkapersad@db.com

Fiscal year end 31-Mar	2012	2013	2014	2015	2016E	2017E
Financial Summary						
DB EPS (EUR)	2.76	3.57	3.69	1.99	3.65	3.82
Reported EPS (EUR)	2.76	3.57	3.69	2.38	3.65	3.82
DPS (EUR)	0.45	0.83	1.17	1.60	1.68	1.76
BVPS (EUR)	15.6	18.6	21.4	25.6	26.8	29.5
Weighted average shares (m)	551	550	558	564	564	564
Average market cap (EURm)	22,073	28,103	38,677	40,725	33,384	33,384
Enterprise value (EURm)	19,207	24,906	34,756	35,688	27,609	26,515
Valuation Metrics						
P/E (DB) (x)	14.2	14.0	18.6	36.2	16.2	15.4
P/E (Reported) (x)	14.5	14.3	18.8	30.4	16.2	15.5
P/BV (x)	2.87	3.22	3.20	2.94	2.21	2.01
FCF Yield (%)	3.9	1.5	4.7	0.5	4.7	6.2
Dividend Yield (%)	1.1	1.6	1.7	2.2	2.8	3.0
EV/Sales (x)	2.2	2.5	3.5	3.4	2.4	2.2
EV/EBITDA (x)	8.1	8.9	12.3	11.4	9.2	8.4
EV/EBIT (x)	9.4	10.3	14.3	13.4	11.3	10.3
Income Statement (EURm)						
Sales revenue	8,867	10,150	10,023	10,410	11,477	11,936
Gross profit	5,651	6,519	6,491	6,876	7,444	7,746
EBITDA	2,382	2,808	2,822	3,133	3,002	3,175
Depreciation	334	382	395	463	550	605
Amortisation	0	0	0	0	0	0
EBIT	2,048	2,426	2,427	2,670	2,452	2,570
Net interest income(expense)	-236	-51	72	-953	50	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	1,812	2,375	2,499	1,717	2,502	2,620
Income tax expense	264	370	415	369	438	459
Minorities	-4	0	5	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,552	2,005	2,079	1,348	2,064	2,162
DB adjustments (including dilution)	0	0	0	-223	0	0
DB Net profit	1,552	2,005	2,079	1,125	2,064	2,162
Cash Flow (EURm)						
Cash flow from operations	1,333	1,511	2,513	1,025	2,434	2,791
Net Capex	-482	-1,087	-683	-817	-850	-716
Free cash flow	851	424	1,830	208	1,584	2,075
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-204	-250	-452	-650	-902	-946
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	254	72	-102	351	0	0
Net cash flow	901	246	1,276	-91	682	1,129
Change in working capital	*-549*	*-876*	*34*	*-563*	*-180*	*24*
Balance Sheet (EURm)						
Cash and other liquid assets	4,036	5,155	6,228	8,512	9,228	10,697
Tangible fixed assets	1,529	1,787	1,966	2,446	2,746	2,857
Goodwill/intangible assets	795	952	965	781	781	781
Associates/investments	840	764	682	594	594	594
Other assets	4,553	5,839	6,077	7,391	7,854	7,927
Total assets	11,753	14,497	15,918	19,724	21,203	22,856
Interest bearing debt	852	1,940	1,569	3,093	3,093	3,093
Other liabilities	2,283	2,342	2,391	2,713	3,030	3,141
Total liabilities	3,135	4,282	3,960	5,806	6,123	6,234
Shareholders' equity	8,609	10,214	11,952	14,419	15,079	16,621
Minorities	9	1	6	1	1	1
Total shareholders' equity	8,618	10,215	11,958	14,420	15,080	16,622
Net debt	*-3,184*	*-3,215*	*-4,659*	*-5,419*	*-6,135*	*-7,604*
Key Company Metrics						
Sales growth (%)	28.7	14.5	-1.3	3.9	10.2	4.0
DB EPS growth (%)	40.6	29.4	3.4	-46.1	83.6	4.7
EBITDA Margin (%)	26.9	27.7	28.2	30.1	26.2	26.6
EBIT Margin (%)	23.1	23.9	24.2	25.6	21.4	21.5
Payout ratio (%)	16.1	22.9	31.3	66.9	45.9	46.0
ROE (%)	19.9	21.3	18.8	10.2	14.0	13.6
Capex/sales (%)	5.4	10.7	6.8	7.8	7.4	6.0
Capex/depreciation (x)	1.4	2.8	1.7	1.8	1.5	1.2
Net debt/equity (%)	-36.9	-31.5	-39.0	-37.6	-40.7	-45.7
Net interest cover (x)	8.7	47.6	nm	2.8	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 13923c | Target price: 15800c | 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%, 12%, 3% and 2% of EBIT respectively at FY15. 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.6% 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 15-30 stores p.a. in Africa over the last 2-3 years – growing at c.10% p.a.
- Improved capital returns. Current ROE of 24% is well below that of the peer group. We see room for ROEs to improve to 30-40% 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 benefiting 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's 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:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Shoprite

Reuters: SHPJ.J | Bloomberg: SHP SJ

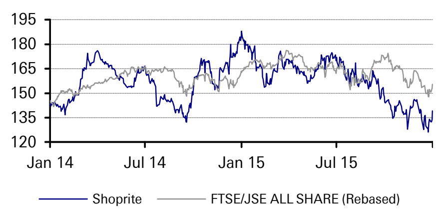
Buy

Price (28 Jan 16)	ZAR 139.23
Target Price	ZAR 158.00
52 Week range	ZAR 126.11 - 188.00
Market Cap (m)	ZARm 74,439
	USDm 4,594

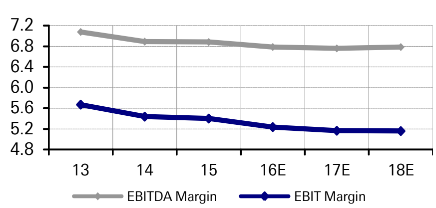
Company Profile

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

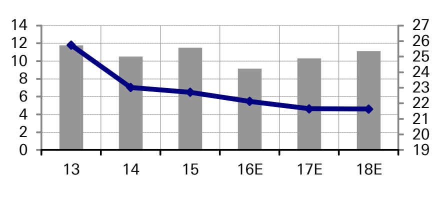
Price Performance



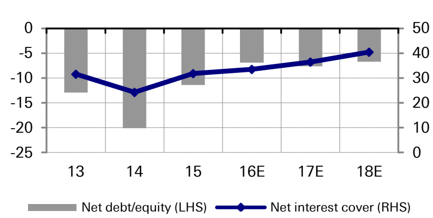
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292 sean.holmes@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	6.77	6.97	7.70	8.32	9.08	10.11
Reported EPS (ZAR)	6.72	6.97	7.67	8.32	9.08	10.11
DPS (ZAR)	3.38	3.50	3.86	4.18	4.56	5.07
BVPS (ZAR)	28.4	32.2	35.7	39.9	44.4	49.5
Weighted average shares (m)	535	535	535	535	535	535
Average market cap (ZARm)	93,654	87,779	86,024	74,439	74,439	74,439
Enterprise value (ZARm)	91,751	84,368	83,906	73,037	72,691	72,719
Valuation Metrics						
P/E (DB) (x)	25.9	23.5	20.9	16.7	15.3	13.8
P/E (Reported) (x)	26.1	23.5	21.0	16.7	15.3	13.8
P/BV (x)	6.54	4.79	4.86	3.49	3.13	2.81
FCF Yield (%)	0.3	nm	nm	0.2	0.4	0.4
Dividend Yield (%)	1.9	2.1	2.4	3.0	3.3	3.6
EV/Sales (x)	1.0	0.8	0.7	0.6	0.5	0.5
EV/EBITDA (x)	13.6	11.7	10.4	8.4	7.6	6.8
EV/EBIT (x)	17.0	14.8	13.3	10.9	10.0	9.0
Income Statement (ZARm)						
Sales revenue	95,064	105,044	117,122	127,823	140,977	156,649
Gross profit	21,908	24,108	26,942	29,392	32,432	36,321
EBITDA	6,728	7,239	8,061	8,675	9,530	10,630
Depreciation	1,336	1,525	1,733	1,980	2,246	2,546
Amortisation	0	0	0	0	0	0
EBIT	5,392	5,714	6,328	6,695	7,284	8,084
Net interest income(expense)	-171	-236	-199	-200	-200	-200
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-4	-9	-132	0	0	0
Other pre-tax income/(expense)	-27	-2	-15	0	0	0
Profit before tax	5,190	5,467	5,982	6,495	7,084	7,884
Income tax expense	1,578	1,727	1,848	2,014	2,196	2,444
Minorities	-17	-10	-10	-10	-10	-10
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,595	3,730	4,124	4,472	4,878	5,430
DB adjustments (including dilution)	27	2	15	0	0	0
DB Net profit	3,622	3,732	4,139	4,472	4,878	5,430
Cash Flow (ZARm)						
Cash flow from operations	3,294	4,056	4,650	4,207	4,676	5,251
Net Capex	-3,038	-4,164	-4,670	-4,061	-4,376	-4,984
Free cash flow	256	-108	-20	146	299	266
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,809	-1,873	-2,074	-2,244	-2,448	-2,725
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	121	533	191	0	0	0
Net cash flow	-1,432	-1,448	-1,903	-2,098	-2,149	-2,459
Change in working capital	*-2,253*	*1,583*	*-1,137*	*-862*	*47*	*-295*
Balance Sheet (ZARm)						
Cash and other liquid assets	6,122	8,161	7,061	6,345	6,692	6,663
Tangible fixed assets	11,652	13,576	15,374	17,353	19,374	21,696
Goodwill/intangible assets	1,041	1,225	1,458	1,560	1,669	1,786
Associates/investments	0	0	0	0	0	0
Other assets	14,665	17,571	20,027	21,300	23,392	26,193
Total assets	33,480	40,533	43,920	46,558	51,127	56,338
Interest bearing debt	4,151	4,684	4,875	4,875	4,875	4,875
Other liabilities	14,077	18,566	19,885	20,296	22,435	24,941
Total liabilities	18,228	23,250	24,760	25,171	27,310	29,816
Shareholders' equity	15,184	17,217	19,092	21,319	23,749	26,454
Minorities	68	66	68	68	68	68
Total shareholders' equity	15,252	17,283	19,160	21,387	23,817	26,522
Net debt	*-1,971*	*-3,477*	*-2,186*	*-1,470*	*-1,817*	*-1,788*
Key Company Metrics						
Sales growth (%)	11.8	10.5	11.5	9.1	10.3	11.1
DB EPS growth (%)	11.3	3.0	10.4	8.1	9.1	11.3
EBITDA Margin (%)	7.1	6.9	6.9	6.8	6.8	6.8
EBIT Margin (%)	5.7	5.4	5.4	5.2	5.2	5.2
Payout ratio (%)	50.3	50.2	50.1	49.9	49.9	49.9
ROE (%)	25.7	23.0	22.7	22.1	21.6	21.6
Capex/sales (%)	3.2	4.0	4.0	3.2	3.1	3.2
Capex/depreciation (x)	2.3	2.7	2.7	2.1	1.9	2.0
Net debt/equity (%)	-12.9	-20.1	-11.4	-6.9	-7.6	-6.7
Net interest cover (x)	31.5	24.2	31.8	33.5	36.4	40.4

