Deutsche Securities
A Member of Deutsche Bank Group

3 February 2011

Elephant Book

Playing catch up

Market Update

The Elephant Book provides an overview of the economy, the outlook for equity and bond markets, and an analysis for 50 companies under coverage.

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Cover photograph

Baby elephant walking behind its mother, Botswana
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Global outlook: Growing confidence in global recovery emerging
After stronger than originally forecast global growth in 2010 (4.7% per DB estimates), we forecast a slight moderation to 3.9% for 2011. Slower growth expected from Euroland economies is on account of the knock-on effects of dealing with Euroland's festering sovereign debt crisis. We believe risks to global growth depend on the solvency of Spain. We do not expect Spain to become a victim of this crisis. For many Emerging Markets, policies aimed at quelling rising inflation risks could moderate growth. However, given that inflation so far has been largely limited to food, we think the monetary policy response will be measured. For the US, DB sees recent better macro news as finally providing evidence of a sustainable recovery taking hold.

South Africa: Playing catch-up with the global recovery
Outside of the consumer, which proved to be more resilient in 2010 than expected (largely thanks to a strong wealth effect, we believe), it was a challenging year. With inventories having been run down to record low levels, we expect positive investment intentions by domestic manufacturers to lead to a broadening cyclical upswing in South Africa in 2011. With the wealth effect already moderating as the base becomes tougher, the combined effect of a positive credit impulse and some reversal of unemployment are expected to underpin still healthy private consumption growth. Although our own (as well as consensus) forecasts are for inflation to remain inside the 3-6% band in 2011 and 2012, our analysis shows the risks to it breaching the upper limit are elevated. We do not expect South Africa to adopt the unconventional monetary policy options being followed in various other Emerging Markets, suggesting a risk of earlier rate hikes than forecast – we currently expect the first 50bps hike in November 2011.

Circa 20% return forecast for South African equities this year
Currently trading on a demanding trailing PE multiple of 17.5x, a strong cyclical rebound in earnings (45% and 34% growth forecast for 2011 and 2012 respectively) results in the South African market's PE unwinding rapidly to 9x two years out (vs a long term average of c.12.7x). Despite allowing for a 15% higher equity risk premium to account for possible disappointment risk in earnings forecasts, our top-down model shows a return of c.20% in prospect for South African equities in 2011.

Preference for Resources and Financials over Industrials
We are overweight Resources (preference for General Mining and Oil), as this is the area where our forecasts differ most (to the upside) relative to consensus. Although valuations do not appear particularly compelling, a combination of strong multi-year real earnings growth from banks as ROA recovers, and attractive dividend yields, means we are overweight Financials for 2011. We are underweight Industrials. While the macro backdrop is supportive, we feel the rating expansion in many of the consumer names last year has got ahead of fundamentals. We believe a period of consolidation is now warranted.

Market Update

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Macro outlook

Global outlook: Growing confidence in global recovery emerging

With regard to how DB's global growth and inflation expectations have evolved, it is worthwhile to reflect briefly on the position as we currently see it relative to what we anticipated at the beginning of 2010. We make the following observations:

- While global growth is now forecast to exceed our initial expectation for 2010 (3.9%) by a fair margin, it has been achieved through increasingly divergent growth between Emerging and Developed Markets. With activity in many EM markets tending to surprise to the upside, inflation has increasingly become the dominant risk heading into 2011, with investor attention now focused on how policymakers address this.
- Our well ahead-of-consensus forecast for US growth in 2010 of 3.6% proved over-optimistic, as the recovery in employment and rebound in the credit impulse proved more muted than anticipated at the time. These two themes still feature prominently in our expectations. Following a raft of upgrades in response to strong macro data in the last few months, what was an out-of-consensus forecast for above trend growth in the US in 2011 has rapidly become main stream opinion.

Figure 1: Summary of DB's GDP and inflation forecasts currently compared with the beginning of 2010

	Forecasts: December 2009				Forecasts: Current					
	GDP growth (%)		CPI inflation (%)		GDP growth (%)			CPI inflation (%)		
	2010F	2011F	2010F	2011F	2010F	2011F	2012F	2010F	2011F	2012F
US	3.6	3.3	1.8	1.7	2.8	3.0	3.4	1.6	1.7	1.9
Japan	1.1	0.4	-1.5	-0.7	3.4	0.1	1.7	-0.9	-0.3	-0.6
Euroland	1.5	1.2	1.2	1.3	1.7	1.2	1.4	1.6	2.0	1.8
G7	**2.6**	**2.3**	**3.9**	**3.7**	**2.7**	**2.2**	**2.6**	**1.3**	**1.5**	**1.5**
China	9.0	9.0	3.4	2.5	10.0	8.7	8.4	3.3	4.1	3.5
India	7.3	7.1	5.7	6.0	9.8	8.2	8.5	9.2	6.9	6.7
EM Asia	**7.6**	**7.4**	**3.9**	**3.7**	**9.2**	**7.4**	**7.5**	**4.5**	**4.7**	**4.3**
Russia	3.8	4.5	8.5	9.5	4.0	5.0	5.3	6.8	8.2	7.4
EMEA	**3.7**	**4.3**	**7.6**	**7.6**	**4.5**	**4.5**	**5.0**	**7.7**	**7.1**	**6.8**
Brazil	5.2	4.5	8.5	9.5	7.5	4.5	4.6	5.8	5.4	4.8
Latam	3.7	3.6	6.9	6.5	5.7	4.1	4.1	8.3	8.0	6.8
World	**3.9**	**3.8**	**2.9**	**2.8**	**4.7**	**3.9**	**4.2**	**3.1**	**3.3**	**3.1**

Source: Deutsche Bank

Our c.75bps moderation in global growth expectations for 2011 relative to 2010 reflects a slower pace of growth for most regions, albeit for differing reasons. In the case of the EUR area, it is the knock-on effects of dealing with its festering sovereign debt crisis. For many emerging markets, the slowdown is likely to be engineered by policies aimed at quelling the rising inflation risks highlighted above.

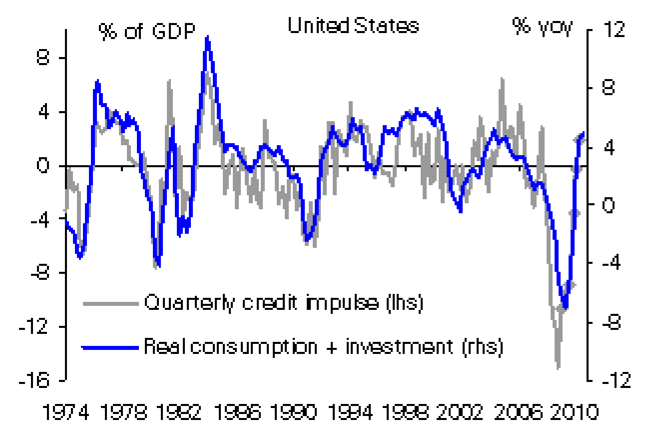
US: Finally entering into a sustainable above trend recovery?

Through most of 2010, while maintaining an above consensus growth forecast for the US, we at DB cautioned that the balance of risks (and we note there remain a plethora of them) were skewed to the downside. Recent better macro news has caused us to conclude that the risks to our above-trend growth forecast now look much more evenly balanced. Very importantly, we think there is finally evidence of a sustainable recovery taking hold in the US.

The two principal arguments supporting our growth expectations for the US have been: (i) our credit impulse argument – all that is required for a recovery in demand is that the pace of deleveraging slows; credit growth does not need to turn positive. (ii) although the employment recovery had been a grinding one through much of 2010, the ingredients are in place to drive a rebound in hiring, providing the consumer a further boost and broadening the recovery.

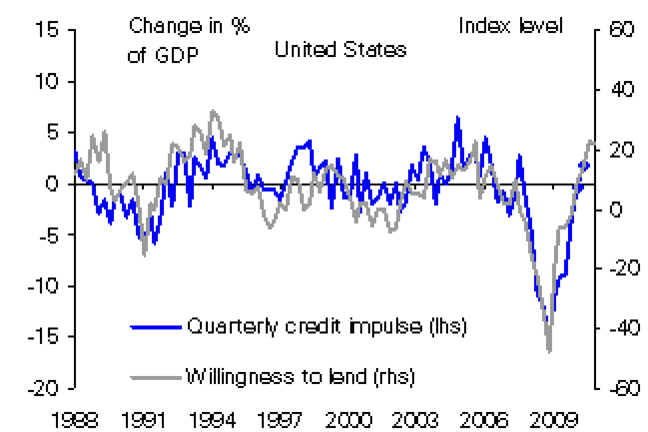
Firstly, regarding the credit impulse, the charts below show that the rebound is already reasonably well advanced. Real private sector demand has recovered as the pace of de-leveraging has slowed from its 70-year low of -5.6% of GDP in 3Q 2009. The trend implied by the Fed's Senior Loan Officers Survey (Figure 3) suggests further gains ahead.

Figure 2: US credit impulse and private demand



Source: Deutsche Bank, BEA, US Federal Reserve

Figure 3: US credit impulse and lending conditions



Source: Deutsche Bank, BEA, US Federal Reserve

The US labour market is looking better, though it is certainly not robust. Among the indicators pointing to a healthier labour market ahead is a sizeable pick-up in capital spending in the US through 2010 (the 20.6% growth rate in the first three quarters of the year is the fastest since 1965). This has in the past been a good leading indicator of the trend in hiring. Productivity growth has slowed after an unusually strong early rebound. Finally, the hourly workweek has bounced back substantially and is set to return to pre-recession levels within the next two months if current trends are maintained. These developments set the stage for a strong pick-up in hiring in the months ahead in order to accommodate further expansion in output.

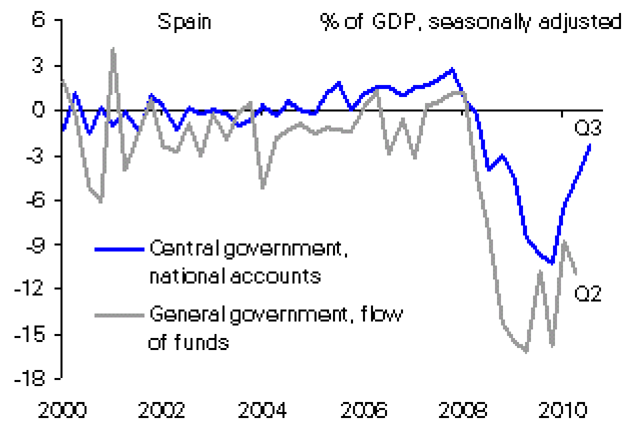
Europe: A critical year for the EMU, calling for strong political leadership

The sovereign debt crisis that dominated in 2010 is expected to continue in 2011. To exit the crisis, public and private balance sheet adjustments need to have occurred, competitiveness imbalances corrected and the EUR stability architecture strengthened. Each will take time, likely measured in years. Currently, uncertainty about how the new regime will look and the transition to it continues to weigh on bond markets.

Market fears have spread from Ireland to Portugal but, while these developments may cause substantial near-term volatility in markets, the risks to global growth depend on the solvency of Spain. In our view the market will ask serious questions of Spain in the coming months, but we do not expect Spain to become a victim of crisis.

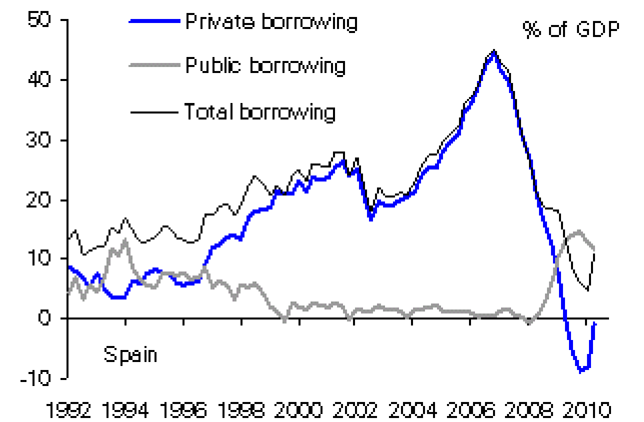
Our positive view is based on 1) the low starting levels of public debt and the material progress that has already been made towards fiscal consolidation, 2) Spain's ability to afford a more comprehensive capitalisation of the banking system, 3) the adjustments that have taken place in the economy more broadly, and 4) the determination of EUR area policy makers to prevent a default.

Figure 4: Fiscal deficits in Spain



Source: Deutsche Bank, Haver

Figure 5: Public and private sector borrowing in Spain



Source: Deutsche Bank, Haver

Spain's ability to remain in the market aside, it is essential that policy makers move quickly to clarify their plans. We expect this to happen early in 2011. There is a risk, however, of protracted disagreement among policymakers on how to proceed from here. Should this risk materialise in the midst of the upcoming wave of refinancing, we think another crisis similar to that of last April and May could emerge. While we do believe at this point that the strong political leadership will be found to preserve the EMU, the risks are real and survival in its current form should not be taken for granted.

Asia: Inflation the dominant concern across the region

With most data on real activity surprising to the upside and the large representation of commodity prices in inflation baskets in Asia, inflation appears to be the key risk at present. We note that the jump in inflation has been largely driven by food prices to date. In combination with possible price controls, we expect rate hikes across the region in an effort to bring this under control.

The optimistic view is that the inflationary pressures will start to ease into 2H11 as the y-o-y comparisons become less onerous. Food prices have also responded to weather events over recent months. On the assumption that 2011 sees more normalised harvests of wheat and, in the case of China, cabbage, the upward pressure should ease. Of course, a key unknown will remain the extent to which weather patterns play along this year. In any event, the ongoing QE programme from the Fed, together with relatively loose monetary policy elsewhere, is likely to inflate commodity markets for the time being, keeping inflation expectations high.

South Africa: Moderate cyclical upswing under way

Looking back first of all to what we expected this time last year, we were anticipating a lagging recovery in South Africa. While an export-led re-stocking theme was under way, we were concerned that the level of indebtedness of consumers and the unemployment trend would present considerable headwinds. Against this expectation, it has been the resilience of the consumer through 2010 that has probably been most notable. The observation that this consumer demand has been more reliant on cash, as well as the release for the first time by the South African Reserve Bank of detail about consumers' balance sheets, which showed the strength of the net wealth rebound, suggests it has been the release of pent-up demand among more affluent consumers (the first to pull in their horns as South Africa headed into the downturn) who have begun to spend once again. Indeed, work done by DB's Ajay Kapur and his colleagues in Asia on plutonomy shows that, not only do wealthy individuals have disproportionately more money than the rest, but the volatility of their spending is 10x that of other people. When one considers the relatively high Gini coefficient in South Africa, it certainly appears plausible that aggregate consumer activity could be rebounding despite the headwinds that concerned us to begin with.

At this point, we believe this strengthening in domestic demand is beginning to underpin growth heading into 2011. Upward adjustments to our projections for the consumption component of GDP, and the investment component, as manufacturers begin to rebuild stocks in response to rising domestic demand are the main drivers of an upgrade to our 2011 GDP forecast from 3.2% to 3.6%.

Figure 6: South Africa: Key macro-economic forecasts

	2007	2008	2009	2010F	2011F	2012F
Real GDP	5.6	3.6	-1.7	2.7	3.6	4.5
Private consumption	5.5	2.2	-2	4.5	5.1	5.7
Government consumption	4.1	4.7	4.8	4.5	3.5	3.8
Investment	14	14.1	-2.2	-3.4	3.2	7
Exports	6.6	1.8	-19.5	4	5.5	8.3
Imports	9	1.5	-17.4	10.3	12.1	11.3
CPI (y-o-y%)eop	7.3	9.1	6.3	3.6	5.4	5.6
Budget balance (% of GDP)	0.9	-1.2	-6.7	-5.3	-3.7	-3.3
Current account balance (% of GDP)	-7.4	-7.3	-4.1	-3.6	-4.6	-4.8
FX rate (eop) ZAR/USD	6.8	9.5	7.5	6.6	7.5	8.05
FX rate (eop)ZAR/EUR	10.1	11.9	10.6	8.8	10.05	11.2

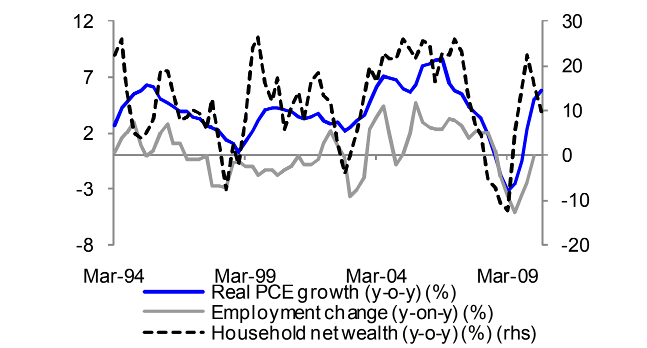
Financial markets (eop)	Current	3 month	6 month	12 month
Policy rate (14 day repo rate)	5.5	5.5	5.5	6.0
3-month rate (Jibar)	5.54	5.65	5.8	6.1
10-year bond yield	8.18	8	8.1	8.2

Source: Deutsche Bank

South African consumer: Outlook increasingly positive but not a repeat of 2004-2007

In the various charts below, we provide an overview of how various of the high frequency macro data releases are shaping up with regard to the consumer and our outlook. In summary, the positive impulses (wealth effect and credit) off what was in retrospect a weak base are expected to support real private consumption expenditure (PCE) rebounding to c.5% in 2011 and 2012. We caution, however, that this remains several percentage points below the growth rate achieved between 2004-2007. The positive wealth impulse may already be losing momentum, as the benefit of the soft base comes to an end and property appears unlikely to be as supportive as it was in the past. While it appears to have been the return of the more affluent consumer that has characterised 2010, the sustainability of real consumer spending growth will likely increasingly depend on acceleration in credit demand among middle income consumers and a more supportive employment backdrop.

Figure 7: Net wealth rebound driving PCE recovery

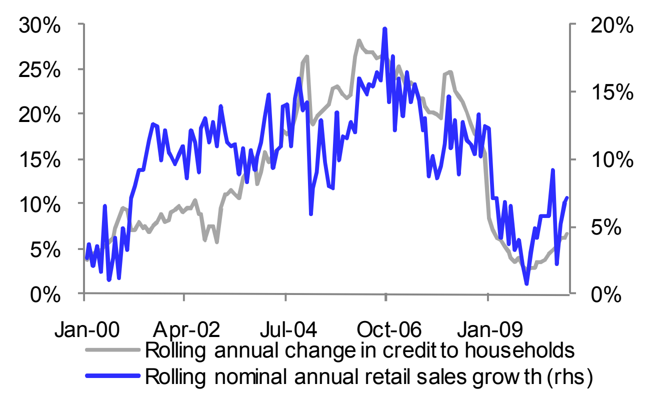


Source: Deutsche Bank, SARB

Real PCE growth closely linked with net wealth trend

PCE, which accounts for c.63% of GDP, has continued to gather momentum, led by the durables component (a typical pattern). While employment and indebtedness have been headwinds, the strong relationship between PCE and changes in net wealth is evident from the chart. A more demanding base and subdued property market likely explain the recent deceleration in net wealth. Currently, we expect PCE to recover to c.5% real growth in 2011-2012 (vs 6-8% real growth between 2004-2007).

Figure 8: Retail sales more cash than credit-led for now

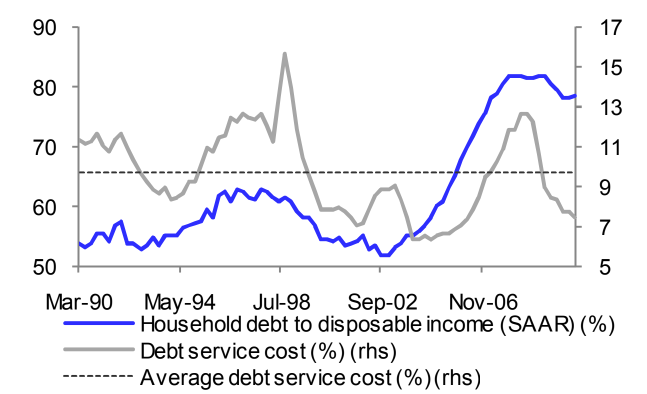


Source: -Net Bridge

More cash than credit driving retail sales

Lending to households has shown a stronger recovery than broader private sector credit extension (PSCE), reaching a level of 10.3% q-o-q annualised growth in October. De-leveraging within the corporate sector is masking what is starting to look like quite constructive credit momentum developing in the retail segment. Interestingly, the bounce in retail sales growth (a sub-component of PCE) looks strong relative to credit growth seen to date. As was evident in 2000-2003, the initial lift in retail sales is more cash-led and reflective of the release of pent-up demand and balance sheet restructuring. Credit becomes more important later in the cycle.

Figure 9: Household debt remains stubbornly high

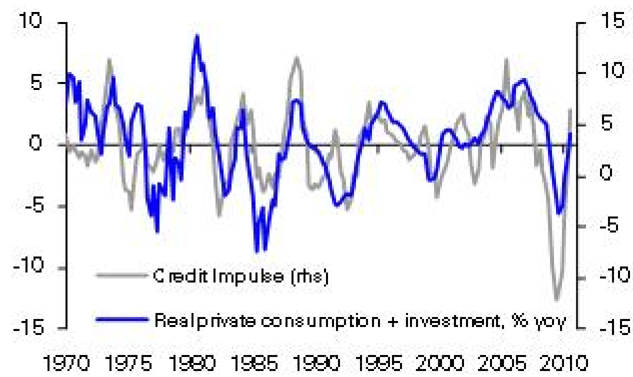


Source: -Net Bridge; Deutsche Bank

Without further de-gearing, credit capacity is limited

Despite the rare nominal contraction in credit we have seen in South Africa, household debt to disposable income has remained stubbornly close to its all time high of 83.4%. Admittedly, interest rates at current levels has alleviated the stress from a debt service perspective, but these statistics suggest capacity to gear consumers much ahead of nominal disposable income growth remains limited without a further structural step down in interest rates and a lift in employment.

Figure 10: South African credit impulse recovering from the depths



Source: I-Net Bridge; Deutsche Bank

Unprecedented negative credit impulse in the base

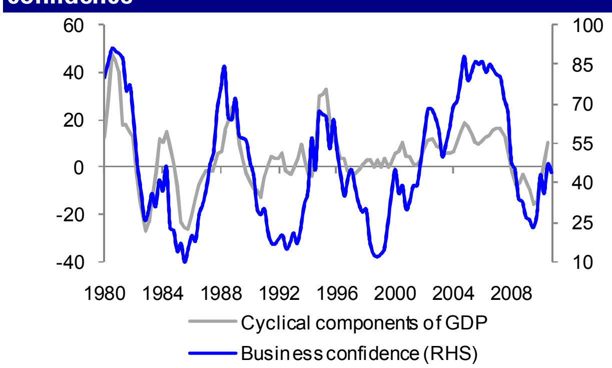
It is the change in flow credit at the margin rather than the stock of credit that drives final demand. The collapse in credit demand from the elevated growth rates at which it had been running delivered an unprecedented negative credit impulse in South Africa. Even though credit growth has been anaemic through 2010, against such a weak base, it has been enough to turn the credit impulse positive. By implication, this should remain an underpin for the recovery in private demand. The chart provides an appreciation for just how weak the base is and suggests final demand could surprise to the upside. Beyond this initial bounce though, the sustainability is in question.

Corporate sector: Several factors collectively supportive of manufacturing recovering in 2011

Recent data releases detailing trends within the corporate sector have, we believe, been impacted negatively by strike action. Some of the softening in momentum through 2H10 could likely be attributed to this, and thus should prove to be of a temporary nature. Heading into 2011, we note a number of supportive drivers for industrial activity in South Africa

- Composite business cycle leading indicators are still strongly positive, even if the momentum has moderated somewhat as the benefit of the low base of early 2009 has been consigned to history
- As discussed above, there is a clearer case for the rebound in domestic consumer demand to be sustained at a healthy level
- Finally, while the rapid destocking that was evident through 2009 has slowed, we have yet to see restocking begin. This has pushed stock levels to an all time low relative to GDP.

Figure 11: Cyclical components of GDP vs business confidence

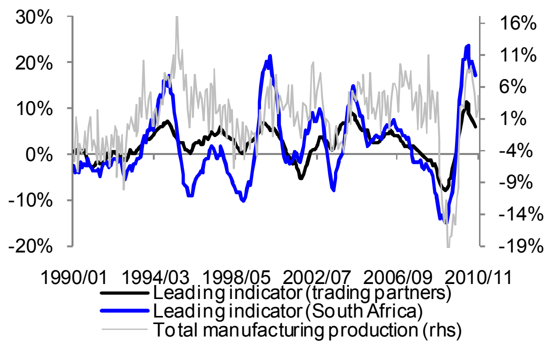


Source: -Net Bridge; Deutsche Bank

Cyclical components of GDP point to improving business confidence

Although business confidence has rebounded, it has remained below the important level of 50 through 2010. The business cycle tends to be driven at the margin by the cyclical components of GDP (inventories, durable and semi-durable consumption and investment in residential property, business machinery and transport equipment). The rebound in growth in these cyclical components of GDP suggests we should see business confidence continue to strengthen over the course of 2011.

Figure 12: Composite leading indicators still rising

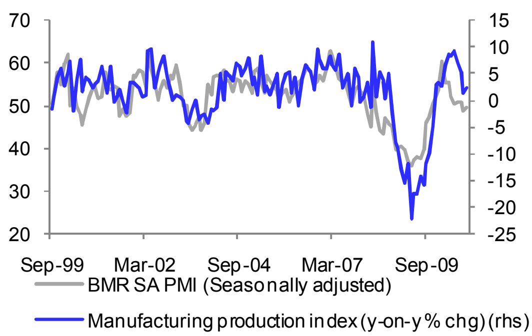


Source: SARB

Leading indicators supportive of manufacturing growth

Thanks to a very depressed base, the composite business cycle indicators showed a very sharp recovery in 2010 and appear to be rolling over now. Relative to history, the positive momentum in these indicators still looks supportive for manufacturing growth into 2011. This, we believe, lends support to our view that the deceleration in manufacturing noted during 2H10 was amplified by the strike action rather than by structural deceleration.

Figure 13: PMI points to manufacturing momentum slowing

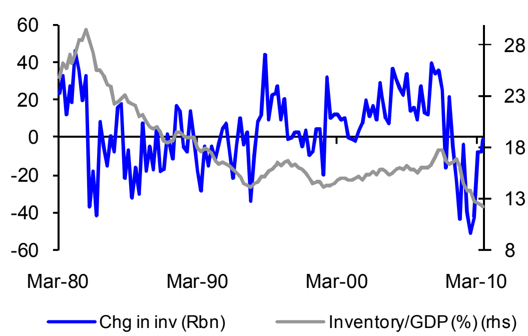


Source: -Net Bridge; Deutsche Bank

Domestic demand beginning to drive manufacturing

The Purchasing Managers Index (PMI) once again proved a good leading indicator of slowing manufacturing momentum. We caution though that the impact of strikes likely amplified the deceleration. More domestically focused components (consumer goods and intermediate goods) are beginning to respond to the domestic demand recovery, leading us to expect these indicators to stabilise and rebound into 2011.

Figure 14: Inventory cycle beginning to turn positive



Source: SARB

Dramatic de-stocking in South Africa in the base

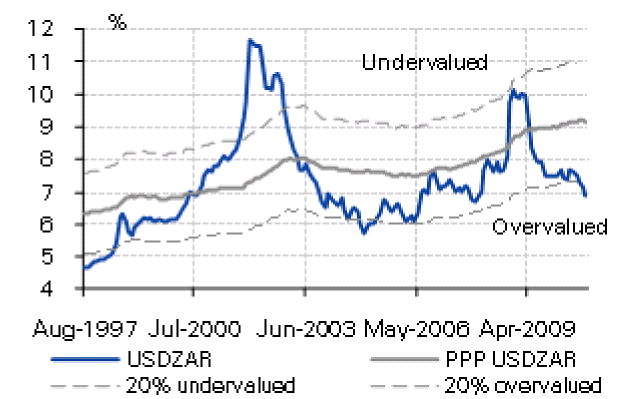
A structural decline in stock inventory/GDP through the 1980s was driven by the adoption of JIT stock management. Although the momentum of de-stocking domestically has slowed, we have yet to see inventories begin to rebuild. With inventory to GDP at all time lows we expect to see manufacturers begin to rebuild stocks in response to rising domestic demand through 2011.

Exchange rate and interest rate outlook: Both have bottomed in our view

Our bullish view on commodities, positive terms of trade outlook and expectation of continued positive portfolio flows into equities imply the rand should remain well supported in the near-term. The exchange rate does appear stretched on most metrics, leading us to maintain a depreciating bias, however. A partial reversal of accommodative monetary policy in DM and an expectation of a widening current account into 2H11 are expected to put pressure on the rand later in the year.

With regard to inflation and rates, there has been a clear shift in what has up to now been a rather dovish stance. A tougher base and upward revisions to commodity price forecasts, our depreciating rand profile and trends in food inflation sees our inflation profile creeping up. While it is acknowledged that South Africa is one of few countries with positive real interest rates at present, it is at very low levels relative to our own history and is forecast to turn slightly negative in the months ahead. We do not see scope for further rate cuts and have, in fact, brought our expectations for the first upward move in the policy rate to November 2011.

Figure 15: ZAR expensive territory according to PPP

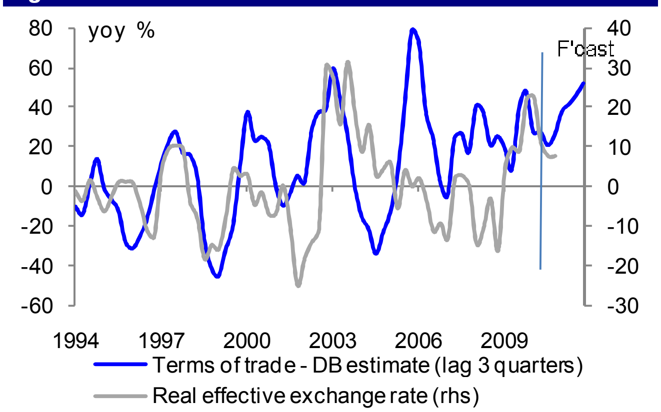


Source: Deutsche Bank

ZAR overvalued but well supported near-term

It is interesting to note that the rand has remained in overvalued territory for extended periods. Moves into undervalued territory tend to be very sharp, possibly owing to the fickle nature of portfolio flows that have been supportive. We continue to believe that the combination of low/negative real rates in most major developed markets, together with abundant liquidity, the rand will remain well supported at least through 1H11. Typically, it has been a significant risk event which has tended to precipitate the sharp moves seen before.

Figure 16: South African terms of trade

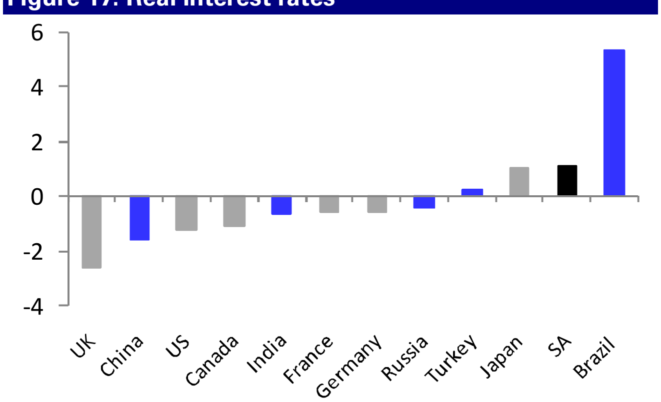


Source: Deutsche Bank, I-Net Bridge

Terms of trade outlook appears currency-supportive

Our estimates for terms of trade (gold x platinum/oil) suggest that South Africa will build on the strong gains of 2010. This should prove supportive to the exchange rate. We caution though that the correlation has proved inconsistent. To the extent that strong commodity prices give rise to inflation concerns globally, this has typically caused the relationship to break down.

Figure 17: Real interest rates

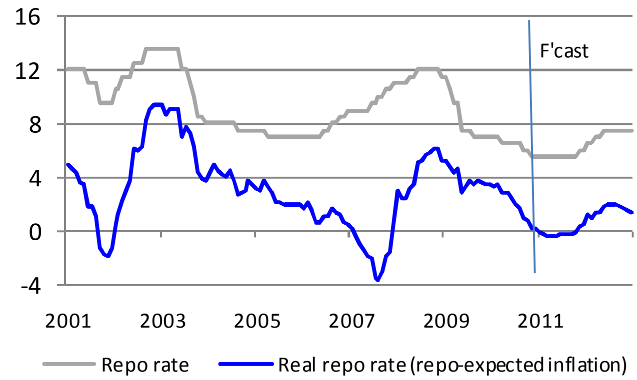


Source: Bloomberg Finance LP

South Africa one of few markets with positive real interest rates

Comparing current policy rates to one-year forward inflation expectations, it is evident that South Africa is currently one of the few countries with positive real interest rates at present. We believe this may be causing some to question the possibility for further rate cuts in South Africa. The cyclical upswing already under way as outlined above, coupled with an inflation view for 2012 which suggests there is now upside risk to consensus and SARB forecasts, counts against this outcome.

Figure 18: Real interest rate trend



Source: Bloomberg Finance LP, Deutsche Bank

South African real rates: Set to turn negative according to our forecasts

Although currently South Africa's real policy rate is in positive territory, we note that it is very low by historical standards. It is forecast to turn negative in the next few months. This, in our view counts against the prospect of further cuts to policy rates.

In conclusion, what are the key risks we see to what we would summarise as a steadily improving macro backdrop for domestic equities in particular? The things we believe need to be watched closely, which could happen in combination that pose greatest risk to our outlook are as follows:

The vulnerability of the rand

South Africa's current account deficit and dependence on portfolio flows, coupled with its current positioning relative to fair valuation at present makes this a potential area of vulnerability in our opinion. A tendency in the past to move quickly to the downside could alter the domestic outlook relatively quickly. Possible triggers include a geopolitical event, escalation of investor concern regarding the ability of EM policymakers to control inflation, or a dislocation in financial markets as a consequence of the European sovereign crisis.

Event risk in South Africa

As far as South African-specific events that could cause South Africa to disconnect from the themes driving the broader GEM grouping, a possible return to the power-constrained environment we saw in 2008 is the issue that concerns us most at the moment. While on the one hand, Eskom has learned from the mistakes that led to the black-outs of early 2008 and has contingency plans to manage demand in a less destabilising manner should that become necessary, it has warned repeatedly that South Africa is entering a tricky period over the next year or so before the first of the new capacity comes on line.

Political developments in the lead up to ANC leadership elections in 2012

In the lead up to the election of the future leadership of the ruling party in 2012, political developments could take centre stage once again. Any sign that this could represent the beginning of a change in direction and priorities for the ANC could at the very least impact investment sentiment.

Market view

A strong close to 2010 for most equity markets across the world mirrored steadily improving macro data out of the US in particular, which appears to have improved confidence in the potential for global growth to become self-sustaining into 2011 rather than merely contingent on the extent of future exceptional measures taken.

Figure 19: International equity indices (US$ total return)

Country/region	Name	Month to date, %	3 months to date, %	6 months to date, %	12 months to date, %	Year-to-date, %
World	**MSCI World Free**	**7.4**	**9.1**	**24.2**	**12.3**	**12.3**
EM	MSCI Emerging Markets	7.1	7.4	26.9	19.2	19.2
Pacific	MSCI Pacific	7.6	10.7	23.4	16.1	16.1
Europe	Dow Jones Euro Stoxx 50	8.6	0.3	19.7	-9.1	-9.1
	Emerging Markets					
Brazil	Bovespa	6.1	1.9	23.5	6.1	6.1
China	MSCI China	-0.7	0.7	11.5	4.8	4.8
India	MSCI India	7.6	2.2	18.0	20.9	20.9
Russia	MSCI Russia	11.1	16.5	32.1	19.4	19.4
South Africa	**MSCI South Africa**	**14.8**	**13.1**	**41.9**	**34.2**	**34.2**
South Korea	KOSPI 200	11.4	11.4	36.1	28.9	28.9
Turkey	MSCI Turkey	-3.0	-7.9	21.5	21.2	21.2
	Developed Markets					
France	Cac 40	8.7	1.3	22.1	-6.0	-6.0
Germany	Dax 30	6.5	9.1	26.9	8.5	8.5
Hong Kong	Hang Seng	0.0	3.1	15.8	8.3	8.3
Japan	Nikkei 225 (not TR)	6.3	12.5	18.9	11.3	11.3
UK	FTSE 100	7.4	6.2	27.3	9.2	9.2
USA	Dow Jones Industrial 30	5.3	8.0	20.1	14.1	14.1
USA	Nasdaq 100	5.6	10.6	25.9	14.2	14.2
USA	S&P 500	6.7	10.8	23.3	15.1	15.1

Source: I-Net Bridge; Deutsche Bank calculations

Summary of DB equity strategists' views

United States (Binky Chadha)

Despite the rally we have seen in US equities in the 20 months since they reached the lows of March 2009, we continue to believe they are cheap on an absolute basis relative to historical valuations and very cheap relative to other asset classes. We expect the strategic and tactical cases for US equities to come together in 2011 and are targeting a 2011 year-end level for the S&P 500 of 1550 (16.4x on US$96 in EPS). This implies a total return of 23% from the ecd-2010 level.

From a strategic perspective, we argue that equities, at 14.3x 2010E earnings, offer value when compared with our target fair valuation trailing multiple of 16.4x. We also note that, despite the rally, US equities are still trading at close to the bottom of the long 10-15 year cycles that have characterised US equity returns over history, implying they are poised for strong returns over the next 10-15 years.

From a tactical point of view, there are a number of potential positive drivers for the US equity market in 2011. After seven consecutive quarters of positive earnings surprises, we believe the bar remains low for Q4 earnings and argue for further upside in margins based on typical post-recession patterns. History also suggests that equity returns tend to be strongest post the mid-term elections, with the bulk of these positive returns coming in the following year (ie 2011 in this case). Furthermore, the demand-supply dynamics for US equities have improved. Sizeable equity underweight persists, while the significant equity issuance (much of it from Finanicals) has likely run its course and is expected to be followed by an acceleration of buybacks.

In the US, we expect that in a strengthening recovery, cyclical will outperform. We are overweight domestic cyclical (Finanicals, Industrials, Consumer Discretionary and Tech), neutral the global cyclical (overweight Energy, underweight Materials), underweight defensives (Consumer Staples, Telecom and Utilities).

Euroland (Gareth Evans and Michael Biggs)

We are targeting a year-end 2011 level of 315 for the Stoxx 600, based on our estimated fair trailing PE of 13.5x. This would imply a total return of c.14% for the year.

A central theme supporting our positive outlook remains the expected underpin of the credit impulse. New borrowing levels globally remain very low at present and will have to rise substantially to reach equilibrium levels. This normalisation could take years, which should correspond with a credit impulse that is positive on average over this period. A positive credit impulse has in the past been associated with GDP growth that is stronger than potential – something that we do not believe is priced into equity markets.

The main risk seen to this relatively bullish outlook for Eurozone equities remains that the fiscal crisis in Europe causes a dislocation in financial markets. As discussed in our macro section though, we see Spain's solvency as being the key risk and, at this point, we do not expect Spain to become a victim of the crisis.

As with the US, we believe that as the visibility on the macro environment improves, we expect cyclical to fare best. Unfortunately, most of the classic cyclical sectors have already re-rated, with the one exception being Financials. We are also recommending sectors that we see as offering good value and which perform well in the mid-cycle – Media and Tech. We are underweight Food & Beverages, Oil & Gas and Utilities.

Asia (Ajay Kapur)

We anticipate a confluence of positive factors in 2011 to drive strong absolute returns from Asian equities, and are targeting returns of between 20-30% in 2011. Aside from concluding that consensus Asia EPS estimates are too low and valuations in the region look favourable vs alternatives, there are three factors that suggest to us a high probability of strong returns in 2011:

- We note that periods with a strong "Tape" (technical measure of bullishness based on number of stocks reaching new highs/lows and breadth (tally of stocks rising vs declining) *and* easy policy are rare and have historically achieved monthly returns of 2-3% in Asia
- A similar positive pricing anomaly from Asian equities in the year post US mid-term elections (37% return on average in Asia's case historically)
- Economic cycle inflecting up as indicated by leading economic indicators.

From an allocation perspective, our bias is, once again, towards cyclical sectors such as autos, retailing, capital goods and transportation, while we are underweight tech hardware, utilities food/beverages/tobacco and selected telcos. Geographically in the region, our preferences are Japan, Hong Kong, South Korea.

China (Jun Ma)

Our 2011 target for the MSCI China index implies a 15% return for the year. This is premised on an unchanged rating (13.6x) and our expectation of 15% earnings growth for 2011.

The single most important macro driver of China's equity performance this year is expected to be the changing inflation trajectory. Likely policy responses in 1H11 to CPI, which is expected to remain at an uncomfortably high 4.5-5%, include rate hikes, price intervention, slowdown in credit growth and RMB appreciation. These responses are likely to be sentiment-negative, as they are likely to be depressive for EPS growth.

In 2H11, we expect inflation to moderate due to a favourable base effect and the lagging impact of the policy measures mentioned above. An anticipated end to monetary tightening should prove supportive to the market. By implication, our positive return expectation from Chinese equities for the year is likely to be skewed towards the second half for the year and will likely require sector rotation according to the changing inflation profile.

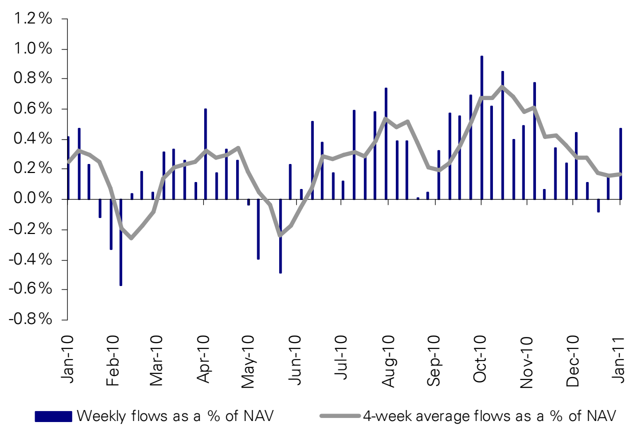
GEM (John-Paul Smith)

While acknowledging that positive absolute returns from GEM equities are achievable in 2011 from a combination of 3% US growth and global growth of almost 4% expected, a potential switch from fixed income to equities, and ongoing low volatility as confidence grows in the ability of authorities to prevent further major disruptive events, we are much less bullish than what we see as the consensus view on GEM equities.

We believe the majority of investors' positive expectations on both absolute and relative returns from GEM equities implicitly assume a return to 2003-07. We believe there are some big differences that will probably lead to a period of underperformance in our view. We expect emerging markets may be more sensitive to the inflationary impact of rising commodity prices. We expect lower rates of nominal growth in emerging markets, to which there is a higher degree of operational leverage for GEM equities than developed market counterparts. Finally, if US assets, including the US$, are strong, we would anticipate a mild unravelling of the carry trade to the detriment of emerging market assets.

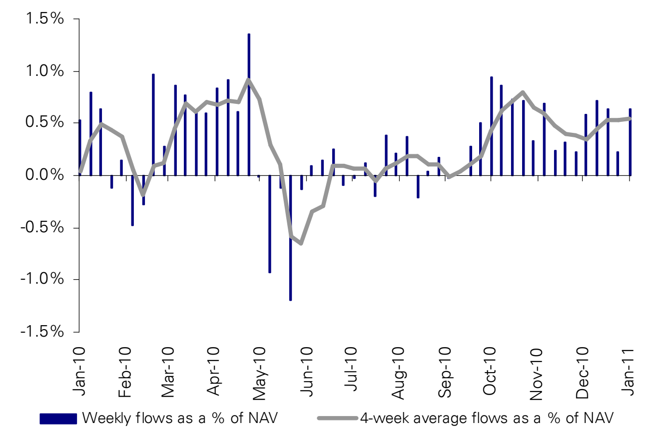
With regard to flows into GEM equities, it is interesting to note that, despite the strong rally in global equities into the close of the year, there was a weakening bias for GEM into the close of the year. For the EMEA sub-component, though (obviously of most relevance to South Africa), the flows remained strong. The deceleration in flows into Latam and Asia could reflect growing investor anxiety about the inflation risks that are emerging. Within EMEA, it has been Russia and Turkey that have enjoyed the bulk of the positive flows in 2010.

Figure 20: Flow into GEM equity funds (% of assets)



Source: EPFR/Deutsche Bank calculations

Figure 21: Flow into EMEA equity funds (% of assets)

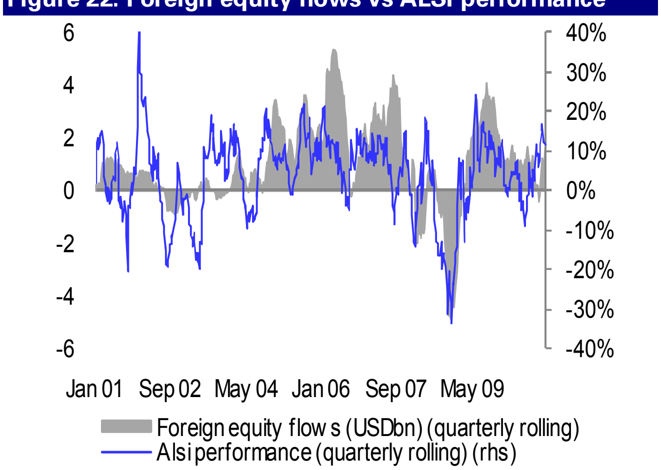


Source: EPFR/Deutsche Bank calculations

South Africa market outlook

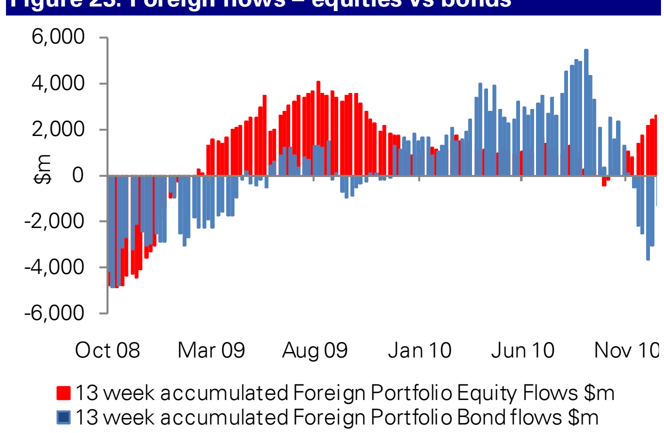
Following on from the trends seen in foreign flows in the GEM space, foreign flows for South Africa are shown in the charts below. We caution that there are some distortions in the data (the inclusion of purchases and sales of equities by the index arbitrage businesses of the international banks as foreign flows is one example). This means it is the trends rather than the precise level of flows that are relevant. As can be seen from Figure 22, despite there being these distortions in the data, the influence of foreign flows at the margin to the performance of the South African market looks clear. Possibly coinciding with data suggesting that a more self-sustaining recovery is under way in the US, a sharp reversal in flows, out of bonds and into equities, appears to be under way.

Figure 22: Foreign equity flows vs ALSI performance



Source: I-Net Bridge

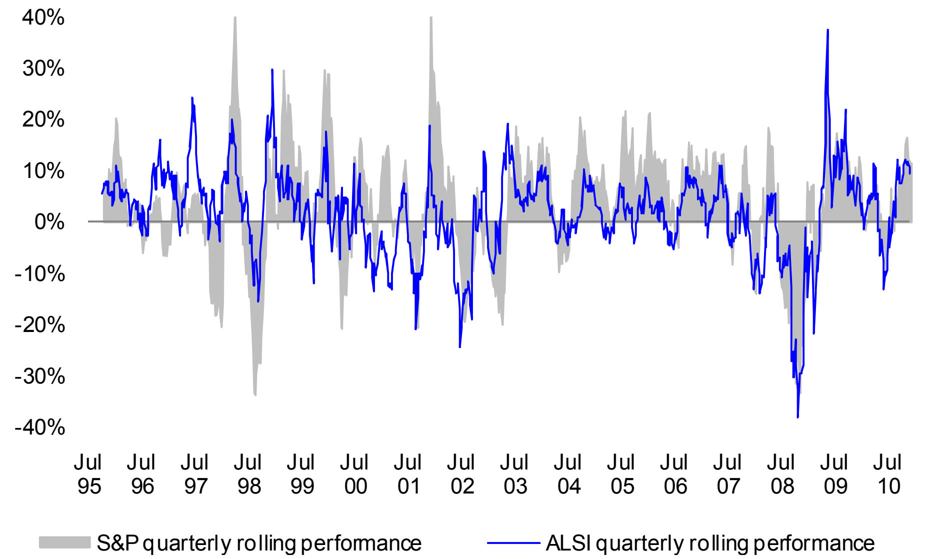
Figure 23: Foreign flows – equities vs bonds



Source: I-Net Bridge

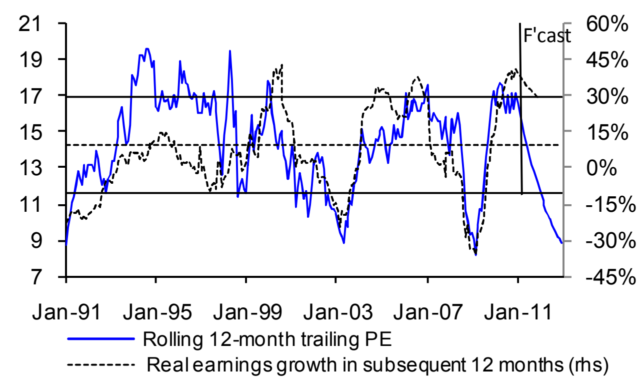
The tightening relationship between the South African equity markets and those offshore raises the significance of our strategists' generally bullish view for equity markets elsewhere in the world. In Figure 24, we have compared the rolling performance of the South African market with the S&P 500. Over the period 2000-2005, the correlation between the two was 0.55. The correlation over the last five years has risen to 0.85.

Figure 24: Tightening relationship between the South African equity market and the US



Source: I-Net Bridge

Figure 25: Historical PE vs 12-month forward earnings growth

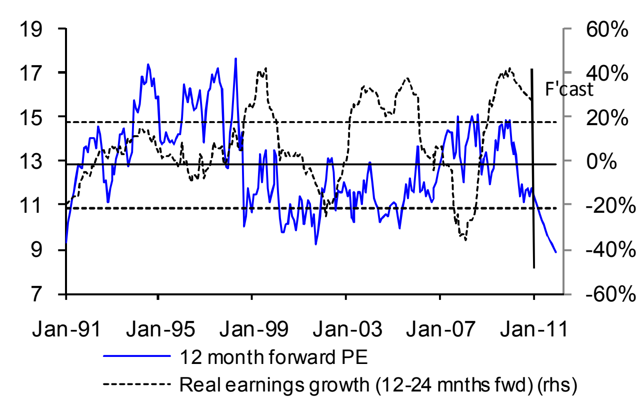


Source: -Net Bridge; Deutsche Bank

Tight relationship between historical PE and future growth

Thanks to the rally towards the end of 2010, the 16% capital return from the South African market was exactly in line with the earnings growth, leaving the trailing PE at a lofty 17x (South Africa's 20-year average trailing PE stands at 14.2x). That said, one can see the strong relationship between the historical PE and real earnings growth in the subsequent 12 months. Although we note some softening in consensus forecasts (Figure 28 and 29), a rapid rating unwind is in prospect on the back of what is still strong real growth forecast over the next 24 months.

Figure 26: ALSI forward PE vs 12-24 month earnings

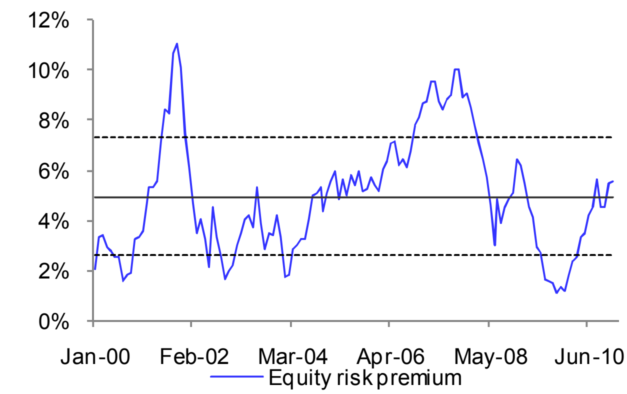


Source: -Net Bridge; Deutsche Bank

Forward PE in line with the past; all about year 2 growth

While the relationship between the trailing multiple and earnings in the subsequent 12 months is quite tight, the relationship breaks down when one compares the 12-month forward PE to earnings in the 12 months thereafter. If one strips out the upward bias to the average caused by the 1990-2000 period, then the current forward PE of 12x is exactly in line with that over the last 10 years. If we conclude then that the strong earnings rebound in prospect in 2011 has effectively been discounted already, it is a second year of strong real earnings growth in prospect (for which DB is ahead of consensus thanks primarily to our expectations for the Resources grouping), that is critical.