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 17998c | Target price: 21600c | 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.
- Offshore expansion: The acquisition of BWG presents Spar with the opportunity to further expand in the UK, acquisitively and organically.

Spar is well positioned to deliver solid and stable earnings growth of 11-13% p.a. 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% p.a.). 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:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Spar Group Limited

Reuters: SPPJ.J | Bloomberg: SPP SJ

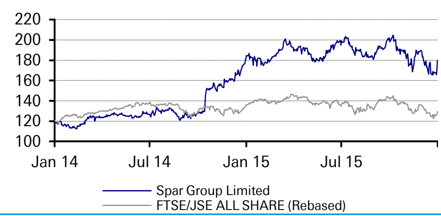
Buy

Price (28 Jan 16)	ZAR 179.98
Target Price	ZAR 216.00
52 Week range	ZAR 165.43 - 204.60
Market Cap (m)	ZARm 31,157
	USDm 1,923

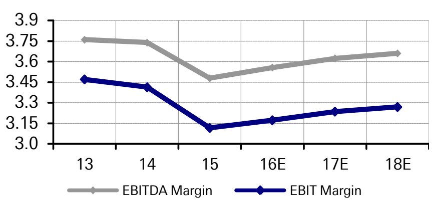
Company Profile

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

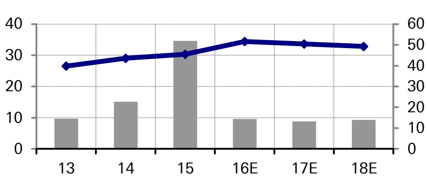
Price Performance



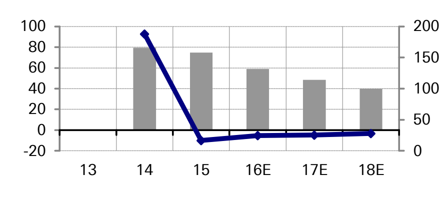
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292 sean.holmes@db.com

Fiscal year end 30-Sep	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	6.43	7.30	8.66	9.79	10.87	12.03
Reported EPS (ZAR)	6.49	7.32	7.70	9.79	10.87	12.03
DPS (ZAR)	4.85	5.40	6.32	7.33	8.14	9.00
BVPS (ZAR)	18.5	17.6	19.3	22.0	25.0	28.3
Weighted average shares (m)	172	172	173	173	173	173
Average market cap (ZARm)	20,394	21,535	30,236	31,157	31,157	31,157
Enterprise value (ZARm)	20,393	23,944	32,729	33,399	33,247	33,092
Valuation Metrics						
P/E (DB) (x)	18.4	17.1	20.2	18.4	16.5	15.0
P/E (Reported) (x)	18.2	17.1	22.7	18.4	16.5	15.0
P/BV (x)	6.56	7.14	9.56	8.17	7.19	6.35
FCF Yield (%)	1.4	nm	nm	0.5	0.5	0.6
Dividend Yield (%)	4.1	4.3	3.6	4.1	4.5	5.0
EV/Sales (x)	0.4	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	11.3	11.6	12.7	11.6	10.4	9.4
EV/EBIT (x)	12.3	12.7	14.2	13.0	11.6	10.5
Income Statement (ZARm)						
Sales revenue	47,796	55,016	74,060	81,159	88,330	96,493
Gross profit	4,230	5,031	7,168	8,131	8,812	9,588
EBITDA	1,797	2,057	2,577	2,887	3,201	3,532
Depreciation	138	179	269	312	343	377
Amortisation	0	0	0	0	0	0
EBIT	1,659	1,878	2,308	2,575	2,858	3,155
Net interest income(expense)	9	-10	-139	-105	-113	-113
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	11	6	25	0	0	0
Other pre-tax income/(expense)	-10	-24	-211	0	0	0
Profit before tax	1,658	1,844	1,958	2,470	2,745	3,042
Income tax expense	471	499	537	632	703	782
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,198	1,351	1,446	1,839	2,042	2,260
DB adjustments (including dilution)	-10	-24	-211	0	0	0
DB Net profit	1,188	1,327	1,235	1,839	2,042	2,260
Cash Flow (ZARm)						
Cash flow from operations	579	-727	808	775	857	946
Net Capex	-296	-924	-979	-634	-697	-767
Free cash flow	283	-1,651	-171	141	160	179
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-842	-941	-1,082	-1,272	-1,444	-1,601
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-101	-101	162	0	0	0
Net cash flow	-660	-2,693	-1,091	-1,131	-1,284	-1,422
Change in working capital	*-1,022*	*1,208*	*514*	*110*	*-8*	*-24*
Balance Sheet (ZARm)						
Cash and other liquid assets	112	437	481	732	885	1,040
Tangible fixed assets	1,749	2,878	3,221	3,543	3,897	4,287
Goodwill/intangible assets	388	2,726	3,282	3,282	3,282	3,282
Associates/investments	0	0	0	0	0	0
Other assets	7,537	11,082	12,346	12,797	13,877	15,105
Total assets	9,786	17,123	19,330	20,355	21,941	23,714
Interest bearing debt	111	2,846	2,974	2,974	2,974	2,974
Other liabilities	6,497	11,250	13,028	13,590	14,661	15,866
Total liabilities	6,608	14,096	16,002	16,564	17,635	18,840
Shareholders' equity	3,178	3,027	3,328	3,791	4,306	4,875
Minorities	0	0	0	0	0	0
Total shareholders' equity	3,178	3,027	3,328	3,791	4,306	4,875
Net debt	*-1*	*2,409*	*2,493*	*2,242*	*2,089*	*1,934*
Key Company Metrics						
Sales growth (%)	9.7	15.1	34.6	9.6	8.8	9.2
DB EPS growth (%)	13.6	13.5	18.7	13.0	11.1	10.6
EBITDA Margin (%)	3.8	3.7	3.5	3.6	3.6	3.7
EBIT Margin (%)	3.5	3.4	3.1	3.2	3.2	3.3
Payout ratio (%)	69.8	68.9	75.7	69.0	69.0	69.0
ROE (%)	39.8	43.5	45.5	51.7	50.4	49.2
Capex/sales (%)	0.6	1.7	1.3	0.8	0.8	0.8
Capex/depreciation (x)	2.1	5.2	3.6	2.0	2.0	2.0
Net debt/equity (%)	0.0	79.6	74.9	59.1	48.5	39.7
Net interest cover (x)	nm	187.8	16.6	24.6	25.3	27.9

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 7499c | Target price: 9400c | Rating: Buy

Steinhoff International Holdings Ltd

Charlie Muir-Sands

Business description: Steinhoff is a vertically integrated retail group with c.6,500 stores and 50 factory/supply chain locations. Household goods operations (72% profits) consist of furniture retailing in France (Conforama), Germany (POCO), UK (Harveys, Bensons), Switzerland, Australasia and South Africa (JD) plus both internally- and externally-supplying manufacturing, sourcing, logistics and property operations. General merchandise operations (26% profits) cover the Pepkor business acquired in March 2015. This operation consists of South Africa's biggest value fashion retailer (Pep, Ackermann's) with operations in other African countries and Central Europe. The third and smaller Automotive division (2% profits) covers dealerships and car rental in South Africa. Steinhoff also holds a 43% stake in listed industrial group KAP and 27% in diversified financials holding company PSG.