Figure 27: Equity risk premium (forward EY – real bond yield)

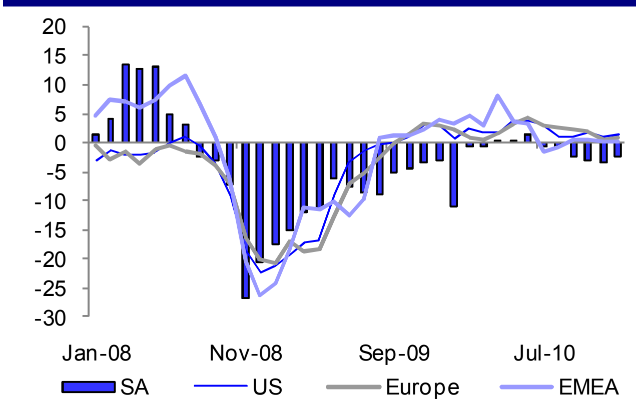


Source: Deutsche Bank, I-Net Bridge

Equity risk premium currently not suggesting much

We calculate the equity risk premium by subtracting the real 10-year bond yield from the forward earnings yield. The absence of inflation targeting prior to 2000 and the fact that bond yields were managed to a large extent, produces an *ex-post* equity risk premium that is of limited value. Based on this relatively short history, implying an average equity risk premium of c.4.9%, the message is broadly consistent with Figure 26 above. This being the market is correctly pricing in returns projected for the next 12 months. It is the sustainability of strong real earnings growth beyond that point which will increasingly dictate market performance.

Figure 28: 3-month rolling change in 2010 IBES consensus

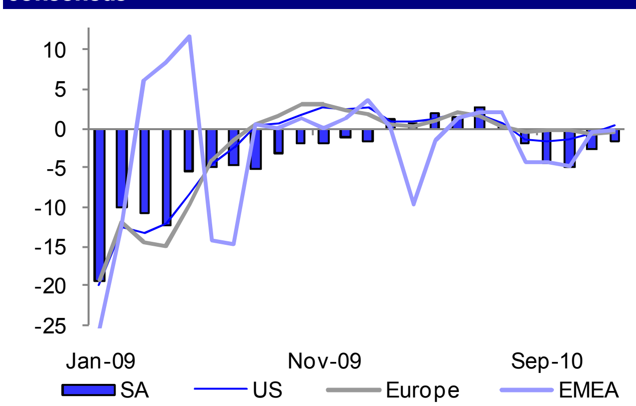


Source: IBES

Downgrades to 2010: A tougher year than you think?

The chart opposite shows how 2010 earnings forecasts for the MSCI South Africa have evolved, compared with various other markets. The exclusion of some of the large Resources counters from this index means that it is more reflective of local companies' performance than the All Share Index. An exchange rate that proved considerably stronger than expected, coupled with a slower than expected rebound in Banking sector earnings stand out as likely reasons for the downgrades to 2010 earnings. An *ex post* look at 2010 earnings reported by South African companies relative to what we were expecting this time last year, reveals that the market exceeded our expectation due to a positive surprise in Resource earnings (strong commodity prices). Few domestic companies beat expectation, implying continued challenging conditions for most.

Figure 29: 3-month rolling change in 2011 IBES consensus



Source: IBES

2011 expectations: Some upside risk?

While the rand will no doubt prove decisive once again in dictating the direction of consensus, the macro backdrop for South Africa appears to be considerably more supportive. The momentum of downgrades appears to be moderating too. Although the Resources grouping is less heavily weighted in the MSCI South Africa than in the FTSE/JSE Africa All Share index, as discussed above, significant upgrades to our forecasts in our latest commodities update will likely contribute to continued positive momentum in 2011 earnings expectations.

Below are our current bottom-up aggregated forecasts, together with consensus. Just to clarify, the rolling version is according to the JSE methodology (earnings move from the forecast period to history only on the date that a company in the index actually reports its results). The interpolated basis adjusts the historical earnings base by time-apportioning earnings for the current period that has not yet been reported. While the latter approach is vulnerable to the quality of forecasts, we note it has the advantage of giving a much more up to date view of the market rating and growth outlook, while the JSE methodology is susceptible to quite material changes in the market multiple in a very short space of time as the more highly weighted stocks report.

Despite incorporating a stronger exchange rate profile than before, our latest round of commodity price revisions result in our Resources sector earnings remaining well ahead of consensus.

Figure 30: Consensus and DB earnings growth and rating unwind

Forecasts and rating unwind on a rolling basis

	Historical PE	Historical DY	Cons EPS growth (Yr1), %	DB EPS growth (Yr1), %	Cons PE (1YrF)	DB PE (1YrF)	Cons DY (1YrF)	DB DY (1YrF)	Cons EPS growth (Yr2), %	DB EPS growth (Yr2), %	Cons PE (2YrF)	DB PE (2YrF)	Cons DY (2YrF)	DB DY (2YrF)
All Share Index	**17.5**	**2.2**	**45**	**45**	**12.1**	**12.0**	**3.1**	**2.7**	**21**	**34**	**10.0**	**9.0**	**4.7**	**3.2**
Resource Index	19.3	1.6	85	84	10.5	10.5	3.1	2.0	25	51	8.4	7.0	6.1	2.6
Financial Index	13.9	3.5	9	11	12.7	12.5	3.9	4.0	17	15	10.9	10.9	4.3	4.5
Industrial Index	18.4	2.0	24	25	14.8	14.7	2.5	2.6	16	17	12.8	12.5	2.7	2.9

Forecasts and rating unwind on an interpolated basis

	Historical PE	Historical DY	Cons EPS growth (Yr1)	DB EPS growth (Yr1)	Cons PE (1YrF)	DB PE (1YrF)	Cons DY (1YrF)	DB DY (1YrF)	Cons EPS growth (Yr2)	DB EPS growth (Yr2)	Cons PE (2YrF)	DB PE (2YrF)	Cons DY (2YrF)	DB DY (2YrF)
All Share Index	**14.5**	**2.6**	**34**	**41**	**10.8**	**10.3**	**3.1**	**3.1**	**14**	**29**	**9.5**	**8.0**	**3.6**	**3.8**
Resource Index	14.4	1.9	51	65	9.4	8.8	2.5	2.4	12	38	8.4	6.4	3.0	3.0
Financial Index	11.9	4.4	17	17	10.3	10.2	4.8	4.9	17	15	8.8	8.8	5.5	5.8
Industrial Index	16.4	2.6	20	21	13.7	13.6	3.0	3.2	16	19	11.8	11.4	3.5	3.8

Source: -Net Bridge; Deutsche Bank

Updated South African equity return expectation

Our one year equity return projection is based on a mean reversion model, which assumes the market will exit at its long term average earnings yield at the end of 24 months. The FTSE/JSE Africa All Share Index has historically delivered an average real return of 7.9%. Although volatile over the short-term, the average earnings yield over the last 20 years has been c.7.6%, suggesting that the long term average earnings yield approximates investors' real return expectations and, by implication, the market level adjusts to deliver this return. Based on the 7.9% real return over the last 20 years, we have set a fair through-the-cycle market earnings yield of 7.9% (equivalent to a PE of 12.7x).

While the above represents our neutral position, we do make allowances for a discretionary adjustment to the equity risk premium implied. For much of 2010, we applied a 25% expansion to the equity risk premium, resulting in us assuming a two-year exit multiple of 11.1x. Risks to our global macro backdrop that were biased to the downside, as well as the forecast risk for the Resources sectors led us to conclude that it was appropriate to incorporate some downside risk protection. With evidence of a more self-sustaining recovery emerging in the US, we now see risks more evenly balanced. A more supportive domestic backdrop too, should ensure a broader distribution of earnings growth than was the case through 2010. We have therefore lowered our equity risk premium expansion to 15% (which increases our exit rating for the South African market in two years' time to 11.7x). With the many risks that could yet derail the fragile global recovery under way, we continue to believe a discount rating remains appropriate.

Incorporating these assumptions into our top-down model, we arrive at an expected return of approximately 20% for the South African equity market in 2011.

Figure 31: One year equity market return projection

Calculation of one-year exit PE		
Earnings growth (months 13-24)		33.9%
Dividends (months 13-24)		3.2%
Total return		37.1%
Inflation expectation (year two)		5.6%
Total real return (year two)		31.5%
Mean historical real return/EY	12.7	7.9%
Current ERP expansion/(compression)		15.0%
Adjusted exit PE/EY	11.7	8.6%
Expected equity total return in year two		14.2%
Required capital return (total return less div yield)		11.0%
Implied one-year exit PE (x)		**14.1**

One-year return projection	
Current rolling PE	17.5
One year earnings growth (base)	45.2%
One year forward PE	12.0
Projected rolling one year exit PE	14.1
Price return	16.8%
Dividend return	2.8%
Total return	**19.6%**

Source: Deutsche Bank

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Equity review: Forecast summary

	Price cps	Year end	EPS (cps) Historical	EPS (cps) FY1	EPS (cps) FY2	DPS (cps) FY1	DPS (cps) FY2	PE FY1	DY FY1 %	Rating
General Mining										
African Rainbow Minerals	20820	Jun-10	7.98	20.79	33.97	5.26	8.59	1.0	2.5	Buy
Anglo American*	34600	Dec-09	2.08	3.79	7.09	0.65	0.67	12.7	1.3	Buy
BHP Billiton*	26941	Jun-10	2.23	3.99	5.13	0.93	0.98	9.8	2.5	Buy
Exxaro Resources	14471	Dec-09	7.02	14.59	21.42	4.70	7.20	9.9	3.2	Buy
Kumba Iron Ore	45447	Dec-09	21.79	42.27	53.46	28.30	35.80	10.8	6.2	Buy
Optimum Coal	3280	Jun-10	-2.21	2.75	5.98	0.00	1.00	11.9	0.0	Buy
Platinum										
AngloPlat	70500	Dec-09	2.98	22.29	38.00	59.00	19.00	31.6	0.8	Hold
Impala	20211	Jun-10	7.52	15.60	22.48	8.67	12.49	13.0	4.3	Buy
Non-Mining Resources										
Sasol	34900	Jun-10	26.54	33.26	42.20	11.55	12.71	10.5	3.3	Buy
Banks and Financial Services										
Absa	13500	Dec-09	9.37	11.33	13.79	4.72	5.97	11.9	3.5	Hold
ABIL	3650	Sep-10	2.33	3.08	4.02	2.05	2.68	11.9	5.6	Sell
FirstRand	1955	Jun-10	1.68	0.37	2.07	0.85	1.05	9.5	5.4	Buy
Investec**	479	Mar-10	42.55	65.68	81.66	17.80	24.97	7.3	3.7	Buy
Nedbank	12903	Dec-09	10.10	10.58	15.20	4.53	6.57	8.5	5.1	Buy
Standard Bank	10560	Dec-09	7.25	7.06	8.82	3.86	4.01	15.0	3.7	Hold
Life Assurance										
Discovery	3767	Jun-10	2.79	3.66	4.20	0.77	0.88	10.6	2.0	Buy
Liberty	7212	Dec-09	0.47	7.61	8.79	4.70	5.17	8.3	7.1	Hold
MMI Holdings	1640	Dec-09	1.62	1.58	1.83	-2.47	16.14	10.0	6.7	Buy
Old Mutual**	126	Dec-09	12.10	16.90	18.80	3.50	5.00	7.1	2.8	Buy
Sanlam	2720	Dec-09	219.00	2.23	2.61	1.12	1.22	12.5	4.0	Buy
Real Estate										
Growthpoint	1723	Jun-10	1.21	1.29	1.38	1.29	1.38	13.4	7.5	Hold

** Price in ZAR, all other values in US$*
*** All values in GBP*
****Price in CHF, all other values in EUR*
***** Price in GBP, all other values in US$*
All prices are as at the close of business on Friday, 28 January 2011
Source: Company data; Deutsche Securities estimates

Equity review: Forecast summary (cont)

	Price cps	Year end	EPS (cps) Historical	EPS (cps) FY1	EPS (cps) FY2	DPS (cps) FY1	DPS (cps) FY2	PE FY1	DY FY1 %	Rating
Industrials										
Adcock Ingram	5660	Sep-10	5.17	5.62	6.19	1.94	2.13	10.1	3.4	Hold
Aveng	3950	Jun-10	4.41	4.64	5.56	1.45	1.68	8.5	3.7	Buy
AVI	2985	Jun-10	1.92	2.11	2.34	1.09	1.21	14.1	3.7	Hold
Barloworld	7010	Sep-10	1.70	4.20	5.79	1.85	2.55	16.7	2.6	Hold
Bidvest	15350	Jun-10	10.63	12.39	14.61	5.03	5.94	12.4	3.3	Buy
British American Tobacco	26214	Dec-09	152.99	174.33	191.19	113.30	124.30	13.2	4.9	Hold
Clicks	4087	Aug-10	2.11	2.59	3.03	1.30	1.52	15.8	3.2	Hold
Foschini	8225	Mar-10	5.18	6.26	7.71	3.35	4.13	13.1	4.1	Hold
Group Five	3355	Jun-10	5.61	4.47	4.85	1.16	1.18	7.1	3.4	Hold
Imperial	11450	Jun-10	9.27	9.74	10.61	3.63	3.95	11.8	3.2	Hold
JD Group	5350	Aug-10	2.99	4.65	6.43	2.33	3.21	11.5	4.3	Buy
Lewis	7540	Mar-10	6.40	7.37	8.92	3.50	4.25	10.2	4.6	Buy
MTN Group	12598	Dec-09	7.54	9.67	12.14	4.84	6.68	13.0	3.8	Buy
Murray & Roberts	3460	Jun-10	3.40	3.86	3.92	1.10	1.12	9.0	3.2	Hold
Nampak	2300	Sep-10	1.59	1.73	2.00	1.23	1.43	13.3	5.4	Hold
Naspers	37210	Mar-10	14.26	18.35	23.04	3.04	3.82	20.3	0.8	Buy
Pick n Pay	4436	Feb-10	2.11	2.14	2.87	1.74	2.15	20.8	3.9	Hold
PP Cement	3265	Sep-10	2.21	2.64	2.93	2.03	2.26	12.4	6.2	Hold
Richemont***	5200	Mar-10	1.06	1.98	2.34	0.62	0.75	20.3	1.5	Buy
SABMiller****	2048	Mar-10	1.60	1.86	2.13	0.79	0.90	17.5	2.4	Hold
Shoprite	9176	Jun-10	4.51	4.91	5.68	2.47	2.86	18.7	2.7	Sell
Spar	9249	Sep-10	5.06	5.70	6.56	4.02	4.63	16.2	4.4	Hold
Steinhoff	2350	Jun-10	2.44	2.50	2.99	0.64	0.77	9.4	2.7	Buy
Telkom	3550	Mar-10	4.73	4.14	4.40	1.50	1.75	8.6	4.2	Hold
Tiger Brands	18840	Sep-10	14.65	15.16	16.49	7.71	8.38	12.4	4.1	Buy
Truworths	6542	Jun-10	3.70	4.39	5.15	2.37	2.78	14.9	3.6	Sell
Vodacom	7114	Mar-10	5.10	6.26	6.83	3.76	4.10	11.4	5.3	Hold
WBHO	12649	Jun-10	17.49	16.38	16.69	3.08	3.14	7.7	2.4	Hold
Woolworths	2398	Jun-10	1.59	1.75	2.14	1.17	1.43	13.7	4.9	Hold

** Price in ZAR, all other values in US$*
*** All values in GBP*
****Price in CHF, all other values in EUR*
***** Price in GBP, all other values in US$*
All prices are as at the close of business on Friday, 28 January 2011
Source: Company data; Deutsche Securities estimates

South Africa – General Mining

African Rainbow Minerals Ltd

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

The **ferrous metals division** (NAV contribution: 57%) consists of the 50% effective ownership of Assmang, comprising three divisions – manganese, iron ore and chrome. About 90% of its ferrous metal production is exported via Saldanha Bay, Port Elizabeth, Durban and Richards Bay. The division has significant growth opportunities at the Khumani iron ore mine, which is in commissioning and should be expanded to 16m tonnes pa of iron ore. Manganese and chrome were top performers late in the cycle. However these commodities have not yet shown similar recovery and performance as the other commodities in the base metals, bulks and precious as they are generally later cycle performers.

The **nickel** and **platinum divisions** (NAV contribution: 25%) comprise Nkomati, Modikwa, Two Rivers and Kalplats. Nkomati is in transition from being a high grade, low volume to a low grade, high volume nickel mine, though with significant PGM (platinum group metal), chrome and base metal by-products. Modikwa and Two Rivers have performed well from a cost perspective recently and both have significant expansion potential.

Harmony (9% of NAV) is predominantly a South African gold producer; with most production remaining in South Africa. Harmony acquired 100% of Avgold in 1H04. ARM holds 14% of Harmony; we expect it to retain this stake in the short and medium term.

Copper JV with Vale, ARM's non-South African exploration operations are held through a 50:50 JV with Vale. These operations would not have been given priority given the capital requirements from the South African operations, hence the current structure. The announcement of the approval of the Konkola North project supports the development of this division as a key growth area in the longer term 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.

We expect production growth from the various projects to continue coming through in FY11 (Khumani and Nkomati).

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

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

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

Model updated: 11 January 2011

Running the Numbers

S. Africa

South Africa

General Mining

ARM

Reuters: ARIJ.J Bloomberg: ARI SJ

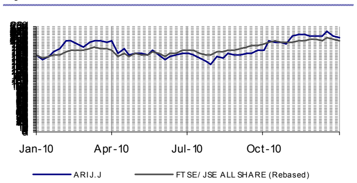
Buy

Price (28 Jan 11)	ZAR 208.20
Target price	ZAR 255.00
52-week Range	ZAR 147.90 – 226.36
Market Cap	ZAR 44,199m
	US$ 6,157m

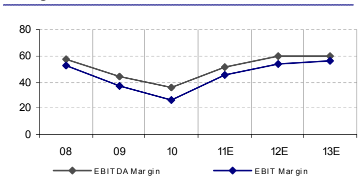
Company Profile

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

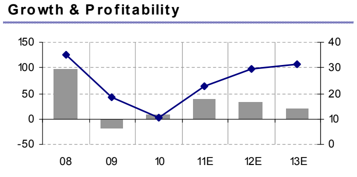
1yr Price Performance



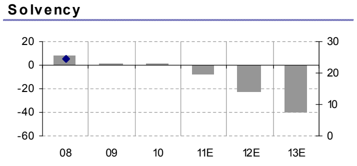
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	18.72	10.79	7.98	20.79	33.97	46.75
Reported EPS (ZAR)	20.93	13.36	8.44	20.79	33.97	46.75
DPS (ZAR)	4.00	1.75	2.00	5.26	8.59	11.82
BVPS (ZAR)	70.32	76.15	83.52	101.50	131.21	172.93
Weighted average shares (m)	211	212	212	212	212	212
Average market cap (ZARm)	38,314	30,842	35,231	44,199	44,199	44,199
Enterprise value (ZARm)	32,654	24,866	29,536	36,663	32,060	23,395
Valuation Metrics						
P/E (DB) (x)	9.7	13.5	20.8	10.0	6.1	4.5
P/E (Reported) (x)	8.7	10.9	19.7	10.0	6.1	4.5
P/BV (x)	3.98	1.71	1.93	2.05	1.59	1.20
FCF Yield (%)	4.0	2.6	0.1	6.2	13.6	22.8
Dividend Yield (%)	2.2	1.2	1.2	2.5	4.1	5.7
EV/Sales (x)	2.59	2.46	2.68	2.41	1.59	0.96
EV/EBITDA (x)	4.5	5.5	7.6	4.7	2.7	1.6
EV/EBIT (x)	4.9	6.7	10.1	5.4	3.0	1.7
Income Statement (ZARm)						
Sales revenue	**12,590**	**10,094**	**11,022**	**15,209**	**20,110**	**24,261**
Gross profit	**7,209**	**4,494**	**3,907**	**7,863**	**11,903**	**14,579**
EBITDA	**7,209**	**4,494**	**3,907**	**7,863**	**11,903**	**14,579**
Depreciation	531	787	987	1,036	1,183	1,077
Amortisation	0	0	0	0	0	0
EBIT	**6,678**	**3,707**	**2,920**	**6,827**	**10,720**	**13,503**
Net interest income(expense)	-270	29	17	29	385	1,212
Associates/affiliates	461	147	-51	-53	94	401
Exceptionals/extraordinaries	162	514	97	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**7,031**	**4,397**	**2,983**	**6,803**	**11,200**	**15,116**
Income tax expense	2,084	1,727	1,009	2,171	3,396	4,451
Minorities	460	-198	162	167	508	625
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**4,487**	**2,868**	**1,812**	**4,465**	**7,296**	**10,040**
DB adjustments (including dilution)	-474	-551	-98	0	0	0
DB Net profit	**4,013**	**2,317**	**1,714**	**4,465**	**7,296**	**10,040**
Cash Flow (ZARm)						
Cash flow from operations	**4,169**	**4,050**	**2,521**	**5,984**	**8,448**	**11,251**
Net Capex	-2,631	-3,255	-2,487	-3,241	-2,443	-1,178
Free cash flow	**1,538**	**795**	**34**	**2,743**	**6,004**	**10,073**
Equity raised/(bought back)	66	2	44	0	0	0
Dividends paid	0	0	0	-683	-988	-1,184
Net inc/(dec) in borrowings	-241	-173	-773	0	0	0
Other investing/financing cash flows	204	107	163	0	0	0
Net cash flow	**1,567**	**731**	**-532**	**2,061**	**5,017**	**8,889**
Change in working capital	*-1,680*	*0*	*0*	*-726*	*-985*	*-263*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,660	3,513	3,039	5,100	10,116	19,005
Tangible fixed assets	9,024	11,725	13,480	15,684	16,945	17,046
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	7,778	6,809	6,766	6,713	6,807	7,208
Other assets	5,416	3,452	4,948	5,444	6,751	7,388
Total assets	**24,878**	**25,499**	**28,233**	**32,940**	**40,618**	**50,648**
Interest bearing debt	3,978	3,744	3,346	3,346	3,346	3,346
Other liabilities	5,224	5,004	6,358	7,116	7,978	8,527
Total liabilities	**9,202**	**8,748**	**9,704**	**10,462**	**11,324**	**11,873**
Shareholders' equity	14,876	16,149	17,765	21,547	27,855	36,712
Minorities	800	602	764	931	1,439	2,064
Total shareholders' equity	**15,676**	**16,751**	**18,529**	**22,478**	**29,294**	**38,775**
Net debt	*1,318*	*231*	*307*	*-1,754*	*-6,770*	*-15,659*
Key Company Metrics						
Sales growth (%)	97.5	-19.8	9.2	38.0	32.2	20.6
DB EPS growth (%)	228.1	-42.4	-26.0	160.5	63.4	37.6
EBITDA Margin (%)	57.3	44.5	35.4	51.7	59.2	60.1
EBIT Margin (%)	53.0	36.7	26.5	44.9	53.3	55.7
Payout ratio (%)	18.8	12.9	23.4	25.0	25.0	25.0
ROE (%)	34.8	18.5	10.7	22.7	29.5	31.1
Capex/sales (%)	21.1	32.3	22.7	21.3	12.1	4.9
Capex/depreciation (x)	5.0	4.1	2.5	3.1	2.1	1.1
Net debt/equity (%)	8.4	1.4	1.7	-7.8	-23.1	-40.4
Net interest cover (x)	24.7	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining

Anglo American plc

Business description: Anglo American's (Anglo's) portfolio now consists of seven core mining-based divisions (met coal, thermal coal, nickel, platinum, iron ore (including Kumba, Amapá, Minas Rio and Samancor), diamonds and copper) and a non-core division (industrial minerals, Scaw South Africa, Copebras, Catalao and two coal assets), to be realised in time. The group is now being managed along clearly defined and focused commodity lines, with management deployed to major production regions. The changes in structure have facilitated the ability for efficient capital allocation across the group, with potential cash inflow from non-core asset sales of US$6-7bn in FY10-12.

Since its 1999 London listing, the group's structure has improved dramatically due to the removal of several minority holdings, dissolution of the De Beers cross-holding, divestiture of non-core assets and acquisition of a number of major assets. The group has also been more active on the acquisition front since CEO Cynthia Carroll took office. The group's acquisition of MMX's Minas-Rio and Amapá, Pebble, Michiquillay and Foxleigh indicate the acceleration of acquisitions across the core commodities, and illustrates a more aggressive view of the sustainability of the commodity cycle as well as potentially higher long-term price assumptions. There is also a strong portfolio of organic growth within the group with US$15bn committed to capital projects, mainly in the copper, iron ore and nickel division and up to US$30bn in total approved and unapproved future projects.

The aggressive capital returns to shareholders as well as acquisitions offset by recent operating cash flow and non-core asset sales above have resulted in Anglo having net debt of US$7.7bn (DB estimate) at the end of FY10. Debt levels are expected to fall into 2011 and beyond when the higher production from the Sishen South, Barro Alto and Los Bronces projects starts to come through. In addition the sale of US$4bn of non-core assets should result in an accelerated debt reduction over time.

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

Drivers:

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

Anglo's primary business driver remains the global economic cycle with consumer exposure through diamonds and platinum. The group has significant exposure to PGMs, and diamonds, which performed late in this cycle. Its earnings base, dominated by South African assets, faces the greatest rand exposure of any of the large diversified houses. CEO Cynthia Carroll is leading a series of far-reaching changes in Anglo's next chapter of development. Anglo is now focussed on operational performance (in particular at AngloPlat), internal restructuring, project delivery (in particular after the MMX acquisition) and asset optimisation.

Outlook: Anglo is focused on value delivery through the restructuring of the operations (including significant cost restructuring at AngloPlat, De Beers and the other divisions) and also on delivering the four major growth projects expected to come on line between 2011 and 2013 (Barro Alto, Los Bronces, Kolomela and Minas Rio). Anglo continues to progress the sale of non-core assets and the process will we believe drive the improvement in Anglo's financial position and thus will lead to a renewed focus on growth and capital returns. We think the turnaround of AngloPlat, the Australian coal business and De Beers are key to a further re-rating of Anglo. We have factored limited upside from these turnarounds into our numbers and as a result see further potential upside on delivery. Given the upside potential based on our valuation we rate Anglo a **Buy**.

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

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

Model updated: 11 January 2011

Running the Numbers

S. Africa

South Africa

General Mining

Anglo American

Reuters: AGLJ.J Bloomberg: AGL SJ

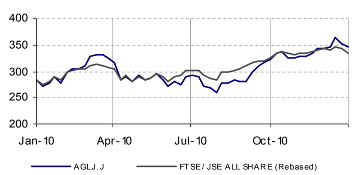
Buy

Price (28 Jan 11)	ZAR 346.00
Target price	ZAR 470.00
52-week Range	ZAR 255.02 – 367.50
Market Cap	ZAR 416,930m
	US$ 58,084m

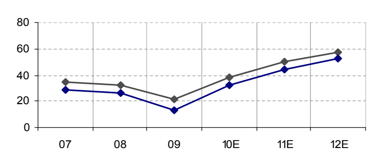
Company Profile

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

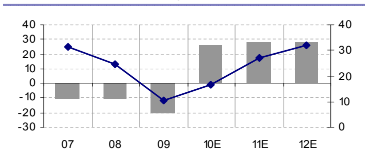
1yr Price Performance



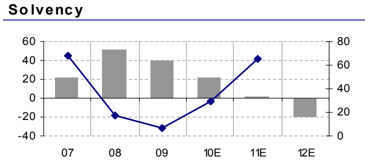
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS ($)	4.34	4.33	2.08	3.79	7.09	11.03
Reported EPS ($)	5.56	4.31	1.97	3.67	7.09	11.03
DPS ($)	1.24	0.44	0.00	0.65	0.67	0.69
BVPS ($)	17.16	16.85	21.73	24.65	31.63	42.87
Weighted average shares (m)	1,309	1,200	1,202	1,205	1,205	1,205
Average market cap (US$m)	76,226	57,106	33,259	58,084	58,084	58,084
Enterprise value (US$m)	74,673	62,766	39,545	59,870	53,818	42,323
Valuation Metrics						
P/E (DB) (x)	13.4	11.0	13.3	12.7	6.8	4.4
P/E (Reported) (x)	10.5	11.0	14.1	13.1	6.8	4.4
P/BV (x)	3.54	1.35	2.00	1.96	1.52	1.12
FCF Yield (%)	4.5	5.2	nm	4.4	8.0	11.5
Dividend Yield (%)	2.1	0.9	0.0	1.3	1.4	1.4
EV/Sales (x)	2.53	2.39	1.90	2.28	1.61	0.99
EV/EBITDA (x)	7.3	7.5	8.9	5.9	3.2	1.7
EV/EBIT (x)	8.7	9.2	14.4	7.2	3.6	1.9
Income Statement (US$m)						
Sales revenue	**29,532**	**26,311**	**20,858**	**26,216**	**33,459**	**42,904**
Gross profit	**10,225**	**8,359**	**4,432**	**10,126**	**16,791**	**24,769**
EBITDA	**10,225**	**8,359**	**4,432**	**10,126**	**16,791**	**24,769**
Depreciation	1,632	1,509	1,692	1,828	2,002	2,396
Amortisation	0	0	0	0	0	0
EBIT	**8,593**	**6,850**	**2,740**	**8,298**	**14,789**	**22,372**
Net interest income(expense)	-127	-401	-407	-280	-226	86
Associates/affiliates	294	1,113	84	865	1,531	1,821
Exceptionals/extraordinaries	2,263	1,009	1,612	-92	0	0
Other pre-tax income/(expense)	0	0	0	31	0	-58
Profit before tax	**11,023**	**8,571**	**4,029**	**8,823**	**16,094**	**24,221**
Income tax expense	2,774	2,451	1,117	2,704	4,934	7,221
Minorities	868	905	487	1,416	1,975	2,710
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**7,381**	**5,215**	**2,425**	**4,703**	**9,186**	**14,289**
DB adjustments (including dilution)	-1,620	22	144	151	0	0
DB Net profit	**5,761**	**5,237**	**2,569**	**4,854**	**9,186**	**14,289**
Cash Flow (US$m)						
Cash flow from operations	**7,264**	**8,065**	**4,087**	**6,688**	**9,105**	**11,244**
Net Capex	-3,821	-5,116	-4,561	-4,119	-4,477	-4,560
Free cash flow	**3,443**	**2,949**	**-474**	**2,569**	**4,628**	**6,684**
Equity raised/(bought back)	-6,054	-608	50	520	22	22
Dividends paid	-2,266	-2,346	-472	-301	-783	-795
Net inc/(dec) in borrowings	3,813	6,616	-371	-1,538	-5,100	-4,500
Other investing/financing cash flows	870	-7,045	1,282	895	2,315	706
Net cash flow	**-194**	**-434**	**15**	**2,144**	**1,081**	**2,117**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (US$m)						
Cash and other liquid assets	3,129	2,771	3,269	5,441	7,558	19,113
Tangible fixed assets	23,534	29,545	35,198	33,725	35,352	36,856
Goodwill/intangible assets	1,811	3,250	3,118	2,850	2,850	2,850
Associates/investments	8,879	7,179	6,899	9,336	10,747	12,497
Other assets	7,409	6,993	7,824	8,387	9,729	11,109
Total assets	**44,762**	**49,738**	**56,308**	**59,739**	**66,235**	**82,425**
Interest bearing debt	8,586	14,075	14,506	12,939	8,439	7,539
Other liabilities	11,846	13,907	13,733	13,475	14,083	14,914
Total liabilities	**20,432**	**27,982**	**28,239**	**26,414**	**22,522**	**22,453**
Shareholders' equity	22,461	20,221	26,121	29,701	38,113	51,663
Minorities	1,869	1,535	1,948	3,625	5,599	8,310
Total shareholders' equity	**24,330**	**21,756**	**28,069**	**33,325**	**43,713**	**59,973**
Net debt	*5,457*	*11,304*	*11,237*	*7,498*	*881*	*-11,574*
Key Company Metrics						
Sales growth (%)	-10.7	-10.9	-20.7	25.7	27.6	28.2
DB EPS growth (%)	19.3	-0.3	-51.9	82.0	87.0	55.6
EBITDA Margin (%)	34.6	31.8	21.2	38.6	50.2	57.7
EBIT Margin (%)	29.1	26.0	13.1	31.7	44.2	52.1
Payout ratio (%)	22.0	10.1	0.0	16.7	8.8	5.8
ROE (%)	31.6	24.4	10.5	16.9	27.1	31.8
Capex/sales (%)	13.3	19.6	22.1	15.7	13.4	10.6
Capex/depreciation (x)	2.4	3.4	2.7	2.3	2.2	1.9
Net debt/equity (%)	22.4	52.0	40.0	22.5	2.0	-19.3
Net interest cover (x)	67.7	17.1	6.7	29.6	65.4	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining

BHP Billiton plc

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

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

Drivers: The company's FY11 earnings profile remains dominated by carbon steel materials CSG – iron ore, coking coal and manganese (55% of EBIT) and the petroleum CSG (19% of EBIT). Key currency exposures include the A$, CHP and rand, having a significant impact on operating costs (in US$) and earnings. We believe BHP's attractiveness as an investment rests on its ability to:

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

Outlook: Despite its already large production base, BHP potential growth rates are comparable and in many cases better than its diversified peers. The company has outlined its capital allocation strategy as focusing on; 1) Organic growth, 2) Balance sheet management (with bolt-on acquisitions and debt reduction favoured over share buybacks, and 3) Progressively growing (and periodically rebasing) the dividend. However, the failed bid for Potash Corp shows BHP management is prepared to grow through large and diversified acquisitions, albeit that these are becoming more challenging. Its petroleum business adds to its energy portfolio, a positive in a rising energy cost environment, which may now become the focus for mid-tier acquisitions. Commodity skew is very much biased to Chinese raw material shortages – specifically iron ore, oil, coking coal, and copper, amongst others. BHP's assets are long life, low operating cost, and in lower to moderate risk countries (Australia, North America, Europe, southern Africa, Brazil, Chile) and overall are considered premium quality relative to the sector, offering above-average returns and operating margins. Buy.

Valuation: We apply a 1.2x exit multiple on BHP based on DCF valuation to set our price target. The premium multiple reflects the company's strong balance sheet and diverse commodity portfolio, as well as the unrecognised value in the project portfolio. Our DCF uses life-of-mine cash flows with a WACC of 8.9% (COE 11.4%, Rf 6%, Rp 4.5%, COD 6.0% on a D/E of 30%, Beta is 1.25). Our price target is set using a USD/GBP exchange rate of 1.55 and ZAR/USD of 7.60.

Risks: The key risks to our forecasts are weaker-than-expected commodity prices and stronger-than-expected exchange rates. Production cuts beyond our expectations are also a risk (this particularly applies to iron ore, manganese and coking coal for BHP). Delivery risk also exists on the large RGP5 iron ore expansion project in the Pilbara, and the petroleum growth projects. Lastly a potential near-term slowdown in Chinese steel demand may result in lower iron ore and coking coal demand and therefore lower bulk commodity prices. The risk that BHP may have to pay a significant premium for potential acquisitions to be successful remains, in our view.

Model updated: 20 January 2011

Running the Numbers

S. Africa

South Africa

General Mining

BHP Billiton

Reuters: BILJ.J Bloomberg: BIL SJ

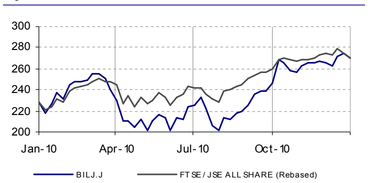
Buy

Price (28 Jan 11)	ZAR 269.41
Target price	ZAR 325.00
52-week Range	ZAR 195.50 – 277.28
Market Cap	ZAR 1,468,088m
	US$ 204,525m

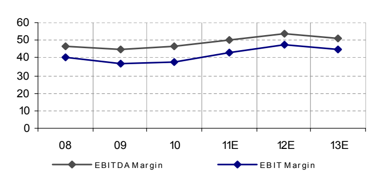
Company Profile

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

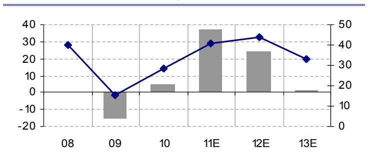
1yr Price Performance



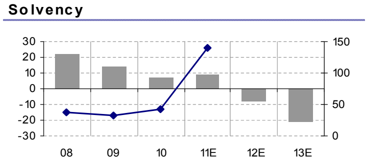
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS ($)	2.74	1.92	2.23	3.99	5.13	4.91
Reported EPS ($)	2.75	1.05	2.27	3.83	5.13	4.91
DPS ($)	0.70	0.82	0.87	0.93	0.98	0.99
BVPS ($)	6.86	7.18	8.72	10.09	13.29	16.71
Weighted average shares (m)	5,590	5,565	5,565	5,449	5,449	5,449
Average market cap (US$m)	182,371	117,270	162,274	204,525	204,525	204,525
Enterprise value (US$m)	188,035	121,307	164,584	209,153	199,026	185,289
Valuation Metrics						
P/E (DB) (x)	11.9	11.0	13.1	9.4	7.3	7.6
P/E (Reported) (x)	11.9	20.1	12.8	9.8	7.3	7.6
P/BV (x)	5.52	3.16	3.00	3.72	2.82	2.25
FCF Yield (%)	6.0	8.1	5.4	4.5	8.7	10.4
Dividend Yield (%)	2.1	3.9	3.0	2.5	2.6	2.6
EV/Sales (x)	3.16	2.42	3.12	2.89	2.21	2.03
EV/EBITDA (x)	6.8	5.4	6.7	5.8	4.1	4.0
EV/EBIT (x)	7.8	6.7	8.3	6.7	4.7	4.5
Income Statement (US$m)						
Sales revenue	**59,473**	**50,211**	**52,798**	**72,382**	**90,054**	**91,137**
Gross profit	**27,977**	**22,275**	**24,513**	**36,561**	**48,134**	**48,564**
EBITDA	**27,825**	**22,275**	**24,513**	**36,137**	**47,985**	**46,277**
Depreciation	3,680	4,061	4,794	5,058	5,455	5,398
Amortisation	0	0	0	0	0	0
EBIT	**24,145**	**18,214**	**19,719**	**31,079**	**42,530**	**40,879**
Net interest income(expense)	-662	-543	-459	-222	92	398
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	-6,054	312	-350	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**23,483**	**11,617**	**19,572**	**30,507**	**42,622**	**41,278**
Income tax expense	7,521	5,279	6,563	9,101	14,068	14,038
Minorities	572	461	287	412	455	333
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**15,390**	**5,877**	**12,722**	**20,995**	**28,099**	**26,907**
DB adjustments (including dilution)	-22	4,845	-253	845	0	0
DB Net profit	**15,368**	**10,722**	**12,469**	**21,840**	**28,099**	**26,907**
Cash Flow (US$m)						
Cash flow from operations	**18,379**	**18,863**	**17,920**	**20,506**	**27,996**	**33,163**
Net Capex	-7,515	-9,328	-9,191	-11,347	-10,237	-11,982
Free cash flow	**10,864**	**9,535**	**8,729**	**9,159**	**17,759**	**21,181**
Equity raised/(bought back)	-3,091	29	12	-4,200	0	0
Dividends paid	-3,135	-4,563	-4,618	-5,130	-5,370	-5,424
Net inc/(dec) in borrowings	-750	3,575	-588	-2,000	-2,400	-2,000
Other investing/financing cash flows	-2,100	-1,980	-1,912	-1,530	-1,580	-1,520
Net cash flow	**1,788**	**6,596**	**1,623**	**-3,701**	**8,410**	**12,236**
Change in working capital	*-2,739*	*2,665*	*-2,115*	*-7,051*	*-6,955*	*-416*
Balance Sheet (US$m)						
Cash and other liquid assets	4,237	10,833	12,456	8,755	17,165	29,401
Tangible fixed assets	47,332	49,032	55,576	61,865	66,647	73,231
Goodwill/intangible assets	625	661	687	1,122	1,559	2,001
Associates/investments	3,502	2,306	1,802	1,802	1,802	1,802
Other assets	20,312	15,938	18,331	23,001	27,607	27,882
Total assets	**76,008**	**78,770**	**88,852**	**96,544**	**114,780**	**134,317**
Interest bearing debt	12,695	16,419	15,764	13,764	11,364	9,364
Other liabilities	24,270	21,640	23,759	26,388	28,886	31,314
Total liabilities	**36,965**	**38,059**	**39,523**	**40,152**	**40,250**	**40,678**
Shareholders' equity	38,335	39,954	48,525	54,970	72,426	91,036
Minorities	708	757	804	1,421	2,104	2,603
Total shareholders' equity	**39,043**	**40,711**	**49,329**	**56,392**	**74,530**	**93,639**
Net debt	*8,458*	*5,586*	*3,308*	*5,009*	*-5,801*	*-20,037*
Key Company Metrics						
Sales growth (%)	na	-15.6	5.2	37.1	24.4	1.2
DB EPS growth (%)	na	-30.1	16.4	78.9	28.7	-4.2
EBITDA Margin (%)	46.8	44.4	46.4	49.9	53.3	50.8
EBIT Margin (%)	40.6	36.3	37.3	42.9	47.2	44.9
Payout ratio (%)	25.4	77.6	38.1	24.1	19.0	20.0
ROE (%)	40.1	15.0	28.8	40.6	44.1	32.9
Capex/sales (%)	12.7	18.9	17.7	15.7	11.4	13.1
Capex/depreciation (x)	2.1	2.3	1.9	2.2	1.9	2.2
Net debt/equity (%)	21.7	13.7	6.7	8.9	-7.8	-21.4
Net interest cover (x)	36.5	33.5	43.0	140.1	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining

Exxaro Resources Ltd

Business description: Exxaro, South Africa's premier BEE-owned and managed mining company, was created from Kumba Resources and Eyesizwe Mining. Exxaro's controlling shareholder, BEE Holdco, is in turn controlled by Sipho Nkosi's Eyesizwe Mining. Exxaro is the third largest South African coal producer with capacity of 45m tonnes pa. The heavy minerals business (including Namakwa acquired in September 2008) is the second-largest titanium slag producer and the third-largest titanium feedstock and zircon supplier globally. Exxaro also owns 20% of Sishen Iron Ore Company (SIOC), a world class iron ore asset based in the Northern Cape, owned (74%) and controlled by Kumba Iron Ore (Kumba) and in turn by Anglo American.

Exxaro should also be able to offer itself as a preferred supplier to Eskom. Given the current expansion potential at Eskom, it looks well positioned for further growth, particularly in the Waterberg at Exxaro's Grootegeluk mine. Given its BEE status, Exxaro has acquired 6.3m tonnes pa allocation at the expanded Richards Bay Coal Terminal (RBCT). Annual production is 45m tonnes; 83% of which is sold to Eskom on various terms including two cost-plus agreements and various coal mining inflation linked contracts. Only 6-8% is exported; the balance is sold locally (ArcelorMittal, ferroalloys and Sasol). Upside for the business is cost control below inflationary increases as well as sales of high value coking coals and other by-products not included in the Eskom contracts. Total export allocation is to be 6.3m tonnes pa when the RBCT expansion is complete, but the Witbank/RBCT Spoornet COALlink expansion remains a constraint to realising this potential capacity.

Current projects are dominated by the R9.5bn Medupi project (a new power station near Grootegeluk requiring 15m tonnes pa). Projects not yet approved include further expansions to Grootegeluk for IPP and export products, Fairbreeze to replace Hillendale, Belfast (2m tonnes pa export thermal), the Igoda JV (35% interest producing 7m tonnes pa of which 4m tonnes pa will be exported) and Moranbah South (with Anglo in Australia).

Drivers:

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

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

Outlook: We rate Exxaro Resources a **Buy**, primarily based on upside potential to our 12 month target price. In addition we expect Exxaro to more than double earnings over the next two years. We believe Exxaro is well poised to benefit from South Africa's increased coal requirement (Eskom and IPP) and due to its contracts with Eskom remaining relatively defensive. Exxaro has a significant growth outlook from its Waterberg coal operations and we anticipate that these high-return projects will be the driver of value for Exxaro for years to come, though in the short-term risks remain as debt levels increase. Additional value will likely be released over the next two years from head office cost savings and from the current buoyant conditions in the Heavy Minerals division where prices are rallying.

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

Risks: Downside risks to our view include stronger-than-expected currencies including the A$ and rand vs the US$ as well as lower commodity prices and volumes. Specific risks include the delivery of the project pipeline on time and budget, as well as realising benefit from the anticipated growth at Eskom.

Deutsche Securities
A Member of Deutsche Bank Group

Model updated: 11 January 2011

Running the Numbers

S. Africa

South Africa

General Mining

Exxaro Resources Ltd

Reuters: EXXJ.J Bloomberg: EXX SJ

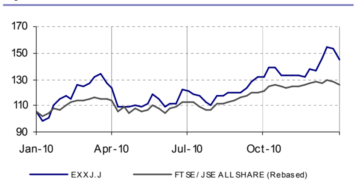
Buy

Price (28 Jan 11)	ZAR 144.71
Target price	ZAR 160.00
52-week Range	ZAR 98.80 – 156.50
Market Cap	ZAR 50,070m US$ 6,975m

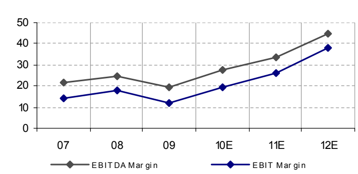
Company Profile

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

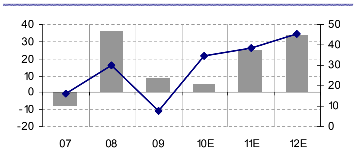
1yr Price Performance



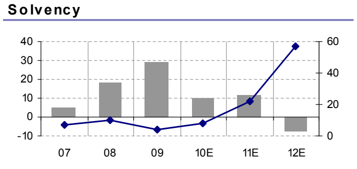
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	4.01	10.06	7.02	14.59	21.42	34.60
Reported EPS (ZAR)	4.02	9.43	2.86	14.59	21.42	34.60
DPS (ZAR)	1.16	3.75	2.00	4.70	7.20	11.60
BVPS (ZAR)	27.91	36.71	36.16	48.52	64.01	89.70
Weighted average shares (m)	341	343	345	346	346	346
Average market cap (ZARm)	25,486	35,268	27,647	50,070	50,070	50,070
Enterprise value (ZARm)	24,200	34,351	28,196	47,460	48,388	43,192
Valuation Metrics						
P/E (DB) (x)	18.6	10.2	11.4	9.9	6.8	4.2
P/E (Reported) (x)	18.6	10.9	28.0	9.9	6.8	4.2
P/BV (x)	3.71	1.96	2.89	2.98	2.26	1.61
FCF Yield (%)	1.0	nm	nm	4.0	2.5	17.0
Dividend Yield (%)	1.5	3.6	2.5	3.2	5.0	8.0
EV/Sales (x)	2.38	2.48	1.88	3.00	2.45	1.64
EV/EBITDA (x)	11.1	10.1	9.9	10.9	7.3	3.7
EV/EBIT (x)	16.8	13.9	16.2	15.5	9.5	4.3
Income Statement (ZARm)						
Sales revenue	**10,157**	**13,843**	**15,009**	**15,816**	**19,750**	**26,382**
Gross profit	**2,181**	**3,394**	**2,857**	**4,371**	**6,674**	**11,801**
EBITDA	**2,181**	**3,394**	**2,857**	**4,371**	**6,674**	**11,801**
Depreciation	737	927	1,118	1,307	1,583	1,810
Amortisation	0	0	0	0	0	0
EBIT	**1,444**	**2,467**	**1,739**	**3,064**	**5,092**	**9,992**
Net interest income(expense)	-213	-241	-415	-397	-237	-177
Associates/affiliates	728	1,665	1,900	3,433	4,254	5,468
Exceptionals/extraordinaries	0	0	-1,435	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,959**	**3,891**	**1,789**	**6,100**	**9,109**	**15,283**
Income tax expense	512	510	766	868	1,377	2,792
Minorities	20	-24	0	-34	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,427**	**3,405**	**1,023**	**5,265**	**7,732**	**12,490**
DB adjustments (including dilution)	-3	225	1,491	3	0	0
DB Net profit	**1,424**	**3,630**	**2,514**	**5,268**	**7,732**	**12,490**
Cash Flow (ZARm)						
Cash flow from operations	**1,507**	**1,910**	**-206**	**4,588**	**8,150**	**12,803**
Net Capex	-1,246	-4,345	-3,060	-2,601	-6,894	-4,313
Free cash flow	**261**	**-2,435**	**-3,266**	**1,986**	**1,256**	**8,490**
Equity raised/(bought back)	114	31	43	16	0	0
Dividends paid	-567	0	0	-716	-2,184	-3,294
Net inc/(dec) in borrowings	0	2,734	831	-54	0	0
Other investing/financing cash flows	127	589	1,617	677	0	0
Net cash flow	**-65**	**919**	**-775**	**1,909**	**-928**	**5,196**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	850	1,769	1,023	2,932	2,004	7,201
Tangible fixed assets	8,235	11,309	11,866	13,193	18,504	21,007
Goodwill/intangible assets	106	113	218	119	119	119
Associates/investments	1,788	3,426	3,183	4,348	4,348	4,348
Other assets	4,196	6,568	6,940	7,285	8,851	10,678
Total assets	**15,175**	**23,185**	**23,230**	**27,877**	**33,826**	**43,352**
Interest bearing debt	1,333	4,150	4,754	4,717	4,717	4,717
Other liabilities	4,019	5,911	5,567	5,838	6,238	6,567
Total liabilities	**5,352**	**10,061**	**10,321**	**10,555**	**10,955**	**11,284**
Shareholders' equity	9,804	12,996	12,908	17,369	22,917	32,114
Minorities	19	128	1	-46	-46	-46
Total shareholders' equity	**9,823**	**13,124**	**12,909**	**17,323**	**22,871**	**32,068**
Net debt	*483*	*2,381*	*3,731*	*1,785*	*2,713*	*-2,484*
Key Company Metrics						
Sales growth (%)	-8.2	36.3	8.4	5.4	24.9	33.6
DB EPS growth (%)	35.7	150.7	-30.2	107.8	46.8	61.5
EBITDA Margin (%)	21.5	24.5	19.0	27.6	33.8	44.7
EBIT Margin (%)	14.2	17.8	11.6	19.4	25.8	37.9
Payout ratio (%)	27.6	37.8	67.4	30.9	32.2	32.1
ROE (%)	15.9	29.9	7.9	34.8	38.4	45.4
Capex/sales (%)	12.8	11.7	13.2	16.4	34.9	16.3
Capex/depreciation (x)	1.8	1.7	1.8	2.0	4.4	2.4
Net debt/equity (%)	4.9	18.1	28.9	10.3	11.9	-7.7
Net interest cover (x)	6.8	10.2	4.2	7.7	21.5	56.6

Source: Company data, Deutsche Bank estimates

South Africa – General Mining

Kumba Iron Ore Ltd

Business description: Kumba Iron Ore (Kumba) comprises a 74% holding in Sishen Iron Ore Company (SIOC), the fourth-largest listed quality seaborne iron ore producer globally. Kumba has an impressive potential growth pipeline, limited by Transnet's Sishen/Saldanha (861km) rail link. Production is currently 44m tonnes; 8.75m tonnes (27%) being sold on a cost plus 3% basis to ArcelorMittal (subject to offtake requirements and currently in dispute). Expansions of 9m tonnes pa have been approved in the Sishen South project (approved in July 2008). These projects will take production capacity to 53m tonnes pa. Longer term expansions are dependent on an expansion of the Orex rail line from 60mt (current expanded capacity approved and in construction) to 90-95m tonnes or the approval of the Zandrivierspoort project. We expect the announcement and approval of this expansion will be in 2012/2013 with a 4-5 year construction period.

Anglo American controls SIOC through its 65%-held subsidiary, Kumba. Its economic interest in SIOC is only 49%, however. Given Anglo's stated objective to make iron ore the cornerstone of the ferrous metals division, we think an offer to Kumba's minorities by Anglo is reasonably likely in the medium term, though on reasonable valuation terms and subject to affordability by Anglo. This results in Kumba's price having a floor support level, in our view. We believe Anglo will further increase its exposure in the long term by diluting down (given capex requirements for the expansions) or acquiring Exxaro's 20% SIOC stake when the requirements of the Mining Charter have been met in 2014 and the terms for the BEE deal met in 2016.

Kumba has sold between 60-70% of export volumes to China recently and are highly exposed to Chinese steel demand. At present we are forecasting prices to remain reasonably flat around the US$170/tonne level for the next couple of years with a weakening ZAR/USD.

Drivers:

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

Kumba is chiefly exposed to the ZAR/USD exchange rate and the key catalysts include a weaker rand and flat or higher iron ore prices which lead to strong cash generation and thus ultimately to the high dividends (FY11 8%). We are assuming a weaker 2011 ZAR/USD and are forecasting flat iron ore prices at current spot levels, which are around 20% above 2010 average prices.