Drivers: The key drivers of future profit growth include:

- **Sales growth in Europe with an improving outlook:** The outlook for consumer demand in most relevant European countries is either solid or improving in 2016. We expect disproportionate growth in the 'big ticket' categories to which Steinhoff's chains are predominantly exposed.
- **Further margin opportunities in core businesses** through increased vertical integration, more low-cost country sourcing, joint sourcing across multiple operating companies, together with closure of underperforming retail stores (Harveys/Bensons) and other restructuring savings (Conforama).
- **Synergies from acquisition of Pepkor.** We expect Steinhoff to drive cost synergies from the acquisition of Pepkor in areas such as the merging of central functions in South Africa and Australia, and in supply chain consolidation. In total we estimate over R6bn/€350m of synergy potential.
- **Rapid continued roll out of Pep, and more modest growth of household goods formats:** Management plans to open 1,500 'general merchandise' stores (mainly Pep) over the next three years in Africa and Europe – an acceleration on the previous pace of growth. In addition we expect continued modest roll out of Conforama (Spain, Portugal, potentially Italy) and POCO (Germany, Netherlands).

Outlook: Despite its South African listing, over 70% of Steinhoff's earnings are directly attributable to its European retail and manufacturing operations. For example, we estimate that France and Germany represent 18% and 17% of group revenues respectively. European household consumption, particularly of 'big ticket' household goods, has been under significant pressure but we expect improvement through 2015 with Steinhoff geared to this recovery. Steinhoff's acquisition of Pepkor in 2015 provides expansion opportunities as its main chains continue to be rolled out in Africa and Central Europe whilst Steinhoff's existing infrastructure and footprint should allow it to accelerate its expansion into Western Europe too. Steinhoff also has a number of favourable margin drivers including: a) cost synergies from the acquisition of Pepkor (completed) and Kika-Leiner (pending), b) increasing freehold ownership, c) active management of product mix, d) pre-existing group supply chain and sourcing initiatives. Steinhoff is midway through a five-year programme to exploit group synergies of increased direct and common sourcing. With good TSR potential and supported by a 6% equity FCF yield we rate the shares a Buy.

Valuation: We use a sum-of-the-parts methodology to set our R94/€6 price target. We place the main European retail assets on 14-17x calendar 2016 NOPAT, Pepkor on 20x (both with reference to listed peers), sourcing and manufacturing on 15x and property on 6.6% equivalent yield. We value Steinhoff's stakes in JD Group, KAP Industrial and PSG at current market valuation.

Risks: The main downside risks include: depreciation of EUR/ZAR; a weaker recovery in European consumer demand than we allow for; slower pace of store roll-out, particularly in Pepkor or failure to deliver the synergies we expect from the acquisition.

Model updated:04 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Steinhoff

Reuters: SNHJ.J Bloomberg: SNH SJ

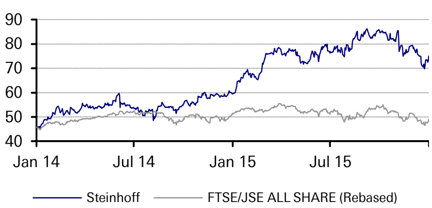
Buy

Price (28 Jan 16)	ZAR 74.99
Target Price	ZAR 94.00
52 Week range	ZAR 59.70 - 86.20
Market Cap (m)	ZARm 285,585
	USDm 17,625

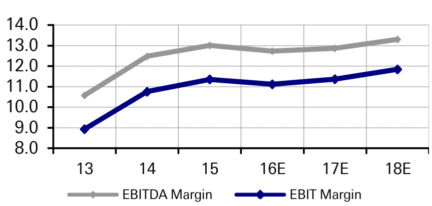
Company Profile

Steinhoff International is a major retailer and manufacturer of furniture & homewares in Europe, South Africa and Australasia with over 6,500 stores and 50 factory locations. In 2015 the company acquired Pepkor, a major value fashion retailer in South Africa and Poland. In addition the group owns a 45% stake in KAP Industrial (manufacturing & logistics in southern Africa) and 25% of PSG Group (diversified financials). The company plans to move its main stock market listing from Johannesburg to Frankfurt by December 2015.

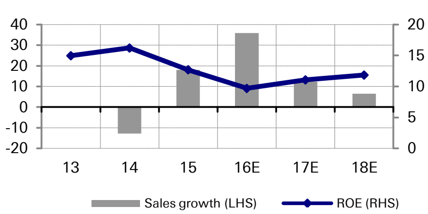
Price Performance



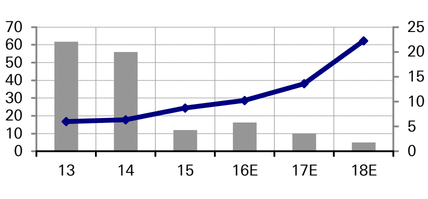
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (EUR)	0.29	0.28	0.31	0.30	0.35	0.40
Reported EPS (EUR)	0.28	0.32	0.36	0.30	0.35	0.40
DPS (EUR)	0.06	0.10	0.11	0.13	0.18	0.21
BVPS (EUR)	2.4	2.7	3.5	3.3	3.5	3.8
Weighted average shares (m)	1,820	1,977	2,737	3,808	3,860	3,860
Average market cap (EURm)	4,135	5,985	12,416	16,111	16,111	16,111
Enterprise value (EURm)	7,346	8,281	12,399	16,547	15,757	15,000
Valuation Metrics						
P/E (DB) (x)	7.8	10.8	14.8	14.0	12.0	10.5
P/E (Reported) (x)	8.1	9.4	12.5	14.0	12.0	10.5
P/BV (x)	0.81	1.53	1.61	1.27	1.20	1.13
FCF Yield (%)	3.6	15.5	11.4	4.6	7.1	8.0
Dividend Yield (%)	2.7	3.4	2.3	3.0	4.3	5.0
EV/Sales (x)	0.8	1.0	1.3	1.2	1.1	0.9
EV/EBITDA (x)	7.3	8.0	9.7	9.7	8.2	7.1
EV/EBIT (x)	8.6	9.3	11.1	11.2	9.3	7.9
Income Statement (EURm)						
Sales revenue	9,549	8,321	9,818	13,339	14,983	15,962
Gross profit	4,008	2,972	3,518	4,764	5,352	5,701
EBITDA	1,010	1,038	1,277	1,698	1,928	2,123
Depreciation	157	143	162	215	225	233
Amortisation	0	0	0	0	0	0
EBIT	853	895	1,115	1,483	1,703	1,890
Net interest income(expense)	-142	-141	-128	-145	-125	-85
Associates/affiliates	21	21	41	81	88	97
Exceptionals/extraordinaries	-28	106	182	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	704	881	1,210	1,419	1,666	1,903
Income tax expense	84	139	96	220	250	285
Minorities	30	8	6	0	0	0
Other post-tax income/(expense)	-24	-19	-18	-27	-27	-27
Net profit	566	715	1,090	1,172	1,389	1,590
DB adjustments (including dilution)	108	-18	-97	77	77	77
DB Net profit	674	697	993	1,249	1,466	1,667
Cash Flow (EURm)						
Cash flow from operations	742	1,273	1,761	1,127	1,555	1,733
Net Capex	-594	-346	-344	-382	-402	-427
Free cash flow	148	927	1,417	746	1,152	1,305
Equity raised/(bought back)	-29	-7	1,407	-800	0	0
Dividends paid	-61	-129	-286	-364	-424	-618
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-123	-1,443	-1,164	-116	-27	-27
Net cash flow	-65	-652	1,374	-535	702	660
Change in working capital	*-95*	*313*	*596*	*-206*	*2*	*-20*
Balance Sheet (EURm)						
Cash and other liquid assets	1,480	1,556	3,592	3,057	3,759	4,419
Tangible fixed assets	3,648	3,733	4,296	4,507	4,684	4,879
Goodwill/intangible assets	4,678	4,536	9,955	10,000	10,000	10,000
Associates/investments	290	1,003	1,663	1,744	1,832	1,930
Other assets	2,677	3,053	3,603	4,129	4,596	4,896
Total assets	12,773	13,881	23,109	23,437	24,872	26,123
Interest bearing debt	4,466	4,748	5,157	5,157	5,157	5,157
Other liabilities	3,477	3,436	4,961	5,340	6,004	6,373
Total liabilities	7,943	8,184	10,118	10,497	11,161	11,530
Shareholders' equity	4,315	5,590	12,910	12,859	13,629	14,512
Minorities	515	107	81	81	81	81
Total shareholders' equity	4,830	5,697	12,991	12,940	13,710	14,593
Net debt	*2,986*	*3,192*	*1,565*	*2,100*	*1,398*	*738*
Key Company Metrics						
Sales growth (%)	nm	-12.9	18.0	35.9	12.3	6.5
DB EPS growth (%)	na	-4.2	9.6	-1.5	16.9	13.8
EBITDA Margin (%)	10.6	12.5	13.0	12.7	12.9	13.3
EBIT Margin (%)	8.9	10.8	11.4	11.1	11.4	11.8
Payout ratio (%)	19.9	28.4	26.6	40.0	50.0	50.0
ROE (%)	15.0	16.2	12.7	9.7	11.1	11.8
Capex/sales (%)	6.5	4.5	3.7	2.9	2.7	2.7
Capex/depreciation (x)	3.9	2.6	2.2	1.8	1.8	1.8
Net debt/equity (%)	61.8	56.0	12.0	16.2	10.2	5.1
Net interest cover (x)	6.0	6.3	8.7	10.2	13.6	22.2

Source: Company data, Deutsche Bank estimates

Charlie Muir-Sands, CFA
+44 20 754-75749 charlie.muir-sands@db.com

South Africa – Transport | Price (28 January 2016): 3834c | Target price: 4100c | Rating: Buy

Super Group Ltd

John Kim

Business description: Super Group is involved in a broad range of wheels-related businesses with a focus on logistics, transport and fleet management services. The long-term vision of the company is to be the leading supply chain management company in Africa with recent investment focused offshore in Europe (UK/Germany) and indirectly Australia (SG Fleet/NCL)

Supply Chain (34% of FY15 EBIT): This division focuses on distribution of fast-moving consumer goods (FMCG), auto parts, and mining equipment/spares, while its freight and staple foods business handles a number of large agricultural and industrial contracts. The division comprises 14 segments, each with its own niche brand. Its focus on niche products/services has helped to grow revenue (CAGR of c.32% since FY10).

African Logistics (2% of EBIT): The group's sub-Saharan African interests operating between South Africa, Zimbabwe, Zambia, Malawi, DR Congo, and Mozambique. It provides long-distance, cross-border transport, freight clearing and forwarding, third-party distribution, and transport brokerage—mostly commodity-related transport.

FleetAfrica (8% of EBIT): FleetAfrica is a provider of fleet solutions in southern Africa, with its Level 2 B-BBEE rating playing an important role in securing government contracts. It offers a range of fleet leasing options on vehicles ranging from passenger vehicles to trucks, fire-engines to ambulances, and a variety of specialised vehicles.

SG Fleet/NCL (37% of EBIT): SG Fleet Group Limited (SGF.AX/SGF:AU) is a significant player in the international fleet management and leasing industry, with operations in Australia, New Zealand, and United Kingdom. SGF offers businesses and governments a range of vehicle fleet management services partnering with lenders (off-balance sheet). All provide purchasing, disposal, and reporting services, as well as management of maintenance, registration, fuel, and tolls.

Dealerships (17% of EBIT): The division has 44 motor dealerships (40 passenger and four commercial vehicle) that comprise 28 franchised OEM brands. These dealerships are based in Gauteng, North West Province, and Mpumalanga. Approximately two-thirds of sales are passenger vehicles, with the remainder comprising light, medium, and heavy commercial vehicles. Recent M&A has expanded the regional footprint to the United Kingdom (Allen Ford).

Drivers: Super Group has grown both organically and through M&A over recent years with continued acquisition an important potential component of growth. Within South Africa, GDP growth is material (has a multiplier effect on the transport industry). Given the size of its recent offshore deals, continued performance of SG Fleet and InTIME Logistics may be important to the longer-term growth profile for the company. In Fleet Leasing, changing trends toward fleet management by corporate and government players are important in both Australia and South Africa. We see this as a key theme where corporates are moving away from ownership and operation of non-core assets.

Outlook: We look for Super Group to continue its stated strategy of investing/acquiring outside of Africa as domestic growth has been challenging. While South Africa suffers from weak macro-economic conditions, Super Group offers a hard currency underpin from its Australian investment in SG Fleet and continued earnings growth and diversification from overseas acquisitions. The company has been acquisitive - adding materially to earnings over the last few years. We expect this trend to continue in the medium term, which adds potential upside to our valuation. Buy.

Valuation: We value Super Group using four separate methodologies: discounted free cash flow (DCF), sum-of-the-parts (SOTP), P/E relative and multiples analysis of comparable companies. We weight these methodologies equally, reflecting our view of their applicability to Super Group's share price and valuation. On a P/E relative, we value Super Group at a P/E relative of c0.76 to the JSE Industrial Index. Using trading multiples of comparable companies, we value the group at a c12.3x FY16E P/E multiple, in line with its peers. Our risk-free rate is derived from a long-term risk-free rate of 8.4%, an equity-specific risk premium of 4.5%, and a beta of 1.2x for Super Group. We value Super Group on a sum-of-the-parts basis to derive the final estimate by applying rolling EBIT multiples to the various divisions excluding SG Fleet, which we value based on Super Group's share of its overall market capitalisation.

Risks: Key risks to our target being achieved include: 1) inability to grow earnings organically or through acquisitions in the medium to long term; and 2) weakness in larger divisions such as SG Fleet and the South African Supply Chain division. Additional downside risks include: 1) general exposure to a slowing South African economy (power shortages/outages, weaker consumer spending); 2) continued weakness in relevant commodities; 3) major contract losses; and 4) appreciation of the rand.

Model updated:18 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

Industrial Transportation

Super Group

Reuters: SPGJ.J Bloomberg: SPG SJ

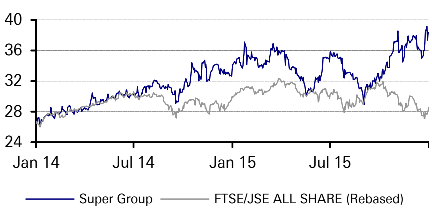
Buy

Price (28 Jan 16)	ZAR 38.34
Target Price	ZAR 41.00
52 Week range	ZAR 28.92 - 39.13
Market Cap (m)	ZARm 12,299
	USDm 759

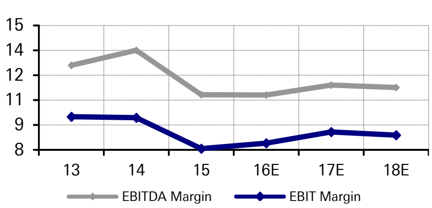
Company Profile

Super Group is a leading transport logistics and mobility group providing end-to-end supply chain solutions, fleet management and dealership services to a diversified global customer base. Super Group comprises supply chain and mobility businesses focused on offering a comprehensive range of services, utilising world-class skills and technology.