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

Outlook: Kumba has a good growth pipeline, limited by Transnet's expansion of the rail link between Sishen and Saldanha. 8.75m tonnes of the current 42.75m tonnes production is sold on a cost +3% basis to ArcelorMittal SA, though the terms of this arrangement are in dispute. The 10-year strategy is to increase production to 60-70m tonnes pa, most of which will come from Kolomela (9mt approved) but further potential from Sishen and Kolomela depending on rail expansions. Anglo controls SIOC through its 65%-held subsidiary Kumba. Kumba is trading below our valuation and with expected flat iron ore prices and a weakening ZAR/USD as well as a strong dividend yield we recommend **Buy**.

Valuation: We value Kumba on a multiples basis as the company trades in line with short-term earnings and the spot ZAR/USD fob iron ore price. We apply a 10% discount to Vale and value Kumba in line with the long-term global iron ore FY2 sector average multiple of 7x as Kumba has more limited capacity to grow than Vale, does not enjoy the benefit of proximity to Asian markets and has a high proportion of lump, a product that is more cyclical than fines. Kumba trades well in excess of its long-term DCF valuation (1.3x).

Risks: Downside risks to our view include a stronger-than-assumed ZAR/USD exchange rate, lower-than-forecast iron ore prices. Specific risks include the potential for a negative outcome from the dispute with ArcelorMittal SA and lower-than-expected railings.

Model updated: 11 January 2011

Running the Numbers

S. Africa

South Africa

General Mining

Kumba Iron Ore Ltd

Reuters: KIOJ.J Bloomberg: KIO SJ

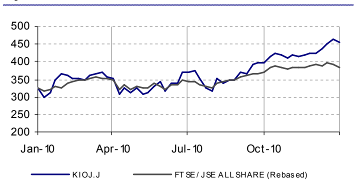
Buy

Price (28 Jan 11)	ZAR 454.47
Target price	ZAR 480.00
52-week Range	ZAR 295.00 – 470.10
Market Cap	ZAR 145,519m
	US$ 20,273m

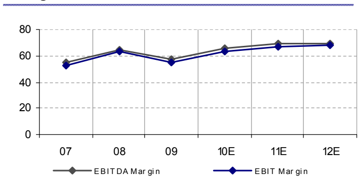
Company Profile

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

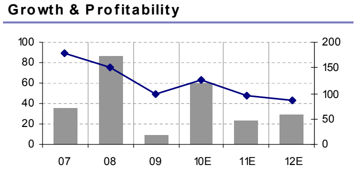
1yr Price Performance



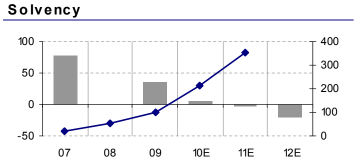
Margin Trends



Growth & Profitability



Solvency



Tim Clark
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Fiscal year end 31-Dec	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	9.57	22.54	21.79	42.27	53.46	69.03
Reported EPS (ZAR)	9.72	22.54	21.79	42.27	53.46	69.03
DPS (ZAR)	7.60	20.10	14.60	28.30	35.80	46.20
BVPS (ZAR)	8.47	21.88	22.91	45.53	66.39	96.49
Weighted average shares (m)	315	316	318	320	320	320
Average market cap (ZARm)	59,171	79,582	65,363	145,519	145,519	145,519
Enterprise value (ZARm)	62,203	80,994	69,726	148,957	147,592	141,816
Valuation Metrics						
P/E (DB) (x)	19.7	11.2	9.4	10.8	8.5	6.6
P/E (Reported) (x)	19.4	11.2	9.4	10.8	8.5	6.6
P/BV (x)	33.67	7.40	13.31	9.98	6.85	4.71
FCF Yield (%)	1.1	4.3	0.1	3.0	3.9	7.8
Dividend Yield (%)	4.0	8.0	7.1	6.2	7.9	10.2
EV/Sales (x)	5.41	3.79	2.98	3.98	3.22	2.40
EV/EBITDA (x)	9.8	5.9	5.2	6.0	4.7	3.4
EV/EBIT (x)	10.4	6.0	5.4	6.2	4.8	3.5
Income Statement (ZARm)						
Sales revenue	**11,497**	**21,360**	**23,408**	**37,436**	**45,797**	**59,190**
Gross profit	**6,316**	**13,830**	**13,369**	**24,675**	**31,623**	**41,340**
EBITDA	**6,316**	**13,830**	**13,369**	**24,675**	**31,623**	**41,340**
Depreciation	338	317	489	780	1,078	1,203
Amortisation	0	0	0	0	0	0
EBIT	**5,978**	**13,513**	**12,880**	**23,895**	**30,545**	**40,137**
Net interest income(expense)	-308	-251	-127	-113	-87	233
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	**5,670**	**13,262**	**12,753**	**23,782**	**30,458**	**40,369**
Income tax expense	1,768	4,179	3,949	6,743	8,974	12,632
Minorities	802	1,875	1,829	3,451	4,297	5,548
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**3,100**	**7,208**	**6,975**	**13,588**	**17,187**	**22,190**
DB adjustments (including dilution)	-47	0	0	0	0	0
DB Net profit	**3,053**	**7,208**	**6,975**	**13,588**	**17,187**	**22,190**
Cash Flow (ZARm)						
Cash flow from operations	**2,750**	**6,013**	**4,064**	**8,908**	**11,064**	**14,050**
Net Capex	-2,119	-2,563	-3,996	-4,477	-5,403	-2,726
Free cash flow	**631**	**3,450**	**68**	**4,431**	**5,661**	**11,324**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-392	-1,076	-1,811	-2,415	-3,957	-4,734
Net inc/(dec) in borrowings	-489	328	56	-732	0	0
Other investing/financing cash flows	55	76	209	-29	0	0
Net cash flow	**-195**	**2,778**	**-1,478**	**1,255**	**1,704**	**6,590**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	952	3,810	891	2,202	3,905	10,496
Tangible fixed assets	5,748	7,911	11,568	15,409	19,733	21,256
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	187	283	334	370	370	370
Other assets	2,850	4,699	5,014	8,610	9,909	13,156
Total assets	**9,737**	**16,703**	**17,807**	**26,591**	**33,918**	**45,277**
Interest bearing debt	3,530	3,858	3,914	3,182	3,182	3,182
Other liabilities	2,912	4,339	4,937	6,109	6,463	7,442
Total liabilities	**6,442**	**8,197**	**8,851**	**9,291**	**9,645**	**10,624**
Shareholders' equity	2,654	6,859	7,282	14,472	21,106	30,672
Minorities	641	1,647	1,674	2,828	3,167	3,981
Total shareholders' equity	**3,295**	**8,506**	**8,956**	**17,300**	**24,273**	**34,653**
Net debt	*2,578*	*48*	*3,023*	*980*	*-723*	*-7,314*
Key Company Metrics						
Sales growth (%)	34.7	85.8	9.6	59.9	22.3	29.2
DB EPS growth (%)	41.5	135.5	-3.3	94.0	26.5	29.1
EBITDA Margin (%)	54.9	64.7	57.1	65.9	69.1	69.8
EBIT Margin (%)	52.0	63.3	55.0	63.8	66.7	67.8
Payout ratio (%)	77.1	88.2	66.5	66.7	66.7	66.7
ROE (%)	177.5	151.5	98.7	124.9	96.6	85.7
Capex/sales (%)	18.4	12.0	17.1	12.0	11.8	4.6
Capex/depreciation (x)	6.3	8.1	8.2	5.7	5.0	2.3
Net debt/equity (%)	78.2	0.6	33.8	5.7	-3.0	-21.1
Net interest cover (x)	19.4	53.8	101.4	211.2	350.8	nm

Source: Company data, Deutsche Bank estimates

South Africa – Coal

Optimum Coal Holdings Ltd

Business description: Optimum Coal is the fourth-largest thermal coal exporter in South Africa. It mines coal for sale to domestic and export markets at its two primary operations: Optimum Collieries and Koornfontein Mines. Management seeks to increase group production through investment in organic growth at the current operations and through acquisition and sees Optimum Coal as a natural BEE consolidator of the Witbank Coalfield. Optimum also has a substantial interest in the Richards Bay Coal Terminal with 8mt of original shareholder allocation, however, exports are constrained by Transnet's railage performance and growth.

Optimum produces thermal coal for Eskom, the state-owned power utility, and for the export market. One of Optimum's two contracts with Eskom is currently in dispute with respect to pricing. We expect a decision to be made on this dispute by March 2011. If the result is positive, we expect earnings and NPV upside as well as a decrease in Optimum's all-in export cash costs.

We expect Optimum to have muted production growth at its current operations given the age of the mine. It has growth two projects in feasibility (Overvaal and Vlakfontein) in which we expect a positive decision to be made on both of these projects by the end of 2012 given our expected and current high coal prices and Optimum's strong cash flow generating ability.

Optimum is a high cost producer with contracts with Eskom that give Eskom first right to coal produced up to a 5.5mt at Optimum Collieries. This leads to Optimum having three levels of gearing: production, operational and financial.

- EBITDA to API4 3.2x, EBITDA to ZAR/USD 1.6x, EBITDA to production 11% upside, 21% downside.
- Optimum has very limited financial gearing as we expect it to move from a net debt to net cash position in FY11e

Drivers:

- Export coal spot prices (API4).
- ZAR/USD exchange rate.
- South African opencast mining inflation.
- Timing of rail capacity increases.

Optimum Coal is a high cost thermal coal producer and hence has high leverage to exchange rates and coal prices. We expect moderate production growth at current operations

Outlook: Optimum Coal is the fourth largest thermal coal exporter in South Africa. It mines coal for sale to domestic and export markets at its two primary operations: Optimum Collieries and Koornfontein Mines. Management seeks to increase group production through investment in organic growth at the current operations and through acquisition. Optimum Coal also has a substantial interest in the Richards Bay Coal Terminal.

We forecast strong medium term cash generation as Optimum Coal is highly leveraged to coal prices and the ZAR/USD exchange rate. Optimum Coal has loss-making fixed supply contracts with Eskom, the South African power parastatal, which gives it high operational leverage that is linked to the level of production.

Our forecast increasing rand coal price will allow Optimum Coal's margins to expand. We believe the high cash generation will allow Optimum Coal to expand current operations and potentially fund the Overvaal and Vlakfontein projects out of free cash flow. **Buy**.

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

Risks: Key risks to our valuation include lower-than-expected coal prices, a stronger-than-expected rand exchange rates, lower-than-expected production and higher-than-expected capex.

Model updated: 11 January 2011

Running the Numbers

S. Africa

South Africa

General Mining

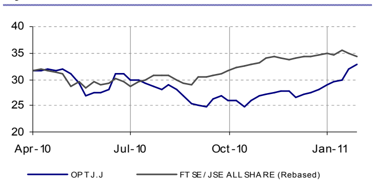
Optimum Coal Holdings

Reuters: OPTJ.J	Bloomberg: OPT SJ
Buy	
Price (28 Jan 11)	ZAR 32.80
Target price	ZAR 36.00
52-w eek Range	ZAR 23.50 – 32.90
Market Cap	ZAR 8,259m
	US$ 1,151m

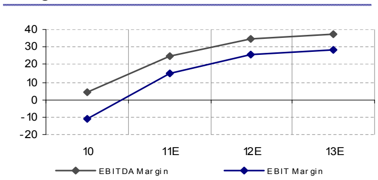
Company Profile

Optimum Coal Holdings is the fourth-largest thermal coal exporter in South Africa. It mines coal for sale to domestic and export markets at its two primary operations: Optimum Collieries and Koornfontein Mines. Management seeks to increase group production through investment in organic growth at the current operations and through acquisition. Optimum also has a substantial interest in the Richards Bay Coal Terminal.

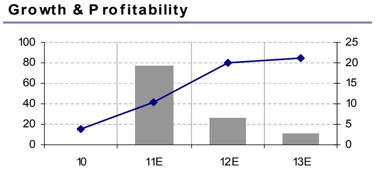
1yr Price Performance



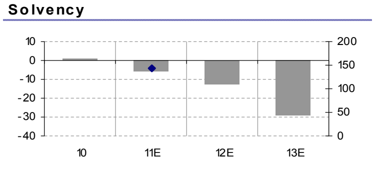
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2010	2011E	2012E	2013E
Financial Summary				
DB EPS (ZAR)	-2.21	2.75	5.98	7.51
Reported EPS (ZAR)	0.91	2.75	5.98	7.51
DPS (ZAR)	0.00	0.00	1.00	1.50
BVPS (ZAR)	24.89	27.64	32.62	38.64
Weighted average shares (m)	252	252	252	252
Average market cap (ZARm)	7,560	8,259	8,259	8,259
Enterprise value (ZARm)	5,129	5,516	5,242	3,991
Valuation Metrics				
P/E (DB) (x)	nm	11.9	5.5	4.4
P/E (Reported) (x)	32.9	11.9	5.5	4.4
P/BV (x)	1.20	1.19	1.01	0.85
FCF Yield (%)	nm	5.5	10.7	26.2
Dividend Yield (%)	0.0	0.0	3.0	4.6
EV/Sales (x)	1.53	0.93	0.70	0.48
EV/EBITDA (x)	35.6	3.8	2.0	1.3
EV/EBIT (x)	nm	6.1	2.7	1.7
Income Statement (ZARm)				
Sales revenue	**3,359**	**5,928**	**7,461**	**8,240**
Gross profit	**144**	**1,466**	**2,575**	**3,053**
EBITDA	**144**	**1,466**	**2,575**	**3,053**
Depreciation	502	558	637	685
Amortisation	0	0	0	0
EBIT	**-358**	**908**	**1,938**	**2,368**
Net interest income(expense)	-119	-6	28	94
Associates/affiliates	3	0	0	0
Exceptionals/extraordinaries	770	0	0	0
Other pre-tax income/(expense)	0	0	0	0
Profit before tax	**295**	**902**	**1,966**	**2,462**
Income tax expense	66	209	460	571
Minorities	0	0	0	0
Other post-tax income/(expense)	0	0	0	0
Net profit	**230**	**692**	**1,506**	**1,891**
DB adjustments (including dilution)	-787	0	0	0
DB Net profit	**-557**	**692**	**1,506**	**1,891**
Cash Flow (ZARm)				
Cash flow from operations	**-137**	**1,276**	**2,433**	**3,153**
Net Capex	-879	-824	-1,546	-992
Free cash flow	**-1,016**	**452**	**888**	**2,161**
Equity raised/(bought back)	1,670	0	0	0
Dividends paid	0	0	-252	-378
Net inc/(dec) in borrowings	508	0	0	0
Other investing/financing cash flows	-814	0	0	0
Net cash flow	**348**	**452**	**636**	**1,783**
Change in working capital	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)				
Cash and other liquid assets	751	1,203	1,839	3,622
Tangible fixed assets	6,375	6,641	7,549	7,856
Goodwill/intangible assets	938	938	938	938
Associates/investments	2,500	2,359	1,998	1,466
Other assets	660	1,007	1,124	1,125
Total assets	**11,224**	**12,148**	**13,449**	**15,006**
Interest bearing debt	820	820	820	820
Other liabilities	4,136	4,369	4,415	4,458
Total liabilities	**4,956**	**5,188**	**5,234**	**5,278**
Shareholders' equity	6,268	6,960	8,214	9,728
Minorities	0	0	0	0
Total shareholders' equity	**6,268**	**6,960**	**8,214**	**9,728**
Net debt	*69*	*-383*	*-1,019*	*-2,802*
Key Company Metrics				
Sales growth (%)	na	76.5	25.9	10.4
DB EPS growth (%)	na	nm	117.6	25.6
EBITDA Margin (%)	4.3	24.7	34.5	37.1
EBIT Margin (%)	-10.6	15.3	26.0	28.7
Payout ratio (%)	0.0	0.0	16.7	20.0
ROE (%)	3.7	10.5	19.9	21.1
Capex/sales (%)	26.2	13.9	20.7	12.0
Capex/depreciation (x)	1.8	1.5	2.4	1.4
Net debt/equity (%)	1.1	-5.5	-12.4	-28.8
Net interest cover (x)	nm	143.8	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Platinum

Anglo Platinum Ltd

Business description: Anglo Platinum Ltd (AngloPlat) is the world's leading primary producer of PGMs (platinum group metals). For 2011, the company should produce around 2.55-2.6m ounces platinum, accounting for around half of South African production and 35% of global mine supply. 2011 should see the ramp-up of the company's first operation outside South Africa, namely the Unki mine in Zimbabwe. AngloPlat's 2011 estimated 1.5m ounces palladium production accounts for c.17% of world supply (roughly half the market share of leading producer Norilsk Nickel at 30%), while production of 0.37m ounces rhodium accounts for ±35%. As the world's leading producer, the company has always adopted to take a "market leader" role. Prior to the global financial crisis in late 2008, the company's strategy was to grow its production in line with the perceived market demand growth of c.5% pa. However, since 2009, it has changed its approach from one of producing profitable ounces and containing unit costs in the highly inflationary South African environment. The company believes it has the ability, through its large open-cut Mogolakwena mine, to flex its production between 2.2-2.8m ounces platinum, with an average of 2.5m ounces, to meet a variable market demand. The company's operating goal is to keep unit costs flat at around R11,500 of refines equivalent platinum ounce over a three year period (2009-2011) by improving productivity. The key focal metric is m² mined/employee/month, which the company aims to improve to 7-7.5. According to the last publicly disclosed information, around 79% of AngloPlat's shares are held by parent Anglo American plc (Anglo) (with the remaining free float being widely held). One of the group's main competitors is Implats (total platinum production of around 1.8m ounces). The industry is highly consolidated with major barriers to entry – smelting and refining technology (and capital costs) and a lack of alternate ore sources. Customers buy the vast majority of their metal through volume contracts with pricing based on the relatively illiquid spot market. The industry consolidation should lead to superior returns, but an ageing ore basin and cost push inflation from a highly unionised work force has eroded some of this competitiveness. While PGMs can be substituted amongst each other, there is no viable substitute outside the PGM family in autocatalysis (the primary market for PGMs), although given the relatively high pricing environment, auto manufacturers try very hard to thrift.

Drivers: Key value drivers for AngloPlat include:

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

Although AngloPlat's primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. We expect continued growth in 2011 with AngloPlat's EBITDA margins recovering to around 29% in FY11 (FY10e: 26%). The following sensitivities apply to our FY11 earnings expectations: A 10% fall in the ZAR/USD exchange rate would result in a c.38% increase in rand EPS; while a 10% increase in the US$ platinum and US$ palladium prices would result in a c.23% and c.6% respectively increase in rand EPS. The timing and amount of AngloPlat's capex could materially affect its project returns and DCF valuation, as could the timing of its production build-up. The company has however worked hard to reduce its capex spend from c.R10bn pa to around R8-8.5bn in 2011e.

Outlook: We think AngloPlat's production will continue to improve, with a modest recovery in a number of its operations (Khomanani, Thembelani, Khuseleka, Tumela) and a continued increase from the Mogolakwena open cut mine. After a number of empowerment transactions an increasing portion of AngloPlat's production will come from associate or third parties that represent lower margin ounces. We also believe the company may struggle in keeping its costs flat in nominal terms although some sort of cost stabilisation is very likely, in our view. However, we think the modest recovery and contained cost inflation performance is reflected in AngloPlat's current market valuation. While the improvement in our metal price forecasts for 2011 is positive for earnings, a stronger rand assumption erodes most of the benefit, so that the earnings momentum slows in our forecasts. It is only in 2012 when the company's earnings are likely to increase significantly.

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

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

Model updated: 29 June 2010

Running the Numbers

S. Africa

South Africa

Platinum

AngloPlat

Reuters: AMSJ.J Bloomberg: AMS SJ

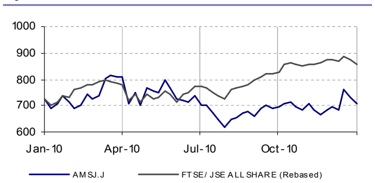
Hold

Price (28 Jan 11)	ZAR 705.00
Target price	ZAR 845.00
52-week Range	ZAR 606.01 – 826.00
Market Cap	ZAR 185,345m US$ 25,821m

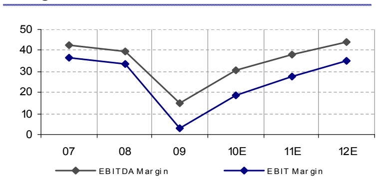
Company Profile

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

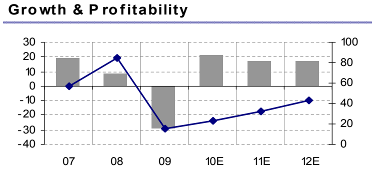
1yr Price Performance



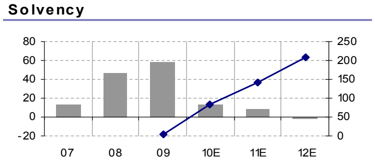
Margin Trends



Growth & Profitability



Solvency



Grant Sporre
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Fiscal year end 31-Dec	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	47.32	55.82	2.98	22.29	38.16	56.00
Reported EPS (ZAR)	48.48	65.57	13.59	22.29	38.16	56.00
DPS (ZAR)	26.02	34.20	0.00	5.94	19.08	28.00
BVPS (ZAR)	117.03	116.93	137.50	187.45	206.80	235.20
Weighted average shares (m)	235	237	238	263	263	263
Average market cap (ZARm)	246,595	230,481	138,491	185,345	185,345	185,345
Enterprise value (ZARm)	249,680	242,835	154,371	188,730	186,419	181,050
Valuation Metrics						
P/E (DB) (x)	22.2	17.4	195.1	31.6	18.5	12.6
P/E (Reported) (x)	21.7	14.8	42.8	31.6	18.5	12.6
P/BV (x)	8.63	4.43	5.76	3.76	3.41	3.00
FCF Yield (%)	nm	nm	nm	1.1	4.0	6.9
Dividend Yield (%)	2.5	3.5	0.0	0.8	2.7	4.0
EV/Sales (x)	5.32	4.75	4.28	4.30	3.63	3.02
EV/EBITDA (x)	12.5	11.9	29.4	14.0	9.5	6.8
EV/EBIT (x)	14.5	14.2	137.6	22.8	13.1	8.7
Income Statement (ZARm)						
Sales revenue	**46,961**	**51,118**	**36,028**	**43,919**	**51,305**	**59,987**
Gross profit	**21,979**	**22,583**	**5,490**	**15,709**	**22,367**	**29,725**
EBITDA	**19,961**	**20,371**	**5,248**	**13,488**	**19,621**	**26,532**
Depreciation	2,757	3,218	4,126	5,211	5,425	5,687
Amortisation	0	0	0	0	0	0
EBIT	**17,204**	**17,153**	**1,122**	**8,277**	**14,196**	**20,846**
Net interest income(expense)	221	118	-236	-100	-100	-100
Associates/affiliates	448	161	-199	0	0	0
Exceptionals/extraordinaries	0	1,141	2,518	0	0	0
Other pre-tax income/(expense)	-176	1,008	-7	136	136	136
Profit before tax	**17,697**	**19,581**	**3,198**	**8,313**	**14,232**	**20,882**
Income tax expense	6,656	4,470	-153	2,411	4,127	6,056
Minorities	-337	-416	116	42	71	104
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**11,378**	**15,527**	**3,235**	**5,861**	**10,033**	**14,721**
DB adjustments (including dilution)	-272	-2,310	-2,525	0	0	0
DB Net profit	**11,106**	**13,217**	**710**	**5,861**	**10,033**	**14,721**
Cash Flow (ZARm)						
Cash flow from operations	**0**	**0**	**4,697**	**8,411**	**13,439**	**18,842**
Net Capex	-10,572	-14,362	-11,301	-6,335	-6,112	-6,112
Free cash flow	**-10,572**	**-14,362**	**-6,604**	**2,076**	**7,328**	**12,730**
Equity raised/(bought back)	100	78	40	12,500	0	0
Dividends paid	0	0	3	-1,562	-5,017	-7,361
Net inc/(dec) in borrowings	7,553	10,495	6,464	-507	0	0
Other investing/financing cash flows	-12,107	-14,431	666	80	0	0
Net cash flow	**-15,026**	**-18,220**	**569**	**12,587**	**2,311**	**5,369**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,079	2,870	3,532	16,026	18,337	23,706
Tangible fixed assets	20,697	28,435	35,283	36,407	37,093	37,518
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	511	596	3,379	3,379	3,379	3,379
Other assets	26,509	34,214	33,720	39,516	43,114	45,988
Total assets	**51,796**	**66,115**	**75,914**	**95,329**	**101,923**	**110,592**
Interest bearing debt	7,675	15,820	22,791	22,791	22,791	22,791
Other liabilities	16,655	22,606	20,397	23,256	24,763	25,967
Total liabilities	**24,330**	**38,426**	**43,188**	**46,047**	**47,554**	**48,758**
Shareholders' equity	27,466	27,689	32,726	49,281	54,369	61,834
Minorities	0	0	0	0	0	0
Total shareholders' equity	**27,466**	**27,689**	**32,726**	**49,281**	**54,369**	**61,834**
Net debt	*3,596*	*12,950*	*19,259*	*6,765*	*4,454*	*-915*
Key Company Metrics						
Sales growth (%)	19.3	8.9	-29.5	21.9	16.8	16.9
DB EPS growth (%)	0.4	18.0	-94.7	647.3	71.2	46.7
EBITDA Margin (%)	42.5	39.9	14.6	30.7	38.2	44.2
EBIT Margin (%)	36.6	33.6	3.1	18.8	27.7	34.8
Payout ratio (%)	53.7	52.2	0.0	26.6	50.0	50.0
ROE (%)	57.2	84.6	15.2	22.6	32.4	43.2
Capex/sales (%)	22.5	28.1	31.4	14.4	11.9	10.2
Capex/depreciation (x)	3.8	4.5	2.7	1.2	1.1	1.1
Net debt/equity (%)	13.1	46.8	58.8	13.7	8.2	-1.5
Net interest cover (x)	nm	nm	4.8	82.8	142.0	208.5

Source: Company data, Deutsche Bank estimates

South Africa – Platinum

Impala Platinum Holdings Ltd

Business description: Implats is the world's second-largest platinum miner at around 1.75m ounces (total refined on a consolidated basis) pa. Its operations are in southern Africa (around 92% in South Africa and 8% in Zimbabwe), with the key asset being its largest mine, Impala Platinum (also known as Impala Lease Area), which produces 0.9m ounces of platinum pa. Implats also processes and refines around 0.45-0.5m ounces pa of third party and toll concentrate material in addition to material from its own operations at the Impala Refining Services (IRS) operations. This division is a key differentiator for the group and delivers a very stable 11-13% gross margin. Implats has strategic holdings in Zimplats (87%), Marula (73%) and Two Rivers (45%). The group completed the sale of its 27.1% stake in Lonplats towards end 2004, a transaction that saw Implats increase its 'BEE credit' from around 1.5% to 9%. More recently, Implats announced a transaction that resulted in the Royal Bafokeng nation increasing its equity stake to around 13.4%. In conjunction with the Employee Share Ownership Programme and credit from a recent transaction, this raised the group's total empowerment credit to around 33.6% at the Impala Lease Area. The remainder of the group's free float is widely held.

Implats' main competitors include AngloPlat (total platinum production of around 2.55m ounces) and Lonmin (total platinum production of around 0.75m ounces). The industry is highly consolidated with major barriers to entry in the form of smelting and refining technology (and capital costs) and a lack of alternate ore sources. Customers buy the vast majority of their metal through volume contracts with pricing based on the relatively illiquid spot market. The industry consolidation should lead to superior returns, but an ageing ore basin and cost push inflation from a highly unionised work force has eroded some of this competitiveness. While platinum group metals (PGMs) can be substituted amongst each other, there is no viable substitute outside the PGM family in autocatalysis (PGMs' primary market), although given the relatively high pricing environment, auto manufacturers try very hard to thrifty.

Drivers: Key value drivers for Implats include:

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

Although Implats' primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. Based on our FY11 forecasts, Implats is likely to deliver an EBITDA margin of around 40% (33% in FY10). The following sensitivities apply to our FY11 earnings expectations: A 10% fall in the ZAR/USD exchange rate would result in a c.14% increase in rand EPS. A 10% increase in the US$ platinum and palladium price would result in a c.9% and c.2% increase in rand EPS respectively.

Outlook: Since the tragic incident at 14 shaft in the Lease Area in FY10, Impala has had 1m incident-free shifts and has normalised production volumes. Given our expectations of production to grow 5.5% to 1.93m ounces in FY11 and its low-cost position on the cost curve, we believe Implats will continue to benefit from a rising PGM price profile. The company is currently in a transition phase, with three new deep level shafts being developed, while the older infrastructure comes to the end of its life. The older shafts have tended to suffer from a lack of available Merensky ore that in turn has lowered grades and recoveries. The new 20 shaft is due to come on-line in FY11 and 16 shaft in FY13. As these shafts are commissioned, we expect the Lease Area to ramp back up to 1.1moz. However, the company is still susceptible to declining productivity levels while this process is ongoing. In our opinion, Implats' long-term expansion opportunities through low-cost and low-capex Zimplats positions it for superior long-term economic value creation relative to its peers. **Buy**.

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

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

Model updated: 29 June 2010

Running the Numbers

S. Africa

South Africa

Platinum

Impala Platinum

Reuters: IMPJ.J Bloomberg: IMP SJ

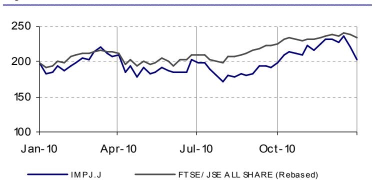
Buy

Price (28 Jan 11)	ZAR 202.11
Target price	ZAR 230.00
52-week Range	ZAR 170.50 – 238.05
Market Cap	ZAR 121,266m
	US$ 16,894m

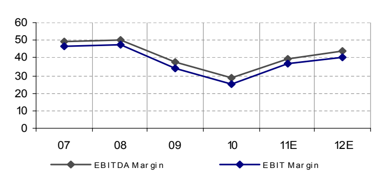
Company Profile

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

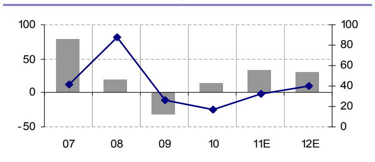
1yr Price Performance



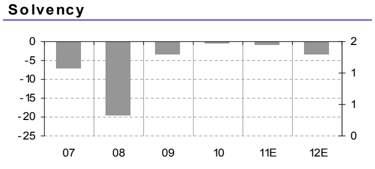
Margin Trends



Growth & Profitability



Solvency



Grant Sporre
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Fiscal year end 30-Jun	2007	2008	2009	2010	2011E	2012E
Financial Summary						
DB EPS (ZAR)	13.57	21.45	9.94	7.52	15.60	22.48
Reported EPS (ZAR)	13.20	29.07	9.99	7.52	15.60	22.48
DPS (ZAR)	8.98	11.47	3.20	3.92	8.67	12.49
BVPS (ZAR)	61.03	74.86	71.03	74.05	81.09	91.24
Weighted average shares (m)	569	605	603	600	600	600
Average market cap (ZARm)	108,269	160,849	97,430	114,010	121,266	121,266
Enterprise value (ZARm)	104,348	150,928	95,084	112,765	119,891	118,381
Valuation Metrics						
P/E (DB) (x)	14.0	12.4	16.3	25.3	13.0	9.0
P/E (Reported) (x)	14.4	9.1	16.2	25.3	13.0	9.0
P/BV (x)	3.54	4.13	2.40	2.43	2.49	2.22
FCF Yield (%)	nm	nm	nm	1.0	4.4	7.4
Dividend Yield (%)	4.7	4.3	2.0	2.1	4.3	6.2
EV/Sales (x)	3.31	4.01	3.64	3.77	3.00	2.29
EV/EBITDA (x)	6.7	8.0	9.6	13.2	7.6	5.3
EV/EBIT (x)	7.1	8.4	10.6	15.0	8.2	5.6
Income Statement (ZARm)						
Sales revenue	**31,482**	**37,619**	**26,121**	**29,908**	**39,962**	**51,801**
Gross profit	**15,607**	**18,744**	**10,172**	**8,664**	**15,806**	**22,497**
EBITDA	**15,517**	**18,889**	**9,935**	**8,554**	**15,848**	**22,541**
Depreciation	865	1,013	979	1,016	1,283	1,551
Amortisation	0	0	0	0	0	0
EBIT	**14,653**	**17,876**	**8,956**	**7,538**	**14,564**	**20,990**
Net interest income(expense)	561	534	794	76	76	76
Associates/affiliates	0	0	41	0	0	0
Exceptionals/extraordinaries	-214	4,616	29	0	0	0
Other pre-tax income/(expense)	-3,509	-209	-427	-643	-1,365	-1,938
Profit before tax	**11,490**	**22,817**	**9,393**	**6,972**	**13,275**	**19,128**
Income tax expense	3,895	5,112	3,389	2,434	3,850	5,547
Minorities	93	109	-16	26	66	96
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**7,502**	**17,596**	**6,020**	**4,512**	**9,359**	**13,485**
DB adjustments (including dilution)	214	-4,616	-29	0	0	0
DB Net profit	**7,716**	**12,980**	**5,991**	**4,512**	**9,359**	**13,485**
Cash Flow (ZARm)						
Cash flow from operations	**0**	**0**	**6,507**	**5,865**	**9,960**	**13,712**
Net Capex	-2,806	-5,242	-6,740	-4,695	-4,631	-4,709
Free cash flow	**-2,806**	**-5,242**	**-233**	**1,171**	**5,329**	**9,002**
Equity raised/(bought back)	12,544	22	-681	39	0	0
Dividends paid	-3,112	-6,055	-7,822	-2,834	-5,200	-7,492
Net inc/(dec) in borrowings	414	685	563	110	0	0
Other investing/financing cash flows	-15,644	6,500	1,014	525	0	0
Net cash flow	**-8,604**	**-4,090**	**-7,159**	**-989**	**130**	**1,511**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,222	10,393	3,348	2,359	2,489	3,999
Tangible fixed assets	16,029	20,601	26,224	29,661	33,008	36,166
Goodwill/intangible assets	1,020	1,018	1,018	1,018	1,018	1,018
Associates/investments	1,417	1,038	983	998	998	998
Other assets	28,272	29,059	26,107	27,433	29,260	32,725
Total assets	**49,960**	**62,109**	**57,680**	**61,469**	**66,773**	**74,907**
Interest bearing debt	718	1,510	1,985	2,112	2,112	2,112
Other liabilities	14,544	15,296	12,892	14,927	16,005	18,050
Total liabilities	**15,262**	**16,806**	**14,877**	**17,039**	**18,117**	**20,162**
Shareholders' equity	34,698	45,303	42,803	44,430	48,656	54,745
Minorities	0	0	0	0	0	0
Total shareholders' equity	**34,698**	**45,303**	**42,803**	**44,430**	**48,656**	**54,745**
Net debt	*-2,504*	*-8,883*	*-1,363*	*-247*	*-377*	*-1,887*
Key Company Metrics						
Sales growth (%)	79.9	19.5	-30.6	14.5	33.6	29.6
DB EPS growth (%)	-77.5	58.0	-53.7	-24.4	107.4	44.1
EBITDA Margin (%)	49.3	50.2	38.0	28.6	39.7	43.5
EBIT Margin (%)	46.5	47.5	34.3	25.2	36.4	40.5
Payout ratio (%)	68.0	39.4	32.1	52.1	55.6	55.6
ROE (%)	42.1	87.2	26.5	17.5	31.8	40.5
Capex/sales (%)	8.9	13.9	25.8	15.7	11.6	9.1
Capex/depreciation (x)	3.2	5.2	6.9	4.6	3.6	3.0
Net debt/equity (%)	-7.2	-19.6	-3.2	-0.6	-0.8	-3.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South African – Oil & Gas Producers

Sasol Ltd

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

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

Drivers: Sasol's most important profit drivers include the levels of the ZAR/USD exchange rate, crude oil prices, fuel product prices (and refining margins), chemical prices (and margins), and growth in fuel and chemical product demand. Sasol's South African domestic sales of fuel and chemical products are based on international fuel and chemical product prices. Operationally, Sasol is expected to perform well on balance with the key projects (Oryx and Arya) reaching planned utilisation rates. Synfuels is expected to marginally outperform guidance with plant availability and stability key themes. Earnings are expected to be supported via the Power Purchase agreement with Eskom as well as a continuation of strong margin performance from the un-integrated Olefins and Surfactants division. Additionally, we see upside optionality via the synthetic fuel expansion projects (China CTL and Uzbekistan GTL) and anticipate positive investment decisions in CY11. The group is well positioned to exploit the decoupling of oil and gas prices particularly in the North American market via its proprietary GTL technology. We anticipate further, longer term GTL expansion as sentiment towards GTL continues to improve combined the recent gas acquisition in the Montney Basin, suggesting GTL economics are supported at commercially priced resources. Globally GTL is expected to be favoured over LNG where resource holders are dependent on significant volume sales into spot gas markets. Sasol is one of two companies with proven GTL technology.

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

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

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

Model updated: 11 January 2011

Running the Numbers

S. Africa

South Africa

Oil & Gas Producers

Sasol

Reuters: SOLJ.J Bloomberg: SOL SJ

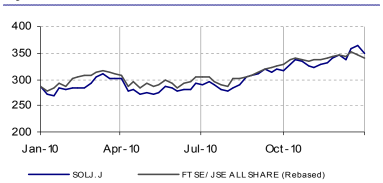
Buy

Price (28 Jan 11)	ZAR 349.00
Target price	ZAR 400.00
52-week Range	ZAR 268.00 – 365.60
Market Cap	ZAR 208,562m
	US$ 29,056m

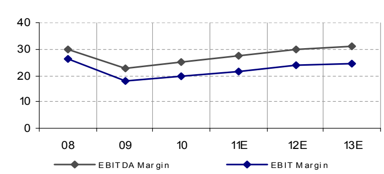
Company Profile

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

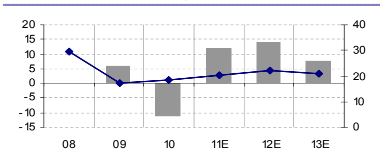
1yr Price Performance



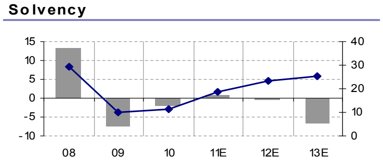
Margin Trends



Growth & Profitability



Solvency



Jarrett Geldenhuys
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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	37.56	25.25	26.54	33.26	42.20	46.24
Reported EPS (ZAR)	36.78	22.80	26.54	33.26	42.20	46.24
DPS (ZAR)	13.00	8.50	10.50	11.55	12.71	13.98
BVPS (ZAR)	127.24	140.64	158.52	180.91	211.22	245.03
Weighted average shares (m)	601	596	598	598	598	598
Average market cap (ZARm)	216,691	182,182	173,161	208,562	208,562	208,562
Enterprise value (ZARm)	222,377	173,626	168,011	206,711	205,177	195,564
Valuation Metrics						
P/E (DB) (x)	9.6	12.1	10.9	10.5	8.3	7.5
P/E (Reported) (x)	9.8	13.4	10.9	10.5	8.3	7.5
P/BV (x)	3.62	1.92	1.73	1.93	1.65	1.42
FCF Yield (%)	6.0	12.7	2.8	1.6	4.3	8.4
Dividend Yield (%)	3.6	2.8	3.6	3.3	3.6	4.0
EV/Sales (x)	1.71	1.26	1.37	1.51	1.32	1.17
EV/EBITDA (x)	5.7	5.6	5.5	5.5	4.4	3.8
EV/EBIT (x)	6.6	7.0	7.0	7.0	5.6	4.8
Income Statement (ZARm)						
Sales revenue	**129,943**	**137,836**	**122,256**	**136,547**	**155,466**	**167,158**
Gross profit	**55,309**	**49,328**	**43,073**	**48,597**	**57,052**	**61,875**
EBITDA	**39,016**	**30,896**	**30,637**	**37,757**	**46,288**	**51,620**
Depreciation	5,200	6,230	6,700	8,105	9,335	11,069
Amortisation	0	0	0	0	0	0
EBIT	**33,816**	**24,666**	**23,937**	**29,651**	**36,953**	**40,552**
Net interest income(expense)	-1,148	-2,531	-2,114	-1,585	-1,585	-1,585
Associates/affiliates	254	270	217	320	320	320
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	735	1,790	1,332	1,412	1,412	1,412
Profit before tax	**33,657**	**24,195**	**23,372**	**29,799**	**37,100**	**40,699**
Income tax expense	10,129	10,480	6,985	9,378	11,135	12,182
Minorities	1,111	67	446	346	386	451
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**22,417**	**13,648**	**15,941**	**20,075**	**25,579**	**28,067**
DB adjustments (including dilution)	473	1,854	395	395	395	395
DB Net profit	**22,890**	**15,502**	**16,336**	**20,470**	**25,974**	**28,462**
Cash Flow (ZARm)						
Cash flow from operations	**23,720**	**38,031**	**20,889**	**24,396**	**31,850**	**37,340**
Net Capex	-10,671	-14,975	-16,056	-20,975	-22,782	-19,738
Free cash flow	**13,049**	**23,056**	**4,833**	**3,421**	**9,068**	**17,602**
Equity raised/(bought back)	-6,913	40	110	0	0	0
Dividends paid	-5,766	-7,193	-5,360	-6,693	-7,468	-7,858
Net inc/(dec) in borrowings	-1,132	-1,056	628	0	0	0
Other investing/financing cash flows	-219	1,410	-788	0	0	0
Net cash flow	**-981**	**16,257**	**-577**	**-3,272**	**1,600**	**9,743**
Change in working capital	*-7,404*	*10,375*	*-3,424*	*-4,225*	*-3,180*	*-1,977*
Balance Sheet (ZARm)						
Cash and other liquid assets	5,249	20,672	16,711	13,439	15,038	24,782
Tangible fixed assets	77,966	84,866	93,541	106,463	119,932	128,623
Goodwill/intangible assets	1,838	1,873	1,931	1,931	1,931	1,931
Associates/investments	7,372	4,378	5,494	5,814	6,134	6,454
Other assets	47,687	34,049	38,807	42,243	47,169	50,200
Total assets	**140,112**	**145,838**	**156,484**	**169,889**	**190,204**	**211,990**
Interest bearing debt	15,786	14,112	14,543	14,543	14,543	14,543
Other liabilities	45,331	45,509	44,699	44,377	46,194	47,321
Total liabilities	**61,117**	**59,621**	**59,242**	**58,920**	**60,737**	**61,864**
Shareholders' equity	76,474	83,835	94,730	108,112	126,223	146,431
Minorities	2,521	2,382	2,512	2,858	3,244	3,695
Total shareholders' equity	**78,995**	**86,217**	**97,242**	**110,970**	**129,467**	**150,126**
Net debt	*10,537*	*-6,560*	*-2,168*	*1,104*	*-495*	*-10,239*
Key Company Metrics						
Sales growth (%)	na	6.1	-11.3	11.7	13.9	7.5
DB EPS growth (%)	na	-32.8	5.1	25.3	26.9	9.6
EBITDA Margin (%)	30.0	22.4	25.1	27.7	29.8	30.9
EBIT Margin (%)	26.0	17.9	19.6	21.7	23.8	24.3
Payout ratio (%)	34.9	37.1	39.4	34.4	29.7	29.8
ROE (%)	29.3	17.5	18.3	20.2	22.2	20.9
Capex/sales (%)	8.4	11.4	13.2	15.4	14.7	11.8
Capex/depreciation (x)	2.1	2.5	2.4	2.6	2.4	1.8
Net debt/equity (%)	13.3	-7.6	-2.2	1.0	-0.4	-6.8
Net interest cover (x)	29.5	9.7	11.3	18.7	23.3	25.6

Source: Company data, Deutsche Bank estimates

South Africa – Banks

Absa Group Ltd

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

Drivers: For the banking operations, retail constitutes 63% of net advances relating mostly to mortgages (78% of total retail advances). Overall, we expect muted asset growth in FY10 (+1.5%) but turn more positively in FY11 (+5.1%) and FY12 (+8.0%), as the consumer and corporates rehabilitate by benefiting from the low rate environment. We expect the margin to expand in the current year, as the bank benefits from re-pricing new credit. With that said, we expect earnings to be driven by declining impairment losses, non-interest revenue (48.7% of operating income) in the medium-term as retail fees remain resilient supplemented by respectable growth in Absa Capital and Absa Financial Services (Absa's short-term and life insurance unit). We note, however, that cost pressures are likely to build into 2010 as much of the cost savings are likely to have been carried out in 2009 (FY10 costs: +14%).

Outlook: The current environment remains significantly unsupportive for Absa relative to some of the other banks. As a result, we expect Absa to give the weakest earnings growth beyond FY10 (FY10-12 CAGR of 19% v 20-37% at peers). The key headwind is Absa's credit mix which is more skewed to late cycle recovery segments (64% of assets are property finance). This has the effect of not only impacting earnings but also results in lower gearing levels as Absa continues to generate significantly more capital than it can apply to credit growth.

In addition to the credit mix issue, we highlight that Absa will not show the same degree of margin improvement in a rising rate environment, having hedged out its endowment effect. While it appears that management is rethinking this strategy, we note that there is no easy way out of the current hedged position and highlight that not rolling hedges would initially result in a degree of margin pressure (although it may recover this once rates rise materially).

While Absa may not offer the same upside as some of its peers, we are not uncomfortable with the current valuation from an absolute perspective and recommend a **Hold** on the company.

Valuation: We value Absa on a sum-of-the-parts basis. For the banking operation we use a two-stage Gordon Growth model that bases the valuation on discounted terminal value, and adds back the value of discounted interim dividends. We estimate mid-cycle ROE of 22.5%, cost of equity at 13.9%, and terminal growth of 6%. We apply an 81% cyclical factor since we expect mid-cycle returns in South African banks to remain below trend for 2010-2012. We value the insurance operation on a multiple to stated embedded value, based on expected return on EV.

Risks: The key company specific upside risk is more significant progress in Absa Capital, particularly in Africa while there is also a risk that Absa stabilises its credit market share losses and we start to see credit growth more in line with peers. The key downside risk relates to interest rates with Absa more exposed to the impact of this on property finance and house prices.

Model updated: 31 January 2011

Running the Numbers

S. Africa

South Africa

Bank

Absa

Reuters: ASAJ.J Bloomberg: ASA SJ

Hold

Price as of 28 January	ZAR 135.00
Target price	ZAR 145.00

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

Company description

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

Research Team

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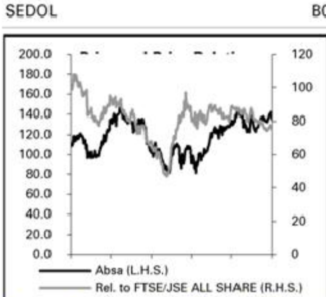
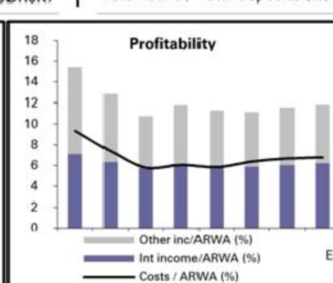
52-week Range:	ZAR 120.00 - 142.49
Market Cap (m)	ZAR 96,729 USD 13,476

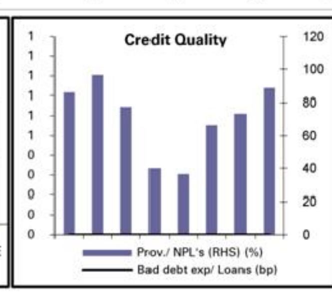
Company identifiers

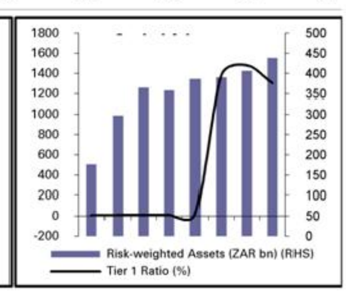
Cusip	
SEDOL	B0DR0K7

Year Ending 31 December	2005	2006	2007	2008	2009	2010E	2011E	2012E
DATA PER SHARE								
EPS (stated) (ZAR)	9.55	11.93	14.02	14.69	10.99	11.39	13.79	16.22
EPS (DB) (ZAR)	9.28	11.20	13.05	14.12	9.37	11.33	13.74	16.18
Growth Rate - EPS (DB) (%)	13.7	20.7	16.5	8.2	-33.6	20.9	21.3	17.7
DPS (ZAR)	2.95	4.73	5.60	5.95	4.45	4.72	5.97	7.70
BVPS (stated) (ZAR)	38.62	47.17	55.37	69.50	70.38	77.47	86.08	95.69
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	37.92	46.29	54.77	68.09	68.65	75.62	84.24	93.85
Market Capitalisation Y/E (ZAR m)	67,352	84,062	75,322	73,572	92,290	96,729	96,916	97,102
Shares in issue (m)	684	703	716	703	711	720	720	721
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	8.9	9.1	9.4	6.8	10.1	11.9	9.8	8.3
P/E (core DB)	9.2	9.7	10.1	7.0	11.8	11.9	9.8	8.3
P/B (stated)	2.6	2.7	2.0	1.6	1.8	1.7	1.6	1.4
P/Tangible equity (DB)	2.7	2.7	2.0	1.6	1.9	1.8	1.6	1.4
ROE (stated) (%)	29.5	27.7	27.2	23.4	15.6	15.4	16.9	17.9
RoTE (core tangible equity) (%)	26.5	27.9	27.4	23.8	13.9	15.8	17.3	18.2
ROIC (invested capital) (%)	26.3	27.7	27.1	23.4	13.6	15.4	16.9	17.9
Dividend yield (%)	3.5	4.3	4.2	6.0	4.0	3.5	4.4	5.7
Dividend cover (x)	3.2	2.5	2.5	2.5	2.5	2.4	2.3	2.1
Simple free cash flow yield (%)	14.6	-4.3	3.9	16.0	4.0	7.9	7.8	7.8
PROFIT & LOSS (ZAR m)								
Net interest revenue	11,810	14,941	18,890	21,795	21,854	22,801	24,002	26,137
Non-interest income	13,780	15,502	16,728	21,115	20,232	20,525	22,147	24,053
Commissions	13,780	10,246	13,222	16,985	16,864	17,673	19,038	20,602
Trading revenue	0	740	0	0	0	0	0	0
Other revenue	0	4,516	3,506	4,130	3,368	2,851	3,109	3,450
Total revenue	25,590	30,443	35,618	42,910	42,086	43,326	46,149	50,190
Total Operating Costs	15,547	17,491	19,209	21,917	21,770	24,767	26,591	28,624
Employee costs	0	8,218	10,117	11,604	10,806	12,427	13,297	14,294
Other costs	15,547	9,273	9,092	10,313	10,964	12,340	13,294	14,330
Pre-Provision profit / (loss)	10,043	12,952	16,409	20,993	20,316	18,559	19,558	21,566
Bad debt expense	875	1,573	2,433	5,839	8,967	6,752	5,435	4,972
Operating Profit	9,168	11,379	13,976	15,154	11,349	11,807	14,122	16,595
Pre-tax associates	112	113	91	73	-50	25	35	42
Pre-tax profit	9,280	11,492	14,067	15,227	11,299	11,832	14,157	16,637
Tax	2,875	3,151	4,042	3,966	2,340	3,055	3,681	4,325
Minority shareholders	85	88	117	194	241	229	234	262
Other post tax items	-68	-73	-313	-457	-1,878	-407	-342	-384
Stated net profit	6,282	7,947	9,413	9,926	7,621	8,161	9,901	11,666
Reconciliation to DB adjusted core earnings								
Goodwill	68	0	0	0	0	0	0	0
Extraordinary & Other items	0	-70	-65	0	-956	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	6,350	7,877	9,348	9,926	6,665	8,161	9,901	11,666
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	176,317	297,168	364,749	357,959	386,264	390,177	406,379	438,206
Interest-earnings assets	367,929	459,062	582,896	664,287	619,283	630,089	660,320	708,126
Total loans	322,097	386,154	455,958	532,171	503,630	507,476	533,335	575,884
Total deposits	328,729	403,605	524,969	602,814	561,749	589,836	648,820	713,702
Stated Shareholder Equity	25,755	31,693	37,575	47,280	50,547	55,506	61,796	68,827
Tangible shareholders equity	25,287	31,104	37,163	46,323	49,302	54,183	60,473	67,504
Tier 1 capital	13,633	26,998	31,632	44,149	48,971	53,930	60,220	57,209
Tier 1 ratio (%)	7.7	9.1	8.7	12.3	12.7	1382.2	1481.9	1305.5
o/w core tier 1 capital ratio (%)	7.7	9.1	8.7	12.3	12.7	13.8	14.8	13.1
Tangible equity / total assets (%)	6.2	6.3	5.8	6.0	6.9	7.5	8.0	8.3
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	86	96	77	40	36	66	73	89
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	13	19	17	20	-2	3	7	9
Growth in costs (%)	14	13	10	14	-1	14	7	8
Growth in bad debts (%)	-32	80	55	140	54	-25	-20	-9
Growth in RWA (%)	-12	69	23	-2	8	1	4	8
Growth in loans (%)	6	36	19	17	5	-2	3	7
Growth in deposits (%)	19	23	30	15	-7	5	10	10
Net int. margin (%)	3.88	3.61	3.63	3.50	3.41	3.65	3.72	3.82
Cost income ratio (%)	60.8	57.5	53.9	51.1	51.7	57.2	57.6	57.0
Total loans / Total deposits (%)	98	96	87	88	90	86	82	81









Source: Company data, Deutsche Bank estimates

South Africa – Financial Services

African Bank Investments Ltd

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

Drivers: ABIL's mono-line focus on providing credit limits the number of its drivers relative to the larger commercial banks. Specifically, the key elements are interest margin, asset growth, bad debts and operating expenses. With the introduction of new pricing models, which has almost halved pricing for the best clients and reduced cross-subsidisation, margins have compressed. Although management is pushing down margins, the loss has thus far been offset by stronger advances growth. Nevertheless the lower margins have seen ROAs in the African Bank business falling from c.14% to c.5.5% currently while the faster credit growth has meant that ABIL continues to utilise capital at a rapid rate putting its historic dividend cover of c.1.5x at risk.

We expect the cost line to be a further key source of bottom-line growth in the medium term, particularly following the acquisition of Ellerines. We expect some of the cost savings to be driven by more efficient collection methods, lower cost of originating loans and the integration of Ellerines and ABIL's back-office.

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

Outlook: ABIL is expected to deliver strong earnings recovery, largely on the back of a turnaround in its Ellerines acquisition. That said, we believe there is down-side risk to management's medium-term targets for Ellerines while we do not expect African Bank to return to the normalised level of 8% ROAs given the structural margin decline which has happened and is unlikely to reverse. Given ABIL is trading at premium forward PE ratings to the Big 4 banks despite similar earnings growth profiles, we recommend **Sell.**

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

Risks: Regarding company-specific investment risks, without the benefit of diversity that the large commercial banks have, ABIL's earnings assumptions are particularly sensitive to assumptions about the various drivers (asset growth and margin in particular). In addition, we highlight potential of a material turnaround in Ellerines as a key upside risk.

Model updated: 18 January 2011

Running the Numbers

S. Africa

South Africa

Financial Services

African Bank

Reuters: ABLJ.J Bloomberg: ABL SJ

Sell

Price as of 28 January	ZAR 36.50
Target price	ZAR 32.00

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

Company description

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

Research Team

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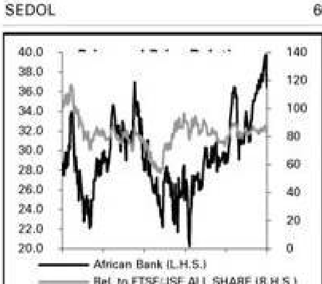
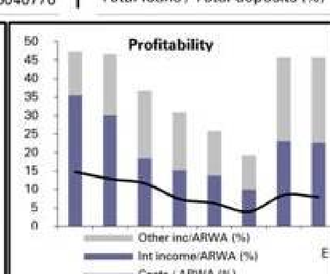
Absolute Price Return (%)

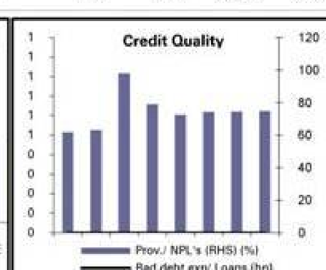
52-week Range:	ZAR 28.81 - 40.25
Market Cap (m)	ZAR 29,335
	USD 4,087

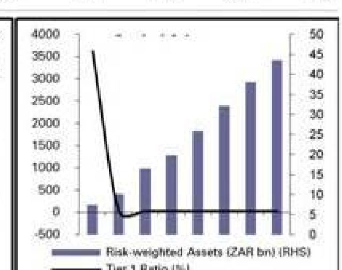
Company identifiers
Cusip
SEDOL 6040776

Year Ending 30 September	05/06	06/07	07/08	08/09	09/10	10/11E	11/12E	12/13E
DATA PER SHARE								
EPS (stated) (ZAR)	2.23	2.68	2.10	2.25	2.33	3.08	4.02	4.51
EPS (DB) (ZAR)	2.27	2.68	2.51	2.25	2.33	3.08	4.01	4.51
Growth Rate - EPS (DB) (%)	4.9	18.3	-6.4	-10.3	3.6	32.0	30.4	12.3
DPS (ZAR)	2.00	2.25	2.10	1.85	1.85	2.05	2.68	3.00
BVPS (stated) (ZAR)	4.44	4.99	14.84	15.15	15.43	16.55	18.26	19.98
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	4.12	4.68	7.03	7.21	7.58	8.80	10.61	12.43
Market Capitalisation Y/E (ZAR m)	10,984	15,561	20,253	23,712	28,798	29,320	29,320	29,320
Shares in issue (m)	497	497	718	804	804	804	804	804
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	11.7	11.1	13.6	11.8	13.6	11.9	9.1	8.1
P/E (core DB)	11.5	11.1	11.4	11.8	13.6	11.9	9.1	8.1
P/B (stated)	5.0	6.3	1.7	1.9	2.3	2.2	2.0	1.8
P/Tangible equity (DB)	5.4	6.7	3.6	4.1	4.7	4.1	3.4	2.9
ROE (stated) (%)	51.2	56.9	21.0	15.0	15.3	19.3	23.1	23.6
RoTE (core tangible equity) (%)	55.0	61.0	45.2	31.6	31.5	37.6	41.4	39.2
ROIC (invested capital) (%)	55.0	61.0	45.2	31.6	31.5	37.6	41.4	39.2
Dividend yield (%)	7.6	7.5	7.4	7.0	5.8	5.6	7.3	8.2
Dividend cover (x)	1.1	1.2	1.0	1.2	1.3	1.5	1.5	1.5
Simple free cash flow yield (%)	8.7	3.0	-0.7	4.4	1.5	3.6	6.3	8.0
PROFIT & LOSS (ZAR m)								
Net interest revenue	2,622	2,632	2,448	2,757	3,130	3,764	4,382	4,913
Non-interest income	870	1,449	2,435	2,834	2,763	3,496	4,321	5,030
Commissions	446	707	1,244	1,591	1,765	2,256	2,811	3,298
Trading revenue	0	0	0	0	0	0	0	0
Other revenue	424	742	1,191	1,243	998	1,241	1,511	1,732
Total revenue	3,492	4,081	4,883	5,591	5,893	7,260	8,703	9,943
Total Operating Costs	1,094	1,129	1,554	1,348	1,431	1,507	1,616	1,731
Employee costs	0	0	0	0	0	0	0	0
Other costs	1,094	1,129	1,554	1,348	1,431	1,507	1,616	1,731
Pre-Provision profit / (loss)	2,398	2,952	3,329	4,243	4,462	5,754	7,088	8,212
Bad debt expense	606	823	1,361	1,929	2,200	2,854	3,419	4,015
Operating Profit	1,792	2,129	1,968	2,314	2,262	2,899	3,669	4,196
Pre-tax associates	0	0	0	0	0	0	0	0
Pre-tax profit	1,792	2,129	1,968	2,314	2,262	2,899	3,669	4,196
Tax	653	754	768	737	736	933	1,177	1,356
Minority shareholders	0	0	0	0	0	0	0	0
Other post tax items	1	-41	-49	-52	-36	-40	-50	-50
Stated net profit	1,109	1,334	1,511	1,810	1,875	2,475	3,227	3,622
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	19	0	291	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	1,128	1,334	1,802	1,810	1,875	2,475	3,227	3,622
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	7,380	10,130	16,481	19,772	25,848	32,063	38,092	43,484
Interest-earnings assets	9,329	13,346	19,383	23,952	28,922	36,857	43,951	50,091
Total loans	6,120	8,752	16,702	20,486	25,360	31,179	37,199	42,680
Total deposits	0	0	37	25	0	0	0	0
Stated Shareholder Equity	2,207	2,482	11,929	12,174	12,396	13,296	14,667	16,050
Tangible shareholders equity	2,047	2,326	5,651	5,796	6,090	7,070	8,521	9,984
Tier 1 capital	2,675	3,265	5,061	5,228	6,307	7,349	8,779	10,221
Tier 1 ratio (%)	3624.7	32.2	30.7	26.4	24.4	22.9	23.0	23.5
o/w core tier 1 capital ratio (%)	36.2	32.2	30.7	26.4	24.4	22.9	23.0	23.5
Tangible equity / total assets (%)	24.9	19.8	19.2	16.9	15.5	15.5	16.2	17.1
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	62	63	98	79	73	74	74	75
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	15	17	20	14	5	23	20	14
Growth in costs (%)	9	3	38	-13	6	5	7	7
Growth in bad debts (%)	24	36	65	42	14	30	20	17
Growth in RWA (%)	0	37	63	20	31	24	19	14
Growth in loans (%)	17	32	71	46	23	23	21	17
Growth in deposits (%)	nm	nm	nm	-32	nm	nm	nm	nm
Net int. margin (%)	31.16	23.21	14.96	12.72	11.84	11.44	10.84	10.45
Cost income ratio (%)	31.3	27.7	31.8	24.1	24.3	20.8	18.6	17.4
Total loans / Total deposits (%)	nm	nm	45141	81944	nm	nm	nm	nm









Source: Company data, Deutsche Bank estimates

South Africa – Banks

FirstRand Ltd

Business description: FirstRand was formed when Anglo American plc and RMB Holdings merged their respective financial services interests, FNB Holdings, Momentum Life and Southern Life (April 1998). Although FNB and Southern Life were substantially larger than Momentum Life, Momentum formed the core of the group's management team. Its operations included life insurance, fund management, financial administration services, healthcare insurance, investment banking and private banking. In FY02, FirstRand bulked up its sub-scale mortgage business by R16.8bn, through the acquisition of NBS' and Saambou's homeloan books. Having operated its retail corporate and investment banking operations under three relatively independent management teams, the management of the retail and corporate banks was integrated in 2004. Currently, FirstRand Bank is ranked third among South Africa's four large commercial banks ranked by total assets. There have also been a number of acquisitions of smaller instalment finance books since then. On the disposals side, it disposed its underperforming Ansbacher operation offshore in 1H05 and more recently unbundled its 57% stake in Discovery in November 2007.

In December 2010, FirstRand unbundled Momentum, its insurance component, which it merged with Metropolitan and created a separate entity (MMI holdings). Subsequently, FirstRand's main shareholder RMB Holdings announced its restructuring that will involve RMB Holdings increasing its stake in FirstRand to c.34% with Remgro also owning a substantial stake (c.3% directly and c.10% indirectly via a 31.4% stake in RMB Holdings). Senior management holds a significant stake in RMB Holdings that, due to a co-operative voting arrangement with Remgro, ensures a degree of control is retained by management.

Drivers: For the banking operations, the dominant earnings driver, real asset growth remains depressed however momentum is slowly accelerating as the impact of low interest rates filters through the system. We expect marginal expansion in net interest margin in FY11 and more noticeable pickup in FY12 as the negative endowment impact adds to the pressure of higher liability pricing and a shift in asset mix towards lower margin corporate lending. FirstRand's asset mix (exposure to instalment finance rather than mortgages) has resulted in a structurally higher bad debts charge than its peers during FY09, which has begun to decline (in 2H10) in line with low rates. Additionally, due to this mix, FirstRand has led the recovery and believe that FirstRand will continue to deliver meaningful earnings growth off its base.

Outlook: FirstRand was the first of the Big 4 to start showing net upgrades to EPS numbers. We continue to see strong earnings momentum (20% CAGR from FY10-13) and remain 8% ahead of consensus for FY13. Given FirstRand's significant portfolio provisions relative to some of its peers, we remain comfortable that FirstRand can smooth out any minor issues in the medium-term.

With regard to its upcoming 1H11 results (due 8 March), we expect FirstRand to report a significant increase in normalised EPS from continuing operations (+24% to 87.2cps) which is likely to support a continuance of the recent relative re-rating.

While FirstRand is trading at a slight P/B premium to the other banks (2.2x v 1.6-2.1x), we remain comfortable that this is justified given FirstRand's 2-3% higher average ROTEs expected in the medium-term. With a strong 1H11 result expected, an attractive P/B multiple and the second cheapest two year forward PE multiple (Nedbank is the cheapest), we maintain our **Buy**.

Valuation: We value FirstRand on a sum-of-the-parts basis. For FirstRand's banking operation, we value it 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. For Momentum, FirstRand's insurance operation, we value it on a multiple to embedded value. For the terminal multiple we use a mid-cycle ROE of 25.0%, a cyclical factor of 86% due to the medium-term ROEs being below trend, a COE of 13.9% and a terminal growth rate of 6%

Risks: In the recent credit crisis, it was clear that FirstRand's previous strategy of investing in proprietary activities was flawed. We believe this presents a key risk as management has embarked down a new road focusing on growing client franchises. While this is seemingly positive, the risk it presents is that FirstRand begins to erode its structurally higher ROE by chasing growth in lower ROE and capital intensive areas (such as mortgage or corporate credit).

Model updated: 31 January 2011

Running the Numbers

S. Africa

South Africa

Bank

FirstRand

Reuters: FSRJ.J Bloomberg: FSR SJ

Buy

Price as of 28 January	ZAR 19.55
Target price	ZAR 22.00

Company website

http://www.firstrand.co.za

Company description

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

Research Team

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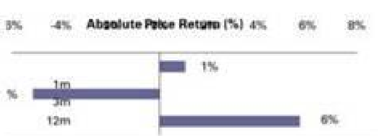
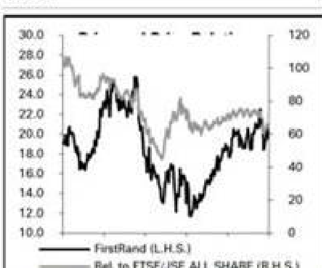


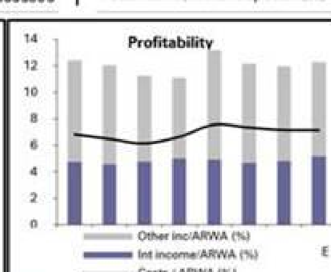
52-week Range:	ZAR 17.64 - 22.53
Market Cap (m)	ZAR 104,726
	USD 14,590

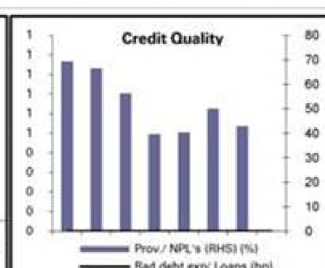
Company identifiers

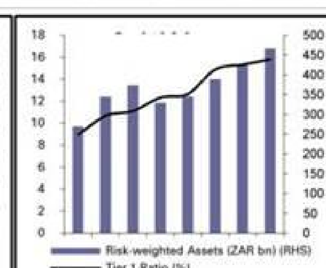
Cusip	
SEDOL	6606996

Year Ending 30 June	05/06	06/07	07/08	08/09	09/10	10/11E	11/12E	12/13E
DATA PER SHARE								
EPS (stated) (ZAR)	1.47	1.92	1.76	1.23	1.68	0.37	2.07	2.49
EPS (DB) (ZAR)	1.66	2.10	1.88	1.27	1.77	0.47	2.17	2.60
Growth Rate - EPS (DB) (%)	18.5	26.9	-10.7	-32.3	39.2	-73.3	359.5	20.1
DPS (ZAR)	0.66	0.83	0.83	0.56	0.77	0.85	1.05	1.32
BVPS (stated) (ZAR)	6.84	8.50	9.50	9.87	10.85	10.34	11.67	13.23
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	6.07	7.69	8.65	8.78	9.72	9.94	11.24	12.78
Market Capitalisation Y/E (ZAR m)	89,868	120,115	70,273	73,309	95,762	104,726	104,437	104,396
Shares in issue (m)	5,626	5,639	5,641	5,631	5,638	5,645	5,652	5,659
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	12.0	10.9	11.2	11.6	10.6	52.5	9.5	7.8
P/E (core DB)	10.6	10.0	10.5	11.3	10.1	41.4	9.0	7.5
P/B (stated)	2.5	2.7	1.4	1.4	1.7	1.9	1.7	1.5
P/Tangible equity (DB)	2.8	2.9	1.5	1.6	1.9	2.0	1.7	1.5
ROE (stated) (%)	24.4	26.6	20.8	13.7	17.3	3.7	19.9	21.2
RoTE (core tangible equity) (%)	29.9	32.4	24.4	15.6	20.5	5.1	21.6	23.0
ROIC (invested capital) (%)	29.9	32.4	24.4	15.6	20.5	5.1	21.6	23.0
Dividend yield (%)	3.8	3.9	4.2	3.9	4.3	4.4	5.4	6.8
Dividend cover (x)	2.2	2.3	2.1	2.2	2.2	0.4	2.0	1.9
Simple free cash flow yield (%)	2.5	3.4	7.0	16.9	8.4	-3.6	6.5	7.7
PROFIT & LOSS (ZAR m)								
Net interest revenue	10,895	13,998	17,098	17,634	16,598	17,127	19,558	23,048
Non-interest income	17,696	23,002	23,279	21,418	27,944	27,539	29,108	31,698
Commissions	9,696	11,725	13,722	15,298	16,336	18,016	19,373	21,058
Trading revenue	3,733	5,969	2,842	1,427	4,217	4,538	4,963	5,449
Other revenue	4,267	5,308	6,715	4,693	7,391	4,985	4,772	5,191
Total revenue	28,591	37,000	40,377	39,052	44,542	44,666	48,666	54,746
Total Operating Costs	15,768	19,910	22,059	23,387	25,497	26,930	29,099	31,845
Employee costs	8,114	10,308	10,976	11,241	13,010	13,586	14,673	15,994
Other costs	7,654	9,602	11,083	12,146	12,487	13,344	14,426	15,851
Pre-Provision profit / (loss)	12,823	17,090	18,318	15,665	19,045	17,736	19,567	22,901
Bad debt expense	1,411	2,857	5,064	8,024	5,686	4,361	4,118	4,076
Operating Profit	11,412	14,233	13,254	7,641	13,359	13,375	15,448	18,825
Pre-tax associates	1,259	2,013	1,690	1,577	700	1,300	1,427	1,499
Pre-tax profit	12,671	16,246	14,944	9,218	14,059	14,675	16,876	20,324
Tax	3,197	3,909	2,565	1,300	3,372	3,405	4,117	5,026
Minority shareholders	639	823	1,205	890	888	710	781	860
Other post tax items	-371	-586	-409	-463	-316	-283	-291	-329
Stated net profit	8,253	10,854	9,922	6,939	9,453	2,102	11,686	14,109
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	1,062	991	661	212	510	561	564	620
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	9,315	11,845	10,583	7,151	9,963	2,663	12,250	14,729
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	269,272	344,368	373,584	329,504	345,689	389,008	424,761	466,582
Interest-earnings assets	340,745	426,040	497,356	476,075	492,200	529,371	594,679	668,223
Total loans	294,031	383,485	449,156	420,224	434,778	467,747	511,773	568,988
Total deposits	319,522	419,965	470,361	489,746	513,984	549,963	588,460	629,653
Stated Shareholder Equity	36,359	45,178	50,193	51,461	57,509	55,407	62,331	70,657
Tangible shareholders equity	32,283	40,876	45,696	45,763	51,526	53,220	60,035	68,245
Tier 1 capital	24,129	36,754	41,566	40,612	43,758	57,965	65,182	73,854
Tier 1 ratio (%)	9.0	10.7	11.1	12.3	12.7	14.9	15.3	15.8
o/w core tier 1 capital ratio (%)	9.0	10.7	11.1	12.3	12.7	14.9	15.3	15.8
Tangible equity / total assets (%)	7.1	nm	nm	nm	nm	nm	nm	nm
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	69	67	56	40	40	50	43	0
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	26	29	9	-3	14	0	9	12
Growth in costs (%)	21	26	11	6	9	6	8	9
Growth in bad debts (%)	100	102	77	58	-29	-23	-6	-1
Growth in RWA (%)	41	28	8	-12	5	13	9	10
Growth in loans (%)	19	30	23	4	-2	6	9	10
Growth in deposits (%)	29	31	12	4	5	7	7	7
Net int. margin (%)	3.60	3.65	3.70	3.62	3.43	3.35	3.48	3.65
Cost income ratio (%)	55.2	53.8	54.6	59.9	57.2	60.3	59.8	58.2
Total loans / Total deposits (%)	92	91	95	86	85	85	87	90









Source: Company data, Deutsche Bank estimates

UK – Speciality Finance

Investec plc

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

Investec's UK presence was established through the acquisition of London-based Allied Trust Bank in 1992 (re-named Investec Bank UK). Other UK interests include Rensburg Sheppards, a UK private client stockbroker. In April 1998, Investec purchased Guinness Mahon plc, including its 44% interest in Guinness Flight Asset Management (GFAM). Subsequently, Investec purchased the non-banking operations of Hambros plc. As a result of the Hambros acquisition, Investec acquired a further 44% in GFAM and bought the remaining interest from management to give it a 100% share. GFAM has merged with Investec Asset Management. Included in the Hambros purchase were private equity, property investments and trading operations. In 2005, Carr Sheppards Crosthwaite merged with listed Rensburg plc, with Investec taking up its stake in the business to 100% in 2010, completing its Private Wealth offering in the UK.

Having originally struggled to build a private banking presence in Australia organically, there has been considerably more impetus since it acquired Wentworth Associates, an independent advisory firm, and changed its investment banking licence to a full banking licence. Investec also acquired the Australian investment banking arm of NM Rothschild & Sons to further increase scale in the region. Australia remains in a fairly early stage and has shown limited progress to date in terms of achieving scale and delivering acceptable ROEs.

Drivers: Investec is organised into seven main business divisions: investment banking, capital markets, private banking, asset management, wealth and investments, property activities and group and other services. It is operating primarily in the UK (35%), Australia (1%) and South Africa (64%). Given its revenue diversity by product and geographic lines, the group faces numerous profit drivers. We believe the following are the most critical for the group over the medium term: the performance of global and local investment markets, growth in the domestic and UK economies, the ZAR/GBP exchange rate, and management's ability to increase the profitability and scale of the international businesses. Investec capitalised on the positive operating environment in 2004-2007 by growing assets aggressively in both its asset management and private banking operations, creating a better annuity earnings base for the group that should position it to weather a market downturn more comfortably than in the past. Investec's key areas of growth will be around continuing to develop many of its sub-scale operations in various geographies. We expect Investec will continue to make bolt-on acquisitions in areas where it believes it is sub-scale.

Outlook: Other than its ill-timed acquisition of Kensington, Investec has entered the challenging investment cycle in far better shape than it has in the past. Its business is more diversified and it is less reliant on poor-quality market-geared earnings than it used to be. As financial markets continue to recover, we think Investec remains well positioned with established platforms in UK, South Africa and Australia to show strong growth. Overall, Investec's ROA remains 30% below its historical average (1.9% vs 2.7% measured on core advances). **Buy**.

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

Risks: Investec's geographical spread introduces a higher level of sensitivity to currency movements. Additionally, the gearing of the earnings of many parts of the business to investment markets, either directly in the form of mark-to-market adjustments or more indirectly through asset management and performance fees, adds to forecast risk. Finally, its participation in individually significant "direct investment" transactions can be a source of material earnings surprises. At this point in the cycle, we'd also highlight the risk that Investec is not able to find attractive opportunities to deploy its capital into and continues to dilute down its ROEs.

Investec projections

	FY10a (GBP 000)	% chg	FY11e (GBP 000)	% chg	FY12e (GBP 000)	% chg	FY13e (GBP 000)	% chg
Private banking								
South Africa	29,330	-18	33,739	15	49,714	47	66,355	33
UK	6,545	-84	(18,729)	-386	18,729	-200	33,712	80
Australia	1,177	-52	(10,258)	-972	(3,968)	-61	4,786	-221
	37,052	-54	4,753	-87	64,475	1257	104,852	63
Private client stockbroking								
South Africa	14,250	18	16,696	17	18,451	11	19,531	6
UK	11,637	-3	29,534	154	40,685	38	46,788	15
	25,887	7	46,230	79	59,136	28	66,320	12
Capital markets								
South Africa	70,572	15	78,175	11	82,792	6	87,641	6
UK	93,163	19	172,352	85	198,204	15	227,935	15
Australia	15,404	597	14,484	-6	17,507	21	21,117	21
	179,139	27	265,011	48	298,503	13	336,693	13
Investment banking								
South Africa	45,694	-31	68,138	49	72,162	6	76,389	6
UK	(,4,399)	-86	15,397	-450	11,547	-25	13,279	15
Australia	273	-104	(5,002)	-1932	(,967)	-81	1,867	-293
	41,568	48	78,533	89	82,742	5	91,535	11
Asset management								
South Africa	58,077	18	76,087	31	84,084	11	87,461	4
UK	25,335	48	38,003	50	47,503	25	59,379	25
	83,412	26	114,090	37	131,587	15	146,840	12
Property								
South Africa	31,582	45	33,639	7	35,625	6	34,433	-3
UK	825	7	(1,000)	-221	(,400)	-60	(,800)	100
Australia	1,072	-50	4,151	287	4,816	16	5,577	16
	33,479	36	36,789	10	40,042	9	39,210	-2
Other activities	**31,721**	**0**	**(52,649)**	**-266**	**(54,231)**	**3**	**(56,142)**	**4**
Operating profit post minorities	**432,258**	**9**	**492,756**	**14**	**622,254**	**26**	**729,304**	**17**
Tax	(82,599)	1	(98,186)	19	(132,204)	35	(157,757)	19
Net income after tax	**349,659**	**11**	**394,570**	**13**	**490,050**	**24**	**571,547**	**17**
Preference dividend	(39,949)	-13	(42,272)	6	(40,597)	-4	(42,627)	5
Earnings pre exc. items & goodwill	**309,710**	**15**	**352,299**	**14**	**449,453**	**28**	**528,920**	**18**
Fully diluted adjusted EPS (pps)	**42.5**	**7**	**43.6**	**3**	**53.8**	**23**	**62.8**	**17**
Fully diluted adjusted EPS (cps)	**527**	**-10**	**507**	**-4**	**679**	**34**	**861**	**27**
Undiluted adjusted EPS (pps)	45.1	6	46.3	3	57.4	24	67.2	17
Undiluted adjusted EPS (cps)	559	-11	538	-4	725	35	921	27
DPS (pps)	16.0	23	17.8	11	25.0	40	33.6	34
DPS (cps)	189	-3	207	9	321	55	481	50
Tangible NAV per share (pps)	324	22	314	-3	330	5	343	4
Tangible NAV per share (cps)	3,601	0	3,808	6	4,319	13	4,917	14
Tangible ROE %	15.4		14.9		17.9		19.9	

Source: company data, Deutsche Bank estimates

South Africa – Banks

Nedbank Group Ltd

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

Nedbank acquired BOE in a R7.5bn transaction in April 2002. This propelled Nedbank from being the smallest of the Big 4 South African banks to top spot, as measured by domestic assets, for a short period. The acquired assets were largely wholesale banking-related and are now housed in Nedbank Corporate. As part of the group reorganisation that followed, Nedbank bought out NIB minorities in 2H02 and de-listed NIB. Under new management since 2H03, Nedbank has embarked on a major overhaul of its investments, brands and strategy. It has disposed of many of its non-core assets, and terminated its JVs with Capital One and JD Group. Advances for the group are split 47/53% retail/corporate, while earnings are split c.28/72% retail/corporate in 1H10. The contribution from outside South Africa is not material.

Drivers: The stand-out drivers of strong earnings growth for Nedbank through its 2004-07 turnaround has been a restoration of margin, good cost management and, in the latter years, strong asset growth. However, more recently Nedbank has witnessed has struggled to find material top line growth while costs appear to have been stripped bare already. This, combined with lower interest margins than its peers (corporate bias plus onerous fixed funding from 2002-2006), has left Nedbank with the lowest ROA in the sector since 2003.

While the lower ROA suggests a weaker ROE, we note that Nedbank is more financially leveraged than its South African banking peers (perhaps justifiably so given its larger corporate bias). This means that Nedbank shows more volatile, although similar ROEs to its banking peers. The lower ROAs also have the effect of creating more operational leverage with Nedbank being more sensitive to margin and bad debt cycles. With ROAs seemingly having troughed, Nedbank's earnings growth should outstrip peers even without a material asset growth story.

Outlook: From an earnings perspective, the outlook for Nedbank looks extremely robust with Nedbank expected to deliver the fastest earnings growth of the Big 4 (three-year CAGR: +25%). While operationally, the story may be little changed, it is the most geared to a recovery in net interest margins and bad debts while the higher financial leverage means that the slightly faster ROA recovery translates into a stronger recovery in ROEs too. We expect Nedbank to deliver a ROTE of just below 20% by FY12 while Absa and Standard Bank are likely to be slightly worse than this.

We do however acknowledge that Nedbank remains a sub-optimal player and that it will rely on financial and operating leverage to drive the outperformance. We continue to use a higher discount rate for Nedbank on account of its higher financial leverage. We also believe that Nedbank should trade at a discount on two year forward PEs as by 2012 we are approaching peak ROAs again and the risk of financial leverage becomes skewed to the down. Nevertheless, with FY11 and FY12 earnings 15% above consensus, a 20-33% discount on forward PEs and a P/B discount that has widened back to 2004 levels (when Nedbank was in significant distress), we believe the valuations have not yet factored in the current recovery play. **Buy**.

Valuation: We value Nedbank on a two-stage Gordon Growth model that bases the target price on a discounted terminal value, and adds back the value of discounted interim dividends in order to account for all expected cash flows to the investor. In order to calculate the terminal value, we multiply expected year-three book value by a terminal price-to-book multiple. We base the terminal multiple on a standard GGM equation with the incorporation of a cyclical factor (mid-cycle ROE: 20.0%, cyclical factor: 94%, COE: 14.4%, terminal growth:6%).

Risks: The most material risk to our recommendation is its more significant leverage which exposes Nedbank more to any material economic disruption or an accelerated increase in interest rates.

Model updated: 31 January 2011

Running the Numbers

S. Africa

South Africa

Bank

Nedbank Group Ltd

Reuters: NEDJ.J Bloomberg: NED SJ

Buy

Price as of 28 January	ZAR 129.03
Target price	ZAR 150.00

Company website

http://www.nedbank.co.za

Company description

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

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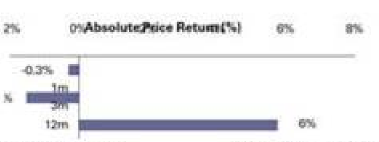
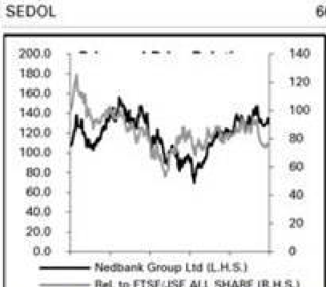


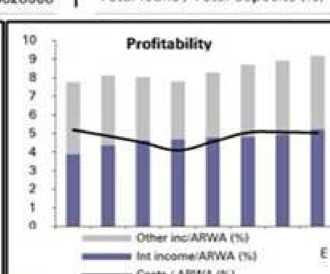
52-week Range:	ZAR 117.25 - 149.23
Market Cap (m)	ZAR 56,885
	USD 7,925

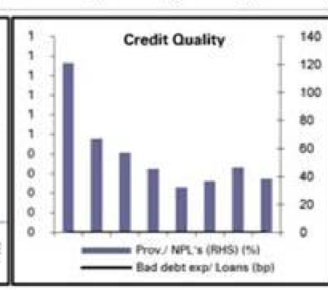
Company identifiers

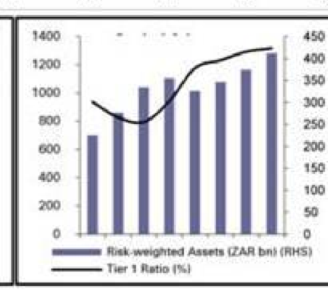
Cusip	
SEDOL	6628008

Year Ending 31 December	2005	2006	2007	2008	2009	2010E	2011E	2012E
DATA PER SHARE								
EPS (stated) (ZAR)	7.97	11.11	14.85	14.22	10.10	10.58	15.20	19.56
EPS (DB) (ZAR)	8.68	11.11	14.65	14.48	10.12	10.54	15.10	19.36
Growth Rate - EPS (DB) (%)	23.5	27.9	31.8	-1.1	-30.1	4.2	43.2	28.2
DPS (ZAR)	2.90	4.93	6.60	6.20	4.40	4.53	6.57	8.42
BVPS (stated) (ZAR)	55.97	63.63	75.13	85.22	90.99	98.57	110.52	122.69
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	46.63	54.14	64.97	71.79	73.98	82.16	94.30	106.88
Market Capitalisation Y/E (ZAR m)	40,180	52,692	54,658	39,126	54,053	57,547	57,999	58,451
Shares in issue (m)	407	407	418	416	440	452	454	455
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	10.3	10.5	9.3	7.2	10.1	12.2	8.5	6.6
P/E (core DB)	9.5	10.5	9.5	7.1	10.1	12.2	8.5	6.7
P/B (stated)	1.8	2.1	1.8	1.1	1.4	1.3	1.2	1.1
P/Tangible equity (DB)	2.1	2.5	2.1	1.3	1.7	1.6	1.4	1.2
ROE (stated) (%)	15.4	18.6	21.4	17.7	11.5	11.2	14.5	16.8
RoTE (core tangible equity) (%)	21.7	22.8	25.6	21.5	14.3	13.9	17.5	19.6
ROIC (invested capital) (%)	22.3	22.8	25.6	21.5	14.3	13.9	17.5	19.6
Dividend yield (%)	3.5	4.2	4.8	6.0	4.3	3.5	5.1	6.5
Dividend cover (x)	2.7	2.3	2.2	2.3	2.3	2.3	2.3	2.3
Simple free cash flow yield (%)	6.9	0.7	3.7	10.4	17.0	4.5	6.5	7.8
PROFIT & LOSS (ZAR m)								
Net interest revenue	8,529	10,963	14,146	16,170	16,306	16,208	17,826	20,515
Non-interest income	8,469	9,468	10,446	10,729	11,906	13,051	14,328	15,594
Commissions	5,878	6,544	7,556	7,919	8,583	9,709	10,388	11,218
Trading revenue	1,625	2,147	2,175	2,051	2,139	1,801	2,288	2,567
Other revenue	966	777	715	759	1,184	1,541	1,653	1,808
Total revenue	16,998	20,431	24,592	26,899	28,212	29,259	32,154	36,109
Total Operating Costs	11,380	12,231	13,794	14,115	15,538	16,991	18,284	19,789
Employee costs	5,312	6,082	7,079	7,040	7,898	8,846	9,465	10,222
Other costs	6,068	6,149	6,715	7,075	7,640	8,146	8,819	9,567
Pre-Provision profit / (loss)	5,618	8,200	10,798	12,784	12,674	12,268	13,870	16,320
Bad debt expense	1,189	1,483	2,164	4,822	6,634	5,999	4,790	4,628
Operating Profit	4,429	6,717	8,634	7,962	6,040	6,269	9,080	11,692
Pre-tax associates	167	153	239	154	55	0	0	0
Pre-tax profit	4,596	6,870	8,873	8,116	6,095	6,269	9,080	11,692
Tax	1,140	1,933	2,343	1,868	1,307	1,307	2,019	2,584
Minority shareholders	233	309	344	257	242	33	0	0
Other post tax items	599	-91	-161	419	280	-263	-258	-284
Stated net profit	3,153	4,439	5,921	5,765	4,277	4,666	6,804	8,825
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	324	142	148	194	126	119	95	51
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	3,477	4,581	6,069	5,959	4,403	4,785	6,899	8,876
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	225,756	276,914	334,877	355,235	326,466	346,815	374,482	411,930
Interest-earnings assets	304,969	375,821	439,730	479,306	522,443	569,463	620,715	676,579
Total loans	248,408	308,563	373,956	434,233	450,301	476,309	513,809	559,409
Total deposits	261,311	324,685	384,541	466,890	513,579	564,937	621,431	683,574
Stated Shareholder Equity	22,490	25,116	30,193	34,913	39,649	43,964	49,681	55,580
Tangible shareholders equity	18,735	21,368	26,112	29,412	32,234	36,641	42,388	48,416
Tier 1 capital	21,151	22,932	26,611	33,458	38,401	42,716	48,433	54,332
Tier 1 ratio (%)	936.9	828.1	794.7	941.9	1176.3	1231.7	1293.3	1319.0
o/w core tier 1 capital ratio (%)	9.4	8.3	6.9	8.0	10.2	10.8	11.5	11.9
Tangible equity / total assets (%)	5.6	5.2	5.4	5.4	5.9	6.3	6.7	7.1
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
Risk Provisions / NPLs (%)	121	67	57	45	32	37	46	38
Bad debt chg / Avg loans (%)	nm	nm	nm	nm	nm	nm	nm	nm
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	9	20	20	9	5	4	10	12
Growth in costs (%)	0	7	13	2	10	9	8	8
Growth in bad debts (%)	-2	25	46	123	38	-10	-20	-3
Growth in RWA (%)	6	23	21	6	-8	6	8	10
Growth in loans (%)	9	19	23	18	9	5	7	8
Growth in deposits (%)	3	24	18	21	10	10	10	10
Net int. margin (%)	2.95	3.22	3.47	3.52	3.26	2.97	3.00	3.16
Cost income ratio (%)	66.9	59.9	56.1	52.5	55.1	58.1	56.9	54.8
Total loans / Total deposits (%)	95	95	97	93	88	84	83	82









Source: Company data, Deutsche Bank estimates

South Africa – Banks

Standard Bank Group Ltd

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

Suggesting greater innovation domestically, in 2005, Standard Bank announced JVs with Edcon (card) and MTN (banking via mobile phone) and the acquisition of a stake in RCS (card). Offshore, it recently embarked on numerous acquisitions and expansion ventures with the most notably being the acquisition of Bank of America's BankBoston branch in Argentina, the merger with Troika in Russia and acquisition of IBTC Bank in Nigeria. Early in 2009, Standard Bank's capital position was augmented by ICBC who injected a further R16bn of capital into Standard Bank. Although a portion of the capital was used to fund organic growth and to buy a larger stake in its life insurance subsidiary, Liberty, Standard Bank continues to sit on significant excess capital of c.US$1bn.

Drivers: SBG derives 43% of its total profit from retail banking and is, along with Absa, the dominant retail bank in South Africa. In addition, its corporate and investment bank makes up a further 54% of earnings, with the international CIB operations accounting for 12% of the 54%. Its life insurance and asset management operations, through its stake in Liberty, account for the remainder of the group earnings.

Regarding the retail operations, most attention will likely be focussed on asset growth, slowing bad debts and net interest margin. We expect rate hikes later this year to start supporting margins while bad debts are expected to continue improving from 156bps in FY09 to 95bps for FY10 and 82bps in FY11.

Standard Bank's Corporate and Investment Banking (CIB) operations remain focussed primarily on debt and commodities businesses although Standard Bank has started to expand into areas like equities. With domestic markets at a fairly mature stage, CIB is likely to be driven more by the international operations, particularly in Africa.

Outlook: The outlook for Standard Bank is probably the most uncertain of the Big 4. We have yet to feel the impact of recent cost cutting measures on revenue while Standard Banks international strategy remains relatively unclear. We expect to see some further group streamlining with potential disposal of some of its international operations.

Nevertheless, while 2010 was a difficult year for Standard Bank, we expect a stronger earnings recovery in FY11 (+24%) and FY12 (+20%), although we are still marginally below consensus. With low volatility across global markets in recent months, we believe the base for the trading businesses remains low while the expected return of some rand weakness will add further fuel to its earnings and NAV.

While we feel that FirstRand and Nedbank offer better value currently, we are comfortable with the current absolute ratings on Standard Bank. We also highlight that Standard Bank is posed for a multi-year earnings recovery as, unlike the other banks, its ROA remains deflated in FY12 relative to its own history.

Valuation: We value Standard Bank on a sum-of-the-parts basis. For Standard Bank's banking operation, we value it 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. For Liberty, Standard Bank's insurance operation, we value it on a multiple to embedded value. In order to calculate the terminal value, we multiply expected year-three book value by a terminal price-to-book multiple which is based on an ROE of 20%, COE of 13.9% and a g of 6%. **Hold**.

Risks: From a company-specific perspective, the key risk stems from the international operations which represent the most significant differentiator when compared with its Big 4 peers. On the downside, the international operations are more exposed to the current fall-out in international markets and regulatory backlash and may result in weaker earnings and ROEs off-shore. On the upside, we believe the earnings bases are relatively deflated and may surprise to the upside while rand weakness also presents a significant opportunity.

Model updated: 31 January 2011

Running the Numbers

S. Africa

South Africa

Bank

Standard Bank

Reuters: SBKJ.J Bloomberg: SBK SJ

Hold

Price as of 28 January	ZAR 105.60
Target price	ZAR 115.00

Company website

http://www.standardbank.com

Company description

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

Suggesting greater innovation domestically, in

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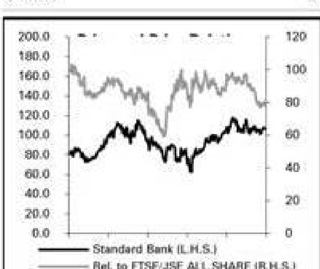
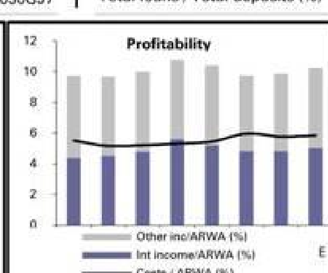
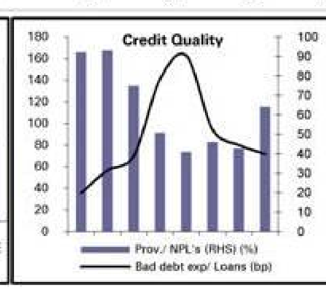
52-week Range:	ZAR 100.75 - 118.00
Market Cap (m)	ZAR 166,033
	USD 23,131

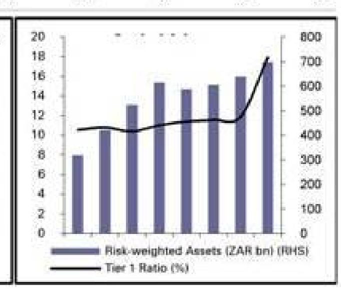
Company identifiers
Cusip
SEDOL B030GJ7

Year Ending 31 December	2005	2006	2007	2008	2009	2010E	2011E	2012E
DATA PER SHARE								
EPS (stated) (ZAR)	6.15	7.94	9.73	9.68	7.25	7.06	8.82	10.66
EPS (DB) (ZAR)	6.54	7.84	9.47	9.36	7.53	7.15	8.84	10.67
Growth Rate - EPS (DB) (%)	18.5	19.7	20.9	-1.2	-19.5	-5.0	23.7	20.7
DPS (ZAR)	2.67	3.20	3.86	3.86	3.86	3.86	4.01	5.08
BVPS (stated) (ZAR)	28.30	35.48	42.55	56.33	56.12	55.97	61.47	69.09
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (ZAR)	27.85	34.55	38.52	49.65	50.08	49.54	54.64	62.98
Market Capitalisation Y/E (ZAR m)	102,524	128,769	137,370	126,576	158,942	167,515	170,894	171,739
Shares in issue (m)	1,377	1,380	1,388	1,512	1,561	1,587	1,605	1,613
VALUATION RATIOS & PROFITABILITY MEASURES								
P/E (stated)	10.9	10.2	10.7	8.9	12.1	15.0	12.0	9.9
P/E (core DB)	10.2	10.4	11.0	9.2	11.7	14.8	11.9	9.9
P/B (stated)	2.7	2.7	2.4	1.5	1.8	1.9	1.7	1.5
P/Tangible equity (DB)	2.7	2.7	2.6	1.7	2.0	2.1	1.9	1.7
ROE (stated) (%)	23.6	23.5	23.8	19.4	12.6	12.5	14.8	16.0
RoTE (core tangible equity) (%)	25.6	25.5	26.3	22.0	15.3	14.5	17.0	18.0
ROIC (invested capital) (%)	25.6	25.5	26.3	22.0	15.3	14.5	17.0	18.0
Dividend yield (%)	4.0	3.9	3.7	4.5	4.4	3.7	3.8	4.8
Dividend cover (x)	2.3	2.5	2.5	2.5	1.9	1.8	2.2	2.1
Simple free cash flow yield (%)	5.6	1.0	2.4	4.0	10.8	5.7	6.4	4.2
PROFIT & LOSS (ZAR m)								
Net interest revenue	13,015	16,654	22,549	31,918	31,316	28,642	29,868	33,634
Non-interest income	15,966	19,201	24,747	29,448	31,217	29,488	31,383	34,766
Commissions	10,457	11,861	14,511	17,607	18,108	18,808	20,053	21,892
Trading revenue	3,721	4,852	7,216	9,463	10,621	8,525	9,036	10,374
Other revenue	1,788	2,488	3,020	2,378	2,488	2,156	2,294	2,500
Total revenue	28,981	35,855	47,296	61,366	62,533	58,130	61,251	68,399
Total Operating Costs	16,441	19,141	24,706	30,390	32,827	35,585	35,857	39,103
Employee costs	9,370	11,001	14,488	16,951	17,848	19,633	19,757	21,634
Other costs	7,071	8,140	10,218	13,439	14,979	15,952	16,100	17,469
Pre-Provision profit / (loss)	12,540	16,714	22,590	30,976	29,706	22,545	25,393	29,297
Bad debt expense	1,207	2,733	4,590	11,342	12,097	7,093	6,296	6,162
Operating Profit	11,333	13,981	18,000	19,634	17,609	15,452	19,097	23,134
Pre-tax associates	200	218	283	234	-34	550	605	666
Pre-tax profit	11,533	14,199	18,283	19,868	17,575	16,002	19,702	23,800
Tax	3,098	3,980	5,081	5,229	5,315	4,920	5,801	6,883
Minority shareholders	51	81	346	861	552	635	698	768
Other post tax items	166	263	793	154	-949	566	715	787
Stated net profit	8,464	10,188	12,721	14,017	10,958	11,014	13,918	16,935
Reconciliation to DB adjusted core earnings								
Goodwill	0	0	0	0	0	0	0	0
Extraordinary & Other items	549	630	432	138	507	335	276	279
Bad Debt Provisioning	0	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0	0
DB adj. core earnings	9,013	10,818	13,153	14,155	11,760	11,349	14,193	17,214
KEY BALANCE SHEET ITEMS (ZAR m) & CAPITAL RATIOS								
Risk weighted assets	318,279	421,187	524,443	614,960	587,253	605,120	637,896	697,742
Interest-earnings assets	401,796	507,883	658,220	805,308	775,900	783,141	805,350	861,768
Total loans	334,128	477,282	649,974	790,087	723,507	735,580	775,107	843,303
Total deposits	412,462	545,164	705,843	843,815	768,548	845,403	929,943	1,022,937
Stated Shareholder Equity	38,270	48,352	58,406	85,902	87,454	88,783	99,484	112,369
Tangible shareholders equity	37,660	47,082	52,877	75,722	78,045	78,591	88,431	102,421
Tier 1 capital	33,553	45,415	54,579	67,726	67,005	70,074	75,892	125,131
Tier 1 ratio (%)	10.5	10.8	10.4	11.0	11.4	11.6	11.9	17.9
o/w core tier 1 capital ratio (%)	9.6	9.5	9.4	10.1	10.5	10.7	11.0	17.1
Tangible equity / total assets (%)	7.6	7.0	6.2	7.4	8.2	8.1	8.7	9.2
CREDIT QUALITY								
Gross NPLs / Total Loans (%)	1.24	1.12	1.48	3.44	6.15	4.50	2.80	2.80
Risk Provisions / NPLs (%)	92	93	75	51	41	46	43	64
Bad debt chg / Avg loans (%)	0.36	0.57	0.70	1.41	1.63	0.94	0.80	0.72
GROWTH RATES & KEY RATIOS								
Growth in revenues (%)	9	24	32	30	2	-7	5	12
Growth in costs (%)	7	16	29	23	8	8	1	9
Growth in bad debts (%)	15	126	68	147	7	-41	-11	-2
Growth in RWA (%)	15	32	25	17	-5	3	5	9
Growth in loans (%)	24	37	39	28	5	-4	4	7
Growth in deposits (%)	33	32	29	20	-9	10	10	10
Net int. margin (%)	3.74	3.66	3.87	4.36	3.96	3.67	3.76	4.03
Cost income ratio (%)	56.7	53.4	52.2	49.5	52.5	61.2	58.5	57.2
Total loans / Total deposits (%)	81	88	92	94	94	87	83	82









Source: Company data, Deutsche Bank estimates

South Africa – Life Assurance

Discovery Holdings Ltd

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

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

Outlook: We remain optimistic for the group's growth prospects in life insurance for the next 2-3 years, until competitors ramp up products to compete with Discovery's offerings and an increasingly large proportion of its Vitality customers subscribe to life insurance products. We believe the immanent threat of national health insurance (NHI) is unlikely to substantially impact the group's health administration operations in the next three to five years. Discovery remains debt free, providing scope to fund future ventures.

Valuation: We value Discovery using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. **Buy** on the basis of strong growth in its South African life business, underpinned by strong cash generation in the South African health administration operations.

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

Running the numbers

Discovery Holdings Ltd

Tickers	**Reuters**	DSYJ.J	**Bloomberg**	DSY SJ
Price at 28 January 2011		R37.67		
Target price		R42.00		
Rating		Buy		

Year Ending 30 June	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
DATA PER SHARE						
EPS (stated) (ZAR)	1.72	2.25	2.79	3.66	4.20	4.83
DPS (ZAR)	0.45	0.59	0.69	0.77	0.88	1.00
Growth rate – DB adjusted EPS	4.2	30.6	24.1	31.2	14.9	14.9
Growth rate – DPS	20.3	31.5	17.9	11.6	14.3	13.6
EV (DB adjusted) (ZAR)	25.4	29.1	33.0	38.7	44.2	50.1
Average market cap (ZAR)	14,042	13,200	17,338	22,601	22,601	22,601
Weighted average shares (m)	543	551	554	554	554	554
VALUATION RATIOS & PROFITABILITY MEASURES						
PE (stated) (x)	13.6	12.1	12.8	10.6	9.2	8.0
Price / EV (DB adjusted, x)	0.92	0.94	1.17	1.00	0.87	0.77
ROEV (DB adjusted) (%)	30.2	23.4	14.4	19.9	17.6	16.8
Dividend yield (%)	1.9	2.1	1.8	2.0	2.3	2.6
Dividend cover (x on DB adjusted earns)	3.9	3.8	4.0	4.8	4.8	4.8
PROFIT & LOSS (ZARm)						
Pre-tax life	1,059	1,122	1,434	1,584	1,780	2,073
Pre-tax non-life	0	0	0	0	0	0
Pre-tax asset management	0	0	0	0	0	0
Pre-tax banking	0	0	0	0	0	0
Pre-tax other	605	692	1,063	1,473	1,787	2,049
Pre-tax total	**1,664**	**1,814**	**2,497**	**3,057**	**3,568**	**4,122**
Goodwill	0	0	0	0	0	0
Tax	506	590	782	971	1,128	1,296
Minorities	2	12	-2	5	30	51
Stated net income	**1,156**	**1,212**	**1,717**	**2,081**	**2,409**	**2,775**
BALANCE SHEET (ZARm)						
Shareholders funds stated	6,164	7,013	8,382	10,148	12,233	14,663
Embedded value (DB adjusted)	15,012	17,197	19,531	22,851	26,134	29,648

Source: Deutsche Bank

South Africa – Life Assurance

Liberty Holdings Ltd

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

Drivers: Liberty suffered losses in 1H09 and enters 2011 in its continued process of revisiting strategic challenges in the group, notably the recovery of margins in its life operations. We expect the group to emerge as a healthier market participant but it may take more than one year for earnings to recover to historical levels. Liberty's recently launched venture into health administration and insurance in the rest of Africa has shown impressive growth but is not yet substantial enough to contribute significantly to earnings.

Outlook: Liberty's earnings continue to recover from the losses reported in 1H09, but the group's focus on lower margin savings products in the highly competitive middle and affluent segments currently curtail its growth relative to peers, in our view. We expect modest but continued growth from its health operations in the rest of Africa. Liberty can access Standard Bank's established presence in Africa to facilitate low-risk entry and growth in the continent, but is yet to tap into this opportunity in a meaningful way. The group remains dependent on the performance of its core South African life and asset management operations in the near term.

Valuation: We value Liberty using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. Maintain **Hold** as the group is currently lagging peers in the recovery from the recessionary conditions of 2009/2010.