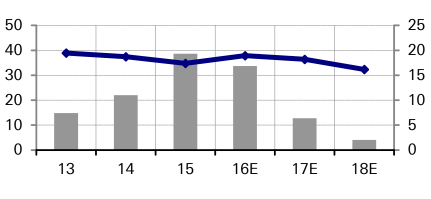
Price Performance



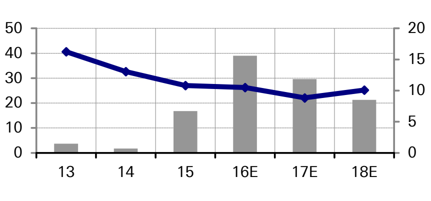
Margin Trends



Growth & Profitability



Solvency



John Kim
+27 11 775-7013 john.kim-sa@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	2.13	2.42	2.65	3.39	3.86	3.88
Reported EPS (ZAR)	2.12	2.42	2.64	3.39	3.86	3.88
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	12.2	14.4	16.8	20.2	23.0	25.9
Weighted average shares (m)	289	293	298	321	332	332
Average market cap (ZARm)	5,476	7,657	9,755	12,299	12,299	12,299
Enterprise value (ZARm)	6,383	8,657	11,527	17,255	17,220	17,061
Valuation Metrics						
P/E (DB) (x)	8.9	10.8	12.4	11.3	9.9	9.9
P/E (Reported) (x)	8.9	10.8	12.4	11.3	9.9	9.9
P/BV (x)	1.90	2.12	1.88	1.90	1.66	1.48
FCF Yield (%)	2.8	8.8	1.4	1.3	6.1	7.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	0.5	0.6	0.6	0.7	0.6	0.5
EV/EBITDA (x)	4.3	4.5	5.4	6.0	5.1	4.9
EV/EBIT (x)	5.7	6.4	7.7	8.2	6.7	6.5
Income Statement (ZARm)						
Sales revenue	11,718	14,297	19,818	26,501	29,891	31,104
Gross profit	11,718	14,297	19,818	26,501	29,891	31,104
EBITDA	1,476	1,930	2,145	2,863	3,409	3,503
Depreciation	339	529	576	676	740	784
Amortisation	25	52	69	93	105	110
EBIT	1,113	1,349	1,501	2,094	2,564	2,609
Net interest income(expense)	-68	-103	-139	-199	-290	-258
Associates/affiliates	1	1	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	-813	0
Other pre-tax income/(expense)	22	-4	1	0	813	0
Profit before tax	1,067	1,242	1,364	1,894	2,273	2,350
Income tax expense	251	305	322	474	591	658
Minorities	179	209	234	308	373	376
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	638	730	808	1,113	1,309	1,316
DB adjustments (including dilution)	2	-1	1	0	0	0
DB Net profit	640	729	809	1,113	1,309	1,316
Cash Flow (ZARm)						
Cash flow from operations	734	1,523	1,627	2,044	2,312	2,334
Net Capex	-580	-849	-1,491	-1,879	-1,531	-1,422
Free cash flow	154	674	136	165	781	912
Equity raised/(bought back)	-59	-64	-76	0	0	0
Dividends paid	0	-256	-136	0	0	0
Net inc/(dec) in borrowings	184	110	590	3,341	-351	-458
Other investing/financing cash flows	-183	-631	-474	-2,256	114	-19
Net cash flow	96	-167	40	1,250	543	435
Change in working capital	*-286*	*-90*	*-102*	*-109*	*-216*	*-252*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,873	2,040	2,123	3,373	3,940	4,079
Tangible fixed assets	3,060	3,420	4,379	5,395	6,034	6,545
Goodwill/intangible assets	1,980	2,088	2,696	6,208	6,255	6,272
Associates/investments	4	44	134	134	134	134
Other assets	3,640	4,579	5,959	8,164	9,113	9,665
Total assets	10,557	12,171	15,291	23,273	25,476	26,694
Interest bearing debt	2,031	2,131	3,118	6,689	6,848	6,451
Other liabilities	4,241	4,818	6,178	8,021	8,754	9,053
Total liabilities	6,273	6,949	9,296	14,709	15,603	15,505
Shareholders' equity	3,532	4,269	5,022	6,728	7,665	8,605
Minorities	752	953	911	1,774	2,147	2,523
Total shareholders' equity	4,284	5,221	5,933	8,502	9,811	11,127
Net debt	*159*	*91*	*995*	*3,316*	*2,908*	*2,372*
Key Company Metrics						
Sales growth (%)	14.8	22.0	38.6	33.7	12.8	4.1
DB EPS growth (%)	22.1	13.7	9.4	28.2	13.8	0.5
EBITDA Margin (%)	12.6	13.5	10.8	10.8	11.4	11.3
EBIT Margin (%)	9.5	9.4	7.6	7.9	8.6	8.4
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	19.5	18.7	17.4	18.9	18.2	16.2
Capex/sales (%)	8.0	8.5	7.5	7.1	5.1	4.6
Capex/depreciation (x)	2.6	2.1	2.3	2.4	1.8	1.6
Net debt/equity (%)	3.7	1.7	16.8	39.0	29.6	21.3
Net interest cover (x)	16.3	13.1	10.8	10.5	8.8	10.1

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial | Price (28 January 2016): 35494c | Target price: 37400c | 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, 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: (42% of FY15 trading profit) has operations in Australia, New Zealand, the UK, Benelux and Eastern Europe as well as China. Recent acquisitions include operations in Italy and specialist businesses in the UK.
- Bidfreight (11%). 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 (6%). 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%) 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%) 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 (4% 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 FY16E. Bidvest operates a diversified business model: while five of Bidvest's 12 divisions account for c.70% 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 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.40% 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. The challenge will be improving margins in South Africa while continuing to grow Foodservice with minimal price inflation. We rate the shares Buy given share price performance and forex forecasts.

Valuation: We value Bidvest using a weighted methodology including trading multiples of comparable companies and SOTP using FY16 estimates using a 20% and 80% weighting respectively. 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.

Model updated:18 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Bidvest

Reuters: BVTJ.J Bloomberg: BVT SJ

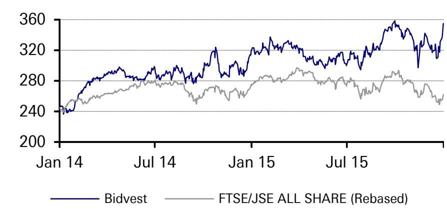
Buy

Price (28 Jan 16)	ZAR 354.94
Target Price	ZAR 374.00
52 Week range	ZAR 294.44 - 358.43
Market Cap (m)	ZARm 115,030
	USDm 7,099

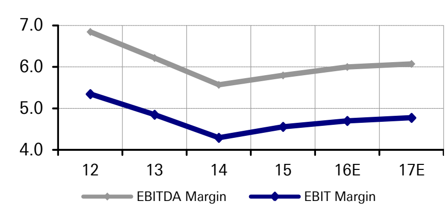
Company Profile

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.

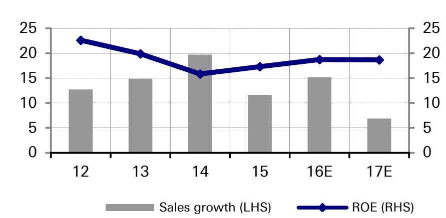
Price Performance



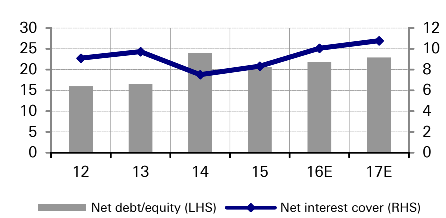
Margin Trends



Growth & Profitability



Solvency



John Kim
+27 11 775-7013 john.kim-sa@db.com

Fiscal year end 30-Jun	2012	2013	2014	2015	2016E	2017E
Financial Summary						
DB EPS (ZAR)	14.71	15.52	17.23	18.72	21.79	23.64
Reported EPS (ZAR)	14.71	15.52	14.53	18.17	21.79	23.64
DPS (ZAR)	6.22	7.20	8.34	9.09	10.53	11.43
BVPS (ZAR)	69.7	84.4	100.9	112.7	121.7	133.5
Weighted average shares (m)	310	313	315	323	324	325
Average market cap (ZARm)	48,694	67,768	82,845	97,792	115,030	115,030
Enterprise value (ZARm)	49,279	68,425	84,275	97,764	116,290	117,850
Valuation Metrics						
P/E (DB) (x)	10.7	14.0	15.3	16.2	16.3	15.0
P/E (Reported) (x)	10.7	14.0	18.1	16.7	16.3	15.0
P/BV (x)	2.53	2.90	2.80	2.73	2.92	2.66
FCF Yield (%)	8.5	3.1	3.8	4.2	4.1	5.0
Dividend Yield (%)	4.0	3.3	3.2	3.0	3.0	3.2
EV/Sales (x)	0.4	0.4	0.5	0.5	0.5	0.5
EV/EBITDA (x)	5.4	7.2	8.2	8.2	8.2	7.7
EV/EBIT (x)	6.9	9.2	10.7	10.5	10.5	9.8
Income Statement (ZARm)						
Sales revenue	133,534	153,405	183,645	204,916	236,016	252,247
Gross profit	27,292	30,365	59,397	65,349	47,351	50,785
EBITDA	9,142	9,536	10,227	11,877	14,160	15,321
Depreciation	1,875	1,964	2,196	2,378	2,873	3,071
Amortisation	127	133	149	162	195	209
EBIT	7,140	7,439	7,882	9,337	11,091	12,042
Net interest income(expense)	-785	-765	-1,048	-1,120	-1,103	-1,117
Associates/affiliates	77	162	110	218	340	316
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	6,433	6,836	6,944	8,435	10,328	11,241
Income tax expense	1,695	1,784	2,107	2,276	2,892	3,147
Minorities	295	280	233	261	336	359
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,443	4,772	4,603	5,898	7,100	7,734
DB adjustments (including dilution)	-246	0	735	36	0	0
DB Net profit	4,197	4,772	5,339	5,934	7,100	7,734
Cash Flow (ZARm)						
Cash flow from operations	6,641	4,893	7,244	8,390	8,924	10,735
Net Capex	-2,483	-2,771	-4,109	-4,300	-4,235	-4,904
Free cash flow	4,158	2,122	3,134	4,090	4,690	5,830
Equity raised/(bought back)	281	182	382	645	0	0
Dividends paid	-2,063	-2,227	-1,873	-1,956	-3,615	-3,934
Net inc/(dec) in borrowings	-115	2,278	698	-478	0	0
Other investing/financing cash flows	-454	122	-3,872	-2,043	-1,594	-3,313
Net cash flow	1,806	2,477	-1,531	258	-520	-1,417
Change in working capital	*-280*	*-2,124*	*-993*	*-585*	*-1,581*	*-638*
Balance Sheet (ZARm)						
Cash and other liquid assets	5,871	8,453	8,839	7,813	6,660	5,243
Tangible fixed assets	12,446	13,873	16,272	18,301	20,061	22,702
Goodwill/intangible assets	8,311	9,880	13,370	15,661	16,510	18,655
Associates/investments	4,000	5,067	7,717	9,132	9,132	9,132
Other assets	25,267	29,405	34,778	38,954	44,738	47,808
Total assets	55,895	66,678	80,975	89,861	97,101	103,540
Interest bearing debt	9,487	13,000	16,755	15,579	15,579	15,579
Other liabilities	23,809	26,128	31,209	36,572	40,624	42,903
Total liabilities	33,296	39,128	47,964	52,151	56,203	58,482
Shareholders' equity	21,630	26,374	31,781	36,372	39,426	43,442
Minorities	969	1,177	1,230	1,338	1,472	1,616
Total shareholders' equity	22,599	27,551	33,011	37,710	40,898	45,058
Net debt	*3,615*	*4,547*	*7,917*	*7,766*	*8,919*	*10,336*
Key Company Metrics						
Sales growth (%)	12.7	14.9	19.7	11.6	15.2	6.9
DB EPS growth (%)	27.5	5.5	11.0	8.6	16.4	8.5
EBITDA Margin (%)	6.8	6.2	5.6	5.8	6.0	6.1
EBIT Margin (%)	5.3	4.8	4.3	4.6	4.7	4.8
Payout ratio (%)	42.2	46.1	57.1	49.7	48.1	48.1
ROE (%)	22.6	19.9	15.8	17.3	18.7	18.7
Capex/sales (%)	2.9	2.6	3.0	2.8	2.2	2.5
Capex/depreciation (x)	2.0	1.9	2.4	2.3	1.7	1.9
Net debt/equity (%)	16.0	16.5	24.0	20.6	21.8	22.9
Net interest cover (x)	9.1	9.7	7.5	8.3	10.1	10.8

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 11893c | Target price: 17200c | 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 bad debts.