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

Running the numbers

Liberty Holdings Ltd

Tickers	**Reuters**	LBHJ.J	**Bloomberg**	LBH SJ
Price at 28 January 2011		R72.12		
Target price		R75.00		
Rating		Hold		

Year Ending 31 December	**2008**	**2009**	**2010E**	**2011E**	**2012E**
DATA PER SHARE					
EPS (stated) (ZAR)	7.23	0.47	7.61	8.79	10.18
DPS (ZAR)	4.55	4.55	4.70	5.17	5.69
Growth rate – DB adjusted EPS	-31.1	-93.5	1,511.9	15.6	15.7
Growth rate – DPS	11.0	0.0	3.3	10.0	10.0
EV (DB adjusted) (ZAR)	80.7	67.8	65.9	73.5	82.4
Average market cap (ZAR)	10,346	16,731	19,881	19,881	19,881
Weighted average shares (m)	163	286	286	286	286
VALUATION RATIOS & PROFITABILITY MEASURES					
PE (stated) (x)	9.2	135.6	9.5	8.3	7.2
Price / EV (DB adjusted, x)	0.83	0.94	1.11	0.99	0.89
ROEV (DB adjusted) (%)	1.2	-6.6	12.8	14.6	15.2
Dividend yield (%)	6.8	7.1	6.4	7.1	7.8
Dividend cover (x on DB adjusted earns)	1.6	0.1	1.6	1.7	1.8
PROFIT & LOSS (ZARm)					
Post-tax life	1,267	17	1,979	2,282	2,569
Post-tax non-life	0	0	0	0	0
Post-tax asset management	459	442	455	470	555
Post-tax banking	0	0	0	0	0
Post-tax other	-616	-417	-333	-312	-289
Post-tax total	**1,110**	**42**	**2,101**	**2,440**	**2,835**
BALANCE SHEET (ZARm)					
Shareholders funds stated	11,633	10,515	11,622	13,016	14,704
Embedded value (DB adjusted)	23,074	19,380	18,833	21,024	23,578

Source: Deutsche Bank

South Africa – Life Assurance

MMI Holdings Ltd

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

Drivers: MMI is the largest writer of gross new business premiums in South Africa. This operational strength is offset by margins below its peer group average. We believe MMI could have promising operational re-rating potential once merger-related constraints have been settled.

Outlook: MMI's management team was announced on 18 November 2010, but little guidance provided on the group's direction and merger implementation plans. Considering the extent of the merger (third largest life insurer in South Africa), we expect management to be internally focused for the medium term, and thus likely to remain a life insurance-centric operation. As the market leader in life insurance new business premiums, we look to cost reductions rather than top-line growth to drive longer term merger benefits.

Valuation: We value MMI using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. **Buy** on long-term merger expectations and attractive dividend yield.

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

Running the numbers

MMI Holdings Ltd

Tickers	**Reuters**	MMIJ.J	**Bloomberg**		
Price at 28 January 2011		R16.40			
Target price		R18.50			
Rating		Buy			

Year Ending 31 December	**2008**	**2009**	**2010E**	**2011E**	**2012E**
DATA PER SHARE					
EPS (stated) (ZAR)	n/a	n/a	n/a	n/a	n/a
DB adjusted EPS (pro forma and backdated, at calendar year-end) (ZAR)	0.80	1.62	1.58	1.83	2.14
DPS (MET div; ZAR)	0.95	1.00	1.07	1.15	1.23
Growth rate – DB adjusted EPS	-60.98	102.50	-2.47	16.14	16.62
Growth rate – DPS	0.0	5.3	7.0	7.5	7.0
EV (DB adjusted; pro-forma at calendar year-end) (ZAR)	16.19	16.02	17.59	19.48	21.86
Average Market Cap (ZAR)	6,402	6,475	27,663	27,663	27,663
Weighted average shares (pro forma and backdated) (m)	1,605	1,605	1,605	1,605	1,605
VALUATION RATIOS & PROFITABILITY MEASURES					
P/E (stated) (x)					
P/E (DB adj) (pro-forma, backdated, for a calendar year-end)(x)	15.2	7.5	10.0	8.9	7.7
Price / EV (DB Adj, x) (pro forma; at calendar year-end)	0.8	0.75	0.93	0.84	0.75
ROEV (DB adjusted; pro-forma for calendar-year) (%)	-3.1	4.3	13.8	15.6	17.1
Dividend yield (MET to FY10; pre-merger) (%)	7.8	8.3	6.2	6.7	7.1
Dividend cover (MET to FY10 per-merger; x on DB adj earns)	-0.2	2.0	1.7	1.6	1.5
PROFIT & LOSS (ZARm)					
Metropolitan – Post-tax (calendar year)	-137	1,308	1,200	1,470	1,646
Momentum – Post-tax (calendar year)	1,793	1,655	1,707	1,844	2,165
Merger-related amortisation (pro-forma; calendar year)	-370	-370	-370	-370	-370
Post-tax total (all years adj pro-forma; calendar year)	**1,286**	**2,593**	**2,537**	**2,944**	**3,441**
BALANCE SHEET (ZARm)					
Embedded value (DB adjusted; pro forma)	25,986	25,712	28,232	3,262	35,073

Source: Deutsche Bank

UK – Insurance

Old Mutual plc

Business description: Old Mutual is an international financial services and wealth management group. The company was established in South Africa in 1845 and is the country's largest life insurer by market capitalisation. The South African operations further include Nedbank, one of the four largest banks, Mutual and Federal, a diversified property and casualty insurer, and OMIGSA, one of the largest asset managers in the country. The European insurance and asset management operations are centred around the Skandia brand, while the operations in the United States extend to asset management and life insurance (the sale of US Life to Harbinger is expected to conclude in 1Q11). Operations in other geographies include India (venture with Kotak Life Insurance) and China (as the Old Mutual-Guodian Life Insurance Co).

Drivers: We believe performance of the South African operations will continue to be a reliable and the most significant contributor to earnings in the near term. Growth in Europe should be sustained by Skandia's leading position as an open architecture provider. Old Mutual delivered solid operational results in 1H10, with EPS up 69% driven by improved margins, strong sales and positive EV variances across most regions. We expect that the group should be able to generate most of the cash required to meet its FY12 debt repayment target of £1.5bn from non-South African sources, while increasing its dividend cover, in addition to strengthening its capital position.

Outlook: Old Mutual has shown a steady recovery since its disappointing FY08 results. Management announced plans for the restructuring of the group in March 2010, with a focus on the disposal of the US Life operations in the near term. This sale was announced on 6 August 2010, pending regulatory approval.

Management has also outlined concrete cost cutting plans that are expected to result in ROE returns of c.15% for remaining core operations. Continued improvement in market conditions, combined with cost-cutting initiatives, is expected drive Old Mutual's recovery to "normalised" levels by FY12. The group's risk profile has also improved tremendously alongside improved operational metrics. Solvency levels have returned to robust levels, with a 3Q10 FGD surplus of GBP2.1bn (FY09: GBP1.5bn; target GBP1.0bn).

The shares continue to show upside potential for investors on valuation, restructuring and operational improvement expectations alongside modest but consistent earnings recovery as market environments stabilise. **Buy**.

Valuation: We value Old Mutual using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. Old Mutual continues to look attractive on valuation and a FY11e PE of 6.7x. Buy on valuation metrics and continued medium to long term operational improvement.

Risks: Key risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Downside risks include suboptimal execution of restructuring initiatives and currency exposure, specifically to the rand.

Running the numbers

Old Mutual plc					
Tickers	**Reuters**	OML.L	**Bloomberg**		OML LN
Price at 28 January 2011		GBP125.60			
Target price		GBP170.00			
Rating		Buy			

Year Ending 31 December	**2008**	**2009**	**2010E**	**2011E**	**2012E**
DATA PER SHARE					
EPS (stated) (GBp)	14.90	12.10	16.90	18.80	21.60
DPS (GBp)	2.45	1.50	3.50	5.00	6.50
Growth rate – DB adjusted EPS	-12.0	-18.8	39.7	11.2	14.9
Growth rate – DPS	-64.0	-38.8	133.3	42.9	30.0
EV (DB adjusted) (GBp)	57.9	111.0	140.8	149.7	166.3
Average Market Cap (GBp)					
Weighted average shares (m)	5,230	5,229	5,390	5,390	5,390
VALUATION RATIOS & PROFITABILITY MEASURES					
P/E (stated) (x)	6.6	6.6	7.1	6.7	5.9
Price / EV (DB Adj, x)	1.70	0.72	0.90	0.85	0.76
ROEV (DB adjusted, including forex impact) (%)	-26.4	46.2	24.2	10.6	14.5
Dividend yield (%)	2.5	1.9	2.8	3.9	5.1
Dividend cover (x on DB adj earns)	6.1	8.1	4.8	3.8	3.3
PROFIT & LOSS (GBPm)					
Post-tax Long-term savings (life, AM)	307	525	762	728	782
Post-tax non-life	40	39	50	57	66
Post-tax US asset management	99	64	67	81	89
Post-tax banking	225	181	222	310	383
Post-tax other	107	-176	-192	-164	-157
Post-tax total	**778**	**633**	**909**	**1,012**	**1,163**
BALANCE SHEET (ZARm)					
Shareholders Funds Stated	7,737	8,464	10,062	11,187	12,530
Embedded value (DB adjusted)	3,058	5,858	7,661	8,145	9,051

Source: Deutsche Bank

South Africa – Life Assurance

Sanlam Ltd

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

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

Outlook: We expect the positive core earnings momentum evidenced in 2010 to continue into 2011. The group enters 2011 from a position of capital strength and strong excess capital. We expect strong continued growth from its operations in the rest of Africa and India.

Valuation: We value Sanlam using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. **Buy** on solid long-term growth expectations.

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

Running the numbers

Sanlam Ltd

Tickers	**Reuters**	SLMJ.J	**Bloomberg**	SLM SJ
Price at 28 January 2011		R27.20		
Target price		R32.00		
Rating		Buy		

Year Ending 31 December	**2008**	**2009**	**2010E**	**2011E**	**2012E**
DATA PER SHARE					
EPS (stated) (ZAR)	1.32	2.19	2.23	2.61	2.81
DB adjusted EPS (ZAR)	1.32	2.19	2.23	2.61	2.81
DPS (ZAR)	0.98	1.04	1.12	1.22	1.32
Growth rate – DB adjusted EPS	-40.1	65.5	1.9	17.0	7.7
Growth rate – DPS	5.4	6.1	7.7	8.9	8.2
EV (DB adjusted) (ZAR)	15.7	19.1	21.0	23.1	24.9
Average market cap (ZAR)	36,376	36,758	55,221	55,221	55,221
Weighted average shares (m)	2,094	2,053	2,057	2,012	2,012
VALUATION RATIOS & PROFITABILITY MEASURES					
PE (stated) (x)	13.8	8.5	12.5	10.7	10.0
PE (DB adjusted) (x)	13.8	8.5	12.5	10.7	10.0
Price / EV (DB adjusted, x)	1.13	0.93	1.30	1.20	1.11
ROEV (DB adjusted) (%)	-3.8	23.2	20.7	20.5	20.5
Dividend yield (%)	5.4	5.6	4.0	4.4	4.7
Dividend cover (x on DB adjusted earnings)	1.3	2.1	2.0	2.1	2.1
PROFIT & LOSS (ZARm)					
Post-tax life	1,940	1,857	2,019	2,269	2,412
Post-tax non-life	439	242	538	497	536
Post-tax asset management	589	593	520	596	618
Post-tax banking	0	0	0	0	0
Post-tax other	-266	1,746	1,456	1,825	2,019
Post-tax total	2,702	4,438	4,532	5,187	5,584
BALANCE SHEET (ZARm)					
Shareholders funds stated	28,190	30,547	32,833	35,668	38,689
Embedded value (DB adjusted)	32,127	39,429	42,556	45,979	49,757

Source: Deutsche Bank

South Africa – Real Estate

Growthpoint Properties Ltd

Business description: The portfolio geographically by GLA has 51% exposure in Greater Johannesburg, 12% in Pretoria, 19% 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 in the physical portfolio, 38% is generated from retail, 36% from office and 26% from industrial property. Growthpoint is one of the largest local property stocks with a market capitalisation of R29bn. The current value of the South African physical portfolio is R30bn, with the consolidated holding in Growthpoint Australia (GOZ) equating to R5bn. The strategy is to remain diversified and focus on the South African portfolio, while simultaneously pursuing opportunities overseas. A particular example of this is the acquisition of a controlling stake in Orchard Industrial Fund (now renamed Growthpoint Australia). From a portfolio perspective, it remains a defensive play in a slowing economic environment given the defensive component in its retail exposure, the high quality office space in its portfolio and the industrial space with a focus on warehousing and distribution facilities. Constraining shorter term growth in rentals are continued difficult rental negotiations, with increases in assessment rates and electricity costs limiting upside potential. Growthpoint has indicated it intends to bring the Australian operations up to scale and increase liquidity, but we believe that, in the context of the South African physical portfolio, GOZ will not be a significant factor in the near term. The South African development pipeline has been largely non-existent in recent months, with our expectation for no significant developments to be undertaken until confirmation of an improvement in GDP and consumer spending becomes increasingly evident in South Africa. We expect this to become increasingly evident in the latter half of 2011.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect in-force escalations to remain in the 8-9% range with new and expiring leases negotiated at upwards reversions overall at 8%. Vacancies are anticipated to remain inflated in the community shopping centre and less defensive retail space, but to start showing improved levels in the industrial and office arenas over the next 12 months. We believe the next six months will remain tough for South African property operationally, but expect to see signs of improvement in the letting environment starting to materialise. Margins have benefited in the past few years from strong rental escalations with costs increasing at a lower growth rate. This scenario has reversed in 2010, with our anticipation for significant cost inflation pressure to now materialise on the electricity and municipal rates front. As such, we expect operating expenses/revenue to remain at 23% levels in 2011.

Outlook: Growthpoint has a balanced exposure to industrial, office and retail space, with a portfolio of over 400 properties. Management's focus is on sustainable earnings, with non-core income not a feature of current distributions. The current focus on Australia through GOZ does represent an opportunity to improve growth prospects, given it was acquired at an attractive entry price. We do not however believe this stake will be material in 2011, given its current small size relative to South African operations. On Growthpoint's physical portfolio, we anticipate property expenses to remain at 23% levels in the medium term. Market-related rentals are being achieved and positive overall reversions are still anticipated. We expect the development pipeline that has been largely completed, but not fully let, to be more favourably viewed when GDP further improves. Management use of the current environment to refurbish and expand existing buildings should also lead to more sustainable, longer-term distribution growth. We expect distribution growth of 6% in FY11, before resuming a 7% growth profile in FY12 and FY13. **Hold**.

Valuation: We apply a DCF to ensure our bond yield-derived price target is supported by distributable cash flows. In our DCF, we use a 0.60x beta, a risk free rate of 8.5%, a terminal growth rate of 3.3% based on our South African IPD stats over the past 15 years and a standard ERP for South African stocks of 4.5%. We derive an 1813c DCF value using the above assumptions. We derive our 12-month official bond yield relative price target by capitalising our interpolated F2 DPS. We expect the stock to exit at a 47bps discount to our 8.5% long bond forecast yield. Our derived price target is 1570c.

Risks: Upside risks would include a stronger GDP environment than we anticipate becoming evident and the letting of existing vacancies in excess of what we anticipate. Downside risks general to the sector are a slowdown in GDP growth, a lack of liquidity (Growthpoint is less impacted by this factor), interest rate hikes and weakening in South African bond yields.

Model updated: 31-Jan-11

Equity Research
South Africa
Real Estate
Property Loan Stock

Growthpoint

Bloomberg: GRT SJ

Recommendation:	**HOLD**
Price as of 28-Jan-11:	R17.23
Price Target:	R15.70
Total return:	-1%

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

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

Research Team
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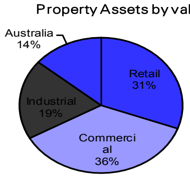
Key assumptions:
Risk-free rate: 8.50%
Terminal growth rate: 3.26%
Cost of equity: 11.20%
Forward dividend yield (interpolated): 7.80%
Historic dividend yield (interpolated): 7.30%
Exit dividend yield: 8.97%
Beta applied: 0.60

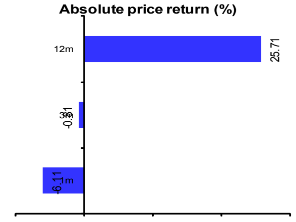
Property Assets by value



52 week high/low:	R18.50 - R13.66
Market cap (m):	R27,046
Market cap (m):	$3,767
12m Value traded (m):	R12,712
12m Value traded (m):	$1,770

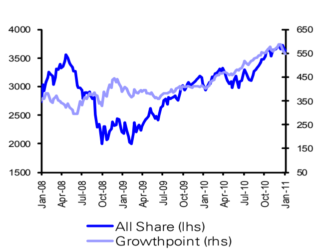
Source: DB Estimates, Company data

Absolute price return (%)

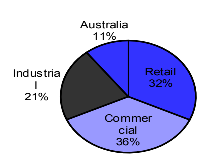


Financial Year End: June	2004A	2005A	2006A	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Summary										
Year end units(m)	613	660	778	1,074	1,281	1,409	1,548	1,548	1,548	1,548
Weighted average units (m)	613	660	778	1074	1281	1409	1548	1548	1548	1548
DPU (ZAR)	0.6900	0.7320	0.8130	0.9310	1.0649	1.1455	1.2123	1.2900	1.3757	1.4713
DPU growth (%)		6.09%	11.07%	14.51%	14.38%	7.57%	5.83%	6.41%	6.64%	6.95%
Finance costs / Revenue	30%	29%	28%	29%	26%	29%	29%	29%	28%	26%
Debt/Investment Property	52%	45%	38%	38%	33%	34%	35%	33%	32%	30%
Property expenses/Revenue	34.13%	25.19%	27.02%	25.05%	24.89%	23.64%	23.13%	23.15%	22.99%	22.83%
NAV/share (ZAR)	5.77	7.37	10.26	12.75	15.45	14.25	14.44	15.43	16.83	18.31
Price/Book (x)	1.04	1.23	1.04	1.16	0.72	0.91	1.07	1.12	1.02	0.94
Dividend yield (%)	11.5%	8.1%	7.6%	6.3%	9.6%	8.8%	7.8%	7.5%	8.0%	8.5%
Yield rel All Share	3.61	2.98	3.39	2.77	3.20	2.94	2.60			
Yield rel Property	1.08	0.97	0.97	1.00	1.60	1.47	1.30			
Cap rate (ROI) %	9.9%	10.2%	6.9%	8.2%	8.2%	9.1%	9.4%	9.8%	9.5%	9.4%
Nav/share growth (%)		28%	39%	24%	21%	-8%	1%	7%	9%	9%
Market cap at year end (Rm)	R3,675	R5,983	R8,334	R15,877	R14,218	R18,317	R24,018	R27,046		
Profit & Loss (Rm)										
Revenue	920	1014	1299	2152	2712	3211	3956	4273	4400	4590
Property Expenses	-314	-255	-351	-539	-675	-759	-915	-989	-1012	-1048
Net Property Income	606	926	1,029	1,823	2,245	2,671	3,291	3,472	3,583	3,744
Other operating expenses	35	46	66	120	62	75	101	109	112	117
Investment income	86	59	34	45	1	1	0	0	0	0
Finance income	58	9	49	44	87	162	128	64	64	64
Finance costs	-272	-298	-361	-615	-697	-921	-1157	-1242	-1211	-1211
Profit before debenture interest	461	507	626	969	1,264	1,520	2,016	2,185	2,323	2,480
Debenture interest	-443	-482	-603	-966	-1,363	-1,612	-1,874	-1,994	-2,127	-2,275
Cash flow (Rm)										
Cash flow from operating activities	147	16	3	99	384	93	204	0	0	0
Cash generated from operations	541	717	803	1484	0	2416	2948	3175	3276	3424
Sundry income	0	0	0	-6000	0	-35000	0	0	0	0
Investment income	86	59	34	45	1	1	0	0	0	0
Finance income	58	9	49	0	0	162	128	64	64	64
Finance costs	-272	-298	-361	-598	-523	-942	-1157	-1242	-1211	-1211
Distribution to unitholders	-265	-449	-497	-804	-1174	-1502	-1715	-1996	-2129	-2277
Cash flow from investing activities	-896	-910	-1135	-1339	-3296	-1767	-1741	441	0	0
Investment in fixed property	-1295	-1396	-1290	-327	0	0	0	0	0	0
Investment in listed property	-121	-27	-89	0	0	0	0	-250	0	0
Proceeds on sale of fixed property	98	102	214	167	0	0	0	691	0	0
Proceeds on sales of listed property	422	411	248	0	0	0	0	0	0	0
Cash flow from financing activities	813	853	1102	1243	2920	2144	1352	-441	0	0
Non-current loans raised	1880	869	2080	0	0	0	0	250	0	0
Repayment of non-current loans	-97	-298	-978	0	0	0	0	-691	0	0
Proceeds from issue of shares	1418	282	0	0	0	0	0	0	0	0
Net inc/dec in cash	64	-40	-30	3	8	470	-185	0	0	0
Balance sheet (Rm)										
Investment properties	6132	9119	15017	22173	27245	28637	34208	35496	37658	39951
Cash	86	46	16	19	27	497	310	310	310	310
Other	56	104	290	765	3385	3231	3173	2482	2482	2482
Total assets	6842	9660	15544	22957	30657	32365	37691	38288	40450	42743
Creditors & Accruals	111	145	182	385	638	615	821	821	821	821
Financial Debt	2957	4003	5748	8293	9132	8815	9932	9491	9491	9491
Other	239	645	1631	579	716	2499	3691	3691	3691	3691
Total liabilities	3307	4793	7562	9257	10873	12288	14850	14409	14409	14409
Linked unitholders interest	31	33	39	54	64	70	77	77	77	77
Reserves	3505	4834	7944	13646	19720	20007	22764	23802	25964	28257
Retained income	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total Trust equity	3535	4867	7982	13700	19784	20077	22841	23879	26041	28334
Growth rates										
Revenue		10%	28%	66%	26%	18%	23%	8%	3%	4%
Net Property Income		53%	11%	77%	23%	19%	23%	6%	3%	5%
Portfolio growth		49%	65%	48%	23%	5%	19%	4%	6%	6%

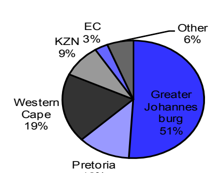
3 Year Total return



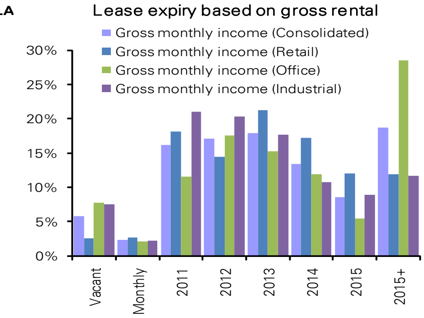
Property Assets by net property income



SA Geographic spread by GLA



Lease expiry based on gross rental



South Africa – Healthcare

Adcock Ingram Holdings Ltd

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

Drivers:

- **Pharmaceutical division** has two sub divisions; over-the-counter (OTC) and prescription. The pharmaceutical division contributed c.70% to revenue and c.80% to operating profit in FY10.
- **Hospital products division** also has two sub divisions: Adcock Ingram Critical Care and The Scientific Group. The hospital products division contributed c.30% to the revenue and c.20% to the operating profit in FY09.

FY10 results reflect a solid performance with revenue benefiting from acquisitions and newly concluded partnerships, while margins benefited from a favourable raw materials pricing and a strong tender uptake. While some degree of input cost pressure, and a more subdued pricing environment going forward should pressure margins, top-line growth should continue to benefit from the underpin provided by the annualisation of recent acquisitions/partnerships. Our expectations are for a relatively muted near-term earnings growth profile (9% FY11E, 10% FY12E), but we also highlight the recently announced lower ARV tender award and withdrawal of certain medicines poses downside risk (c.8-10%) to our current earnings forecasts.

Outlook: Adcock Ingram is one of the largest and the most diversified healthcare companies in South Africa boasting a brand name over 100 years old. The group operates with two divisions: Pharmaceuticals (prescription and OTC) and Hospital Products – and enjoys strong market share in all its key categories. Adcock has suffered a difficult couple of years with increasing competition, government interference with prices, the price-fixing scandal and severe under-investment under Tiger Brands' stewardship. This has led to market share losses and declining margins. However, it is not all bad news. We think the group is well positioned to benefit from a number of macro trends that should underpin healthcare spend over the medium term including increased government spend on pharmaceuticals and hospitals, increasing private healthcare membership, an ageing population and rising per capita incomes. **Hold**.

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

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

Model updated: 24 November 2010

Running the Numbers

S. Africa

South Africa

Healthcare

Adcock Ingram

Reuters: AIPJ.J Bloomberg: AIP SJ

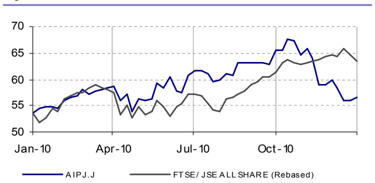
Hold

Price (28 Jan 11)	ZAR 56.60
Target price	ZAR 60.00
52-week Range	ZAR 53.40 – 68.39
Market Cap	ZAR 9,832m
	US$ 1,370m

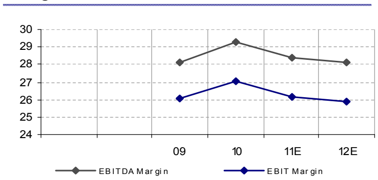
Company Profile

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

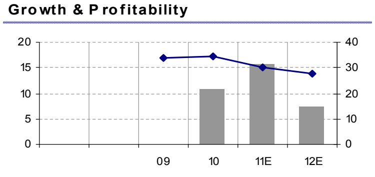
1yr Price Performance



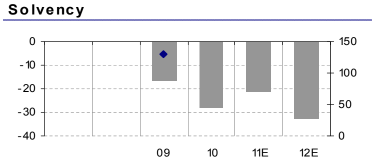
Margin Trends



Growth & Profitability



Solvency



Yaser Surve
+27 11 775 7333 yaser.surve@db.com

Fiscal year end 30-Sep	2009	2010	2011E	2012E
Financial Summary				
DB EPS (ZAR)	4.52	5.17	5.62	6.19
Reported EPS (ZAR)	4.52	5.17	5.62	6.19
DPS (ZAR)	1.50	1.80	1.94	2.13
BVPS (ZAR)	13.34	16.78	20.42	24.61
Weighted average shares (m)	172	174	174	174
Average market cap (ZARm)	6,959	9,709	9,832	9,832
Enterprise value (ZARm)	6,453	8,866	9,053	8,418
Valuation Metrics				
P/E (DB) (x)	8.9	10.8	10.1	9.1
P/E (Reported) (x)	8.9	10.8	10.1	9.1
P/BV (x)	3.60	3.78	2.77	2.30
FCF Yield (%)	9.3	8.3	3.0	10.2
Dividend Yield (%)	3.7	3.2	3.4	3.8
EV/Sales (x)	1.61	2.00	1.76	1.53
EV/EBITDA (x)	5.7	6.8	6.2	5.4
EV/EBIT (x)	6.2	7.4	6.7	5.9
Income Statement (ZARm)				
Sales revenue	**4,005**	**4,441**	**5,135**	**5,512**
Gross profit	**2,037**	**2,335**	**2,610**	**2,772**
EBITDA	**1,128**	**1,302**	**1,459**	**1,551**
Depreciation	83	102	117	126
Amortisation	0	0	0	0
EBIT	**1,045**	**1,200**	**1,342**	**1,425**
Net interest income(expense)	-8	29	49	67
Associates/affiliates	0	0	0	0
Exceptionals/extraordinaries	0	-269	0	0
Other pre-tax income/(expense)	0	0	0	0
Profit before tax	**1,037**	**961**	**1,391**	**1,493**
Income tax expense	247	318	399	399
Minorities	7	12	14	16
Other post-tax income/(expense)	0	0	0	0
Net profit	**782**	**631**	**978**	**1,078**
DB adjustments (including dilution)	-3	269	0	0
DB Net profit	**779**	**900**	**978**	**1,078**
Cash Flow (ZARm)				
Cash flow from operations	**879**	**1,131**	**960**	**1,132**
Net Capex	-235	-330	-664	-133
Free cash flow	**644**	**801**	**296**	**999**
Equity raised/(bought back)	10	-14	0	0
Dividends paid	-126	-269	-346	-349
Net inc/(dec) in borrowings	-139	269	0	0
Other investing/financing cash flows	-92	-49	0	0
Net cash flow	**297**	**738**	**-50**	**650**
Change in working capital	*-46*	*115*	*-152*	*-89*
Balance Sheet (ZARm)				
Cash and other liquid assets	693	1,431	1,380	2,031
Tangible fixed assets	600	857	1,405	1,411
Goodwill/intangible assets	304	424	424	424
Associates/investments	150	151	151	151
Other assets	1,640	1,894	2,186	2,345
Total assets	**3,388**	**4,757**	**5,547**	**6,362**
Interest bearing debt	312	581	581	581
Other liabilities	750	1,103	1,247	1,318
Total liabilities	**1,062**	**1,684**	**1,828**	**1,899**
Shareholders' equity	2,301	2,915	3,547	4,275
Minorities	25	159	172	188
Total shareholders' equity	**2,326**	**3,073**	**3,719**	**4,463**
Net debt	*-381*	*-850*	*-800*	*-1,450*
Key Company Metrics				
Sales growth (%)	na	10.9	15.6	7.3
DB EPS growth (%)	na	14.4	8.7	10.1
EBITDA Margin (%)	28.2	29.3	28.4	28.1
EBIT Margin (%)	26.1	27.0	26.1	25.9
Payout ratio (%)	33.0	49.5	34.4	34.4
ROE (%)	33.9	34.5	30.3	27.6
Capex/sales (%)	6.0	7.5	12.9	2.4
Capex/depreciation (x)	2.9	3.3	5.7	1.1
Net debt/equity (%)	-16.4	-27.7	-21.5	-32.5
Net interest cover (x)	128.8	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Aveng Ltd

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

The group is structured along three business lines. In FY10, construction and engineering contributed 61% of operating earnings, while only 53% revenues were generated in South Africa.

Four key segments:

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

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

Key drivers include:

- **Infrastructure spending:** The group has good exposure to private sector investment and mining in its order book while the large public sector projects wind down. The medium term outlook remains positive with the Australian government spending set to maintain momentum, while mining related investment continues to provide opportunities.
- **Trends in commodity prices:** This is particularly relevant for the open cast mining activities of Moolmans (coal, copper and nickel) as well as the deep level mining operations in Grinaker Construction (gold). Other businesses directly impacted by this include Duraset and Trident Steel, which both rely on trends in global steel prices, currently on a gradual recovery. Since the group has secured long term contracts which, when combined with a weakening currency, and rising commodity prices should prove positive for the group.

Outlook: Given the cyclical and country-specific risks, the group has sought to diversify geographically and across construction-related industries. The group has recently emerged from a restructuring program across its construction businesses, during which it eliminated some unprofitable contracts, particularly on the African continent and in Australia. As a result, group profitability has begun to improve and the group appears well positioned to re-establish itself as a major South African contractor.

Over the past year, the group has been severely affected by the substantial decline in steel prices and demand, as global fixed asset demand slowed on the back of the credit crisis, we believe that off this base, the short-term outlook remains stable to improving:

Our Deutsche Bank global commodities team forecasts a gradual improvement in steel prices, while automotive industry demand should support domestic volumes, in our view. We also expect the strong order book in both the contracting and open cast businesses to support the earnings base beyond the current year. We rate the shares **Buy**.

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

Risks: Downside risks: Any reversal in the current upward trajectory in Global Steel prices; Any significant project cancellations, particularly government-related; Any further adverse findings from the competition commission investigation into the industry.

Model updated: 28 November 2010

Running the Numbers

S. Africa

South Africa

Construction & Building Materials

Aveng

Reuters: AEGJ.J Bloomberg: AEG SJ

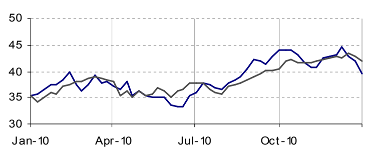
Buy

Price (28 Jan 11)	ZAR 39.50
Target price	ZAR 42.00
52-week Range	ZAR 32.65 – 45.00
Market Cap	ZAR 15,326m
	US$ 2,135m

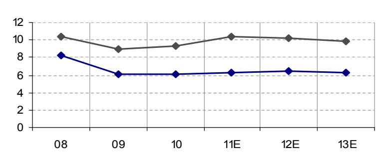
Company Profile

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

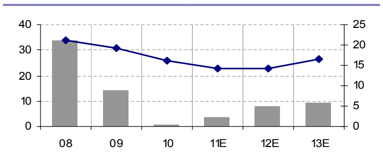
1yr Price Performance



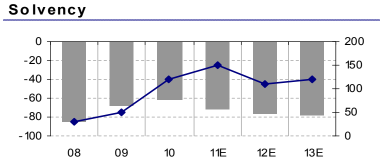
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	5.38	4.87	4.41	4.64	5.56	6.70
Reported EPS (ZAR)	5.36	4.78	4.44	4.64	5.56	6.70
DPS (ZAR)	1.45	1.45	1.45	1.45	1.68	2.03
BVPS (ZAR)	27.15	28.00	31.32	34.70	42.08	47.59
Weighted average shares (m)	387	388	390	388	355	355
Average market cap (ZARm)	22,258	15,373	14,968	15,326	14,023	14,023
Enterprise value (ZARm)	13,286	7,856	7,395	5,564	2,244	308
Valuation Metrics						
P/E (DB) (x)	10.7	8.1	8.7	8.5	7.1	5.9
P/E (Reported) (x)	10.7	8.3	8.6	8.5	7.1	5.9
P/BV (x)	2.14	1.25	1.10	1.14	0.94	0.83
FCF Yield (%)	15.6	0.8	4.5	17.6	17.6	18.0
Dividend Yield (%)	2.5	3.7	3.8	3.7	4.3	5.1
EV/Sales (x)	0.45	0.23	0.22	0.16	0.06	0.01
EV/EBITDA (x)	4.3	2.6	2.3	1.5	0.6	0.1
EV/EBIT (x)	5.5	3.8	3.5	2.5	0.9	0.1
Income Statement (ZARm)						
Sales revenue	**29,622**	**33,772**	**33,981**	**35,197**	**38,101**	**41,535**
Gross profit	**3,077**	**3,032**	**3,171**	**3,643**	**3,886**	**4,119**
EBITDA	**3,077**	**3,032**	**3,171**	**3,643**	**3,886**	**4,119**
Depreciation	653	935	1,063	1,418	1,413	1,471
Amortisation	0	17	17	17	17	21
EBIT	**2,424**	**2,079**	**2,092**	**2,208**	**2,456**	**2,626**
Net interest income(expense)	-80	-42	-17	-15	-22	-22
Associates/affiliates	19	67	61	64	67	70
Exceptionals/extraordinaries	4	8	0	0	0	0
Other pre-tax income/(expense)	946	757	472	260	260	949
Profit before tax	**3,302**	**2,843**	**2,533**	**2,453**	**2,694**	**3,553**
Income tax expense	1,011	809	722	699	768	1,012
Minorities	8	11	-1	-1	-1	-1
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**2,294**	**2,051**	**1,886**	**1,819**	**1,994**	**2,612**
DB adjustments (including dilution)	8	40	-13	0	0	0
DB Net profit	**2,302**	**2,091**	**1,873**	**1,819**	**1,994**	**2,612**
Cash Flow (ZARm)						
Cash flow from operations	**4,969**	**2,636**	**1,793**	**3,992**	**3,865**	**4,201**
Net Capex	-1,496	-2,515	-1,117	-1,299	-1,396	-1,679
Free cash flow	**3,473**	**121**	**677**	**2,693**	**2,469**	**2,522**
Equity raised/(bought back)	-3,611	-415	0	0	0	0
Dividends paid	-331	-1,138	-579	-568	-521	-657
Net inc/(dec) in borrowings	-67	-67	-90	0	0	0
Other investing/financing cash flows	262	-107	22	-22	-23	-24
Net cash flow	**-274**	**-1,605**	**30**	**2,103**	**1,926**	**1,841**
Change in working capital	*1,619*	*204*	*-1,026*	*632*	*412*	*31*
Balance Sheet (ZARm)						
Cash and other liquid assets	9,491	7,910	7,828	9,931	11,857	13,698
Tangible fixed assets	3,513	5,062	5,146	5,027	5,010	5,217
Goodwill/intangible assets	823	1,093	1,086	1,069	1,052	1,031
Associates/investments	97	108	117	203	293	387
Other assets	8,085	8,543	9,966	9,703	10,206	10,688
Total assets	**22,008**	**22,715**	**24,142**	**25,932**	**28,417**	**31,021**
Interest bearing debt	602	479	367	367	367	367
Other liabilities	10,877	11,350	11,556	12,096	13,107	13,756
Total liabilities	**11,479**	**11,829**	**11,922**	**12,463**	**13,474**	**14,123**
Shareholders' equity	10,517	10,865	12,214	13,465	14,939	16,894
Minorities	13	21	5	5	4	3
Total shareholders' equity	**10,529**	**10,886**	**12,220**	**13,470**	**14,943**	**16,897**
Net debt	*-8,888*	*-7,431*	*-7,461*	*-9,564*	*-11,490*	*-13,331*
Key Company Metrics						
Sales growth (%)	34.1	14.0	0.6	3.6	8.3	9.0
DB EPS growth (%)	-65.4	-9.4	-9.4	5.1	19.7	20.5
EBITDA Margin (%)	10.4	9.0	9.3	10.3	10.2	9.9
EBIT Margin (%)	8.2	6.2	6.2	6.3	6.4	6.3
Payout ratio (%)	24.5	27.4	30.0	30.9	30.0	27.6
ROE (%)	21.3	19.2	16.3	14.2	14.0	16.4
Capex/sales (%)	6.0	8.0	3.5	3.7	3.7	4.0
Capex/depreciation (x)	2.7	2.8	1.1	0.9	1.0	1.1
Net debt/equity (%)	-84.4	-68.3	-61.1	-71.0	-76.9	-78.9
Net interest cover (x)	30.4	50.0	121.6	150.4	111.6	119.3

Source: Company data, Deutsche Bank estimates

South Africa – Food Producers

AVI Ltd

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

Drivers:

- **Food and beverage brands division:** This division is the biggest contributor to profitability, contributing c.73% of FY10 group EBIT. Consumer spending and food inflation, as well as international agricultural commodity prices are the key drivers for this division.
- **Fashion brands division:** The fashion brands division comprises the group's personal care (Indigo) and footwear and apparel (Spitz) divisions and contributed c.27% to FY10 group EBIT. This division is expected to show robust growth and is driven by general economic conditions and consumer spending patterns.
- **Discontinued operations:** The operating performance of the group's Argentinean fishing operations (Alpesca) continues to disappoint; as does the progress in selling these assets that continue to be classified as discontinued operations two years after the group announced its intended disposal.

The declaration by AVI, at the time of reporting FY10 results, of its second special distribution in the past three years reinforces our view that the strong brands, robust margins and defensive nature of product demand across the sector justifies a greater use of debt in the capital structure of those food producers with low gearing levels. Management actions suggest it views a c.10% net debt: equity level as key for assessing capital structure efficiency; in the absence of acquisitions, we believe the potential for positive upside distributions surprises exists over the next 12-18 months.

Outlook: The declaration by AVI of its second special distribution in the past three years reinforces our view that the strong brands, robust margins and defensive nature of product demand across the sector justifies a greater use of debt in the capital structure of those food producers with low gearing levels. In the absence of acquisitions we believe the potential upside exists to distributions over the next 12-18 months. The group's fishing operations have continued to struggle with subdued export market demand and currency strength that saw 2H margins revert to levels last seen four years ago. While it is likely this depressed earnings base will begin to shift investor attention to the timing of the rebound, a significant near-term cyclical upswing will require an accommodative (ie materially weaker) rand; given continued rand strength we are far more circumspect. **Hold**.

Valuation: We value AVI on a DCF basis. We calculate a DCF-based target price of 2350c. Inputs into our five-year DCF include WACC of 12.9% (COE of 13.9%, 20% D:E, levered beta of 1.2x), risk-free rate of 8.5% (in line with our house long bond forecast), market risk premium of 4.5%, and terminal growth rate of 4.0% (lower than peers' 4.5% to reflect lower expected terminal growth from the fishing business, with scarce resources).

Risks: Downside risks: continued weakness in the consumer environment, margin pressure in the face of sustained low levels of food inflation (or deflation), greater-than-anticipated weakness in European demand (Spain and Italy key export markets) and/or continued rand strength negatively impacting export-driven fishing business. Upside risks: stronger-than-anticipated consumer expenditure in South Africa and Europe, ZAR/EUR weakness, and corporate action.

Model updated: 07 September 2010

Running the Numbers

S. Africa

South Africa

Food Producers

AVI

Reuters: AVIJ.J Bloomberg: AVI SJ

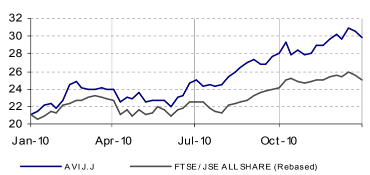
Hold

Price (28 Jan 11)	ZAR 29.85
Target price	ZAR 23.50
52-week Range	ZAR 21.15 – 31.00
Market Cap	ZAR 8,940m US$ 1,245m

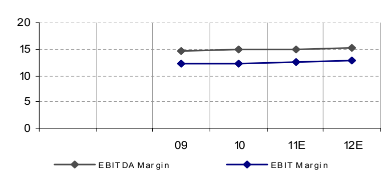
Company Profile

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

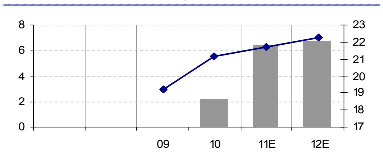
1yr Price Performance



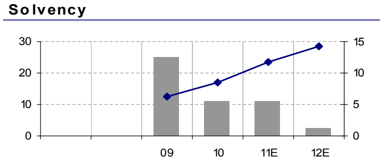
Margin Trends



Growth & Profitability



Solvency



Warren Goldblum
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Fiscal year end 30-Jun	2009	2010	2011E	2012E
Financial Summary				
DB EPS (ZAR)	1.69	1.92	2.11	2.34
Reported EPS (ZAR)	1.69	1.92	2.11	2.34
DPS (ZAR)	0.88	1.75	1.09	1.21
BVPS (ZAR)	8.99	9.86	10.26	11.56
Weighted average shares (m)	298	299	299	299
Average market cap (ZARm)	5,032	6,272	8,940	8,940
Enterprise value (ZARm)	5,169	6,142	8,830	8,581
Valuation Metrics				
P/E (DB) (x)	10.0	10.9	14.1	12.7
P/E (Reported) (x)	10.0	10.9	14.1	12.7
P/BV (x)	1.89	2.24	2.91	2.58
FCF Yield (%)	7.3	9.4	5.8	6.6
Dividend Yield (%)	5.2	8.4	3.7	4.1
EV/Sales (x)	0.69	0.80	1.09	0.99
EV/EBITDA (x)	4.7	5.4	7.3	6.5
EV/EBIT (x)	5.7	6.5	8.8	7.8
Income Statement (ZARm)				
Sales revenue	**7,462**	**7,631**	**8,123**	**8,677**
Gross profit	**7,462**	**7,631**	**8,123**	**8,677**
EBITDA	**1,096**	**1,132**	**1,209**	**1,316**
Depreciation	187	191	201	210
Amortisation	0	0	0	0
EBIT	**909**	**941**	**1,008**	**1,106**
Net interest income(expense)	-147	-109	-86	-78
Associates/affiliates	15	40	42	43
Exceptionals/extraordinaries	-25	5	0	0
Other pre-tax income/(expense)	40	9	16	16
Profit before tax	**816**	**881**	**979**	**1,088**
Income tax expense	277	287	323	359
Minorities	1	4	1	1
Other post-tax income/(expense)	0	0	0	0
Net profit	**514**	**595**	**655**	**728**
DB adjustments (including dilution)	0	0	0	0
DB Net profit	**514**	**595**	**655**	**728**
Cash Flow (ZARm)				
Cash flow from operations	**597**	**916**	**767**	**860**
Net Capex	-228	-326	-250	-270
Free cash flow	**369**	**590**	**517**	**591**
Equity raised/(bought back)	0	0	0	0
Dividends paid	-247	-272	-536	-341
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	0	0	0	0
Net cash flow	**122**	**317**	**-19**	**250**
Change in working capital	*-24*	*103*	*-91*	*-78*
Balance Sheet (ZARm)				
Cash and other liquid assets	517	589	372	372
Tangible fixed assets	1,205	1,340	1,389	1,449
Goodwill/intangible assets	925	923	923	923
Associates/investments	507	434	434	434
Other assets	2,195	2,168	2,334	2,498
Total assets	**5,349**	**5,455**	**5,453**	**5,677**
Interest bearing debt	1,183	913	715	465
Other liabilities	1,513	1,607	1,683	1,769
Total liabilities	**2,696**	**2,520**	**2,398**	**2,234**
Shareholders' equity	2,676	2,954	3,074	3,461
Minorities	-23	-20	-19	-18
Total shareholders' equity	**2,653**	**2,934**	**3,055**	**3,443**
Net debt	*667*	*324*	*343*	*93*
Key Company Metrics				
Sales growth (%)	na	2.3	6.4	6.8
DB EPS growth (%)	na	13.2	10.1	11.0
EBITDA Margin (%)	14.7	14.8	14.9	15.2
EBIT Margin (%)	12.2	12.3	12.4	12.7
Payout ratio (%)	51.0	88.1	50.0	50.0
ROE (%)	19.2	21.1	21.7	22.3
Capex/sales (%)	3.1	4.3	3.1	3.1
Capex/depreciation (x)	1.2	1.7	1.2	1.3
Net debt/equity (%)	25.1	11.0	11.2	2.7
Net interest cover (x)	6.2	8.6	11.7	14.2

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial

Barloworld Ltd

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

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

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

Market positioning: Barloworld is focused on four distinct markets:

- **South African infrastructure and capital investment.** Capital equipment and materials handling on behalf of principals like CAT and Hyster. The group has recently completed the acquisition of the remaining shares in the Russian CAT dealership it did not already own.
- **South African consumer.** Automobile retailing, car rental, and fleet leasing (under the Avis brand name).
- **European and US industrial production.** Materials handling in the UK, Belgium and the US and capital equipment distribution in Spain and Portugal. Its Car rental business in Scandinavia was disposed off for an enterprise value of R1bn in the past year.
- **Australia.** Motor vehicle dealerships.

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

Outlook: We expect commodity prices and demand to continue to recover gradually over the next 12-18 months, underpinning the growing momentum in organic earnings, and improved financial base. Over the medium to longer term, we expect the group to benefit from the increased investment in its Russian business and the benefits from the CAT/Bucyrus acquisition. Our **Hold** recommendation is premised on the balance between the upside offered by these opportunities, and the risks associated with the amount of capital required to operationalise them.

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

Risks: Key risks on the upside include sooner-than-expected integration of the Bucyrus agency, and significant weakening of the currency.

Downside risks include failure to obtain Russian competition commission approval for the acquisition of the 50% stake in the Russian CAT Dealership.

Model updated: 17 November 2010

Running the Numbers

S. Africa

South Africa

General Industrial

Barloworld

Reuters: BAWJ.J Bloomberg: BAW SJ

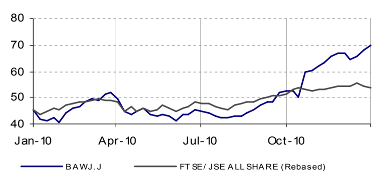
Hold

Price (28 Jan 11)	ZAR 70.10
Target price	ZAR 50.00
52-week Range	ZAR 40.40 – 70.10
Market Cap	ZAR 14,684m US$ 2,046m

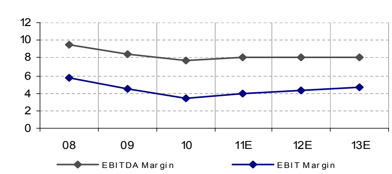
Company Profile

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

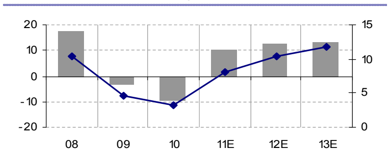
1yr Price Performance



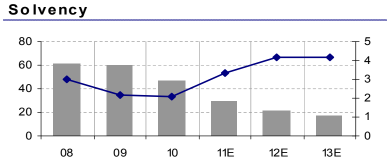
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Sep	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	6.06	2.78	1.70	4.20	5.79	6.94
Reported EPS (ZAR)	6.06	2.78	1.70	4.20	5.79	6.94
DPS (ZAR)	2.50	1.10	0.75	1.85	2.55	3.05
BVPS (ZAR)	62.81	56.84	50.57	53.74	57.50	61.77
Weighted average shares (m)	205	209	209	209	209	209
Average market cap (ZARm)	19,250	8,708	9,530	14,684	14,684	14,684
Enterprise value (ZARm)	24,589	13,483	12,326	15,676	14,981	14,714
Valuation Metrics						
P/E (DB) (x)	15.5	15.0	26.7	16.7	12.1	10.1
P/E (Reported) (x)	15.5	15.0	26.7	16.7	12.1	10.1
P/BV (x)	1.03	0.86	0.93	1.30	1.22	1.13
FCF Yield (%)	6.1	24.4	14.7	16.9	11.1	9.6
Dividend Yield (%)	2.7	2.6	1.6	2.6	3.6	4.4
EV/Sales (x)	0.53	0.30	0.30	0.35	0.30	0.26
EV/EBITDA (x)	5.5	3.5	4.0	4.3	3.6	3.2
EV/EBIT (x)	9.3	6.8	9.0	8.9	6.8	5.6
Income Statement (ZARm)						
Sales revenue	**46,830**	**45,269**	**40,830**	**45,010**	**50,648**	**57,217**
Gross profit	**4,485**	**3,848**	**3,112**	**3,631**	**4,112**	**4,661**
EBITDA	**4,485**	**3,848**	**3,112**	**3,631**	**4,112**	**4,661**
Depreciation	1,834	1,854	1,736	1,869	1,922	2,029
Amortisation	0	0	0	0	0	0
EBIT	**2,651**	**1,994**	**1,376**	**1,762**	**2,189**	**2,633**
Net interest income(expense)	-889	-938	-667	-529	-530	-634
Associates/affiliates	72	38	16	12	21	24
Exceptionals/extraordinaries	-4	-142	-83	0	0	0
Other pre-tax income/(expense)	115	-52	-5	100	163	188
Profit before tax	**1,860**	**1,026**	**528**	**1,333**	**1,822**	**2,187**
Income tax expense	675	248	228	408	571	690
Minorities	14	68	51	54	56	62
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,256**	**584**	**358**	**883**	**1,216**	**1,458**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**1,256**	**584**	**358**	**883**	**1,216**	**1,458**
Cash Flow (ZARm)						
Cash flow from operations	**1,981**	**2,852**	**2,532**	**3,660**	**2,917**	**2,813**
Net Capex	-804	-730	-1,134	-1,182	-1,287	-1,402
Free cash flow	**1,177**	**2,122**	**1,398**	**2,478**	**1,630**	**1,410**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-622	-434	-189	-219	-428	-564
Net inc/(dec) in borrowings	2,013	51	600	-984	60	68
Other investing/financing cash flows	-2,531	-1,350	-1,573	-568	-561	-692
Net cash flow	**37**	**389**	**236**	**706**	**701**	**223**
Change in working capital	*-1,547*	*882*	*588*	*1,015*	*-278*	*-736*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,238	1,627	1,928	3,723	4,423	4,646
Tangible fixed assets	8,056	7,854	7,575	7,459	7,334	7,294
Goodwill/intangible assets	2,626	2,599	2,375	2,387	2,387	2,387
Associates/investments	2,896	2,660	2,486	2,620	2,693	2,770
Other assets	19,141	15,355	11,326	11,735	12,870	14,496
Total assets	**33,957**	**30,095**	**25,690**	**27,924**	**29,708**	**31,593**
Interest bearing debt	9,288	8,845	6,977	7,048	7,071	7,042
Other liabilities	11,636	9,180	7,887	8,143	9,060	10,019
Total liabilities	**20,924**	**18,025**	**14,864**	**15,192**	**16,132**	**17,060**
Shareholders' equity	12,848	11,853	10,593	11,257	12,045	12,939
Minorities	185	217	233	287	343	405
Total shareholders' equity	**13,033**	**12,070**	**10,826**	**11,543**	**12,388**	**13,344**
Net debt	*8,050*	*7,218*	*5,049*	*3,326*	*2,648*	*2,395*
Key Company Metrics						
Sales growth (%)	17.8	-3.3	-9.8	10.2	12.5	13.0
DB EPS growth (%)	-47.7	-54.1	-38.8	146.7	37.7	19.9
EBITDA Margin (%)	9.6	8.5	7.6	8.1	8.1	8.1
EBIT Margin (%)	5.7	4.4	3.4	3.9	4.3	4.6
Payout ratio (%)	40.7	39.3	43.9	43.9	43.9	43.9
ROE (%)	10.5	4.7	3.2	8.1	10.4	11.7
Capex/sales (%)	2.1	2.0	2.8	2.6	2.5	2.5
Capex/depreciation (x)	0.5	0.5	0.7	0.6	0.7	0.7
Net debt/equity (%)	61.8	59.8	46.6	28.8	21.4	18.0
Net interest cover (x)	3.0	2.1	2.1	3.3	4.1	4.2

Source: Company data, Deutsche Bank estimates

South Africa – Service

Bidvest Group Ltd

Business description: Bidvest comprises a group of highly diverse businesses run on a decentralised basis focusing on trading services and distribution, as well as some light manufacturing. The group has operations in South Africa, the UK, the Benelux countries, Hong Kong, Singapore, China and Australasia. Within South Africa, the group remains acquisitive across a broad range of industries, however, restricting itself to low capital intensity businesses with strong management, while outside South Africa, the group will only make acquisitions in food service distribution, and in doing so, has developed its international business into the largest foodservices group outside the US.