- 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:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

The Foschini Group Ltd

Reuters: TFGJ.J | Bloomberg: TFG SJ

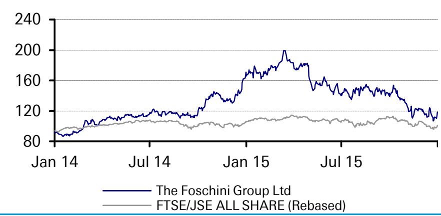
Buy

Price (28 Jan 16)	ZAR 118.93
Target Price	ZAR 172.00
52 Week range	ZAR 107.00 - 199.00
Market Cap (m)	ZARm 24,619
	USDm 1,519

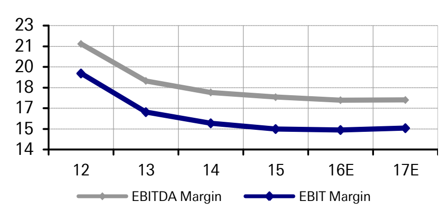
Company Profile

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

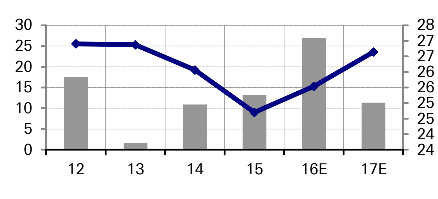
Price Performance



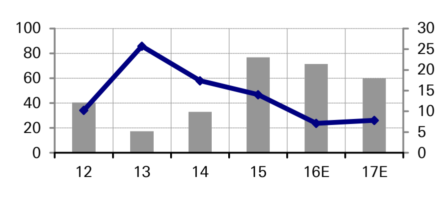
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Mar	2012	2013	2014	2015	2016E	2017E
Financial Summary						
DB EPS (ZAR)	7.66	8.51	9.03	8.90	10.27	11.71
Reported EPS (ZAR)	7.66	8.51	9.03	8.97	10.27	11.71
DPS (ZAR)	4.55	5.06	5.36	5.88	6.78	7.73
BVPS (ZAR)	26.2	29.3	30.1	33.8	36.9	40.4
Weighted average shares (m)	205	209	206	207	207	207
Average market cap (ZARm)	19,946	26,660	20,907	26,876	24,619	24,619
Enterprise value (ZARm)	23,301	28,712	24,428	33,122	30,959	30,422
Valuation Metrics						
P/E (DB) (x)	12.7	15.0	11.2	14.6	11.6	10.2
P/E (Reported) (x)	12.7	15.0	11.2	14.5	11.6	10.2
P/BV (x)	4.73	3.85	3.56	5.34	3.22	2.95
FCF Yield (%)	3.5	2.4	0.8	nm	2.5	2.9
Dividend Yield (%)	4.7	4.0	5.3	4.5	5.7	6.5
EV/Sales (x)	1.6	1.9	1.5	1.8	1.3	1.2
EV/EBITDA (x)	7.6	10.5	8.5	10.3	7.7	6.8
EV/EBIT (x)	8.4	12.0	9.7	11.9	8.8	7.7
Income Statement (ZARm)						
Sales revenue	14,505	14,742	16,346	18,514	23,502	26,163
Gross profit	7,755	7,836	8,767	10,030	13,199	14,628
EBITDA	3,072	2,726	2,886	3,205	4,017	4,476
Depreciation	311	334	366	428	509	535
Amortisation	0	0	0	0	0	0
EBIT	2,761	2,392	2,520	2,777	3,509	3,941
Net interest income(expense)	-269	-93	-145	-198	-493	-503
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	10	0	0	-292	0	0
Profit before tax	2,502	2,299	2,375	2,287	3,015	3,438
Income tax expense	810	669	692	749	844	963
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	1,897	2,171	2,475
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,582	1,792	1,860	1,897	2,171	2,475
Cash Flow (ZARm)						
Cash flow from operations	1,227	1,220	706	472	1,245	1,375
Net Capex	-537	-573	-537	-1,780	-623	-656
Free cash flow	689	647	169	-1,308	622	719
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-847	-1,009	-1,087	-1,181	-1,349	-1,545
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	933	-1,556	1,022	4,082	235	161
Net cash flow	775	-1,918	104	1,593	-491	-665
Change in working capital	*-1,251*	*787*	*-1,506*	*-3,126*	*-720*	*-182*
Balance Sheet (ZARm)						
Cash and other liquid assets	711	593	301	800	938	1,636
Tangible fixed assets	1,313	1,548	1,696	2,197	2,312	2,432
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	15,536	16,318	16,850
Total assets	12,856	15,294	17,103	18,533	19,568	20,919
Interest bearing debt	3,495	1,939	2,961	7,043	7,278	7,440
Other liabilities	2,497	5,605	6,052	3,356	3,419	3,769
Total liabilities	5,992	7,544	9,013	10,399	10,697	11,209
Shareholders' equity	6,293	7,044	7,229	8,131	8,870	9,710
Minorities	571	706	861	3	0	0
Total shareholders' equity	6,864	7,750	8,090	8,134	8,870	9,710
Net debt	*2,784*	*1,346*	*2,660*	*6,243*	*6,341*	*5,803*
Key Company Metrics						
Sales growth (%)	17.5	1.6	10.9	13.3	26.9	11.3
DB EPS growth (%)	23.6	11.1	6.1	-1.4	15.4	14.0
EBITDA Margin (%)	21.2	18.5	17.7	17.3	17.1	17.1
EBIT Margin (%)	19.0	16.2	15.4	15.0	14.9	15.1
Payout ratio (%)	59.0	59.1	59.4	64.2	64.7	64.7
ROE (%)	26.9	26.9	26.1	24.7	25.5	26.6
Capex/sales (%)	3.7	3.9	3.3	9.6	2.7	2.5
Capex/depreciation (x)	1.7	1.7	1.5	4.2	1.2	1.2
Net debt/equity (%)	40.6	17.4	32.9	76.8	71.5	59.8
Net interest cover (x)	10.3	25.7	17.4	14.0	7.1	7.8

Source: Company data, Deutsche Bank estimates

Sean Holmes
+27 011 775-7292 sean.holmes@db.com

South Africa – General Retailers | Price (28 January 2016): 9304c | Target price: 12300c | 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 e.g. 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.
- Accretive acquisition: The Office Retail acquisition could add c.10% to the group's earnings and help diversify the group's earnings.
- 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% p.a. over the short/medium term.

Outlook: We see Truworths growing its diluted HEPS at a CAGR of 12-17% over the next 4-5 years. A cyclical recovery in bad debts and credit sales could underpin earnings growth, while merchandise improvements might contribute to better GP margins in the near term. The Office Retail acquisition will help diversify the group's revenue base and could provide the group with further growth opportunities outside South Africa. We calculate the Office Retail acquisition could be 12% EPS accretive. Buy.

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: GP margin from currency volatility poses the biggest risk to our earnings forecast and valuation. The group is susceptible to rising bad debts should the macro environment deteriorated. In our view, Truworths might be at more risk than some of its peers should competition from international retailers increase considering their higher price points and target market.

Model updated:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Truworths

Reuters: TRUJ.J   Bloomberg: TRU SJ

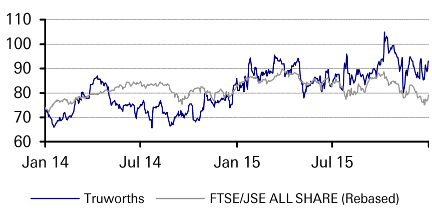
Buy

Price (28 Jan 16)	ZAR 93.04
Target Price	ZAR 123.00
52 Week range	ZAR 78.00 - 105.00
Market Cap (m)	ZARm 38,714
	USDm 2,389

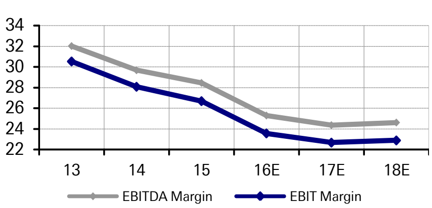
Company Profile

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).