Drivers: Bidvest reports through seven operational divisions, in addition to a small corporate office based in South Africa:

- **Bidfreight (14.5% of trading profit).** This represents the group's interest in a group of companies in freight forwarding port management and related industries, mostly in sub-Saharan Africa.
- **Bidvest Services (20.0% of trading profit)** offers hygiene services, textile rental and industrial workwear, security and laundry services, as well as contract cleaning services. This division also carries Bidvest's interest in Bidvest Bank, which provides a range of financial, foreign exchange and travel services.
- **Bidvest Food services: (36%)** has operations in Australia, New Zealand, the UK, Netherlands and Belgium. Bidvest entered the Australasian market in 1995, and the UK in May 1999. The most recent acquisition was a food services company with operations in the Czech Republic, Slovakia and Poland. The business also incorporates the group's interest in the South African food service and equipment distribution industry, which primarily caters to hospitality, leisure, catering, bakery, poultry, meat and food processing industries.
- **Bid Industrial and Commercial Products (7.6%)** deals in manufacture and distribution of electrical products, appliances and cabling services, stationery and furniture to the southern Africa and the UK regions.
- **Bidpaper plus (4.4%)** 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 wide network of outlets in South Africa.
- **BidAutomotive (7.6%).** This business operates over 116 dealerships across South Africa, and is active in the motor retailing, car rental, car auctions, financing and vehicle insurance brokering.
- **Bidvest Namibia (6.5%).** Includes a combination of Bidvest's businesses in Namibia offering fishing interests to freight and logistics, office consumables products, stationeries and travel solutions.

Outlook: Bidvest is a services and distribution business with operations in South Africa, Europe, and Australasia. The group sees its key growth engines over time remaining the Asia Pacific businesses, with the Chinese market expected to gradually grow its contribution to the region. The new Eastern European acquisition offer entry into a solid longer term growth market, while smaller markets such as the Middle East and Namibia provide strong growth potential in the medium to longer term. In the shorter term, the group hopes to benefit from the low interest rate environment and World Cup effect in South Africa, while the fruits from the significant corrective actions taken across the portfolio in the recent past should start to be apparent in the coming year. On balance the group expects real growth before the impact of acquisitions in the coming year. Over the medium term, we expect the combination of a global consumer recovery, growing infrastructure investment in South Africa, as well as growing contribution from international earnings to underpin earnings, resulting in 12% CAGR earnings over the next three years. On balance, we believe the combination of its low earnings base, strong financial characteristics and well diversified exposure to global markets position the group well in case of a short to medium term recovery in global consumer confidence and spending. **Buy**.

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

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

Model updated: 30 November 2010

Running the Numbers

S. Africa

South Africa

Service

Bidvest

Reuters: BVTJ.J Bloomberg: BVT SJ

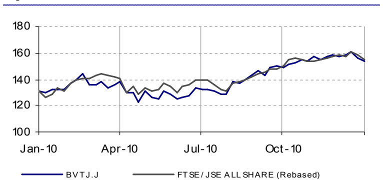
Buy

Price (28 Jan 11)	ZAR 153.50
Target price	ZAR 155.00
52-week Range	ZAR 121.89 – 160.74
Market Cap	ZAR 48,277m US$ 6,726m

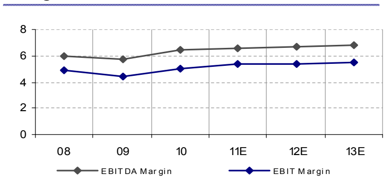
Company Profile

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

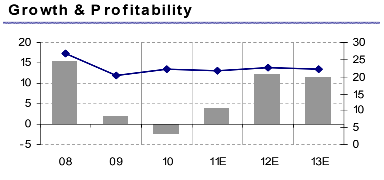
1yr Price Performance



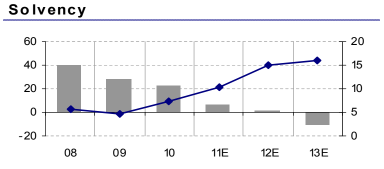
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	10.51	9.25	10.63	12.39	14.61	16.58
Reported EPS (ZAR)	10.51	9.25	10.63	12.39	14.61	16.58
DPS (ZAR)	4.95	3.80	4.32	5.03	5.94	6.74
BVPS (ZAR)	44.42	46.21	53.21	60.99	70.19	80.52
Weighted average shares (m)	303	301	315	315	315	315
Average market cap (ZARm)	35,813	28,867	38,881	48,277	48,277	48,277
Enterprise value (ZARm)	39,916	28,867	38,881	48,277	48,277	48,277
Valuation Metrics						
P/E (DB) (x)	11.2	10.4	11.6	12.4	10.5	9.3
P/E (Reported) (x)	11.2	10.4	11.6	12.4	10.5	9.3
P/BV (x)	2.14	2.09	2.29	2.52	2.19	1.91
FCF Yield (%)	2.5	7.6	8.5	8.5	5.7	10.3
Dividend Yield (%)	4.2	4.0	3.5	3.3	3.9	4.4
EV/Sales (x)	0.36	0.26	0.35	0.42	0.38	0.34
EV/EBITDA (x)	6.0	4.5	5.5	6.4	5.6	5.0
EV/EBIT (x)	7.5	5.8	7.1	7.9	7.0	6.2
Income Statement (ZARm)						
Sales revenue	**110,478**	**112,428**	**109,789**	**114,195**	**128,411**	**143,250**
Gross profit	**21,692**	**22,945**	**23,011**	**23,934**	**26,914**	**30,024**
EBITDA	**6,626**	**6,411**	**7,063**	**7,564**	**8,605**	**9,674**
Depreciation	1,282	1,476	1,600	1,479	1,689	1,869
Amortisation	0	0	0	0	0	0
EBIT	**5,344**	**4,935**	**5,463**	**6,085**	**6,916**	**7,804**
Net interest income(expense)	-931	-1,029	-758	-593	-462	-492
Associates/affiliates	122	49	41	47	54	57
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**4,535**	**3,955**	**4,746**	**5,539**	**6,508**	**7,370**
Income tax expense	1,200	1,046	1,301	1,518	1,784	2,020
Minorities	82	106	100	100	100	103
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**3,253**	**2,802**	**3,345**	**3,921**	**4,624**	**5,247**
DB adjustments (including dilution)	-15	1	20	0	0	0
DB Net profit	**3,238**	**2,804**	**3,365**	**3,921**	**4,624**	**5,247**
Cash Flow (ZARm)						
Cash flow from operations	**3,668**	**4,501**	**6,158**	**6,563**	**5,566**	**8,091**
Net Capex	-2,772	-2,300	-2,855	-2,470	-2,826	-3,131
Free cash flow	**897**	**2,200**	**3,302**	**4,093**	**2,740**	**4,960**
Equity raised/(bought back)	-512	45	1,558	0	0	0
Dividends paid	-784	-1,178	-1,302	-1,475	-1,730	-2,000
Net inc/(dec) in borrowings	1,181	-323	175	0	0	0
Other investing/financing cash flows	-1,089	187	-2,068	0	0	0
Net cash flow	**-308**	**931**	**1,666**	**2,618**	**1,011**	**2,961**
Change in working capital	*-730*	*-131*	*685*	*722*	*-1,054*	*730*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,039	3,212	4,139	6,757	7,768	10,728
Tangible fixed assets	9,557	9,410	10,368	11,358	12,495	13,756
Goodwill/intangible assets	5,043	4,479	6,360	6,360	6,360	6,360
Associates/investments	1,754	1,359	1,814	1,861	1,915	1,973
Other assets	22,469	20,024	20,664	21,179	23,555	24,857
Total assets	**41,861**	**38,484**	**43,345**	**47,515**	**52,093**	**57,675**
Interest bearing debt	8,585	7,285	8,002	8,002	8,002	8,002
Other liabilities	19,498	16,902	17,950	19,575	21,159	23,391
Total liabilities	**28,083**	**24,187**	**25,952**	**27,577**	**29,161**	**31,393**
Shareholders' equity	13,468	13,929	16,737	19,182	22,077	25,324
Minorities	310	368	656	756	856	958
Total shareholders' equity	**13,778**	**14,298**	**17,393**	**19,938**	**22,932**	**26,282**
Net debt	*5,547*	*4,072*	*3,863*	*1,245*	*234*	*-2,727*
Key Company Metrics						
Sales growth (%)	15.5	1.8	-2.3	4.0	12.4	11.6
DB EPS growth (%)	11.0	-12.0	15.0	16.5	18.0	13.5
EBITDA Margin (%)	6.0	5.7	6.4	6.6	6.7	6.8
EBIT Margin (%)	4.8	4.4	5.0	5.3	5.4	5.4
Payout ratio (%)	46.1	40.9	40.6	40.4	40.4	40.4
ROE (%)	26.9	20.5	21.9	21.8	22.4	22.1
Capex/sales (%)	3.7	2.3	3.0	2.2	2.2	2.2
Capex/depreciation (x)	3.2	1.7	2.0	1.7	1.7	1.7
Net debt/equity (%)	40.3	28.5	22.2	6.2	1.0	-10.4
Net interest cover (x)	5.7	4.8	7.2	10.3	15.0	15.9

Source: Company data, Deutsche Bank estimates

South Africa – Food Beverage & Tobacco

British American Tobacco plc

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

Drivers: The group operates through mainly five regions:

- **Western Europe:** In Western Europe profits increased by 8% in 1H10 despite a 6% volume decline (lower volumes in Poland, Denmark Switzerland and the Netherlands and the impact of the Gauloises agreement termination)
- **Eastern Europe:** Eastern Europe comprising of Russia, Romania, Ukraine and Uzbekistan; has seen decline in profits due to lower volumes and unfavourable transactional impact of exchange rates.
- **Asia Pacific:** Favourable exchange rates, strong performances in Australia, New Zealand, Bangladesh and Sri Lanka along with the acquisition of Bentoel resulted in operating profit growth of 17% in 1H10. Despite volume declines in Australia, Japan, South Korea, Taiwan and Pakistan, volumes increased by 8% as a result of increases in volumes in Bangladesh and Vietnam and the benefits from the Bentoel acquisition.
- **Americas:** Profits rose by 20% driven by improved mix and favourable exchange. Volumes mere marginally lower (down 1%) with higher volumes in Canada and Chile not fully offsetting smaller declines in Brazil and Venezuela.
- **Africa and Middle East:** Profits grew by 32% in 1H10 on the back of contributions from Nigeria, South Africa and GCC. Volumes declined by 2%, with increases in Nigeria, GCC and Egypt and declines in South Africa, Turkey and Iran.

Outlook: BAT is a very high quality business with a strong earnings growth story, driven by both top-line growth and cost-cutting programmes which are allowing substantial reinvestment in the business. BAT generates around 50% of its income from emerging markets but has very diverse geographical exposure, and so is relatively immune from shocks in individual markets. We think that the company is very capable of meeting its target of high single-figure EPS growth over the medium term, a target it has been hitting ever since its demerger from the insurance business in 1998. We think the stock is an excellent long-term investment but although there is still upside to our price target we think that relative performance may struggle this year given our positive views on equity markets and economic growth. **Hold.**

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

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

Deutsche Securities
A Member of Deutsche Bank Group

Model updated: 27 October 2010

Running the Numbers

S. Africa

South Africa

Tobacco

British American Tobacco

Reuters: BTIJ.J Bloomberg: BTI SJ

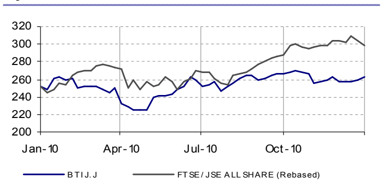
Hold

Price (28 Jan 11)	ZAR 262.14
Target price	ZAR 300.00
52-week Range	ZAR 222.29 – 271.67
Market Cap	ZAR 519,490m US$ 72,372m

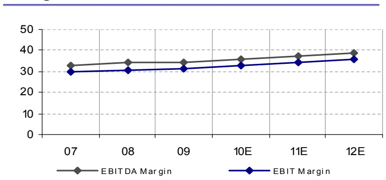
Company Profile

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

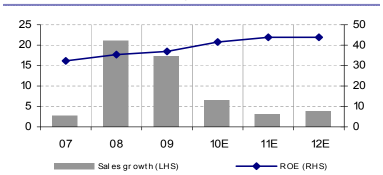
1yr Price Performance



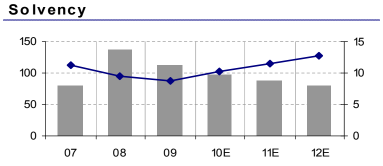
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (GBp)	108.53	128.78	152.99	174.33	191.19	207.68
Reported EPS (GBp)	104.46	122.54	136.26	163.71	189.47	205.93
DPS (GBp)	66.20	83.70	99.50	113.30	124.30	135.00
BVPS (GBp)	342.93	350.36	384.16	415.74	451.70	490.85
Weighted average shares (m)	2,025	1,993	1,980	1,982	1,967	1,937
Average market cap (£m)	na	33,902	35,734	45,678	45,333	44,647
Enterprise value (£m)	na	40,329	41,646	50,802	50,127	49,095
Valuation Metrics						
P/E (DB) (x)	na	13.2	11.8	13.2	12.1	11.1
P/E (Reported) (x)	na	13.9	13.2	14.1	12.2	11.2
P/BV (x)	na	5.27	5.30	5.54	5.10	4.70
FCF Yield (%)	na	7.3	7.0	6.8	7.5	8.2
Dividend Yield (%)	na	4.9	5.5	4.9	5.4	5.9
EV/Sales (x)	na	3.33	2.93	3.36	3.21	3.03
EV/EBITDA (x)	na	9.8	8.5	9.3	8.5	7.9
EV/EBIT (x)	na	10.9	9.5	10.2	9.3	8.5
Income Statement (£m)						
Sales revenue	**10,018**	**12,122**	**14,208**	**15,134**	**15,599**	**16,187**
Gross profit	**5,743**	**7,059**	**8,086**	**9,023**	**9,441**	**9,943**
EBITDA	**3,316**	**4,123**	**4,907**	**5,462**	**5,871**	**6,224**
Depreciation	314	406	446	411	417	423
Amortisation	0	24	58	58	58	58
EBIT	**3,002**	**3,693**	**4,403**	**4,993**	**5,396**	**5,743**
Net interest income(expense)	-269	-391	-504	-487	-468	-453
Associates/affiliates	442	503	483	550	659	693
Exceptionals/extraordinaries	-173	-262	-304	-158	0	0
Other pre-tax income/(expense)	75	141	2	0	0	0
Profit before tax	**2,635**	**3,181**	**3,597**	**4,348**	**4,928**	**5,291**
Income tax expense	790	1,025	1,124	1,322	1,496	1,605
Minorities	157	202	243	314	344	368
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**2,130**	**2,457**	**2,713**	**3,262**	**3,747**	**4,012**
DB adjustments (including dilution)	83	125	333	212	34	34
DB Net profit	**2,213**	**2,582**	**3,046**	**3,474**	**3,781**	**4,046**
Cash Flow (£m)						
Cash flow from operations	**2,121**	**2,954**	**3,029**	**3,624**	**3,953**	**4,198**
Net Capex	-420	-465	-515	-537	-547	-558
Free cash flow	**1,701**	**2,489**	**2,514**	**3,087**	**3,406**	**3,640**
Equity raised/(bought back)	-750	-400	0	0	-750	-810
Dividends paid	-1,198	-1,393	-1,798	-2,077	-2,325	-2,484
Net inc/(dec) in borrowings	11	2,787	-406	-1,010	-331	-345
Other investing/financing cash flows	140	-2,443	-551	0	0	0
Net cash flow	**-96**	**1,040**	**-241**	**0**	**0**	**0**
Change in working capital	*148*	*398*	*79*	*162*	*36*	*23*
Balance Sheet (£m)						
Cash and other liquid assets	1,258	2,309	2,161	2,161	2,161	2,161
Tangible fixed assets	2,378	3,076	3,010	3,051	3,096	3,145
Goodwill/intangible assets	8,105	12,318	12,232	12,189	12,144	12,098
Associates/investments	2,684	3,479	2,883	3,056	3,264	3,482
Other assets	4,339	6,369	6,328	6,487	6,613	6,793
Total assets	**18,764**	**27,551**	**26,614**	**26,945**	**27,278**	**27,680**
Interest bearing debt	6,923	12,161	11,082	10,541	10,210	9,865
Other liabilities	4,752	8,175	7,620	7,866	7,952	8,081
Total liabilities	**11,675**	**20,336**	**18,702**	**18,407**	**18,162**	**17,946**
Shareholders' equity	6,871	6,944	7,613	8,239	8,816	9,435
Minorities	218	271	299	299	299	299
Total shareholders' equity	**7,089**	**7,215**	**7,912**	**8,538**	**9,115**	**9,734**
Net debt	*5,665*	*9,852*	*8,921*	*8,380*	*8,049*	*7,704*
Key Company Metrics						
Sales growth (%)	2.6	21.0	17.2	6.5	3.1	3.8
DB EPS growth (%)	10.6	18.7	18.8	13.9	9.7	8.6
EBITDA Margin (%)	33.1	34.0	34.5	36.1	37.6	38.5
EBIT Margin (%)	30.0	30.5	31.0	33.0	34.6	35.5
Payout ratio (%)	62.9	67.9	72.6	68.8	65.2	65.2
ROE (%)	32.0	35.6	37.3	41.2	43.9	44.0
Capex/sales (%)	4.8	4.5	3.9	3.7	3.7	3.6
Capex/depreciation (x)	1.5	1.3	1.2	1.4	1.4	1.4
Net debt/equity (%)	79.9	136.5	112.8	98.1	88.3	79.1
Net interest cover (x)	11.2	9.4	8.7	10.2	11.5	12.7

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Clicks Group Ltd

Business description: New Clicks operates in the retail industry in southern Africa. The current store base is in excess of 500. The company also wholesales and dispenses pharmaceuticals. The bulk of group revenue is southern Africa based.

Divisional FY09 EBIT breakdown estimates are as follows: Clicks (65%), UPD (24%), Musica (8%) and The Body Shop (3%).

New Clicks aims to strategically position itself as a specialist health and beauty retailer. The pharmacy market in South Africa is evolving. Corporates, who were previously not allowed to hold dispensing licences, are expanding and capturing share from smaller independents whose business model has come increasingly under pressure. Clicks currently operates the largest drugstore chain in South Africa with over 150 Clicks stores with integrated in-store dispensaries. Management is accelerating the roll-out of integrated dispensaries into this Clicks store network with 100-150 additional integrated dispensaries targeted over the next three years. UPD is the pharmaceutical wholesale distribution division with c.25% market share.

Drivers:

- Top-line growth is underpinned by more aggressive dispensary roll-out underpinning volumes and driving cross-sell to front shop. 98% of dispensary customers make a front shop purchase on their way through a Clicks retail store. We believe the defensive nature of the business mix positions the group for outperformance in a tougher retail environment.
- We expect some margin expansion driven by reasonable cost control. The potential for upside in margin exists once clarity is reached with regard to dispensary regulations.
- Dispensing has turned the corner (now marginally profitability from cumulative R100m EBIT losses for FY04-FY06).
- We believe the stock's income stream is far more defensive than the stock's rating suggests.

The stock has a free-float of 94% with a diverse, largely domestic, institutional investor base. Foreign shareholders comprise a relatively small 8-10% of holdings.

Outlook: Clicks Group's dispensing strategy is gathering a full head of steam after significant initial teething problems that resulted in a cumulative three-year EBIT of negative R100m to FY07. The performance of Clicks stores with integrated dispensaries significantly outpaces those without. The new executive has improved operational performance, lowering costs and investment in working capital and improving product availability. We believe the business mix is more defensive than before. This has arisen from increased pharmaceutical (wholesaling/dispensing) revenue and profit exposure. Our **Hold** rating reflects the muted expected 12 month total return.

Valuation: We value Clicks using a PE-relative methodology employing a normalised two-year forward PE of 12.1x to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12 month price target of 4200cps.

Risks: Key downside risks include: 1) lack of qualified pharmacists constraining the pharmacy roll-out, 2) further regulatory interference through introduction of international benchmark pricing or logistics fee capping impacting UPD profitability negatively, and 3) increased competitive pressures in their key health and beauty market and other retail pharmacy chains. Upside risks include: 1) stronger cyclical product sales as the consumer recovers and 2) a higher-than-expected uplift from integrating dispensary into the Clicks chain and 3) greater-than-expected GP margin opportunity in rationalising the distribution network.

Model updated: 22 October 2010

Running the Numbers

S. Africa

South Africa

General Retailers

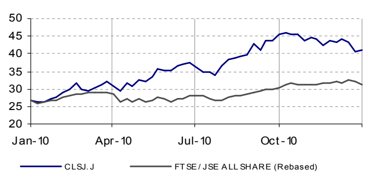
Clicks Group Ltd

Reuters: CLSJ.J	Bloomberg: CLS SJ
Hold	
Price (28 Jan 11)	ZAR 40.87
Target price	ZAR 42.00
52-week Range	ZAR 25.75 – 46.55
Market Cap	ZAR 10,665m
	US$ 1,486m

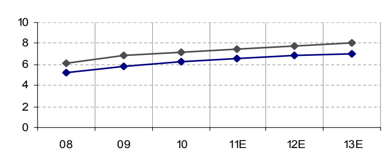
Company Profile

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.

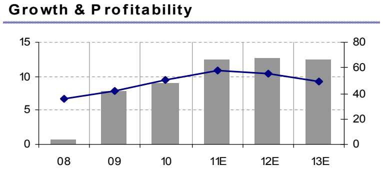
1yr Price Performance



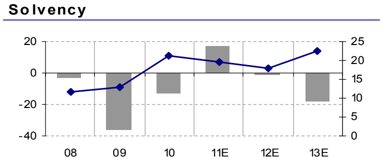
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Aug	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	1.32	1.66	2.11	2.59	3.03	3.57
Reported EPS (ZAR)	1.46	1.66	2.11	2.59	3.03	3.57
DPS (ZAR)	0.61	0.84	1.06	1.30	1.52	1.79
BVPS (ZAR)	3.80	3.94	4.21	4.60	6.26	8.29
Weighted average shares (m)	298	285	271	261	261	261
Average market cap (ZARm)	4,195	4,637	7,821	10,665	10,649	10,649
Enterprise value (ZARm)	4,161	4,237	7,677	10,871	10,640	10,263
Valuation Metrics						
P/E (DB) (x)	10.7	9.8	13.6	15.8	13.5	11.4
P/E (Reported) (x)	9.7	9.8	13.7	15.8	13.5	11.5
P/BV (x)	3.98	5.16	8.75	8.88	6.53	4.93
FCF Yield (%)	8.6	17.4	4.2	2.5	5.4	7.4
Dividend Yield (%)	4.3	5.2	3.7	3.2	3.7	4.4
EV/Sales (x)	0.37	0.35	0.58	0.73	0.63	0.54
EV/EBITDA (x)	6.0	5.1	8.1	9.7	8.1	6.8
EV/EBIT (x)	7.0	6.0	9.3	11.1	9.3	7.7
Income Statement (ZARm)						
Sales revenue	**11,281**	**12,175**	**13,276**	**14,922**	**16,804**	**18,889**
Gross profit	**11,281**	**12,175**	**13,276**	**14,922**	**16,804**	**18,889**
EBITDA	**695**	**831**	**951**	**1,124**	**1,308**	**1,509**
Depreciation	103	122	128	145	158	172
Amortisation	0	0	0	0	0	0
EBIT	**592**	**709**	**823**	**979**	**1,149**	**1,337**
Net interest income(expense)	-51	-55	-39	-50	-64	-59
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	49	6	10	0	0	0
Other pre-tax income/(expense)	0	-7	-14	0	0	0
Profit before tax	**590**	**647**	**770**	**929**	**1,086**	**1,278**
Income tax expense	147	175	207	251	293	345
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**442**	**478**	**574**	**678**	**792**	**933**
DB adjustments (including dilution)	-42	1	2	2	2	2
DB Net profit	**401**	**480**	**576**	**680**	**794**	**935**
Cash Flow (ZARm)						
Cash flow from operations	**497**	**1,022**	**513**	**555**	**831**	**1,038**
Net Capex	-138	-217	-187	-287	-255	-255
Free cash flow	**359**	**805**	**327**	**269**	**576**	**783**
Equity raised/(bought back)	-366	-338	0	0	0	0
Dividends paid	-157	-191	-244	-287	-348	-406
Net inc/(dec) in borrowings	-146	0	0	0	0	0
Other investing/financing cash flows	-44	0	0	0	0	0
Net cash flow	**-354**	**277**	**83**	**-18**	**229**	**377**
Change in working capital	*315*	*475*	*-228*	*-268*	*-120*	*-67*
Balance Sheet (ZARm)						
Cash and other liquid assets	154	489	286	-63	152	529
Tangible fixed assets	734	830	888	1,030	1,126	1,209
Goodwill/intangible assets	388	398	420	420	420	420
Associates/investments	0	0	0	0	0	0
Other assets	2,307	2,464	2,516	2,925	3,285	3,683
Total assets	**3,583**	**4,181**	**4,110**	**4,312**	**4,982**	**5,841**
Interest bearing debt	119	87	142	142	142	142
Other liabilities	2,320	2,969	2,827	2,968	3,208	3,539
Total liabilities	**2,439**	**3,056**	**2,969**	**3,110**	**3,350**	**3,681**
Shareholders' equity	1,144	1,123	1,141	1,201	1,632	2,159
Minorities	0	2	1	1	1	1
Total shareholders' equity	**1,144**	**1,125**	**1,141**	**1,202**	**1,632**	**2,159**
Net debt	*-35*	*-402*	*-144*	*205*	*-9*	*-387*
Key Company Metrics						
Sales growth (%)	0.7	7.9	9.0	12.4	12.6	12.4
DB EPS growth (%)	29.1	26.2	27.0	22.7	16.9	17.7
EBITDA Margin (%)	6.2	6.8	7.2	7.5	7.8	8.0
EBIT Margin (%)	5.2	5.8	6.2	6.6	6.8	7.1
Payout ratio (%)	41.2	50.0	50.1	50.0	50.0	50.0
ROE (%)	36.2	42.2	50.7	57.9	56.0	49.2
Capex/sales (%)	1.2	1.8	1.4	1.9	1.5	1.3
Capex/depreciation (x)	1.3	1.8	1.5	2.0	1.6	1.5
Net debt/equity (%)	-3.0	-35.7	-12.6	17.1	-0.6	-17.9
Net interest cover (x)	11.6	12.9	21.2	19.6	18.1	22.7

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

The Foschini Group Ltd

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

The group's operations are based in South Africa, comprise of 1,656 stores and produces annual sales of over R8.6bn.

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

- **Better performance from repositioned main brand**. Despite some hiccups on achieving desired results in the main Foschini brand (poor merchandising last festive season in December 2009), more recent trade appears to have picked up.
- **Significant planned space expansion benefiting top line**. Foschini have been growing trading space in double digits over the last two years. While this resulted in some interim pain on costs and EBIT margin in a low top line environment, the additional space growth should support top line into 2011.
- **Cotton prices to drive product inflation next year.** The strong rand has kept strong cotton price increases at bay to date. Management is however guiding to a fairly rapid increase in clothing inflation into 2011.
- **RCS and FG financial services** driving enhanced profitability and returns through unwind of RCS debtors' costs, maintenance of overall yield on the book and stronger asset growth given the recent recapitalisation of RCS.
- We expect a recovery in sales growth in cyclical product categories and a stronger festive season performance given the weak base to support near-term top line. The RCS business has been recapitalised and we expect it to deliver strong asset growth coupled with some further margin support from bad debts rolling.

Outlook: We expect a solid recovery as the consumer deleverages and returns to discretionary spending. Despite a more conservative approach to merchandising in a tough trading environment, markdown risk remains and we expect GP margins to remain stable at best in the near term. We expect a good three-year CAGR in earnings of 20% off a weak base, but believe the stock is already discounting this. Our muted total return over 12 months supports our neutral **Hold** recommendation.

Valuation: We value Foschini using a PE-relative methodology employing a normalised two year forward PE of 8.5x to obtain our fair valuation. Rolling this valuation forward at COE-dividend yield we arrive at our 12 month price target of 8000cps.

Risks: Key upside risks include 1) More aggressive rate cuts causing consumer confidence and stronger consumption to return earlier than we expect; 2) Quicker reversion in food and services inflation than expected creating significant additional discretionary spending capacity, 3) Well-executed repositioning of the main Foschini brand resulting in a stronger-than-anticipated recovery in volumes, and 4) Greater-than-expected benefits elicited from supply chain efficiency projects improving operating margins. Key downside risks include 1) Unemployment having a worse-than-expected impact on volume growth, 2) Slower recovery in consumer credit market resulting in lower book growth than expected, and 3) Sticky bad debt levels from RCS for longer given aggressive credit written historically.

Model updated: 17 November 2010

Running the Numbers

S. Africa

South Africa

General Retailers

Foschini

Reuters: FOSJ.J Bloomberg: FOS SJ

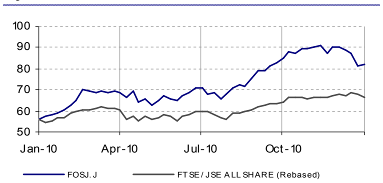
Hold

Price (28 Jan 11)	ZAR 82.25
Target price	ZAR 80.00
52-week Range	ZAR 55.50 – 92.61
Market Cap	ZAR 17,072m US$ 2,378m

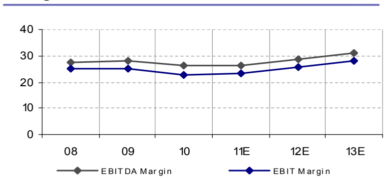
Company Profile

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

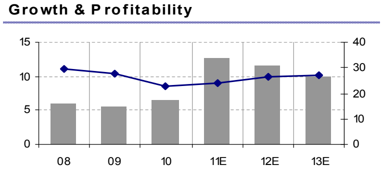
1yr Price Performance



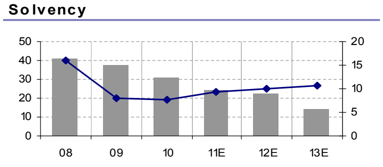
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	5.38	5.53	5.18	6.26	7.71	9.04
Reported EPS (ZAR)	5.38	5.53	5.18	6.26	7.71	9.04
DPS (ZAR)	2.88	2.88	2.88	3.35	4.13	4.84
BVPS (ZAR)	18.14	21.87	24.49	27.28	30.85	35.03
Weighted average shares (m)	212	206	207	208	208	208
Average market cap (ZARm)	11,619	8,121	11,630	17,072	17,072	17,072
Enterprise value (ZARm)	13,304	10,012	13,458	18,817	19,021	18,796
Valuation Metrics						
P/E (DB) (x)	10.2	7.1	10.9	13.1	10.7	9.1
P/E (Reported) (x)	10.2	7.1	10.9	13.1	10.7	9.1
P/BV (x)	2.12	2.01	2.74	3.01	2.67	2.35
FCF Yield (%)	4.9	12.9	5.3	5.1	7.3	9.4
Dividend Yield (%)	5.3	7.3	5.1	4.1	5.0	5.9
EV/Sales (x)	1.73	1.24	1.56	1.94	1.76	1.58
EV/EBITDA (x)	6.3	4.4	6.0	7.3	6.1	5.1
EV/EBIT (x)	7.0	4.9	6.8	8.3	6.8	5.7
Income Statement (ZARm)						
Sales revenue	**7,669**	**8,090**	**8,605**	**9,706**	**10,828**	**11,912**
Gross profit	**3,667**	**3,937**	**4,052**	**4,530**	**5,241**	**5,955**
EBITDA	**2,110**	**2,257**	**2,237**	**2,569**	**3,123**	**3,669**
Depreciation	205	231	264	291	320	345
Amortisation	0	0	0	0	0	0
EBIT	**1,906**	**2,025**	**1,973**	**2,279**	**2,804**	**3,324**
Net interest income(expense)	-119	-250	-261	-245	-279	-311
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	**1,786**	**1,776**	**1,711**	**2,034**	**2,525**	**3,013**
Income tax expense	580	564	549	643	798	953
Minorities	78	66	77	89	134	191
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,128**	**1,146**	**1,086**	**1,302**	**1,592**	**1,869**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**1,128**	**1,146**	**1,086**	**1,302**	**1,592**	**1,869**
Cash Flow (ZARm)						
Cash flow from operations	**843**	**1,408**	**885**	**1,181**	**1,593**	**1,985**
Net Capex	-274	-361	-270	-305	-340	-374
Free cash flow	**568**	**1,047**	**615**	**876**	**1,252**	**1,610**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-660	-571	-594	-697	-852	-1,001
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-655	-604	121	-7	-470	-193
Net cash flow	**-748**	**-128**	**141**	**172**	**-70**	**416**
Change in working capital	*-568*	*-34*	*-541*	*-501*	*-454*	*-421*
Balance Sheet (ZARm)						
Cash and other liquid assets	63	296	284	456	386	802
Tangible fixed assets	847	981	996	1,010	1,030	1,059
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	306	295	285	285	285	285
Other assets	5,684	6,931	7,514	8,381	9,551	10,405
Total assets	**6,900**	**8,504**	**9,079**	**10,132**	**11,252**	**12,552**
Interest bearing debt	1,762	2,123	1,970	1,970	1,970	1,970
Other liabilities	1,002	1,525	1,624	1,983	2,229	2,469
Total liabilities	**2,764**	**3,648**	**3,593**	**3,952**	**4,199**	**4,439**
Shareholders' equity	3,845	4,496	5,058	5,663	6,403	7,272
Minorities	291	359	427	516	651	841
Total shareholders' equity	**4,136**	**4,856**	**5,485**	**6,179**	**7,054**	**8,113**
Net debt	*1,699*	*1,827*	*1,686*	*1,514*	*1,584*	*1,167*
Key Company Metrics						
Sales growth (%)	6.1	5.5	6.4	12.8	11.6	10.0
DB EPS growth (%)	4.5	2.8	-6.3	20.8	23.2	17.1
EBITDA Margin (%)	27.5	27.9	26.0	26.5	28.8	30.8
EBIT Margin (%)	24.8	25.0	22.9	23.5	25.9	27.9
Payout ratio (%)	54.1	51.7	54.8	53.4	53.8	53.7
ROE (%)	29.4	27.5	22.7	24.3	26.4	27.3
Capex/sales (%)	3.6	4.5	3.1	3.1	3.1	3.1
Capex/depreciation (x)	1.3	1.6	1.0	1.0	1.1	1.1
Net debt/equity (%)	41.1	37.6	30.7	24.5	22.4	14.4
Net interest cover (x)	16.0	8.1	7.5	9.3	10.1	10.7

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Group Five Ltd

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

Key reporting segments:

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

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

Outlook: Group Five is a diversified construction services, materials, and infrastructure investment group operating in Africa, the Middle East, and Eastern Europe. It seeks to integrate its construction, building materials and services businesses in such a way that it is able to generate multiple revenue streams from any given project, and, in doing so, reduce the inherent cyclicality of its component businesses.

Despite the onset of the global downturn and its impact on the domestic construction industry, the group was able to maintain its earnings growth record last year and thus far this current year. Over the short to medium term, while it expects the earnings growth profile to moderate due to the high base and slowdown in public sector investment, management remains confident on the outlook for the group. We however rate the shares **Hold**, reflecting the slowing project roll-out environment the entire industry currently finds itself in.

Valuation: We assess the fundamental value of Group Five based on a DCF analysis, using a 13.5% WACC (ERP 4.5%, risk-free rate 8.5%, beta 1.1x) and a 4.5% perpetual growth rate (South African house stance). We then derive our 12 month price target by rolling forward the fair valuation derived from this DCF calculation by the cost of equity less dividend yield. Using this methodology, we derive a price target of 3800c.

Risks: Downside risks: Sustained decline in global commodity prices below current levels; Greater-than-expected wage settlements; Significant disruptions from ongoing labour industrial action; Inability to transfer skills from building to civil engineering. Upside risks: Any sooner-than-expected resurgence in government spending and contract awards issuance; Interest rates falling lower than current levels, coupled with increased appetite from banks to lend developers.

Model updated: 28 November 2010

Running the Numbers

S. Africa

South Africa

Construction & Building Materials

Group 5 Ltd

Reuters: GRFJ.J Bloomberg: GRF SJ

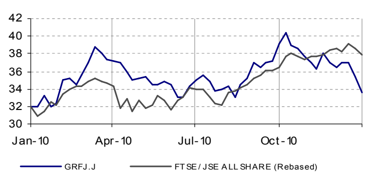
Hold

Price (28 Jan 11)	ZAR 33.55
Target price	ZAR 38.00
52-week Range	ZAR 31.50 – 40.70
Market Cap	ZAR 3,200m US$ 446m

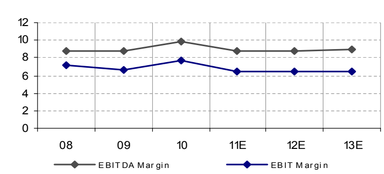
Company Profile

Group Five is an investment holding company with interests in construction, engineering and property industries. The company builds commercial structures, public and private housing, roads and earthworks.

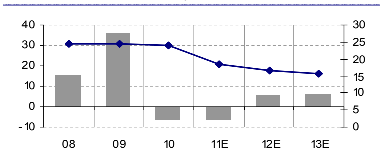
1yr Price Performance



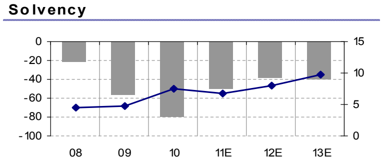
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	4.04	5.08	5.61	4.74	4.85	5.17
Reported EPS (ZAR)	3.98	5.08	5.61	4.74	4.85	5.17
DPS (ZAR)	1.05	1.30	1.37	1.16	1.18	1.26
BVPS (ZAR)	21.45	25.07	26.07	29.76	33.79	38.16
Weighted average shares (m)	93.5	94.7	95.4	95.4	95.4	95.4
Average market cap (ZARm)	5,114	3,546	3,504	3,200	3,200	3,200
Enterprise value (ZARm)	4,640	2,178	1,474	1,793	2,000	1,802
Valuation Metrics						
P/E (DB) (x)	13.5	7.4	6.5	7.1	6.9	6.5
P/E (Reported) (x)	13.8	7.4	6.5	7.1	6.9	6.5
P/BV (x)	2.09	1.38	1.32	1.13	0.99	0.88
FCF Yield (%)	27.3	40.9	27.0	nm	nm	10.9
Dividend Yield (%)	1.9	3.5	3.7	3.4	3.5	3.8
EV/Sales (x)	0.52	0.18	0.13	0.17	0.18	0.15
EV/EBITDA (x)	5.9	2.1	1.3	1.9	2.0	1.7
EV/EBIT (x)	7.3	2.7	1.7	2.6	2.8	2.3
Income Statement (ZARm)						
Sales revenue	**8,900**	**12,090**	**11,338**	**10,619**	**11,192**	**11,905**
Gross profit	**786**	**1,056**	**1,122**	**930**	**979**	**1,058**
EBITDA	**786**	**1,056**	**1,122**	**930**	**979**	**1,058**
Depreciation	151	258	245	247	257	280
Amortisation	0	0	0	0	0	0
EBIT	**636**	**797**	**877**	**683**	**722**	**778**
Net interest income(expense)	-140	-168	-115	-100	-89	-80
Associates/affiliates	0	0	1	0	0	0
Exceptionals/extraordinaries	104	16	-16	0	0	0
Other pre-tax income/(expense)	58	137	143	151	117	103
Profit before tax	**665**	**782**	**593**	**734**	**750**	**801**
Income tax expense	208	225	258	213	217	232
Minorities	11	20	46	26	27	28
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**439**	**538**	**586**	**495**	**506**	**540**
DB adjustments (including dilution)	7	0	0	0	0	0
DB Net profit	**447**	**538**	**586**	**495**	**506**	**540**
Cash Flow (ZARm)						
Cash flow from operations	**1,541**	**1,669**	**1,063**	**-245**	**388**	**827**
Net Capex	-143	-219	-117	-210	-448	-476
Free cash flow	**1,398**	**1,449**	**946**	**-454**	**-60**	**350**
Equity raised/(bought back)	14	9	7	0	0	0
Dividends paid	-82	-112	-129	-143	-121	-123
Net inc/(dec) in borrowings	-140	-228	-406	-110	-110	-147
Other investing/financing cash flows	5	-196	-91	0	0	0
Net cash flow	**1,195**	**923**	**327**	**-708**	**-291**	**80**
Change in working capital	*1,056*	*685*	*58*	*-868*	*-402*	*-22*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,836	2,798	3,130	2,422	2,131	2,211
Tangible fixed assets	2,238	2,432	2,040	2,002	2,192	2,388
Goodwill/intangible assets	25	25	25	25	25	25
Associates/investments	44	19	36	36	36	36
Other assets	5,107	5,099	4,720	4,783	5,161	5,515
Total assets	**9,250**	**10,373**	**9,950**	**9,268**	**9,545**	**10,176**
Interest bearing debt	1,389	1,414	1,061	950	840	693
Other liabilities	5,837	6,551	6,328	5,379	5,355	5,687
Total liabilities	**7,227**	**7,965**	**7,389**	**6,329**	**6,194**	**6,380**
Shareholders' equity	2,007	2,373	2,486	2,838	3,223	3,640
Minorities	17	34	75	101	128	156
Total shareholders' equity	**2,023**	**2,408**	**2,561**	**2,939**	**3,351**	**3,796**
Net debt	*-447*	*-1,384*	*-2,069*	*-1,472*	*-1,291*	*-1,518*
Key Company Metrics						
Sales growth (%)	15.7	35.9	-6.2	-6.3	5.4	6.4
DB EPS growth (%)	67.9	25.7	10.5	-15.5	2.2	6.7
EBITDA Margin (%)	8.8	8.7	9.9	8.8	8.7	8.9
EBIT Margin (%)	7.1	6.6	7.7	6.4	6.5	6.5
Payout ratio (%)	22.4	22.9	22.3	22.3	22.3	22.3
ROE (%)	24.3	24.5	24.1	18.6	16.7	15.7
Capex/sales (%)	1.6	2.2	1.3	2.0	4.0	4.0
Capex/depreciation (x)	1.0	1.0	0.6	0.8	1.7	1.7
Net debt/equity (%)	-22.1	-57.5	-80.8	-50.1	-38.5	-40.0
Net interest cover (x)	4.6	4.7	7.6	6.8	8.1	9.7

Source: Company data, Deutsche Bank estimates

South Africa – Transport

Imperial Holdings Ltd

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

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

Drivers: The primary divisions are:

- **Car rental and tourism (13% of operating profit).** The group has a c.38% market share of the car rental industry. It trades under the Europcar, and Tempest brands in the car rental industry while in tourism, Eastgate, Grosvenor, Holiday Autos, Maui and Springbok brands are other brands in this division
- **Motor retailing and distributorships (47% of group operating profit).** Imperial has a c.25% market share of the car retail market in South Africa. This business imports and distributes Renault, Daihatsu, MG, Citroen, SsangYong, Rover and Kia vehicles and many such more brands. It also distributes and services International, Hino, DAF trucks, Isuzu, Renault and Fiat commercial vehicles.
- **Logistics (34% 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.
- **Insurance (10% of group operating profit).** The division underwrites motor vehicle insurance and provides general insurance underwriting and services to the Imperial group and its clients. Life insurance comprises the underwriting of credit life products through the motor dealerships. However, it now provides life assurance beyond the motor related sector.

Outlook: South African interest rates have been on a downward trend since mid-2009 and now stand at a 30-year low. As a result of these lower interest rates and a significant gain in market share in the entry level segment of the new vehicle market, Imperial's earnings growth rate has recovered significantly, and the group has returned firmly to a growth trajectory.

The medium-term outlook remains promising, assuming rates remain at or close to current levels, the consumer vehicle replacement cycle continues to evolve, and consumer deleveraging is sustained.

Over the longer term, we believe the group's key drivers remain the trends in new vehicle sales and acquisitive growth. Considering the stock's current one-year forward rating of 11.4x, a 10% premium over its long-run average, we believe the market is fully discounting these growth prospects, and we maintain our **Hold** recommendation.

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

Risks:

Upside risks:

- Substantial currency strength beyond current levels (we currently forecast currency weakness).
- Interest rates continuing to fall below current levels (we believe the interest rate cycle has reached its bottom at present).

Downside

- Equity market returns falling significantly beyond current levels (strong impact on insurance company equity portfolios)
- Any significant slowdown in commodity exports from Europe (Imperial's European business is the biggest operator of barges on the Rhine river, a key route for commodity exports to the Far East.

Model updated: 26 August 2010

Running the Numbers

S. Africa

South Africa

Industrial Transportation

Imperial Holdings Ltd

Reuters: IPLJ.J Bloomberg: IPL SJ

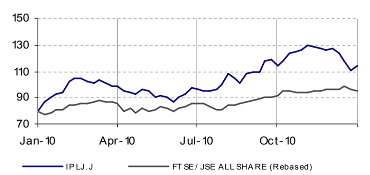
Hold

Price (28 Jan 11)	ZAR 114.50
Target price	ZAR 95.00
52-week Range	ZAR 79.25 – 129.97
Market Cap	ZAR 21,263m
	US$ 2,962m

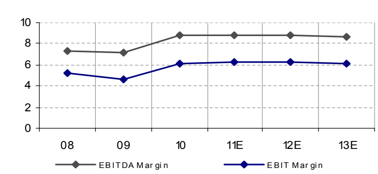
Company Profile

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

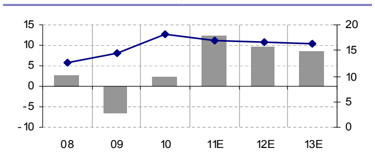
1yr Price Performance



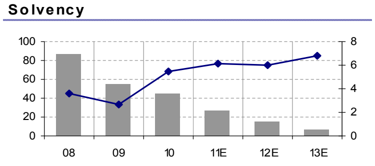
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	6.81	6.76	9.27	9.74	10.61	11.66
Reported EPS (ZAR)	6.81	6.76	9.27	9.74	10.61	11.66
DPS (ZAR)	2.45	2.00	3.50	3.63	3.95	4.34
BVPS (ZAR)	51.72	52.69	59.99	66.50	74.00	82.26
Weighted average shares (m)	186	186	186	186	186	186
Average market cap (ZARm)	15,223	9,853	15,840	21,263	21,263	21,263
Enterprise value (ZARm)	27,157	22,757	28,812	21,263	21,263	21,263
Valuation Metrics						
P/E (DB) (x)	12.0	7.9	9.2	11.8	10.8	9.8
P/E (Reported) (x)	12.0	7.9	9.2	11.8	10.8	9.8
P/BV (x)	1.02	1.11	1.43	1.72	1.55	1.39
FCF Yield (%)	1.7	24.1	7.7	7.1	11.3	10.0
Dividend Yield (%)	3.0	3.8	4.1	3.2	3.4	3.8
EV/Sales (x)	0.49	0.44	0.54	0.35	0.32	0.30
EV/EBITDA (x)	6.6	6.0	6.2	4.0	3.7	3.4
EV/EBIT (x)	9.3	9.3	8.8	5.7	5.2	4.8
Income Statement (ZARm)						
Sales revenue	**55,927**	**52,219**	**53,438**	**60,061**	**65,760**	**71,423**
Gross profit	**3,887**	**3,613**	**4,356**	**4,990**	**5,450**	**5,958**
EBITDA	**4,091**	**3,776**	**4,684**	**5,259**	**5,742**	**6,194**
Depreciation	1,168	1,323	1,396	1,521	1,648	1,798
Amortisation	0	0	0	0	0	0
EBIT	**2,923**	**2,453**	**3,288**	**3,738**	**4,094**	**4,396**
Net interest income(expense)	-807	-923	-597	-609	-681	-645
Associates/affiliates	278	107	174	20	21	23
Exceptionals/extraordinaries	2,282	-544	-44	0	0	0
Other pre-tax income/(expense)	-281	467	164	0	0	0
Profit before tax	**2,114**	**1,673**	**3,087**	**3,149**	**3,434**	**3,774**
Income tax expense	707	502	911	913	996	1,095
Minorities	357	161	241	248	273	300
Other post-tax income/(expense)	-1,920	508	59	0	0	0
Net profit	**1,411**	**1,405**	**1,892**	**1,988**	**2,165**	**2,379**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**1,411**	**1,405**	**1,892**	**1,988**	**2,165**	**2,379**
Cash Flow (ZARm)						
Cash flow from operations	**2,867**	**3,593**	**2,132**	**2,904**	**4,193**	**4,122**
Net Capex	-2,612	-1,217	-905	-1,403	-1,788	-1,998
Free cash flow	**255**	**2,376**	**1,227**	**1,501**	**2,406**	**2,124**
Equity raised/(bought back)	-10	0	-200	0	0	0
Dividends paid	-225	-765	-653	-778	-773	-845
Net inc/(dec) in borrowings	-1,165	-137	-697	1,513	-300	210
Other investing/financing cash flows	2,994	1,497	-1,498	-12	-239	-132
Net cash flow	**1,849**	**2,971**	**-1,821**	**2,225**	**1,094**	**1,356**
Change in working capital	*-388*	*1,429*	*255*	*-1,050*	*74*	*-443*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,148	4,655	3,199	6,505	7,599	8,955
Tangible fixed assets	10,769	11,112	11,619	10,772	10,984	11,243
Goodwill/intangible assets	897	901	1,006	1,006	1,006	1,006
Associates/investments	4,337	3,470	3,211	3,162	3,404	3,532
Other assets	18,781	13,177	14,711	15,497	16,453	17,820
Total assets	**37,932**	**33,315**	**33,746**	**36,942**	**39,446**	**42,557**
Interest bearing debt	12,138	10,392	8,586	10,081	9,781	9,991
Other liabilities	15,378	12,562	13,691	13,659	14,797	15,864
Total liabilities	**27,516**	**22,954**	**22,277**	**23,740**	**24,578**	**25,855**
Shareholders' equity	9,605	9,774	11,140	12,350	13,742	15,276
Minorities	811	587	806	1,054	1,327	1,628
Total shareholders' equity	**10,416**	**10,361**	**11,946**	**13,404**	**15,070**	**16,904**
Net debt	*8,990*	*5,737*	*5,387*	*3,576*	*2,182*	*1,035*
Key Company Metrics						
Sales growth (%)	2.7	-6.6	2.3	12.4	9.5	8.6
DB EPS growth (%)	-46.7	-0.7	37.3	5.1	8.9	9.9
EBITDA Margin (%)	7.3	7.2	8.8	8.8	8.7	8.7
EBIT Margin (%)	5.2	4.7	6.2	6.2	6.2	6.2
Payout ratio (%)	32.2	26.4	34.4	33.9	33.9	33.9
ROE (%)	12.8	14.5	18.1	16.9	16.6	16.4
Capex/sales (%)	4.7	2.3	1.7	2.3	2.7	2.8
Capex/depreciation (x)	2.2	0.9	0.6	0.9	1.1	1.1
Net debt/equity (%)	86.3	55.4	45.1	26.7	14.5	6.1
Net interest cover (x)	3.6	2.7	5.5	6.1	6.0	6.8

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

JD Group Ltd

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

JD Group reports its business units to show traditional credit retail (949 stores), cash retail (92 stores), financial services (949 points of presence), international (small Polish-based chains, 74 stores) and New Business Development (Blake and Maravedi call centres and incubator platforms for the launch of new financial services products) separately. The group generated revenue of R 13.22bn in FY10.

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

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

- **Credit sales recovery:** We have yet to see a recovery in credit sales as consumers have been cautious accruing more credit given personal balance sheets which remain stressed. We are forecasting growth in credit sales of c.10%, which will support the earnings bounce given the high operational gearing to credit top line.
- **Turnaround in Hi-Fi Corporation:** Hi-Fi Corporation makes up c.50% of the top line of the cash division (but marginal contribution to divisional EBIT) and has underperformed significantly to date plagued by issues around quality of merchandise (grey imports), and managing significant volumes in the supply chain. With a change in formats, management and product offering, we believe a substantially better performance will be recorded.
- **Bad debt roll-over:** JD Group wrote off another R930m of its debtor's book in FY10 and has guided to a significantly reduced number in FY11.
- **Continued focus on the high margin insurance business** and ancillary financial services products that, in our view, should continue to yield good returns in the near term (particularly micro-insurance products supported by high acceptance rates and a low claims rate historically). While there has been recent pressure experienced on these yields the shortfall has been made up by other NCA-related fees.

Notwithstanding continued unemployment and high levels of consumer indebtedness, recent trading trends suggest a pick-up in demand and improved collections on the book. Management remains optimistic on the benefits of the ongoing investment in both SAP (50% complete) and central distribution (five DCs operational with nine more planned for FY11), which will assist in driving margins towards management's targets.

Outlook: After a significant reduction in the earnings base in the stock (from R8 to c.R3 (normalised) in three years), we expect a bounce in earnings off a low base assisted by bad debts rolling over and a recovery in the historically under-performing Hi-Fi Corporation business. In addition, we expect a stronger rebound in credit top line growth off a soft base after a sharp pullback in furniture spend in the last two and half years. A solid c.4.5% forward dividend yield and positive 12 month total return supports our **Buy** recommendation.

Valuation: We value JD Group using a PE-relative methodology employing a normalised two-year forward PE of 8.2x to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12 month price target of 6100cps.

Risks: Key downside risks include: 1) A slower-than-expected recovery in consumer credit appetite resulting in weaker growth in the mass middle-market-focused credit chains (c70% of group credit sales) having a geared negative impact on earnings, 2) Greater-than-expected negative impact on volumes from broad-based unemployment, 3) Slower collections and operating cost pressure from the restructuring of the financial services division involving centralising collections, and 4) Competitive pressures driving worse-than-expected yields on the book.

Model updated: 16 November 2010

Running the Numbers

S. Africa

South Africa

General Retailers

JD Group Ltd

Reuters: JDGJ.J Bloomberg: JDG SJ

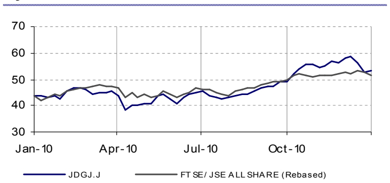
Buy

Price (28 Jan 11)	ZAR 53.50
Target price	ZAR 61.00
52-week Range	ZAR 38.37 – 59.75
Market Cap	ZAR 8,897m
	US$ 1,239m

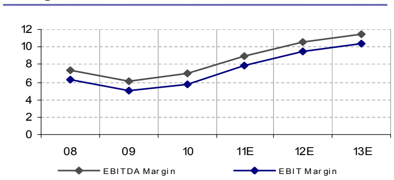
Company Profile

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

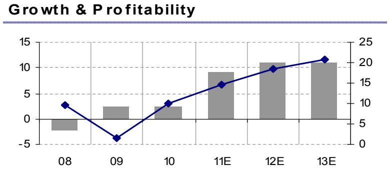
1yr Price Performance



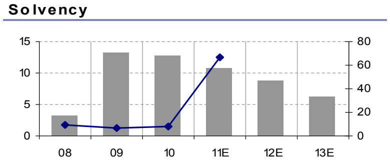
Margin Trends



Growth & Profitability



Solvency



Nick Higham
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Fiscal year end 31-Aug	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	2.97	0.44	2.99	4.65	6.43	7.95
Reported EPS (ZAR)	2.99	0.44	3.00	4.65	6.43	7.95
DPS (ZAR)	1.52	0.41	1.50	2.33	3.21	3.97
BVPS (ZAR)	28.09	29.44	30.99	33.26	36.29	40.08
Weighted average shares (m)	171	164	166	166	167	167
Average market cap (ZARm)	7,353	5,698	7,324	8,897	8,924	8,951
Enterprise value (ZARm)	7,402	6,271	7,999	9,517	9,491	9,410
Valuation Metrics						
P/E (DB) (x)	14.5	78.8	14.7	11.5	8.3	6.7
P/E (Reported) (x)	14.4	78.8	14.7	11.5	8.3	6.7
P/BV (x)	1.07	1.44	1.41	1.61	1.47	1.33
FCF Yield (%)	10.3	nm	4.1	3.8	6.0	8.2
Dividend Yield (%)	3.5	1.2	3.4	4.3	6.0	7.4
EV/Sales (x)	0.59	0.49	0.60	0.66	0.59	0.53
EV/EBITDA (x)	8.0	7.9	8.7	7.4	5.6	4.7
EV/EBIT (x)	9.3	9.8	10.4	8.4	6.2	5.1
Income Statement (ZARm)						
Sales revenue	**12,610**	**12,922**	**13,224**	**14,417**	**15,988**	**17,728**
Gross profit	**3,465**	**3,589**	**3,992**	**4,666**	**5,407**	**6,116**
EBITDA	**922**	**792**	**915**	**1,282**	**1,684**	**2,021**
Depreciation	128	149	146	151	157	163
Amortisation	0	0	0	0	0	0
EBIT	**794**	**643**	**769**	**1,130**	**1,527**	**1,857**
Net interest income(expense)	-84	-88	-101	-17	16	42
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	1	1	1	0	0	0
Other pre-tax income/(expense)	16	-3	4	6	8	0
Profit before tax	**727**	**555**	**675**	**1,120**	**1,551**	**1,900**
Income tax expense	215	475	167	336	465	570
Minorities	0	5	7	10	14	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**512**	**72**	**499**	**774**	**1,072**	**1,330**
DB adjustments (including dilution)	-4	0	-2	0	0	0
DB Net profit	**508**	**72**	**497**	**774**	**1,072**	**1,330**
Cash Flow (ZARm)						
Cash flow from operations	**959**	**-317**	**398**	**533**	**744**	**953**
Net Capex	-199	-197	-99	-198	-208	-218
Free cash flow	**760**	**-514**	**299**	**335**	**536**	**735**
Equity raised/(bought back)	-523	18	9	0	0	0
Dividends paid	-284	-68	-182	-397	-549	-679
Net inc/(dec) in borrowings	350	167	106	0	0	0
Other investing/financing cash flows	-457	-117	-63	118	65	52
Net cash flow	**-154**	**-514**	**169**	**56**	**52**	**108**
Change in working capital	*301*	*-325*	*-334*	*-392*	*-485*	*-540*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,135	725	757	409	475	583
Tangible fixed assets	653	756	767	814	865	920
Goodwill/intangible assets	603	711	705	705	705	705
Associates/investments	109	97	26	26	26	26
Other assets	5,951	6,443	6,851	7,462	8,235	9,094
Total assets	**8,451**	**8,732**	**9,106**	**9,415**	**10,305**	**11,328**
Interest bearing debt	1,293	1,364	1,424	1,010	1,010	1,010
Other liabilities	2,345	2,506	2,494	2,831	3,183	3,555
Total liabilities	**3,638**	**3,870**	**3,918**	**3,841**	**4,193**	**4,565**
Shareholders' equity	4,813	4,831	5,154	5,531	6,054	6,705
Minorities	0	31	34	44	58	58
Total shareholders' equity	**4,813**	**4,862**	**5,188**	**5,575**	**6,112**	**6,763**
Net debt	*158*	*639*	*667*	*601*	*535*	*427*
Key Company Metrics						
Sales growth (%)	-2.4	2.5	2.3	9.0	10.9	10.9
DB EPS growth (%)	-51.4	-85.1	578.5	55.7	38.1	23.7
EBITDA Margin (%)	7.3	6.1	6.9	8.9	10.5	11.4
EBIT Margin (%)	6.3	5.0	5.8	7.8	9.5	10.5
Payout ratio (%)	50.9	93.1	50.0	50.0	50.0	50.0
ROE (%)	9.6	1.5	10.0	14.5	18.5	20.8
Capex/sales (%)	1.7	1.7	1.4	1.4	1.3	1.2
Capex/depreciation (x)	1.6	1.5	1.3	1.3	1.3	1.3
Net debt/equity (%)	3.3	13.1	12.9	10.8	8.8	6.3
Net interest cover (x)	9.4	7.3	7.6	66.6	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Lewis Group Ltd

Business description: Lewis was founded in 1934 and has since become a significant player in the domestic furniture retail space, commanding an estimated low-teen market share (based on the size of the debtors' book). It operates through its three branded formats: Lewis (c.84% of sales), Best Electric (focussed on white and brown goods comprising c.13% of group sales) and Lifestyle Living (top-end consumer focus comprising the balance of group sales). Lewis, previously a wholly-owned subsidiary of GUS Holdings, was unbundled and listed on the JSE in October 2004.

Drivers: Lewis's strategy is focused on 're-serving' existing customers and decentralised collections. Through regular contact with its customers through a 're-serve' system (generating repeat sales from existing customers accounting for c.60% of all sales) and a decentralised collections system requiring customers to turn to the point-of-sale to make monthly payments, Lewis builds loyal relationships. In this way, salespeople are also provided with additional selling opportunities as customers return to make account payments. The provision of micro finance and ancillary financial services products (such as bundled asset and credit life insurance) is integral to the core merchandise offering.

Primary drivers include:

- **Continued top-line growth through aggressive store expansion.** Management has highlighted an aggressive organic growth path given under-penetration of stores in certain targeted areas.
- **More efficient smaller store format provides margin opportunities.** Management has successfully piloted smaller store formats utilising 60% of the floor space of a regular store and often producing similar levels of turnover assisted by electronic sales catalogues. The roll-out of these more efficient smaller stores provides EBIT margin opportunities.
- **Continued growth in financial services income** through the extension of credit, boosted by fees allowable under the NCA and high acceptance rates of ancillary insurance products with high estimated economic margins (we estimate >c.37% economic margins in micro insurance driven by low claims rate and high acceptance rates).
- **Debtors costs showing vast improvement:** Despite an increased impairment provision driven by increased longer-term business written (18.4% at 1H11 from 16.0% provided for at FY10), aggregate debtors' costs only grew by 9.3% y-o-y suggesting much improved bad debt write offs. Management remains convinced it can drive overall debtors' costs as a percentage of book down from 11% to 8% by FY12 (DBe 8.2% by FY13).
- **Improving GP margin outlook:** Improved sourcing margins from a strong rand and the introduction of new product ranging twice a year resulted in an improving gross margin outlook post an aggressive period of discounting amongst competitors.

Lewis's customer focus differentiates it from its peers. While its primary market is still the middle market (LSM4-7), it also has a significantly higher low-end focus (LSM1-4) than competitors. Together with its decentralised collections process, this results in less interest rate sensitivity and different primary drivers for earnings (namely food and transport cost inflation together with a higher gearing to employment levels). Interestingly, to date with the high number of job losses, only a static 3% of Lewis's customer base has been impacted by unemployment per management guidance.

Outlook: We expect positive volume surprises (off a soft furniture sales base in the market) assisted by market share gains from a rapid store roll-out programme to drive higher-than-expected top-line growth. Our view on a quicker consumer credit recovery would also be supportive of volumes. Lewis has not experienced the same drop off in volumes and sharp increase in bad debts as middle-market peers and is thus not as geared to a recovery arising from the rate-cutting cycle. We rate the shares **Buy** on positive 12 month total return potential underpinned by a solid forward dividend yield.

Valuation: We value Lewis using a PE-relative methodology employing a normalised two year forward PE of 7.3x to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12 month price target of 7900cps.

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

Model updated: 09 November 2010

Running the Numbers

S. Africa

South Africa

Furniture & Appliances

Lewis Group Ltd

Reuters: LEWJ.J | Bloomberg: LEW SJ

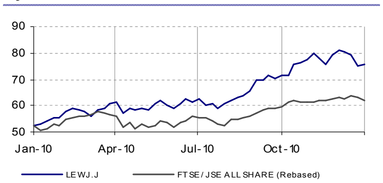
Buy

Price (28 Jan 11)	ZAR 75.40
Target price	ZAR 79.00
52-week Range	ZAR 50.60 – 82.30
Market Cap	ZAR 7,540m US$ 1,050m

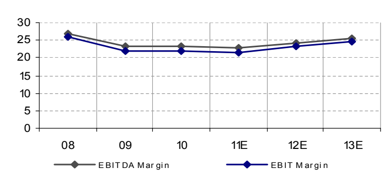
Company Profile

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

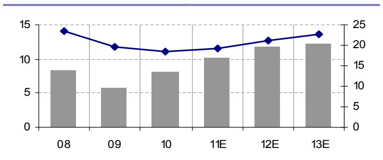
1yr Price Performance



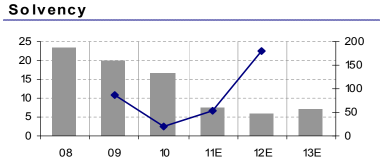
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	6.88	6.28	6.40	7.37	8.92	10.64
Reported EPS (ZAR)	6.88	6.28	6.40	7.37	8.92	10.64
DPS (ZAR)	3.23	3.23	3.23	3.50	4.25	5.07
BVPS (ZAR)	27.30	29.00	32.74	35.79	39.46	43.85
Weighted average shares (m)	100	100	100	100	100	100
Average market cap (ZARm)	5,571	3,858	5,102	7,540	7,540	7,540
Enterprise value (ZARm)	5,702	3,905	4,935	7,021	6,889	6,854
Valuation Metrics						
P/E (DB) (x)	8.1	6.1	8.0	10.2	8.5	7.1
P/E (Reported) (x)	8.1	6.1	8.0	10.2	8.5	7.1
P/BV (x)	1.53	1.47	1.73	2.11	1.91	1.72
FCF Yield (%)	1.8	1.9	0.8	5.9	6.6	6.2
Dividend Yield (%)	5.8	8.4	6.3	4.6	5.6	6.7
EV/Sales (x)	1.59	1.03	1.20	1.55	1.36	1.21
EV/EBITDA (x)	5.9	4.4	5.2	6.8	5.6	4.7
EV/EBIT (x)	6.1	4.7	5.4	7.2	5.9	4.9
Income Statement (ZARm)						
Sales revenue	**3,596**	**3,807**	**4,111**	**4,524**	**5,057**	**5,676**
Gross profit	**1,605**	**1,576**	**1,720**	**1,873**	**2,153**	**2,467**
EBITDA	**971**	**880**	**953**	**1,030**	**1,225**	**1,447**
Depreciation	41	47	46	49	54	59
Amortisation	0	0	0	0	0	0
EBIT	**930**	**832**	**907**	**981**	**1,172**	**1,388**
Net interest income(expense)	15	-10	-44	-18	-6	3
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-24	-5	-26	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**945**	**823**	**863**	**963**	**1,165**	**1,390**
Income tax expense	303	262	272	308	373	445
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**618**	**556**	**565**	**655**	**792**	**945**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**618**	**556**	**565**	**655**	**792**	**945**
Cash Flow (ZARm)						
Cash flow from operations	**243**	**228**	**-14**	**383**	**432**	**525**
Net Capex	-142	-153	55	60	67	-59
Free cash flow	**102**	**75**	**40**	**443**	**499**	**466**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-263	-284	-284	-345	-418	-499
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-57	269	303	182	0	0
Net cash flow	**-218**	**59**	**59**	**280**	**81**	**-33**
Change in working capital	*-440*	*-380*	*-652*	*-320*	*-414*	*-480*
Balance Sheet (ZARm)						
Cash and other liquid assets	67	55	62	343	381	308
Tangible fixed assets	201	225	251	142	21	21
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	505	535	716	788	881	989
Other assets	3,006	3,321	3,816	4,181	4,654	5,201
Total assets	**3,778**	**4,136**	**4,845**	**5,454**	**5,937**	**6,520**
Interest bearing debt	703	637	611	611	611	611
Other liabilities	345	498	610	914	1,029	1,173
Total liabilities	**1,048**	**1,135**	**1,221**	**1,525**	**1,641**	**1,785**
Shareholders' equity	2,730	2,900	3,274	3,579	3,946	4,385
Minorities	0	0	0	0	0	0
Total shareholders' equity	**2,730**	**2,900**	**3,274**	**3,579**	**3,946**	**4,385**
Net debt	*637*	*582*	*549*	*269*	*230*	*303*
Key Company Metrics						
Sales growth (%)	8.2	5.9	8.0	10.0	11.8	12.2
DB EPS growth (%)	7.1	-8.8	2.0	15.1	21.0	19.3
EBITDA Margin (%)	27.0	23.1	23.2	22.8	24.2	25.5
EBIT Margin (%)	25.9	21.9	22.1	21.7	23.2	24.4
Payout ratio (%)	52.3	58.1	57.1	53.4	53.6	53.6
ROE (%)	23.5	19.8	18.3	19.1	21.1	22.7
Capex/sales (%)	3.9	4.0	-1.3	-1.3	-1.3	1.0
Capex/depreciation (x)	3.5	3.2	-1.2	-1.2	-1.3	1.0
Net debt/equity (%)	23.3	20.1	16.8	7.5	5.8	6.9
Net interest cover (x)	nm	86.7	20.8	54.2	180.6	nm

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications

MTN Group Ltd

Business description: MTN is one of the largest MENA mobile operators with more than 140m subscribers across 21 African and the Middle East countries. The company offers some of the best growth prospects in the MENA region with weighted mobile penetration at approximately 55%.

Nigeria, South Africa and Iran all had in excess of 10m subscribers at December 2010. MTN Nigeria and MTN South Africa together account for in excess of 65% of MTN group EBITDA and both operations remain strongly free cash flow positive. MTN has more recently begun focussing on growing its data business across its operations; this has seen the group invest in both fibre networks and internet service providers (ISPs) in a number of countries. We expect this to be an important driver for 2011 as voice traffic growth slows in the medium term.

Drivers:

- **Syrian license.** MTN currently operates a Build Operate Transfer (BOT) license in Syria and with the planned issue of a third mobile license. The Syrian government is in the process of converting the current licenses to traditional mobile licenses. With this process we also expect to see a marked reduction in the 50% revenue share agreement that forms part of the current BOT license. We expect this process to be both earnings and value enhancing for MTN group and expect it to be well received by the market.
- **Increased dividends.** MTN group raised its dividend pay out ratio from 20% to 40% at the interim (1H10) period and we now expect it to increase its full year (2010) dividend pay out ratio to 50%. The continued strong cash flow generation and lower-than-expected capex spend will see stronger-than-expected full-year cash flow. We believe the further raising of the dividend pay out ratio will be a key factor supporting the counter's rerating in 2011.

Outlook: We believe MTN group's medium-term growth prospects remain very strong. Furthermore, the group's leading or strong position across most of its markets should ensure that it maintains strong EBITDA margins despite the trend of increasing competition. Given its low gearing levels, the business also remains well positioned to take advantage of appropriate single country acquisitions across its region. Notwithstanding the recent management changes, we believe the group management structure allows for a depth of management to drive the group over the medium term.

Valuation: Our target price for MTN is 16500cps, based on an exit EV/EBITDA multiple of approximately 6.0x to December 2011, in line with the group's CEEMEA peer group and undemanding given the solid earnings growth profile. This implies strong upside and supports our **Buy** recommendation.

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

Model updated: 14 January 2011

Running the Numbers

S. Africa

South Africa

Telecommunications

MTN

Reuters: MTNJ.J Bloomberg: MTN SJ

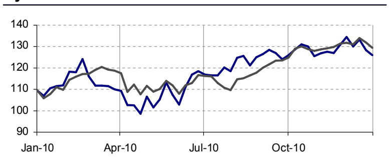
Buy

Price (28 Jan 11)	ZAR 125.98
Target price	ZAR 165.00
52-week Range	ZAR 98.22 – 134.42
Market Cap	ZAR 233,222m US$ 32,491m

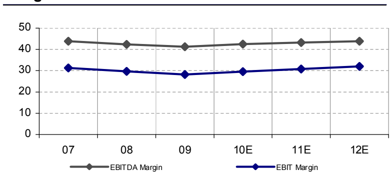
Company Profile

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

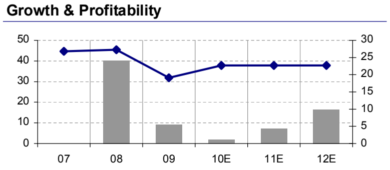
1yr Price Performance



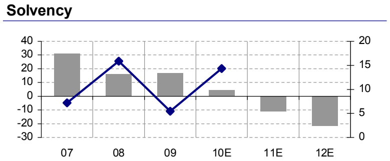
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2007	2008	2009	2010E	2011E	2012E
Financial Summary						
DB EPS (ZAR)	6.82	9.04	7.54	9.67	12.14	15.18
Reported EPS (ZAR)	6.82	9.04	7.54	9.67	12.14	15.18
DPS (ZAR)	1.36	1.81	1.92	4.84	6.68	9.11
BVPS (ZAR)	25.42	40.95	37.82	47.40	59.44	74.53
Weighted average shares (m)	1,861	1,865	1,851	1,851	1,851	1,851
Average market cap (ZARm)	192,605	224,863	211,851	233,222	233,222	233,222
Enterprise value (ZARm)	234,758	263,803	247,414	260,288	243,360	223,669
Valuation Metrics						
P/E (DB) (x)	15.2	13.3	15.2	13.0	10.4	8.3
P/E (Reported) (x)	15.2	13.3	15.2	13.0	10.4	8.3
P/BV (x)	5.04	2.65	3.12	2.66	2.12	1.69
FCF Yield (%)	6.8	4.4	5.6	4.1	8.3	9.7
Dividend Yield (%)	1.3	1.5	1.7	3.8	5.3	7.2
EV/Sales (x)	3.21	2.57	2.21	2.28	1.99	1.57
EV/EBITDA (x)	7.3	6.1	5.4	5.4	4.6	3.6
EV/EBIT (x)	10.3	8.7	7.8	7.7	6.5	4.9
Income Statement (ZARm)						
Sales revenue	**73,145**	**102,526**	**111,947**	**114,073**	**122,345**	**142,561**
Gross profit	**32,057**	**43,391**	**46,230**	**48,404**	**52,855**	**62,415**
EBITDA	**32,057**	**43,391**	**46,230**	**48,404**	**52,855**	**62,415**
Depreciation	6,986	10,164	11,974	12,142	12,644	14,109
Amortisation	2,199	2,820	2,668	2,569	2,545	2,732
EBIT	**22,872**	**30,407**	**31,588**	**33,693**	**37,666**	**45,573**
Net interest income(expense)	-3,173	-1,917	-5,810	-2,351	463	1,742
Associates/affiliates	8	0	-5	-5	-5	-5
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**19,707**	**28,490**	**25,773**	**31,337**	**38,124**	**47,310**
Income tax expense	7,791	11,355	8,612	10,968	12,962	16,085
Minorities	1,308	1,820	2,511	2,637	2,861	3,290
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**10,608**	**15,315**	**14,650**	**17,733**	**22,301**	**27,935**
DB adjustments (including dilution)	2,085	1,555	-687	175	175	175
DB Net profit	**12,693**	**16,870**	**13,963**	**17,908**	**22,476**	**28,110**
Cash Flow (ZARm)						
Cash flow from operations	**27,525**	**36,772**	**39,663**	**31,017**	**39,763**	**42,613**
Net Capex	-14,458	-26,896	-27,720	-21,527	-20,294	-19,986
Free cash flow	**13,067**	**9,876**	**11,943**	**9,490**	**19,469**	**22,628**
Equity raised/(bought back)	60	41	-427	0	0	0
Dividends paid	-1,675	-2,536	-3,381	-6,350	-8,954	-12,362
Net inc/(dec) in borrowings	-483	3,877	2,290	-6,066	-10,000	-5,000
Other investing/financing cash flows	-4,431	-1,208	-13,375	5	10	15
Net cash flow	**6,538**	**10,050**	**-2,950**	**-2,921**	**525**	**5,281**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	17,607	28,739	24,741	25,516	31,840	45,452
Tangible fixed assets	39,463	64,193	67,541	76,926	84,577	90,454
Goodwill/intangible assets	38,797	45,786	36,064	33,495	30,950	28,218
Associates/investments	84	67	1,468	2,199	3,296	4,940
Other assets	19,635	31,321	26,423	31,183	33,963	40,398
Total assets	**115,586**	**170,106**	**156,237**	**169,320**	**184,626**	**209,462**
Interest bearing debt	33,657	41,590	36,917	29,498	19,498	14,498
Other liabilities	30,427	47,974	46,454	48,795	51,307	52,642
Total liabilities	**64,084**	**89,564**	**83,371**	**78,293**	**70,805**	**67,140**
Shareholders' equity	47,315	76,386	70,011	87,744	110,045	137,980
Minorities	4,187	4,156	2,855	3,283	3,776	4,342
Total shareholders' equity	**51,502**	**80,542**	**72,866**	**91,027**	**113,821**	**142,322**
Net debt	*16,050*	*12,851*	*12,176*	*3,982*	*-12,342*	*-30,954*
Key Company Metrics						
Sales growth (%)	na	40.2	9.2	1.9	7.3	16.5
DB EPS growth (%)	na	32.6	-16.6	28.3	25.5	25.1
EBITDA Margin (%)	43.8	42.3	41.3	42.4	43.2	43.8
EBIT Margin (%)	31.3	29.7	28.2	29.5	30.8	32.0
Payout ratio (%)	23.9	22.0	24.3	50.5	55.4	60.4
ROE (%)	26.8	27.3	19.1	22.7	22.7	22.7
Capex/sales (%)	19.8	26.2	24.8	18.9	16.6	14.0
Capex/depreciation (x)	1.6	2.1	1.9	1.5	1.3	1.2
Net debt/equity (%)	31.2	16.0	16.7	4.4	-10.8	-21.7
Net interest cover (x)	7.2	15.9	5.4	14.3	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Murray and Roberts Holdings Ltd

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

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

Key industries: Murray and Roberts is also involved in mining construction in southern Africa, North America and Australia. In southern Africa, its key minerals include diamonds, copper, gold and nickel and platinum. African activities are evenly split between contract mining and mine development, while North America and Australia are primarily diamond and nickel markets for the group. Commodity prices also impact the performance of this industry. It also participates in large infrastructure projects, in South Africa, the Middle East and Australia. Examples of these projects include the Gautrain rapid rail link and the South African power station build programme

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

Outlook: The Murray AND Roberts Group has benefited considerably from the recent global mining cycle, the rapid growth in construction investment in Dubai, and the South African government's strong infrastructural investment plan implemented over the past five years. As a result, it has established a strong earnings growth track record, while improving its financial characteristics over time. Despite this strong recent performance, we believe the short term poses some significant challenges to the group. With the conclusion of the 2010 FIFA World Cup-related construction projects, and the tightening of the government's fiscal balance, the flow of new large projects has slowed considerably, and the group now faces a static to declining order book over the short term. It also remains embroiled in a number of disputes with major clients, which have recently resulted in rising working capital and revenue deferments. While commodity prices have begun to recover, this has not yet translated into any increase in the level of mining capex, primarily because of the strong currency. On balance, we therefore see the group's short- to medium-term outlook as muted, and rate the shares **Hold**.

Valuation: We assess the fundamental value of Murray and Roberts based on a DCF analysis, using a 13.5% WACC (ERP 4.5%, risk-free rate 8.5%, beta 1.1x), a 5% perpetuity margin, and a 4.5% perpetual growth rate (South African house stance). We then derive a 12-month target by rolling the fair valuation so derived forward by the cost of equity less dividend yield.

Risks: Downside risks

- Sustained currency strength ahead of our forecasts (35% operating earnings earned outside of South Africa)
- Further project cancellations from the group's order book
- Fresh unfavourable findings in the competition commission's investigation into the construction sector.

Upside risks

- Interest rates falling substantially below current levels
- Resolution of contract disputes currently under way in certain large contracts such as Gautrain.

Model updated: 31 January 2011

Running the Numbers

S. Africa

South Africa

Construction & Building Materials

M&R Holdings Ltd

Reuters: MURJ.J Bloomberg: MUR SJ

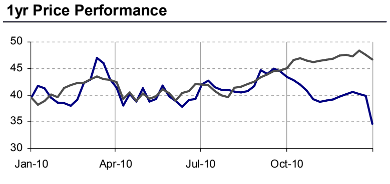
Hold

Price (28 Jan 11)	ZAR 34.60
Target price	ZAR 35.00
52-week Range	ZAR 34.60 – 46.99
Market Cap	ZAR 10,194m US$ 1,420m

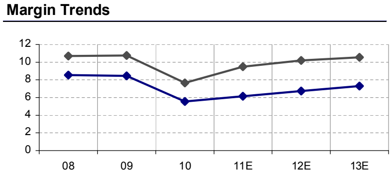
Company Profile

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

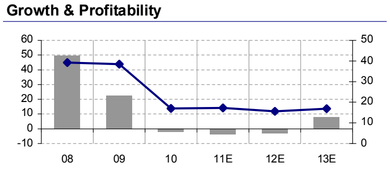
1yr Price Performance



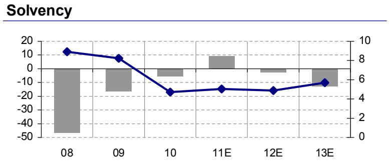
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	5.50	6.75	3.40	3.86	3.92	4.79
Reported EPS (ZAR)	5.50	6.75	3.40	3.86	3.92	4.79
DPS (ZAR)	1.96	2.18	1.05	1.10	1.12	1.45
BVPS (ZAR)	14.66	16.81	18.69	21.20	23.71	26.98
Weighted average shares (m)	297	294	295	295	295	295
Average market cap (ZARm)	26,288	17,661	13,853	10,194	10,194	10,194
Enterprise value (ZARm)	23,982	17,106	13,797	11,484	10,655	9,769
Valuation Metrics						
P/E (DB) (x)	16.1	8.9	13.8	9.0	8.8	7.2
P/E (Reported) (x)	16.1	8.9	13.8	9.0	8.8	7.2
P/BV (x)	5.93	2.97	2.08	1.63	1.46	1.28
FCF Yield (%)	5.5	nm	nm	nm	13.2	14.2
Dividend Yield (%)	2.2	3.6	2.2	3.2	3.2	4.2
EV/Sales (x)	0.90	0.52	0.43	0.37	0.36	0.30
EV/EBITDA (x)	8.4	4.9	5.6	3.9	3.5	2.9
EV/EBIT (x)	10.5	6.2	7.8	6.1	5.3	4.2
Income Statement (ZARm)						
Sales revenue	**26,666**	**32,684**	**31,962**	**30,741**	**29,720**	**32,037**
Gross profit	**2,850**	**3,512**	**2,449**	**2,920**	**3,033**	**3,385**
EBITDA	**2,850**	**3,512**	**2,449**	**2,920**	**3,033**	**3,385**
Depreciation	530	711	649	1,004	1,006	1,023
Amortisation	39	35	25	24	23	25
EBIT	**2,281**	**2,766**	**1,775**	**1,892**	**2,004**	**2,337**
Net interest income(expense)	-256	-336	-377	-376	-410	-410
Associates/affiliates	9	2	14	0	0	0
Exceptionals/extraordinaries	188	194	10	0	0	0
Other pre-tax income/(expense)	285	316	183	165	115	159
Profit before tax	**2,455**	**2,754**	**1,683**	**1,681**	**1,709**	**2,085**
Income tax expense	490	612	470	353	359	438
Minorities	350	320	131	186	189	231
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,669**	**2,010**	**1,005**	**1,142**	**1,161**	**1,417**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**1,669**	**2,010**	**1,005**	**1,142**	**1,161**	**1,417**
Cash Flow (ZARm)						
Cash flow from operations	**3,116**	**1,560**	**691**	**229**	**2,388**	**2,572**
Net Capex	-1,666	-2,263	-1,097	-1,079	-1,044	-1,123
Free cash flow	**1,449**	**-703**	**-406**	**-850**	**1,344**	**1,448**
Equity raised/(bought back)	41	-250	18	0	0	0
Dividends paid	-525	-697	-667	-311	-326	-332
Net inc/(dec) in borrowings	-253	688	229	0	0	0
Other investing/financing cash flows	938	-439	520	0	0	0
Net cash flow	**1,650**	**-1,401**	**-305**	**-1,161**	**1,018**	**1,117**
Change in working capital	*445*	*-1,290*	*-931*	*-2,127*	*9*	*-124*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,688	4,663	3,811	2,650	3,668	4,785
Tangible fixed assets	3,694	4,280	4,233	4,280	4,290	4,362
Goodwill/intangible assets	578	549	625	629	634	637
Associates/investments	549	512	638	638	638	638
Other assets	12,140	13,489	12,645	14,907	14,488	15,001
Total assets	**21,649**	**23,494**	**21,952**	**23,105**	**23,718**	**25,423**
Interest bearing debt	1,972	3,568	3,418	3,418	3,418	3,418
Other liabilities	13,852	13,292	11,357	11,492	11,082	11,471
Total liabilities	**15,824**	**16,860**	**14,775**	**14,910**	**14,500**	**14,889**
Shareholders' equity	4,865	5,581	6,203	7,035	7,869	8,954
Minorities	960	1,053	974	1,160	1,349	1,580
Total shareholders' equity	**5,825**	**6,634**	**7,177**	**8,195**	**9,218**	**10,534**
Net debt	*-2,716*	*-1,095*	*-393*	*768*	*-250*	*-1,367*
Key Company Metrics						
Sales growth (%)	49.7	22.6	-2.2	-3.8	-3.3	7.8
DB EPS growth (%)	65.3	22.7	-49.7	13.7	1.6	22.1
EBITDA Margin (%)	10.7	10.7	7.7	9.5	10.2	10.6
EBIT Margin (%)	8.6	8.5	5.6	6.2	6.7	7.3
Payout ratio (%)	34.9	31.9	30.8	28.5	28.5	30.2
ROE (%)	39.3	38.5	17.1	17.3	15.6	16.8
Capex/sales (%)	6.7	7.2	3.5	3.5	3.5	3.5
Capex/depreciation (x)	3.2	3.2	1.7	1.0	1.0	1.1
Net debt/equity (%)	-46.6	-16.5	-5.5	9.4	-2.7	-13.0
Net interest cover (x)	8.9	8.2	4.7	5.0	4.9	5.7

Source: Company data, Deutsche Bank estimates

South Africa – General Industrial

Nampak Ltd

Business description: Nampak is South Africa's largest and most diversified packaging and paper group. The group controls over 50% of the South African packaging market. Nampak covers most segments of the packaging sector and is able to offer total solutions, spanning paper and board, metal, plastic and glass, as well as a range of composite containers. The group operates in South Africa, and 12 other African countries, as well as eight countries in Europe. The group is the leading supplier of plastic bottles to the dairy industry in the UK and a leading manufacturer of folding cartons in Europe.

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

Operations comprise three segments:

- **Metals and glass.** Nampak is the sole beverage can manufacturer in sub-Saharan Africa. The company also manufactures metal ends, crowns and closures. The group also has a 50% stake in Nampak Wiegand Glass, which manufactures a range of clear and coloured glass bottles.
- **Paper (Africa and Europe).** The group manufactures paper-based carton packaging – folding cartons, corrugated cartons, liquid cartons and display cartons among others. The group has seen a significant turnaround in the profitability of the Corrugated and Leeds businesses in recent results.
- **Plastics (Africa and Europe).** The group manufactures both rigid plastics (PET and HDPE bottles) and flexible plastics (reels, pouches and bags in film, paper or foil). The group expects that the recent acquisition of a competitor in the UK market would help restore the volumes lost last year.

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

Outlook: From a macro perspective, we believe that while consumer spending has recovered well off recent lows, the sustainability of this recovery remains questionable, depending as it does on a reversal in the declining employment trend, and some element of deleveraging ahead of the next interest rate hiking cycle. We continue to expect this to pan out only over the medium term, and therefore do not expect any significant further acceleration in the growth rate in consumer spending. **Hold**.

Valuation: We value Nampak using a DCF methodology due to the slow growth, mature nature of this business and its industry. We use an 11.2% WACC based on an 8.5% risk free rate, and Nampak's embedded debt to market cap ratio of 20% and a perpetuity growth rate of 4% (projected South African packaging industry growth predicated on South African GDP growth of 4%).

Risks: Upside risks: Significantly weaker currency then we currently forecast (stimulates packaged food and wine exports from South Africa, of which Nampak is one of the larger suppliers); Earlier recovery in consumer spending on non durable items Downside risks: Sustained increases in commodity prices, particularly oil, tinplate and aluminium, the combination of which represent a significant proportion of Nampak's production costs. Inability of management to further eliminate costs or dispose of businesses.

Model updated: 23 November 2010

Running the Numbers

S. Africa

South Africa

General Industrial

Nampak Ltd

Reuters: NPKJ.J Bloomberg: NPK SJ

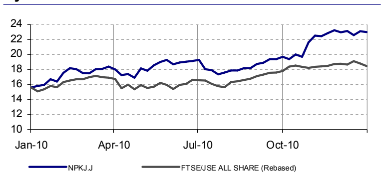
Hold

Price (28 Jan 11)	ZAR 23.00
Target price	ZAR 18.40
52-week Range	ZAR 15.17 – 23.25
Market Cap	ZAR 13,519m US$ 1,883m

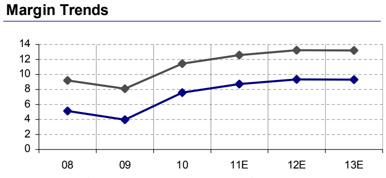
Company Profile

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

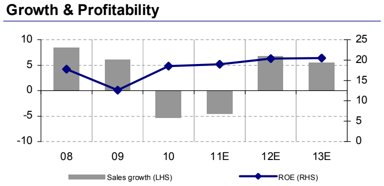
1yr Price Performance



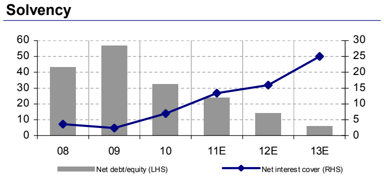
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	1.75	1.16	1.59	1.73	2.00	2.14
Reported EPS (ZAR)	1.75	1.16	1.59	1.73	2.00	2.14
DPS (ZAR)	1.00	0.42	0.83	1.23	1.43	1.53
BVPS (ZAR)	10.18	8.71	9.09	9.85	10.54	11.21
Weighted average shares (m)	585	586	588	588	588	588
Average market cap (ZARm)	10,158	8,123	10,185	13,519	13,519	13,519
Enterprise value (ZARm)	12,476	10,660	11,546	14,536	14,035	13,554
Valuation Metrics						
P/E (DB) (x)	9.9	12.0	10.9	13.3	11.5	10.7
P/E (Reported) (x)	9.9	12.0	10.9	13.3	11.5	10.7
P/BV (x)	1.38	1.95	2.09	2.34	2.18	2.05
FCF Yield (%)	0.7	11.4	18.3	9.4	9.6	10.2
Dividend Yield (%)	5.8	3.0	4.8	5.4	6.2	6.7
EV/Sales (x)	0.68	0.54	0.62	0.82	0.74	0.68
EV/EBITDA (x)	7.3	6.7	5.4	6.5	5.6	5.1
EV/EBIT (x)	13.1	13.7	8.2	9.4	7.9	7.3
Income Statement (ZARm)						
Sales revenue	**18,458**	**19,585**	**18,546**	**17,708**	**18,902**	**19,944**
Gross profit	**8,887**	**9,631**	**9,180**	**8,766**	**9,451**	**9,972**
EBITDA	**1,700**	**1,590**	**2,122**	**2,231**	**2,505**	**2,634**
Depreciation	751	811	712	685	736	777
Amortisation	0	0	0	0	0	0
EBIT	**949**	**779**	**1,410**	**1,545**	**1,769**	**1,857**
Net interest income(expense)	-265	-328	-203	-115	-111	-74
Associates/affiliates	9	-1	4	0	0	0
Exceptionals/extraordinaries	-50	-110	-32	0	0	0
Other pre-tax income/(expense)	5	6	6	7	7	8
Profit before tax	**698**	**456**	**1,217**	**1,437**	**1,665**	**1,790**
Income tax expense	202	70	316	395	458	492
Minorities	-21	-3	9	9	10	10
Other post-tax income/(expense)	571	396	86	0	0	0
Net profit	**1,038**	**675**	**946**	**1,032**	**1,198**	**1,287**
DB adjustments (including dilution)	24	23	23	23	23	23
DB Net profit	**1,061**	**698**	**969**	**1,055**	**1,221**	**1,310**
Cash Flow (ZARm)						
Cash flow from operations	**1,525**	**927**	**1,866**	**1,810**	**1,929**	**2,046**
Net Capex	-1,458	0	0	-540	-626	-662
Free cash flow	**67**	**927**	**1,866**	**1,270**	**1,302**	**1,383**
Equity raised/(bought back)	24	0	0	0	0	0
Dividends paid	-647	-529	-289	-586	-792	-892
Net inc/(dec) in borrowings	823	-459	-1,241	-200	0	0
Other investing/financing cash flows	1,955	-763	-470	124	0	0
Net cash flow	**2,222**	**-824**	**-135**	**608**	**511**	**491**
Change in working capital	*-160*	*198*	*212*	*-58*	*-128*	*-111*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,728	1,016	719	871	1,382	1,873
Tangible fixed assets	6,743	6,393	6,200	6,055	5,945	5,830
Goodwill/intangible assets	473	389	301	301	301	301
Associates/investments	299	399	409	409	409	409
Other assets	6,272	5,895	5,297	5,170	5,510	5,807
Total assets	**15,515**	**14,092**	**12,925**	**12,806**	**13,548**	**14,220**
Interest bearing debt	4,311	3,927	2,460	2,260	2,260	2,260
Other liabilities	5,212	5,036	5,097	5,177	5,503	5,770
Total liabilities	**9,523**	**8,963**	**7,557**	**7,437**	**7,763**	**8,031**
Shareholders' equity	5,959	5,105	5,341	5,787	6,193	6,588
Minorities	33	25	28	37	47	57
Total shareholders' equity	**5,992**	**5,130**	**5,368**	**5,824**	**6,240**	**6,645**
Net debt	*2,584*	*2,911*	*1,742*	*1,389*	*878*	*387*
Key Company Metrics						
Sales growth (%)	8.5	6.1	-5.3	-4.5	6.7	5.5
DB EPS growth (%)	-0.4	-33.7	37.0	8.8	15.7	7.4
EBITDA Margin (%)	9.2	8.1	11.4	12.6	13.3	13.2
EBIT Margin (%)	5.1	4.0	7.6	8.7	9.4	9.3
Payout ratio (%)	56.4	36.5	51.6	70.2	70.0	69.9
ROE (%)	17.7	12.6	18.6	19.0	20.4	20.5
Capex/sales (%)	8.5	0.0	0.0	3.0	3.3	3.3
Capex/depreciation (x)	2.1	0.0	0.0	0.8	0.9	0.9
Net debt/equity (%)	43.1	56.7	32.4	23.8	14.1	5.8
Net interest cover (x)	3.6	2.4	7.0	13.4	16.0	25.1

Source: Company data, Deutsche Bank estimates

South Africa – Media

Naspers Ltd

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

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

Drivers:

- **Continued growth from internet assets.** An important driver for Naspers in the short term is likely to be revenue trends from the group's internet operations. Aside from the quarterly revenue data reported from the Tencent operations, investors are now focusing more on the group's other internet operations like Tradus and DST. Should we see a marked slowdown in growth from these operations, this would be negatively received by the market. We are forecasting approximately 30% constant currency growth from Tencent in CY11.

Outlook: The Naspers group is a well diversified Media business with operations in Pay-TV, Internet, Technology and Media. The Pay-TV business, with operations in South Africa and sub-Saharan Africa, is the biggest contributor to revenues and EBITDA, while the Internet grouping, including the c.35% stake in Tencent, has been the key growth engine for the business over the past year.

The Pay TV business remains a defensive business with strong cash flow. Should the current economic slowdown persist, these operations should remain relatively robust and support the performance of the broader group.

The combined Internet operations are likely to remain at the forefront for the group over the medium term. This is emphasized by the increased investment in 2009 and 2010 in internet assets.

While the current macro environment is challenging, we believe the group's diversified business and exposure to the rapidly growing internet segment positions it well for continued growth over the next few years. We rate the counter Buy, underpinned by what we see as attractive valuation.

Valuation: We have valued Naspers using a sum-of-the-parts model. We value the listed investments at market value or underlying price targets and unlisted investments using a combination of PE relatives and acquisition price. Where valuing businesses on a PE basis, we have used our forward (September 2011E) EBITDA forecasts as a base.

Our target price for the Naspers group is 48500cps. Our sum-of-the-parts value for the group is approximately 61000cps and our price target builds in a 20% discount due to the holding company structure.

Our core value for the group is calculated after stripping out Tencent at market value, as well as some of the larger minority investments that do not contribute to operating profit, from the core business.

Risks: Tencent makes up a significant portion of our value for the Naspers group, and the business has continued to surprise on the upside over the past few years. A risk to our investment thesis would be a marked slowdown in the Chinese economy, which would limit the growth prospects for the Tencent business. A negative move in the Tencent share price would negatively impact Naspers.

Another risk to our investment thesis would be that the group overpays for new acquisitions. Naspers has been fairly acquisitive over the past few years and management has confirmed that the group continues to explore new acquisition prospects.

There have been additional Pay-TV licenses issued in South Africa, and while to date we have yet to see any real competition in the domestic Pay-TV market, should we see new competitors this could place some pressure on the South African business.

Another risk for the business would be continued strengthening in the rand. With a significant portion of the group's value coming from international operations, this would place downward pressure on the counter.

Model updated: 31 January 2011

Running the Numbers

S. Africa

South Africa

Media

Naspers

Reuters: NPNJn.J Bloomberg: NPN SJ

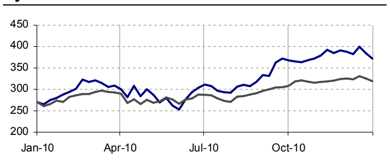
Buy

Price (28 Jan 11)	ZAR 372.10
Target price	ZAR 485.00
52-week Range	ZAR 250.00 – 403.75
Market Cap	ZAR 139,538m
	US$ 19,439m

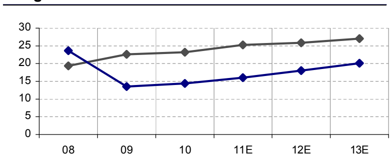
Company Profile

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

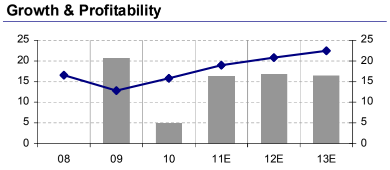
1yr Price Performance



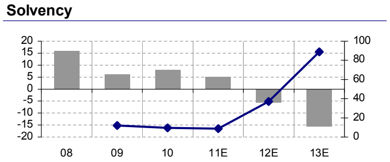
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Financial Summary						
DB EPS (ZAR)	14.97	11.31	14.26	18.35	23.04	28.64
Reported EPS (ZAR)	14.97	11.31	14.26	18.35	23.04	28.64
DPS (ZAR)	1.60	2.07	2.35	3.04	3.82	4.75
BVPS (ZAR)	90.24	90.54	90.25	103.37	117.80	na
Weighted average shares (m)	354	371	373	375	375	375
Average market cap (ZARm)	61,123	61,043	93,417	139,538	139,538	139,538
Enterprise value (ZARm)	55,106	50,530	82,790	126,767	120,681	113,178
Valuation Metrics						
P/E (DB) (x)	11.5	14.5	17.6	20.3	16.2	13.0
P/E (Reported) (x)	11.5	14.5	17.6	20.3	16.2	13.0
P/BV (x)	1.56	1.77	3.51	3.60	3.16	na
FCF Yield (%)	5.2	4.4	4.9	2.9	3.9	5.0
Dividend Yield (%)	0.9	1.3	0.9	0.8	1.0	1.3
EV/Sales (x)	2.49	1.89	2.96	3.89	3.17	2.56
EV/EBITDA (x)	12.9	8.4	12.7	15.4	12.3	9.5
EV/EBIT (x)	10.5	14.0	20.5	24.3	17.6	12.7
Income Statement (ZARm)						
Sales revenue	**22,115**	**26,690**	**27,998**	**32,567**	**38,039**	**44,281**
Gross profit	**4,287**	**6,026**	**6,496**	**8,233**	**9,828**	**11,968**
EBITDA	**4,287**	**6,026**	**6,496**	**8,233**	**9,828**	**11,968**
Depreciation	-1,297	1,086	1,049	1,359	1,419	1,525
Amortisation	360	1,334	1,406	1,650	1,550	1,550
EBIT	**5,224**	**3,606**	**4,041**	**5,224**	**6,858**	**8,893**
Net interest income(expense)	1,005	-303	-421	-600	-185	-100
Associates/affiliates	654	1,473	2,058	3,195	4,372	5,509
Exceptionals/extraordinaries	-279	-214	-62	-120	0	0
Other pre-tax income/(expense)	16	36	144	1,587	0	0
Profit before tax	**6,620**	**4,598**	**5,760**	**9,285**	**11,046**	**14,301**
Income tax expense	1,378	1,436	1,808	2,266	2,755	3,465
Minorities	639	670	695	775	1,451	1,896
Other post-tax income/(expense)	161	3,092	0	0	0	0
Net profit	**4,764**	**5,584**	**3,257**	**6,245**	**6,840**	**8,940**
DB adjustments (including dilution)	530	-1,387	2,062	635	1,800	1,800
DB Net profit	**5,294**	**4,197**	**5,319**	**6,880**	**8,640**	**10,740**
Cash Flow (ZARm)						
Cash flow from operations	**4,411**	**3,913**	**5,622**	**5,480**	**7,006**	**8,526**
Net Capex	-1,202	-1,254	-1,003	-1,375	-1,525	-1,525
Free cash flow	**3,209**	**2,659**	**4,619**	**4,105**	**5,481**	**7,001**
Equity raised/(bought back)	96	17	0	0	0	0
Dividends paid	-544	-669	-876	-1,140	-1,431	-1,779
Net inc/(dec) in borrowings	9,625	-5,737	0	0	0	0
Other investing/financing cash flows	-16,544	2,209	-678	-2,500	-1,000	-1,000
Net cash flow	**-4,157**	**-1,521**	**3,065**	**465**	**3,050**	**4,222**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	7,573	6,642	6,785	6,605	11,210	18,083
Tangible fixed assets	4,541	4,754	6,490	6,481	6,562	6,537
Goodwill/intangible assets	24,913	20,916	21,596	22,252	22,377	22,502
Associates/investments	12,507	14,276	15,442	16,986	18,685	20,553
Other assets	7,989	7,972	7,155	9,834	10,554	11,924
Total assets	**57,523**	**54,560**	**57,468**	**62,158**	**69,389**	**79,600**
Interest bearing debt	12,825	8,780	9,626	8,650	8,650	9,650
Other liabilities	11,550	10,563	12,208	12,572	14,177	15,988
Total liabilities	**24,376**	**19,343**	**21,834**	**21,222**	**22,827**	**25,638**
Shareholders' equity	31,910	33,591	33,660	38,765	44,174	51,334
Minorities	1,238	1,626	1,974	2,171	2,389	2,627
Total shareholders' equity	**33,147**	**35,217**	**35,634**	**40,936**	**46,562**	**53,962**
Net debt	*5,253*	*2,138*	*2,841*	*2,045*	*-2,560*	*-8,433*
Key Company Metrics						
Sales growth (%)	na	20.7	4.9	16.3	16.8	16.4
DB EPS growth (%)	na	-24.4	26.1	28.6	25.6	24.3
EBITDA Margin (%)	19.4	22.6	23.2	25.3	25.8	27.0
EBIT Margin (%)	23.6	13.5	14.4	16.0	18.0	20.1
Payout ratio (%)	11.9	13.8	26.9	18.3	20.9	19.9
ROE (%)	16.6	12.8	15.8	19.0	20.8	22.5
Capex/sales (%)	5.6	4.8	3.6	4.2	4.0	3.4
Capex/depreciation (x)	-1.3	0.5	0.4	0.5	0.5	0.5
Net debt/equity (%)	15.8	6.1	8.0	5.0	-5.5	-15.6
Net interest cover (x)	nm	11.9	9.6	8.7	37.1	88.9

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Pick n Pay Stores Ltd

Business description: Pick n Pay is a holding company with subsidiaries in South Africa, Australia and Zimbabwe. 53% of the shares in the holding company are held by the founding members' family trust. It is predominantly engaged in the mass retailing of food (second largest player domestically with c.30% market share), and also retails clothing, liquor and general merchandise. The group has three main divisions – retail (all retail operations, retailing food, clothing, general merchandise, pharmaceuticals and liquor under the Pick n Pay and Boxer brands throughout southern Africa), Franklins Australia (retailing food and general merchandise in New South Wales, Australia) and Pick n Pay Insurance Cell Captive (provides insurance services). The group has discontinued operation of Score brand (retailing goods and services under the Score brand) in 2010 and is in the final process of exiting the Australian business, Franklins.

The group consists of 466 corporate-owned and 328 franchise stores. The 20 hypermarkets generate a substantial portion of group turnover (>20%). The balance of turnover is from 299 supermarkets, 288 domestic franchise stores, 103 Boxer superstores, and 84 Franklins supermarkets in Australia. The group is planning to increase its outlets to 874 by 2011. Excluding Boxer superstores, which target lower-end customers, most formats target middle to upper income customers.