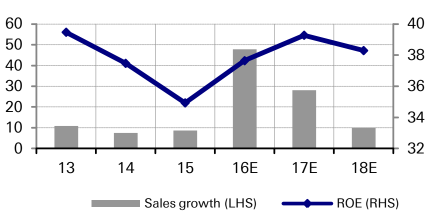
Price Performance



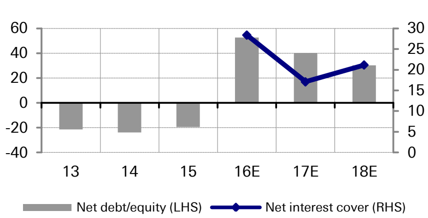
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292   sean.holmes@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	5.61	5.69	5.92	7.30	8.84	9.94
Reported EPS (ZAR)	5.61	5.69	5.92	7.30	8.84	9.94
DPS (ZAR)	3.62	3.85	4.05	4.99	6.04	6.80
BVPS (ZAR)	13.8	14.7	16.6	19.3	22.4	25.7
Weighted average shares (m)	422	418	416	416	416	416
Average market cap (ZARm)	40,518	33,843	33,103	38,714	38,714	38,714
Enterprise value (ZARm)	39,193	32,255	31,641	43,284	42,766	42,221
Valuation Metrics						
P/E (DB) (x)	17.1	14.2	13.4	12.7	10.5	9.4
P/E (Reported) (x)	17.1	14.2	13.4	12.7	10.5	9.4
P/BV (x)	6.30	5.09	5.15	4.83	4.16	3.62
FCF Yield (%)	0.4	1.0	1.3	nm	3.0	3.2
Dividend Yield (%)	3.8	4.8	5.1	5.4	6.5	7.3
EV/Sales (x)	3.7	2.8	2.5	2.3	1.8	1.6
EV/EBITDA (x)	11.4	9.4	8.9	9.2	7.4	6.6
EV/EBIT (x)	12.0	10.0	9.5	9.9	8.0	7.1
Income Statement (ZARm)						
Sales revenue	10,715	11,521	12,518	18,498	23,708	26,125
Gross profit	6,504	6,904	7,458	10,588	13,337	14,716
EBITDA	3,432	3,420	3,563	4,682	5,779	6,435
Depreciation	160	184	221	320	401	452
Amortisation	0	0	0	0	0	0
EBIT	3,272	3,236	3,342	4,361	5,378	5,982
Net interest income(expense)	94	121	95	-154	-315	-283
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	4	11	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	3,366	3,357	3,437	4,208	5,063	5,700
Income tax expense	958	951	977	1,161	1,376	1,551
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,408	2,410	2,471	3,047	3,688	4,149
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,408	2,410	2,471	3,047	3,688	4,149
Cash Flow (ZARm)						
Cash flow from operations	398	607	1,083	2,287	1,808	1,938
Net Capex	-242	-267	-644	-6,930	-658	-697
Free cash flow	156	340	439	-4,643	1,150	1,241
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,471	-1,588	-1,657	-1,867	-2,281	-2,663
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	0	0	0	4,644	0	0
Net cash flow	-1,315	-1,248	-1,218	-1,866	-1,131	-1,422
Change in working capital	*-382*	*-80*	*-502*	*-1,389*	*-632*	*-697*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,325	1,588	1,462	74	592	1,137
Tangible fixed assets	857	934	1,053	2,044	2,291	2,526
Goodwill/intangible assets	193	196	563	5,395	5,405	5,414
Associates/investments	0	0	0	0	0	0
Other assets	4,896	5,358	6,079	8,741	9,673	10,667
Total assets	7,271	8,076	9,157	16,254	17,961	19,744
Interest bearing debt	0	0	0	4,644	4,644	4,644
Other liabilities	1,052	1,434	1,653	2,926	3,226	3,523
Total liabilities	1,052	1,434	1,653	7,570	7,870	8,167
Shareholders' equity	6,219	6,642	7,504	8,684	10,091	11,576
Minorities	0	0	0	0	0	0
Total shareholders' equity	6,219	6,642	7,504	8,684	10,091	11,576
Net debt	*-1,325*	*-1,588*	*-1,462*	*4,570*	*4,052*	*3,507*
Key Company Metrics						
Sales growth (%)	10.8	7.5	8.7	47.8	28.2	10.2
DB EPS growth (%)	8.5	1.5	4.0	23.3	21.0	12.5
EBITDA Margin (%)	32.0	29.7	28.5	25.3	24.4	24.6
EBIT Margin (%)	30.5	28.1	26.7	23.6	22.7	22.9
Payout ratio (%)	63.4	66.7	68.2	68.2	68.2	68.2
ROE (%)	39.5	37.5	34.9	37.6	39.3	38.3
Capex/sales (%)	2.3	2.3	5.1	37.5	2.8	2.7
Capex/depreciation (x)	1.5	1.5	2.9	21.6	1.6	1.5
Net debt/equity (%)	-21.3	-23.9	-19.5	52.6	40.2	30.3
Net interest cover (x)	nm	nm	nm	28.4	17.1	21.2

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (28 January 2016): 9002c | Target price: 11900c | 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 David Jones 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 limited scope for GP margins to improve, but further market share gains and improved cost efficiencies could underpin EBIT margins in the SA business.
- Margin upside in David Jones: The Australian business will contribute c.45% to group EBIT. We see room for this business to lift its EBIT margin to 10-12% over the medium term (FY15: 8%), help improve 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 – therefore, we think the robust free cash outlook could underpin the counter's rating and continue to support superior share price performance. It is worth remembering 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 24 month rolling forward 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 (9.4%) 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 that 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 conditions 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:21 January 2016

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Woolworths Holdings Ltd

Reuters: WHLJ.J Bloomberg: WHL SJ

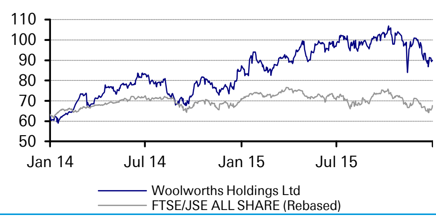
Buy

Price (28 Jan 16)	ZAR 90.02
Target Price	ZAR 119.00
52 Week range	ZAR 82.37 - 106.88
Market Cap (m)	ZARm 83,431
	USDm 5,149

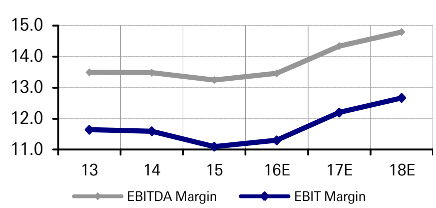
Company Profile

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

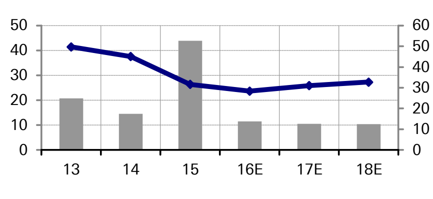
Price Performance



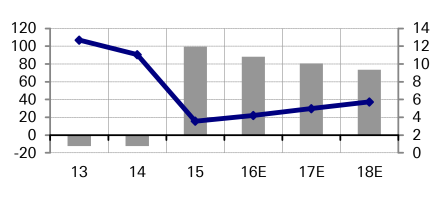
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
+27 011 775-7292 sean.holmes@db.com

Fiscal year end 30-Jun	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (ZAR)	3.38	3.75	4.16	4.54	5.48	6.41
Reported EPS (ZAR)	3.29	3.44	3.67	4.54	5.48	6.41
DPS (ZAR)	2.34	2.40	2.47	3.06	3.69	4.31
BVPS (ZAR)	7.6	8.7	15.3	16.8	18.6	20.7
Weighted average shares (m)	747	794	894	927	927	927
Average market cap (ZARm)	48,804	56,003	74,108	83,431	83,431	83,431
Enterprise value (ZARm)	48,359	55,455	88,381	97,308	97,506	97,704
Valuation Metrics						
P/E (DB) (x)	19.3	18.8	19.9	19.8	16.4	14.0
P/E (Reported) (x)	19.9	20.5	22.6	19.8	16.4	14.0
P/BV (x)	8.50	8.95	6.44	5.35	4.84	4.35
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	3.6	3.4	3.0	3.4	4.1	4.8
EV/Sales (x)	1.3	1.3	1.5	1.4	1.3	1.2
EV/EBITDA (x)	9.8	9.8	11.1	10.7	9.1	8.0
EV/EBIT (x)	11.3	11.4	13.2	12.8	10.8	9.4
Income Statement (ZARm)						
Sales revenue	36,615	41,933	60,343	67,277	74,359	82,116
Gross profit	15,288	17,724	26,987	30,034	33,261	36,769
EBITDA	4,941	5,653	7,994	9,057	10,663	12,150
Depreciation	678	791	1,297	1,454	1,593	1,745
Amortisation	0	0	0	0	0	0
EBIT	4,263	4,862	6,697	7,603	9,070	10,404
Net interest income(expense)	-336	-440	-1,875	-1,805	-1,823	-1,816
Associates/affiliates	-319	-322	-392	-392	-607	-734
Exceptionals/extraordinaries	73	-16	290	0	0	0
Other pre-tax income/(expense)	-71	4	2	566	566	566
Profit before tax	3,537	4,104	4,432	5,971	7,206	8,420
Income tax expense	993	1,114	1,312	1,729	2,086	2,435
Minorities	-41	-102	-4	0	0	0
Other post-tax income/(expense)	62	103	99	0	0	0
Net profit	2,514	2,769	3,307	4,242	5,120	5,985
DB adjustments (including dilution)	71	-4	-2	-566	-566	-566
DB Net profit	2,585	2,765	3,305	3,676	4,554	5,419
Cash Flow (ZARm)						
Cash flow from operations	2,043	1,806	8,642	2,843	3,270	3,705
Net Capex	-2,294	-2,090	-25,040	-3,566	-3,700	-4,071
Free cash flow	-251	-284	-16,398	-724	-430	-366
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,789	-1,932	-2,226	-2,853	-3,443	-4,025
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	297	7,839	6,447	-18	0	0
Net cash flow	-1,743	5,623	-12,177	-3,595	-3,873	-4,391
Change in working capital	*-629*	*425*	*1,300*	*1,120*	*233*	*169*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,562	9,542	891	1,270	1,072	875
Tangible fixed assets	2,726	3,519	14,508	16,621	18,727	21,053
Goodwill/intangible assets	2,440	2,946	15,700	15,700	15,700	15,700
Associates/investments	0	0	0	0	0	0
Other assets	5,475	6,262	10,356	8,874	9,446	10,177
Total assets	12,203	22,269	41,455	42,464	44,945	47,805
Interest bearing debt	832	8,671	15,118	15,100	15,100	15,100
Other liabilities	5,434	6,646	12,040	11,678	12,483	13,383
Total liabilities	6,266	15,317	27,158	26,778	27,583	28,483
Shareholders' equity	5,652	6,629	14,251	15,639	17,315	19,273
Minorities	285	323	46	47	48	49
Total shareholders' equity	5,937	6,952	14,297	15,686	17,362	19,322
Net debt	*-730*	*-871*	*14,227*	*13,830*	*14,028*	*14,225*
Key Company Metrics						
Sales growth (%)	20.7	14.5	43.9	11.5	10.5	10.4
DB EPS growth (%)	29.7	10.9	10.9	9.2	20.7	16.9
EBITDA Margin (%)	13.5	13.5	13.2	13.5	14.3	14.8
EBIT Margin (%)	11.6	11.6	11.1	11.3	12.2	12.7
Payout ratio (%)	69.5	68.9	66.8	66.8	66.8	66.8
ROE (%)	49.7	45.1	31.7	28.4	31.1	32.7
Capex/sales (%)	6.3	5.0	41.5	5.3	5.0	5.0
Capex/depreciation (x)	3.4	2.6	19.3	2.5	2.3	2.3
Net debt/equity (%)	-12.3	-12.5	99.5	88.2	80.8	73.6
Net interest cover (x)	12.7	11.1	3.6	4.2	5.0	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	Naspers	Cable & Satellite	778,062	54,340,191	50,593	3,353,650
2	BHP Billiton	Diversified Metals & Mining	773,875	14,122,136	134,578	14,122,136
3	Richemont	Apparel, Accessories & Luxury Goods	571,152	12,136,146	51,503	13,276,951
4	FirstRand	Other Diversified Financial Services	271,688	14,271,408	22,379	880,772
5	Glencore	Diversified Metals & Mining	254,676	3,647,041	15,917	3,647,041
6	Sasol	Integrated Oil & Gas	239,440	20,224,939	26,662	1,248,199
7	Steinhoff	Home Furnishings	203,031	12,274,492	14,882	13,428,301
8	Standard Bank	Diversified Banks	170,443	15,084,681	10,652	930,964
9	Barclays Africa Group	Diversified Banks	116,096	5,698,945	7,256	351,715
10	Bidvest	Industrial Conglomerates	114,830	6,324,002	8,539	390,291
11	Aspen	Pharmaceuticals	114,543	10,879,061	14,672	671,410
12	Mediclinic	Health Care Facilities	99,216	4,966,839	7,267	306,533
13	Nedbank	Diversified Banks	85,140	4,400,225	5,321	271,564
14	Woolworths Holdings Ltd	Department Stores	81,185	9,454,873	6,471	583,515
15	Anglo American	Diversified Metals & Mining	74,665	11,087,565	4,666	11,087,565
16	RMB Holdings Ltd	Other Diversified Financial Services	74,538	2,884,725	4,658	178,033
17	Shoprite	Food Retail	74,297	6,185,941	7,511	381,770
18	Growthpoint	Diversified REITs	59,988	4,492,638	6,207	277,267
19	Amplats	Precious Metals & Minerals	59,684	2,753,270	3,730	169,920
20	South32	Diversified Metals & Mining	59,576	796,301	9,128	796,301
21	AngloGold Ashanti	Gold	55,913	4,065,214	3,494	4,065,214
22	Netcare	Health Care Facilities	43,793	3,999,416	4,266	246,827
23	Gold Fields	Gold	43,173	2,439,515	2,698	2,439,515
24	Truworths	Apparel Retail	38,489	4,502,690	2,890	277,887
25	Mr Price	Apparel Retail	37,298	6,382,901	4,660	393,926
26	Life HC	Health Care Facilities	35,768	3,299,181	3,465	203,612
27	Redefine Properties Ltd	Diversified REITs	35,289	3,208,298	3,496	198,003
28	Sibanye Gold	Gold	32,818	1,513,628	2,051	93,415
29	Coronation	Asset Mgmt & Custody Banks	32,345	2,079,448	2,340	128,335
30	Capitec Bank	Diversified Banks	30,213	3,459,747	2,593	213,521
31	Spar Group Limited	Food Distributors	30,209	2,457,893	2,516	151,691
32	Pick n Pay Stores	Food Retail	26,503	1,442,188	2,403	89,006
33	The Foschini Group Ltd	Apparel Retail	23,942	4,463,117	2,428	275,445
34	Hyprop	Retail REITs	23,062	2,666,438	2,154	164,561
35	Imperial	Distributors	22,038	3,556,889	3,264	219,516
36	Clicks Group Ltd	Drug Retail	20,872	1,927,778	1,717	118,974
37	Impala Platinum	Precious Metals & Minerals	19,730	3,779,762	4,207	233,271
38	Massmart	Hypermarkets & Super Centres	18,870	1,222,673	1,179	75,458
39	Barloworld	Trading Companies & Distributors	15,088	1,728,415	1,638	106,671
40	Harmony	Gold	14,001	707,215	948	43,646
41	Northam	Precious Metals & Minerals	12,774	775,019	1,441	47,831
42	ARM	Diversified Metals & Mining	12,306	1,068,485	2,525	65,942
43	Kumba Iron Ore Ltd	Steel	12,030	2,382,480	752	147,037
44	Nampak	Metal & Glass Containers	11,766	1,979,286	2,033	122,153
45	Super Group	Automotive Retail	11,574	412,871	852	25,481
46	Attacq	Real Estate Development	11,566	462,171	1,344	28,523
47	JSE	Specialised Finance	11,234	482,515	702	29,779
48	Lonmin Plc	Precious Metals & Minerals	6,358	605,450	14,024	605,450
49	RBPlat	Precious Metals & Minerals	5,628	269,402	352	16,626
50	Mondi	Paper Products	5,586	110,664	7,925	121,066
51	Transaction Capital	Other Diversified Financial Services	5,030	61,918	364	3,821
52	Investec Plc	Diversified Capital Markets	4,714	36,243	6,999	52,153
53	Peregrine	Asset Mgmt & Custody Banks	4,313	493,979	356	30,486
54	Aquarius Platinum Limited	Precious Metals & Minerals	4,165	90,524	352	90,524
55	Lewis Group Ltd	Homefurnishing Retail	3,968	957,979	556	59,122
56	Alexander Forbes	Other Diversified Financial Services	3,667	355,120	273	21,917
57	Pivotal	Residential REITs	2,759	132,188	292	8,158

Source: Deutsche Bank, Thomson Reuters Eikon

Appendix 1

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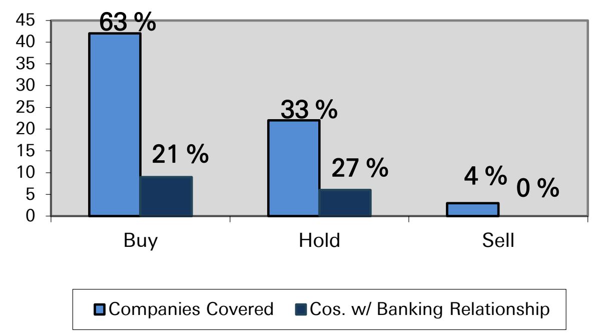

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David Folkerts-Landau
Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Marcel Cassard
Global Head
FICC Research & Global Macro Economics

Steve Pollard
Global Head
Equity Research

Michael Spencer
Regional Head
Asia Pacific Research

Ralf Hoffmann
Regional Head
Deutsche Bank Research, Germany

Andreas Neubauer
Regional Head
Equity Research, Germany

International locations

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

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

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

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

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

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