Drivers: The retail division concentrates on the group's core business of hypermarkets, supermarkets, family and mini market franchise stores and home shopping. Group enterprises manage Score supermarkets, Boxer superstores, TM supermarkets (investment in Zimbabwean associate subsequently written off), and financial services. The group acquired Franklins, a 77-store chain in Australia for R568m in 2002. The group had decided to sell its Australian operations and accepted an offer of A$215m from Metcash. While the Australian Competition and Consumer Commission (ACCC) did not approve the deal, management has decided to go ahead with the sale regardless.

The primary expansion plans/growth prospects are:

- **Recovering from market share losses in recent times:** Management is attempting to curb market share losses over the last few years by revisiting price perceptions through aggressive competitive pricing.
- **Margin expansion opportunity through wage containment.** Management recently settled a favourable three-year wage agreement with the labour unions, securing fairly benign y-o-y increases as inflation starts to increase. It has also done away with restrictive legacy agreements with the unions that previously resulted in inherent staff inefficiencies in new stores.
- **Africa expansion: more aggressive approach:** The initial corporate store opening in Zambia in July 2010 has proceeded well. Management expects to breakeven in c.6 months time and has already confirmed a further four stores in Zambia. Management indicated that by 2014 it could have as many as 100 stores in Africa.
- **Recovery from high cost base:** The various significant investments in space, centralised distribution and IT systems resulted in significant additional costs being incurred (consulting fees etc). Off a high base, the y-o-y growth in operating costs should start to abate assisting to defend margins in a lower top line environment.

Outlook: The market has focussed on a number of historical strategic concerns resulting in the stock underperforming peers over the last few years. The biggest stumbling blocks to unlocking value in the stock have been the loss-making Franklins (Australia) and domestic Score operations. An offer has recently been received for Franklins by Metcash in Australia, and the conversion of Score stores (to higher-equity Pick n Pay-branded formats, which we believe will boost volume growth) has been completed. Despite a focussed cost cutting initiative, various headwinds over-shadow the sector (slowing food inflation and cost inflationary pressures) with no obvious near-term catalyst for a further re-rating. We expect muted total return supporting our **Hold** recommendation.

Valuation: We value Pick n Pay using a PE-relative methodology employing a normalised two-year forward PE of 12.9x (in line with the normalised long-term domestic food universe multiple) to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12 month price target of 4500cps.

Risks: Key downside risks to our recommendation include: 1) Lower food inflation than anticipated, 2) Higher capex requirements constraining cash generation, and 3) Declining cost efficiency as cost inflationary pressures remain and top line inflation slows. Key upside risks include 1) Earlier-than-expected volume recovery, 2) Better-than-expected performance from converted Score stores, and 3) Higher-than-anticipated savings from cost-cutting initiatives.

Model updated: 21 October 2010

Running the Numbers

S. Africa

South Africa

General Retailers

Pick'n Pay Stores

Reuters: PIKJ.J Bloomberg: PIK SJ

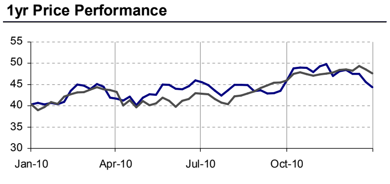
Hold

Price (28 Jan 11)	ZAR 44.36
Target price	ZAR 45.00
52-week Range	ZAR 40.00 – 49.75
Market Cap	ZAR 20,991m US$ 2,924m

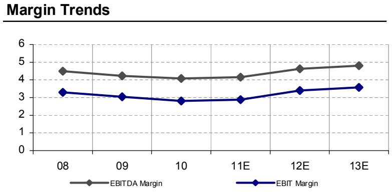
Company Profile

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

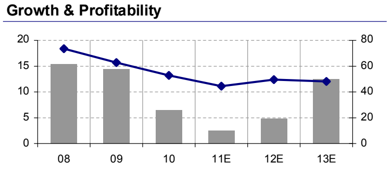
1yr Price Performance



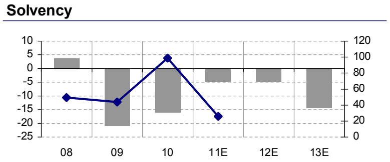
Margin Trends



Growth & Profitability



Solvency



Nick Higham
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Fiscal year end 28-Feb	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	1.89	2.07	2.11	2.14	2.87	3.41
Reported EPS (ZAR)	1.89	2.07	2.11	2.14	2.87	3.41
DPS (ZAR)	1.49	1.70	1.75	1.74	2.15	2.56
BVPS (ZAR)	3.00	3.57	4.46	5.20	6.39	7.80
Weighted average shares (m)	456	472	472	473	473	473
Average market cap (ZARm)	15,935	14,300	17,306	20,991	20,991	20,991
Enterprise value (ZARm)	15,989	13,944	16,960	20,870	20,834	20,443
Valuation Metrics						
P/E (DB) (x)	18.5	14.7	17.4	20.8	15.4	13.0
P/E (Reported) (x)	18.5	14.7	17.4	20.8	15.4	13.0
P/BV (x)	10.29	8.69	9.05	8.53	6.94	5.68
FCF Yield (%)	0.4	5.7	3.0	0.7	3.4	5.9
Dividend Yield (%)	4.3	5.6	4.8	3.9	4.9	5.8
EV/Sales (x)	0.35	0.27	0.31	0.37	0.35	0.31
EV/EBITDA (x)	7.8	6.3	7.5	8.9	7.6	6.4
EV/EBIT (x)	10.7	8.8	10.9	12.8	10.3	8.6
Income Statement (ZARm)						
Sales revenue	**45,381**	**51,933**	**55,314**	**56,677**	**59,389**	**66,813**
Gross profit	**7,969**	**9,849**	**10,288**	**10,320**	**10,607**	**11,933**
EBITDA	**2,041**	**2,198**	**2,256**	**2,353**	**2,750**	**3,208**
Depreciation	548	616	704	719	730	822
Amortisation	0	0	0	0	0	0
EBIT	**1,493**	**1,583**	**1,552**	**1,634**	**2,019**	**2,386**
Net interest income(expense)	-30	-36	-16	-64	48	66
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-5	4	9	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,462**	**1,546**	**1,536**	**1,571**	**2,067**	**2,452**
Income tax expense	558	568	532	535	672	797
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**900**	**982**	**1,012**	**1,036**	**1,395**	**1,655**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**900**	**982**	**1,012**	**1,036**	**1,395**	**1,655**
Cash Flow (ZARm)						
Cash flow from operations	**926**	**1,815**	**1,708**	**1,655**	**2,221**	**2,738**
Net Capex	-861	-1,003	-1,194	-1,500	-1,500	-1,500
Free cash flow	**65**	**813**	**515**	**155**	**721**	**1,238**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-615	-718	-815	-658	-816	-967
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	24	312	281	279	131	119
Net cash flow	**-526**	**407**	**-19**	**-225**	**36**	**390**
Change in working capital	*-527*	*221*	*1*	*-100*	*96*	*262*
Balance Sheet (ZARm)						
Cash and other liquid assets	663	1,073	1,055	1,890	1,926	2,317
Tangible fixed assets	2,771	2,937	3,416	4,197	4,966	5,644
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	5,726	6,466	6,630	6,760	7,020	7,730
Total assets	**9,160**	**10,476**	**11,101**	**12,847**	**13,913**	**15,691**
Interest bearing debt	718	716	710	1,769	1,769	1,769
Other liabilities	7,009	8,064	8,247	8,556	9,042	10,133
Total liabilities	**7,727**	**8,781**	**8,956**	**10,325**	**10,811**	**11,902**
Shareholders' equity	1,434	1,696	2,145	2,522	3,102	3,789
Minorities	0	0	0	0	0	0
Total shareholders' equity	**1,434**	**1,696**	**2,145**	**2,522**	**3,102**	**3,789**
Net debt	*55*	*-356*	*-346*	*-121*	*-157*	*-548*
Key Company Metrics						
Sales growth (%)	15.4	14.4	6.5	2.5	4.8	12.5
DB EPS growth (%)	11.0	9.6	1.9	1.4	34.5	18.6
EBITDA Margin (%)	4.5	4.2	4.1	4.2	4.6	4.8
EBIT Margin (%)	3.3	3.0	2.8	2.9	3.4	3.6
Payout ratio (%)	75.6	81.6	81.3	79.4	73.1	73.1
ROE (%)	73.5	62.8	52.7	44.4	49.6	48.0
Capex/sales (%)	1.9	1.9	2.2	2.6	2.5	2.2
Capex/depreciation (x)	1.6	1.6	1.7	2.1	2.1	1.8
Net debt/equity (%)	3.8	-21.0	-16.1	-4.8	-5.1	-14.4
Net interest cover (x)	49.3	43.7	98.8	25.7	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Construction & Building Materials

Pretoria Portland Cement Co Ltd

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

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

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

Outlook: The South African cement industry is entering a new era with the imminent introduction of a credible new entrant. Even though we believe the immediate effect of the current slowdown and the imminent introduction of competition should mute PPC's upside potential, it should be balanced by PPC's ability to maintain its dividend cover while supporting the capital investment required to remain competitive over the long term. Therefore, our **Hold** recommendation is based on the offsetting balance between the group's attractive dividend yield and the slow recovery of its primary markets, combined with the imminent introduction of a new competitor.

Valuation: We value PPC on a DCF basis with a 12.4% WACC a 15% debt-to-capital ratio, and a long-run operating margin of 25%. The WACC is based on a fair cost of debt of 7.2%, a calculated beta of 1.1, and a market risk premium of 4.5%, in line with our house view.

Risks: Upside: Better-than-forecast price realisations in regional cement markets; interest rates falling further than current levels; This would be positive for residential construction, which consumes a significant proportion of all cement manufactured in South Africa. Downside: Further adverse findings by the competition commission; Faster-than-expected entry of new competitors into the market; Unforeseen delays in implementation of capacity expansion or commissioning of the plant; Prospect of excess production capacity coming on line; and Possibility of government intervention in prices.

Model updated: 10 November 2010

Running the Numbers

S. Africa

South Africa

Construction & Building Materials

PPC Ltd

Reuters: PPCJ.J Bloomberg: PPC SJ

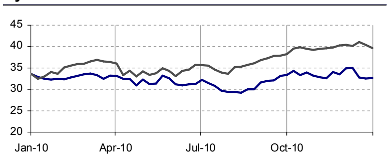
Hold

Price (28 Jan 11)	ZAR 32.65
Target price	ZAR 35.00
52-week Range	ZAR 28.86 – 35.10
Market Cap	ZAR 17,553m US$ 2,445m

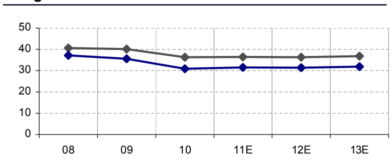
Company Profile

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

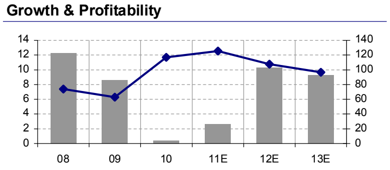
1yr Price Performance



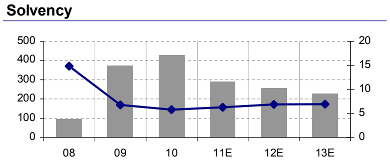
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	2.83	1.29	2.21	2.64	2.93	3.25
Reported EPS (ZAR)	2.83	1.69	2.15	2.64	2.93	3.25
DPS (ZAR)	2.25	2.00	1.75	2.03	2.26	2.50
BVPS (ZAR)	3.19	1.70	1.60	2.17	2.71	3.31
Weighted average shares (m)	538	538	538	538	538	538
Average market cap (ZARm)	20,736	16,176	17,382	17,553	17,553	17,553
Enterprise value (ZARm)	22,069	19,523	20,965	20,858	21,209	21,515
Valuation Metrics						
P/E (DB) (x)	13.6	23.3	14.7	12.4	11.1	10.0
P/E (Reported) (x)	13.6	17.8	15.0	12.4	11.1	10.0
P/BV (x)	9.81	19.92	20.03	15.04	12.04	9.87
FCF Yield (%)	4.1	5.1	5.9	7.1	4.4	5.3
Dividend Yield (%)	5.8	6.6	5.4	6.2	6.9	7.7
EV/Sales (x)	3.53	2.88	3.08	2.99	2.75	2.56
EV/EBITDA (x)	8.7	7.2	8.5	8.2	7.6	6.9
EV/EBIT (x)	9.5	8.1	10.0	9.5	8.8	8.0
Income Statement (ZARm)						
Sales revenue	**6,248**	**6,783**	**6,807**	**6,985**	**7,703**	**8,416**
Gross profit	**2,701**	**2,886**	**2,740**	**2,858**	**3,064**	**3,386**
EBITDA	**2,541**	**2,727**	**2,474**	**2,544**	**2,802**	**3,100**
Depreciation	214	309	359	345	380	415
Amortisation	4	6	9	0	0	0
EBIT	**2,323**	**2,412**	**2,106**	**2,199**	**2,422**	**2,684**
Net interest income(expense)	-157	-357	-366	-352	-352	-387
Associates/affiliates	10	7	8	9	0	0
Exceptionals/extraordinaries	6	-471	-28	0	0	0
Other pre-tax income/(expense)	84	63	39	42	45	49
Profit before tax	**2,266**	**1,850**	**1,732**	**1,898**	**2,115**	**2,346**
Income tax expense	767	722	622	627	704	781
Minorities	0	104	102	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,499**	**828**	**1,035**	**1,270**	**1,411**	**1,565**
DB adjustments (including dilution)	0	-196	27	0	0	0
DB Net profit	**1,499**	**632**	**1,062**	**1,270**	**1,411**	**1,565**
Cash Flow (ZARm)						
Cash flow from operations	**1,644**	**1,728**	**1,689**	**1,859**	**1,769**	**1,939**
Net Capex	-792	-911	-660	-620	-1,000	-1,000
Free cash flow	**852**	**817**	**1,029**	**1,239**	**769**	**939**
Equity raised/(bought back)	0	5	0	0	0	0
Dividends paid	-1,399	-1,195	-1,062	-961	-1,121	-1,244
Net inc/(dec) in borrowings	240	1,651	0	0	0	0
Other investing/financing cash flows	-770	-1,254	-3	0	0	0
Net cash flow	**-1,077**	**24**	**-36**	**278**	**-352**	**-305**
Change in working capital	*-17*	*-133*	*-44*	*31*	*-46*	*-67*
Balance Sheet (ZARm)						
Cash and other liquid assets	224	248	240	518	167	-139
Tangible fixed assets	2,813	3,941	4,175	4,450	5,070	5,654
Goodwill/intangible assets	19	53	78	78	78	78
Associates/investments	274	66	76	76	76	76
Other assets	1,204	1,511	1,543	1,460	1,597	1,734
Total assets	**4,534**	**5,819**	**6,112**	**6,582**	**6,988**	**7,404**
Interest bearing debt	1,831	3,661	3,899	3,899	3,899	3,899
Other liabilities	990	1,243	1,355	1,515	1,631	1,727
Total liabilities	**2,821**	**4,904**	**5,254**	**5,414**	**5,530**	**5,626**
Shareholders' equity	1,713	915	858	1,167	1,458	1,778
Minorities	0	0	0	0	0	0
Total shareholders' equity	**1,713**	**915**	**858**	**1,167**	**1,458**	**1,778**
Net debt	*1,607*	*3,413*	*3,659*	*3,381*	*3,732*	*4,038*
Key Company Metrics						
Sales growth (%)	12.3	8.6	0.4	2.6	10.3	9.2
DB EPS growth (%)	8.7	-54.4	71.0	19.6	11.1	10.9
EBITDA Margin (%)	40.7	40.2	36.3	36.4	36.4	36.8
EBIT Margin (%)	37.2	35.6	30.9	31.5	31.4	31.9
Payout ratio (%)	80.7	129.9	90.9	85.9	85.9	85.9
ROE (%)	73.8	63.0	116.8	125.4	107.5	96.7
Capex/sales (%)	12.8	13.6	9.7	8.9	13.0	11.9
Capex/depreciation (x)	3.7	2.9	1.8	1.8	2.6	2.4
Net debt/equity (%)	93.8	373.0	426.5	289.6	256.1	227.1
Net interest cover (x)	14.8	6.8	5.8	6.2	6.9	6.9

Source: Company data, Deutsche Bank estimates

Switzerland – Luxury Goods

Richemont

Business description: Richemont is a Switzerland-based luxury goods company. After the 2008 disposal of its significant stake in the London-listed British American Tobacco (BAT), it is now a pure luxury play with some of the most enviable luxury goods brands in the world, including Cartier, Van Cleef & Arpels, Vacheron Constantin, IWC, Piaget, Montblanc, Chloe, Lancel, Dunhill, among others.

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

Jewellery maisons includes Cartier and Van Cleef & Arpels (VCA). VCA is not as developed as Cartier but is rapidly growing its presence in the market. Specialist watchmakers include the watch focused brands like Vacheron Constantin, IWC, Panerai and Jaeger-LeCoultre. Most watch brands are positioned in the high-end/prestige segments and enjoy very high levels of profitability, with the exception of Baume & Mercier, which is currently going through a deep restructuring and repositioning phase. Writing instruments is predominantly Montblanc despite Montblanc sales being significantly less reliant on pen sales than it was a number of years ago. The leather and accessories segment includes Dunhill and Lancel – soft luxury brands that have struggled in recent years to retain the strong position they once enjoyed. Finally, the other segment includes a number of smaller brands, the most important of which is the fashion brand Chloe, as well the watch components business, which after a difficult couple of years should now enjoy the market-driven rebound.

Outlook: Thanks to its portfolio of brands, which represent high barriers to entry, and a favourable geo mix with strong exposure to Asian consumers, Richemont remains in a key position to benefit from the secular demographic trends of new growth countries. Its balance sheet strength allows the group to pursue organic growth with no constraints and the company is ready to increase capex to 6% of sales to open new stores and beef up manufacturing, thus sustaining the top line. Thanks to operational leverage margin expansion should continue.

Valuation: We value Richemont using a DCF valuation (WACC: 9.5%, risk free rate: 4.5%, equity risk premium: 4.5%, sustainable margin: 22%, perpetuity growth: 2.5%). The WACC reflects the cost of equity of the business as it is currently debt free and uses a beta of 1.1x to reflect the high-beta nature of the luxury industry. We use a perpetuity growth rate of 2.5% to reflect the above-average growth prospects in the sector. **Buy**.

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

Model updated: 14 November 2010

Running the Numbers

Europe

Switzerland

Luxury Goods

Richemont

Reuters: CFR.VX Bloomberg: CFR VX

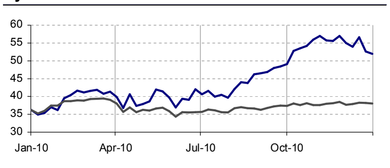
Buy

Price (28 Jan 11)	CHF 52.00
Target price	CHF 59.00
52-week Range	CHF 34.87 – 57.25
Market Cap	CHF 29,193m US$ 30,990m

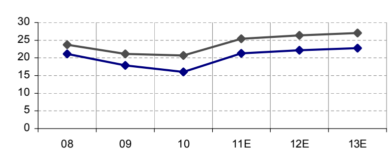
Company Profile

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

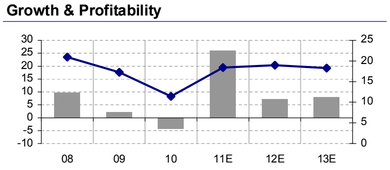
1yr Price Performance



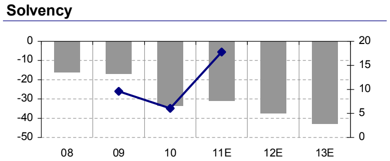
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (€)	1.69	1.29	1.06	1.98	2.34	2.57
Reported EPS (€)	2.79	1.90	1.06	1.98	2.34	2.57
DPS (€)	0.78	0.30	0.35	0.62	0.75	0.84
BVPS (€)	13.62	8.61	10.08	11.61	13.27	15.07
Weighted average shares (m)	561	561	561	561	561	561
Average market cap (€m)	12,986	9,320	11,062	22,745	22,745	22,745
Enterprise value (€m)	2,174	8,290	9,705	20,785	20,332	19,533
Valuation Metrics						
P/E (DB) (x)	3.5	12.7	18.5	20.3	17.2	15.6
P/E (Reported) (x)	8.3	8.8	18.6	20.5	17.4	15.8
P/BV (x)	1.38	1.37	2.84	3.49	3.05	2.69
FCF Yield (%)	9.8	6.4	9.2	2.7	5.1	5.5
Dividend Yield (%)	3.4	1.8	1.8	1.5	1.9	2.1
EV/Sales (x)	0.41	1.53	1.88	3.19	2.91	2.59
EV/EBITDA (x)	1.7	7.3	9.1	12.5	11.0	9.6
EV/EBIT (x)	1.9	8.6	11.7	15.0	13.1	11.4
Income Statement (€m)						
Sales revenue	**5,302**	**5,418**	**5,176**	**6,518**	**6,988**	**7,543**
Gross profit	**5,302**	**5,418**	**5,176**	**6,518**	**6,988**	**7,543**
EBITDA	**1,259**	**1,143**	**1,069**	**1,658**	**1,844**	**2,040**
Depreciation	139	175	239	272	297	321
Amortisation	0	0	0	0	0	0
EBIT	**1,120**	**968**	**830**	**1,386**	**1,547**	**1,719**
Net interest income(expense)	37	-101	-137	-78	40	40
Associates/affiliates	622	342	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	**1,157**	**867**	**693**	**1,308**	**1,587**	**1,759**
Income tax expense	194	133	94	187	263	304
Minorities	0	1	1	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,585**	**1,076**	**600**	**1,121**	**1,324**	**1,455**
DB adjustments (including dilution)	-622	-342	-1	0	0	0
DB Net profit	**963**	**734**	**599**	**1,121**	**1,324**	**1,455**
Cash Flow (€m)						
Cash flow from operations	**1,450**	**890**	**1,163**	**905**	**1,530**	**1,655**
Net Capex	-177	-293	-147	-290	-380	-400
Free cash flow	**1,273**	**597**	**1,016**	**615**	**1,150**	**1,255**
Equity raised/(bought back)	-37	-84	-99	0	0	0
Dividends paid	-701	-438	-110	-197	-348	-424
Net inc/(dec) in borrowings	96	374	-509	0	0	0
Other investing/financing cash flows	143	447	0	0	0	0
Net cash flow	**774**	**896**	**298**	**419**	**801**	**831**
Change in working capital	*-274*	*-361*	*323*	*-488*	*-92*	*-121*
Balance Sheet (€m)						
Cash and other liquid assets	2,082	2,032	2,597	2,729	3,503	4,328
Tangible fixed assets	975	1,148	1,138	1,411	1,494	1,573
Goodwill/intangible assets	232	386	389	389	389	389
Associates/investments	3,250	642	622	622	622	622
Other assets	2,936	3,203	2,983	3,746	3,946	4,199
Total assets	**9,475**	**7,411**	**7,729**	**8,897**	**9,954**	**11,111**
Interest bearing debt	836	1,210	701	701	701	701
Other liabilities	987	1,366	1,368	1,679	1,799	1,947
Total liabilities	**1,823**	**2,576**	**2,069**	**2,380**	**2,500**	**2,648**
Shareholders' equity	7,648	4,832	5,658	6,515	7,451	8,462
Minorities	4	3	2	2	2	2
Total shareholders' equity	**7,652**	**4,835**	**5,660**	**6,517**	**7,453**	**8,464**
Net debt	*-1,246*	*-822*	*-1,896*	*-2,028*	*-2,802*	*-3,627*
Key Company Metrics						
Sales growth (%)	9.8	2.2	-4.5	25.9	7.2	7.9
DB EPS growth (%)	25.0	-23.6	-18.4	87.3	18.1	9.9
EBITDA Margin (%)	23.7	21.1	20.7	25.4	26.4	27.0
EBIT Margin (%)	21.1	17.9	16.0	21.3	22.1	22.8
Payout ratio (%)	27.6	15.7	32.8	31.0	32.0	32.5
ROE (%)	20.9	17.2	11.4	18.4	19.0	18.3
Capex/sales (%)	5.0	5.4	2.8	4.4	5.4	5.3
Capex/depreciation (x)	1.9	1.7	0.6	1.1	1.3	1.2
Net debt/equity (%)	-16.3	-17.0	-33.5	-31.1	-37.6	-42.9
Net interest cover (x)	nm	9.6	6.1	17.8	nm	nm

Source: Company data, Deutsche Bank estimates

UK – Beverage

SABMiller plc

Business description: After an aggressive acquisition trail, SABMiller has become a truly global brewing company, as well as one of the largest Coca-Cola bottlers in the world. The group is primarily involved in manufacture, distribution and sale of beverages with the help of their wide portfolio of brands. The first transformational deal for the group was when SA Breweries plc acquired Miller Brewing Co for US$5.6bn in July 2002. The tie-up with MolsonCoors, SABMiller has 58% stake in the MillerCoors JV, has delivered strong earnings growth as the group has successfully executed on its target to deliver US$500m of synergies by year three (an 'extra' US$250m synergy target was recently announced for 2011/2012). The acquisition of Colombian listed Bavaria in late October 2005 was followed up with the acquisition of the iconic Dutch brand Grolsch early in 2008.

Drivers: Latin America is now the biggest country contributor to profits as a region (31% of FY10 EBITA) and we expect the relative contribution from this business to increase over time

SABMiller has a c.90% share of the beer market in South Africa. In FY10, the South African beer business contributed about 20% of group EBITA, with the rest of the contribution coming from a stake in South African hotel and gaming assets.

SABMiller in Europe (FY10 EBITA: 19%) operates in the Czech Republic, Poland, Romania, Hungary, Slovakia, Russia, Canaries, Italy and now the Netherlands following the acquisition of Grolsch. This region is facing a reduced consumer spending due to tough economic conditions.

In Africa (12% of FY10 group EBITA) and Asia (2% of group EBITA), the group operates in over 30 African countries, China, India and recently Australia and Vietnam.

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

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

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

Model updated: 18 November 2010

Running the Numbers

Europe

UK

Beverage

SABMiller

Reuters: SAB.L Bloomberg: SAB LN

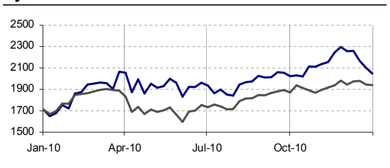
Hold

Price (28 Jan 11)	GBp 2047.50
Target price	GBp 2300.00
52-week Range	GBp 1650.00 – 2306.00
Market Cap	£ 32,289m US$ 51,159m

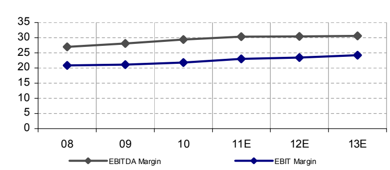
Company Profile

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

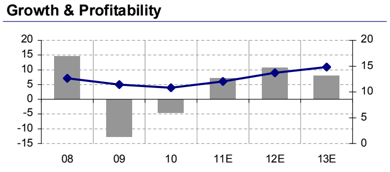
1yr Price Performance



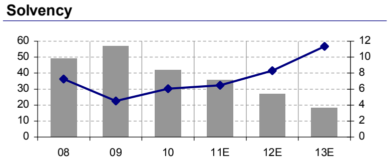
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS ($)	1.42	1.37	1.60	1.86	2.13	2.41
Reported EPS ($)	1.34	1.25	1.22	1.56	1.91	2.24
DPS ($)	0.58	0.58	0.68	0.79	0.90	1.02
BVPS ($)	11.69	10.24	12.63	13.47	14.55	15.85
Weighted average shares (m)	1,500	1,502	1,558	1,577	1,579	1,581
Average market cap (US$m)	37,854	27,791	37,751	51,159	51,224	51,289
Enterprise value (US$m)	47,396	33,873	36,027	42,590	41,240	39,591
Valuation Metrics						
P/E (DB) (x)	17.7	13.5	15.1	17.5	15.2	13.5
P/E (Reported) (x)	18.8	14.8	19.8	20.7	17.0	14.5
P/BV (x)	1.88	1.45	2.32	2.41	2.23	2.05
FCF Yield (%)	2.0	1.8	6.5	4.3	5.9	6.8
Dividend Yield (%)	2.3	3.1	2.8	2.4	2.8	3.1
EV/Sales (x)	2.78	2.28	2.54	2.80	2.44	2.17
EV/EBITDA (x)	10.3	8.1	8.6	9.2	8.0	7.1
EV/EBIT (x)	13.3	10.8	11.7	12.2	10.4	9.0
Income Statement (US$m)						
Sales revenue	**17,057**	**14,883**	**14,195**	**15,228**	**16,880**	**18,228**
Gross profit	**9,665**	**8,402**	**8,343**	**9,092**	**10,251**	**11,181**
EBITDA	**4,598**	**4,179**	**4,175**	**4,616**	**5,130**	**5,581**
Depreciation	848	829	881	907	935	963
Amortisation	190	204	203	206	236	205
EBIT	**3,560**	**3,146**	**3,091**	**3,502**	**3,959**	**4,413**
Net interest income(expense)	-491	-699	-512	-542	-477	-389
Associates/affiliates	272	516	873	1,036	1,174	1,308
Exceptionals/extraordinaries	-77	-5	-523	-412	-191	-124
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**2,992**	**2,442**	**2,056**	**2,549**	**3,291**	**3,900**
Income tax expense	976	801	848	971	1,249	1,448
Minorities	265	276	171	136	182	202
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**2,023**	**1,881**	**1,910**	**2,477**	**3,035**	**3,558**
DB adjustments (including dilution)	124	184	599	463	349	273
DB Net profit	**2,147**	**2,065**	**2,509**	**2,940**	**3,384**	**3,831**
Cash Flow (US$m)						
Cash flow from operations	**2,699**	**2,571**	**3,930**	**3,672**	**4,314**	**4,648**
Net Capex	-1,927	-2,072	-1,491	-1,447	-1,301	-1,157
Free cash flow	**772**	**499**	**2,439**	**2,225**	**3,012**	**3,492**
Equity raised/(bought back)	6	-14	106	0	0	0
Dividends paid	-769	-877	-924	-1,116	-1,297	-1,478
Net inc/(dec) in borrowings	1,454	864	-604	-809	-1,415	-1,714
Other investing/financing cash flows	-1,569	-555	-550	-300	-300	-300
Net cash flow	**-106**	**-83**	**467**	**0**	**0**	**0**
Change in working capital	*-215*	*-497*	*542*	*198*	*225*	*49*
Balance Sheet (US$m)						
Cash and other liquid assets	673	422	779	779	779	779
Tangible fixed assets	9,113	7,406	8,915	9,298	9,502	9,526
Goodwill/intangible assets	20,169	12,458	15,938	15,829	15,694	15,595
Associates/investments	1,924	7,376	8,087	8,542	9,018	9,515
Other assets	4,203	3,966	3,785	3,830	3,927	4,153
Total assets	**36,082**	**31,628**	**37,504**	**38,278**	**38,920**	**39,567**
Interest bearing debt	9,658	9,618	9,414	8,626	7,211	5,497
Other liabilities	8,180	5,893	7,491	7,658	7,906	8,106
Total liabilities	**17,838**	**15,511**	**16,905**	**16,284**	**15,117**	**13,603**
Shareholders' equity	17,545	15,376	19,910	21,250	22,988	25,068
Minorities	699	741	689	743	816	897
Total shareholders' equity	**18,244**	**16,117**	**20,599**	**21,993**	**23,803**	**25,965**
Net debt	*8,985*	*9,196*	*8,635*	*7,847*	*6,432*	*4,718*
Key Company Metrics						
Sales growth (%)	14.8	-12.7	-4.6	7.3	10.8	8.0
DB EPS growth (%)	19.3	-3.9	17.2	15.7	14.8	13.1
EBITDA Margin (%)	27.0	28.1	29.4	30.3	30.4	30.6
EBIT Margin (%)	20.9	21.1	21.8	23.0	23.5	24.2
Payout ratio (%)	43.0	46.3	55.5	50.3	46.8	45.3
ROE (%)	12.7	11.4	10.8	12.0	13.7	14.8
Capex/sales (%)	11.9	14.4	10.8	9.5	7.7	6.3
Capex/depreciation (x)	2.3	2.5	1.6	1.5	1.3	1.1
Net debt/equity (%)	49.2	57.1	41.9	35.7	27.0	18.2
Net interest cover (x)	7.3	4.5	6.0	6.5	8.3	11.3

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Shoprite Holdings Ltd

Business description: Shoprite is involved in supermarket chains, property, fresh produce and furniture. The group is the largest FMCG retailer in Africa, operating in South Africa and 16 other African countries. Supermarkets RSA, Supermarkets Non-RSA, furniture and other operating segments contribute c.79%, 14%, 4% and 3% of EBIT respectively. The chairman of the company indirectly owns 17% of the company and 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 1,166 supermarkets, hypermarkets and furniture stores. The retail supermarkets include 395 Shoprite stores and 145 Checkers stores. The target markets are Shoprite (middle to lower income) and Checkers (middle to upper income). The 25 hypermarkets target middle to upper income groups, providing customers with a wide selection of food and electrical appliances. Usave (197 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 (47 stores) and OK Furniture (216 stores), cater for the middle and middle to lower income groups respectively. In addition, 131 Hungry Lion fast-food outlets, 17 OK Power Express stores; and 22 distribution centres, supplying group stores with groceries and fresh produce, are operated.

Shoprite's convenience shopping initiative is channelled through the OK franchise division, with six different retail formats constituting 391 stores with the OK branding.

The group's other operations include: 1) The Meat Market, which procures fresh meat and supplies Shoprite/Checkers supermarkets, 2) Freshmark, which distributes fresh produce to the group's supermarkets and other retailers, 3) Money Market including provision of basic banking transactions to customers (money transfers and bill payments) and the sale of tickets for transport and major events/shows, etc, 5) Medi-Rite, a chain of small pharmacies, and 6) LiquorShop chain carries an extensive range of wines, beers, ready-to-drink products, spirits and mixers (83 outlets).

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

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

Despite a bleak macro environment characterised by low inflation and volumes persisting, management guided to future sales and trading profit growth in line with that achieved in FY10 (ie c.11% y-o-y sales growth and 13.8% y-o-y trading profit growth on a 52-week normalised basis). This is bullish guidance given the backdrop of continued unemployment, possible slowdown in social grant growth and persisting low food inflation. We believe risks are weighted to the downside of delivering on this guidance.

Outlook: Our outlook for Shoprite is muted given concerns over the sustainability of the African operations top-line growth and operating margins, continued under-performance by the furniture division and the potential negative impact on domestic volumes from unemployment. In addition, persistent food deflation places further pressure on near-term earnings. This results in our forecast three-year CAGR in diluted HEPS of low-teens and a forward dividend yield of c.2.8%. Our negative 12-month total return supports our **Sell** rating.

Valuation: We value Shoprite using a PE-relative methodology employing a normalised two-year forward PE of 11.4x to obtain fair value. Rolling our fair value forward at COE minus dividend yield we arrive at our 12 month price target of 7300cps.

Risks: Key upside risks include: 1) Possible corporate action with apparent increased interest by foreign players, 2) Food inflation returning quicker than expected, 3) Continued aggressive market share gains domestically in an environment favouring value-focussed retailers (with all three brands performing since Checkers has shown a dramatic improvement over the last 18 months), and 4) Continued margin expansion in African operations despite the impact of global demand erosion on the respective economies.

Model updated: 24 August 2010

Running the Numbers

S. Africa

South Africa

General Retailers

Shoprite

Reuters: SHPJ.J Bloomberg: SHP SJ

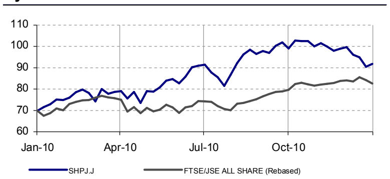
Sell

Price (28 Jan 11)	ZAR 91.76
Target price	ZAR 73.00
52-week Range	ZAR 69.52 – 104.13
Market Cap	ZAR 46,203m US$ 6,437m

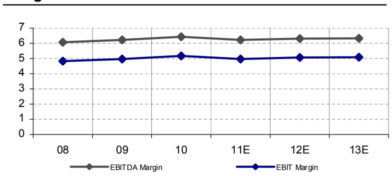
Company Profile

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

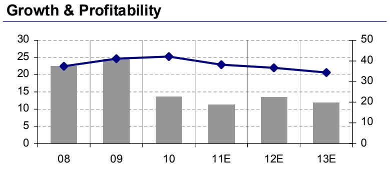
1yr Price Performance



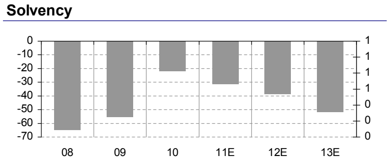
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	2.99	3.91	4.51	4.91	5.68	6.34
Reported EPS (ZAR)	2.98	3.86	4.51	4.91	5.68	6.34
DPS (ZAR)	1.55	2.00	2.27	2.47	2.86	3.20
BVPS (ZAR)	9.04	9.59	11.63	14.08	16.89	20.03
Weighted average shares (m)	507	504	504	504	504	504
Average market cap (ZARm)	19,356	24,734	34,347	46,203	46,203	46,203
Enterprise value (ZARm)	15,923	21,598	32,408	43,344	42,278	40,282
Valuation Metrics						
P/E (DB) (x)	12.8	12.6	15.1	18.7	16.2	14.5
P/E (Reported) (x)	12.8	12.7	15.1	18.7	16.2	14.5
P/BV (x)	4.37	5.74	7.12	6.52	5.43	4.58
FCF Yield (%)	6.2	2.7	nm	4.7	5.5	7.9
Dividend Yield (%)	4.1	4.1	3.3	2.7	3.1	3.5
EV/Sales (x)	0.33	0.36	0.48	0.58	0.50	0.42
EV/EBITDA (x)	5.5	5.8	7.5	9.3	7.9	6.7
EV/EBIT (x)	6.9	7.3	9.3	11.6	9.8	8.3
Income Statement (ZARm)						
Sales revenue	**47,652**	**59,319**	**67,402**	**74,987**	**85,118**	**95,188**
Gross profit	**9,490**	**11,440**	**13,255**	**14,746**	**16,738**	**18,719**
EBITDA	**2,893**	**3,695**	**4,330**	**4,665**	**5,374**	**6,015**
Depreciation	597	754	839	940	1,053	1,179
Amortisation	0	0	0	0	0	0
EBIT	**2,297**	**2,941**	**3,490**	**3,725**	**4,322**	**4,836**
Net interest income(expense)	125	105	12	12	16	18
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	40	-28	-78	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**2,461**	**3,018**	**3,425**	**3,737**	**4,338**	**4,854**
Income tax expense	876	999	1,112	1,222	1,419	1,588
Minorities	15	20	21	23	27	30
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,570**	**1,998**	**2,292**	**2,492**	**2,892**	**3,237**
DB adjustments (including dilution)	2	23	0	0	0	0
DB Net profit	**1,572**	**2,022**	**2,292**	**2,492**	**2,892**	**3,237**
Cash Flow (ZARm)						
Cash flow from operations	**2,643**	**2,416**	**2,114**	**3,990**	**4,335**	**4,813**
Net Capex	-1,436	-1,737	-2,409	-1,800	-1,800	-1,179
Free cash flow	**1,206**	**679**	**-295**	**2,190**	**2,535**	**3,634**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-581	-895	-1,073	-1,246	-1,442	-1,609
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	**625**	**-216**	**-1,367**	**944**	**1,093**	**2,026**
Change in working capital	*397*	*-28*	*-595*	*171*	*228*	*227*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,136	2,811	1,345	2,288	3,381	5,406
Tangible fixed assets	4,503	5,360	6,578	7,438	8,185	8,185
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	369	411	683	683	683	683
Other assets	6,577	7,865	8,224	9,141	10,367	11,584
Total assets	**14,585**	**16,448**	**16,829**	**19,550**	**22,615**	**25,858**
Interest bearing debt	13	17	22	22	22	22
Other liabilities	9,753	11,402	10,835	12,287	13,875	15,461
Total liabilities	**9,766**	**11,418**	**10,857**	**12,309**	**13,897**	**15,483**
Shareholders' equity	4,759	4,960	5,905	7,151	8,601	10,229
Minorities	60	69	67	90	117	146
Total shareholders' equity	**4,819**	**5,029**	**5,972**	**7,241**	**8,718**	**10,375**
Net debt	*-3,123*	*-2,795*	*-1,323*	*-2,267*	*-3,359*	*-5,385*
Key Company Metrics						
Sales growth (%)	22.4	24.5	13.6	11.3	13.5	11.8
DB EPS growth (%)	57.3	30.9	15.5	8.7	15.7	11.6
EBITDA Margin (%)	6.1	6.2	6.4	6.2	6.3	6.3
EBIT Margin (%)	4.8	5.0	5.2	5.0	5.1	5.1
Payout ratio (%)	50.1	50.4	49.9	50.0	49.9	49.7
ROE (%)	37.4	41.1	42.2	38.2	36.7	34.4
Capex/sales (%)	3.0	2.9	3.6	2.4	2.1	1.2
Capex/depreciation (x)	2.4	2.3	2.9	1.9	1.7	1.0
Net debt/equity (%)	-64.8	-55.6	-22.2	-31.3	-38.5	-51.9
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Spar Group Ltd

Business description: Spar operates 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 100% free-float with foreign shareholding of around low-teens historically.

Drivers: As per the FY10 financial statements, the food store network consists of 256 SuperSpar stores (sized 1,500-3,000m²), 458 Spar stores (700-1,500m²) and 132 KwikSpar stores (250-750m²). In addition, Spar has exposure to the DIY market through its fast-growing network of 260 Build-it stores. Build-it comprises c.15% of group turnover. Spar's TOPS format consists of small departments within existing Spar stores selling liquor comprising c.9% of group turnover. The TOPS format is expanding rapidly and management expects the contribution to group's turnover to grow in the medium term.

Spar's retail sales constitute c.29% of the formal food retail market in South Africa. Notwithstanding that stores are under no obligation to purchase from the DCs, the loyalty factor (% of merchandise sourced from the group) is high – c.75%. While management believes it is possible to increase the loyalty ratio marginally, it is a gradual task. The loyalty levels in the TOPS brand are significantly lower at around 45% due to the competitive environment driven by the large number of independent vendors.

The primary drivers of profitability are:

- **Expansion of the Build-it and TOPS** store formats servicing the DIY and liquor market respectively. These formats have been growing faster than the rest of the group and a move to drop-shipment basis could provide margin opportunities.
- **Continued expansion of the domestic franchisees** continues with c.3-4% additional estimated space growth per year.
- **Significant capex programme done:** Expansion plans undertaken from FY08- FY10 have created sufficient capacity until well into 2014. New technology in the DCs (eg radio frequency, demand forecasting and replenishment systems, fuel planning and routing systems) should also support better cost/km or cost/case metrics. In addition this results in strong cash generation and high probability of consistent share buybacks each year, in our view.
- **Pharmacies are being piloted:** Management indicated that pharmacies are more likely to be a department within an existing store as opposed to a stand-alone format. It is a different business and it is still early stages, but there could be as many as 10 new stores coming on-line into FY11.
- **Flexibility to control operating costs:** Given a substantial portion of contract labour (c.25%) there is flexibility to control the biggest cost category; namely employee costs (c.51% of total costs) where cost-push pressure is being felt.

At the most recent FY10 results, management cited the continuation of a tough trading environment, but seemed confident that improved volumes and some recovering food inflation could boost the line. With investment in the supply chain yielding further cost efficiencies, this should assist in defending operating margins in a tough trading environment.

Outlook: Given concerns over food inflation remaining lower for longer and cost pressures threatening margins, our outlook for the stock is muted. We highlight the defensive nature of the stock in terms of sensitivity to interest rates (product offering predominantly food for which demand is inelastic). We anticipate c.14% 3-year CAGR in FD HEPS, but believe the market is pricing this. Our muted 12 month total return expectation supports our **Hold**.

Valuation: We value Spar using a PE-relative methodology employing a normalised two-year forward PE of 12.1x to obtain fair valuation. Rolling this forward at COE minus dividend yield we arrive at our 12 month price target of 8800cps.

Risks: Key upside risks include: 1) Better GP margins through increased Build-it business on drop-shipment, 2) Better-than-expected cost efficiencies from the investment in supply chain, and 3) Food inflation running above CPI levels sooner than expected. Key downside risks include 1) Lower food inflation for longer, 2) Cost efficiency worsening with increased wage pressures and slower top line and warehouse and distribution costs (c.50% of total cost base) remaining volume-driven, and 3) Slower-than-expected recovery in unemployment, particularly given the rural store footprint concentration.

Model updated: 17 November 2010

Running the Numbers

S. Africa

South Africa

General Retailers

Spar Group Limited

Reuters: SPPJ.J Bloomberg: SPP SJ

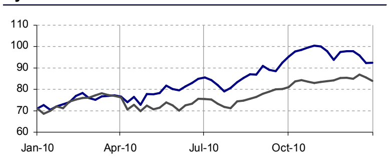
Hold

Price (28 Jan 11)	ZAR 92.49
Target price	ZAR 88.00
52-week Range	ZAR 70.06 – 101.49
Market Cap	ZAR 15,788m US$ 2,199m

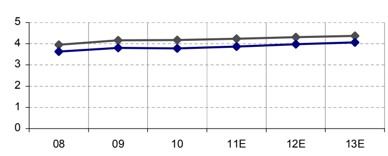
Company Profile

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

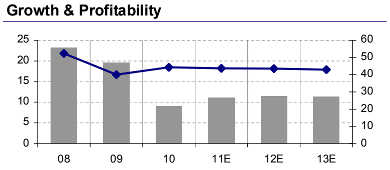
1yr Price Performance



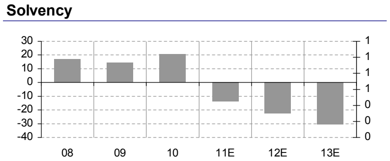
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	3.90	3.92	5.06	5.70	6.56	7.50
Reported EPS (ZAR)	3.90	3.92	5.06	5.70	6.56	7.50
DPS (ZAR)	2.55	3.22	3.62	4.02	4.63	5.24
BVPS (ZAR)	8.52	11.09	12.09	13.99	16.18	18.73
Weighted average shares (m)	170	170	171	171	171	171
Average market cap (ZARm)	9,026	9,404	12,841	15,788	15,788	15,788
Enterprise value (ZARm)	9,219	9,667	13,244	15,395	15,085	14,711
Valuation Metrics						
P/E (DB) (x)	13.7	14.1	14.9	16.2	14.1	12.3
P/E (Reported) (x)	13.7	14.1	14.9	16.2	14.1	12.3
P/BV (x)	5.92	5.83	7.68	6.61	5.72	4.94
FCF Yield (%)	nm	3.2	4.7	8.6	10.3	11.8
Dividend Yield (%)	4.8	5.8	4.8	4.4	5.0	5.7
EV/Sales (x)	0.34	0.30	0.38	0.40	0.35	0.31
EV/EBITDA (x)	8.7	7.3	9.1	9.4	8.1	7.0
EV/EBIT (x)	9.5	8.0	10.1	10.3	8.8	7.5
Income Statement (ZARm)						
Sales revenue	**26,742**	**31,962**	**34,844**	**38,717**	**43,141**	**48,046**
Gross profit	**2,160**	**2,569**	**2,761**	**3,078**	**3,451**	**3,868**
EBITDA	**1,056**	**1,331**	**1,454**	**1,641**	**1,862**	**2,098**
Depreciation	84	117	138	143	145	145
Amortisation	0	0	0	0	0	0
EBIT	**972**	**1,214**	**1,316**	**1,499**	**1,717**	**1,954**
Net interest income(expense)	27	5	4	3	9	15
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-1	-132	-13	-7	-7	-7
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**999**	**1,220**	**1,320**	**1,502**	**1,726**	**1,968**
Income tax expense	317	402	392	463	533	603
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**680**	**686**	**915**	**1,032**	**1,186**	**1,358**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**680**	**686**	**915**	**1,032**	**1,186**	**1,358**
Cash Flow (ZARm)						
Cash flow from operations	**-56**	**646**	**801**	**1,597**	**1,825**	**2,062**
Net Capex	-421	-341	-200	-240	-200	-200
Free cash flow	**-477**	**305**	**601**	**1,357**	**1,625**	**1,862**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-355	-468	-619	-688	-791	-895
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	65	72	0	0	0	0
Net cash flow	**-767**	**-90**	**-18**	**669**	**834**	**967**
Change in working capital	*-870*	*-164*	*-254*	*406*	*-46*	*-51*
Balance Sheet (ZARm)						
Cash and other liquid assets	-252	-283	-446	350	660	1,034
Tangible fixed assets	1,083	1,426	1,521	1,618	1,674	1,729
Goodwill/intangible assets	246	246	300	300	300	300
Associates/investments	59	20	43	43	43	43
Other assets	4,208	4,600	5,402	5,939	6,614	7,362
Total assets	**5,344**	**6,008**	**6,820**	**8,250**	**9,291**	**10,468**
Interest bearing debt	0	0	0	0	0	0
Other liabilities	3,856	4,068	4,633	5,719	6,364	7,080
Total liabilities	**3,856**	**4,068**	**4,633**	**5,719**	**6,364**	**7,080**
Shareholders' equity	1,488	1,940	2,187	2,531	2,926	3,389
Minorities	0	0	0	0	0	0
Total shareholders' equity	**1,488**	**1,940**	**2,187**	**2,531**	**2,926**	**3,389**
Net debt	*252*	*283*	*446*	*-350*	*-660*	*-1,034*
Key Company Metrics						
Sales growth (%)	23.2	19.5	9.0	11.1	11.4	11.4
DB EPS growth (%)	30.6	0.6	29.0	12.7	15.0	14.4
EBITDA Margin (%)	3.9	4.2	4.2	4.2	4.3	4.4
EBIT Margin (%)	3.6	3.8	3.8	3.9	4.0	4.1
Payout ratio (%)	63.5	79.5	67.5	66.6	66.6	65.9
ROE (%)	52.4	40.0	44.4	43.7	43.5	43.0
Capex/sales (%)	1.6	1.1	0.6	0.6	0.5	0.4
Capex/depreciation (x)	5.0	2.9	1.5	1.7	1.4	1.4
Net debt/equity (%)	16.9	14.6	20.4	-13.8	-22.6	-30.5
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Steinhoff International Holdings Ltd

Business description: Steinhoff International Holdings Ltd is a South African-based company that operates in three segments: retail activities, manufacturing and sourcing of household goods and related raw materials, and logistical services. Its retail segment includes household goods, building supplies, and automotive. The manufacturing/sourcing segment is engaged in timber operations, the manufacturing of furniture, and the supply of raw materials. Logistics services provide specialised distribution and warehousing services to the mining, manufacturing and industrial sectors.

Steinhoff was founded in 1964 in Germany as a trading company that sourced product in Eastern Europe and sold this into the developed markets of Western Europe. Today's evolved multi-national Steinhoff remains focused on its original Eastern and Western European markets, with its vertically integrated supply chain incorporating the Pacific Rim and southern Africa. It was listed in 1998 on the JSE and forms part of the JSE Top 40, JSE Industrial 25 index and JSE Socially Responsible Investment indices.

Steinhoff operates across several continents and can be found in many countries – the UK, continental Europe, Africa, India, Asia, Australia and New Zealand. The company employs approximately 41,000 people.

Drivers: The key drivers of future profit growth include:

- **Opportunities in Europe and UK to grow scale:** The potential for Steinhoff to grow revenues is assisted by this environment given the structures of these markets; namely the lack of dominance by a few players, and the ability of Steinhoff to capitalise on industry consolidation through its superior balance sheet in relation to smaller sub-scale competitors. A substantial number of competitors have collapsed in the last two years of a recessionary environment, which has provided a few established scale players with healthy balance sheets (such as Steinhoff) the opportunity to grow significantly ahead of the market.
- **Further margin opportunities** through increased vertical integration, together with continued rationalisation in their manufacturing operations and migration towards an assembly model (vs bottom-up parts manufacturing).
- **Potential value accretion in Conforama deal.** We believe that the Conforama deal could be significantly value accretive if it goes ahead on the announced terms. This also moves the agenda forward of a possible separate listing of European assets which could unlock further value in the group, in our view.

Outlook: Despite a bleak outlook for developed market durables growth as these economies recover from recession, significant consolidation in both the primary UK and continental European markets has resulted in above-market growth opportunities for the Steinhoff retail formats. Improved buying margins, rationalisation of under-performing stores and further integration of logistics into these retail businesses, provide opportunities for retail margin expansion (UK, Europe and Pacific Rim retail comprises c.27% of group EBIT). In addition, further rationalisation of operations, increased intra-group supply and migration towards an assembly model (vs bottom-up manufacturing) result in solid revenue growth and positive EBIT margin evolution in the key higher margin Manufacturing and Sourcing division (c.40% of group EBIT). On balance, we expect a robust three year CAGR in diluted HEPS of c.15%, which together with an attractive valuation offering substantial upside, supports our **Buy** recommendation.

Valuation: We have utilised a two-year normalised forward PE to value Steinhoff consistent with that used to value our retail universe. We believe this provides a more stable normalised PE on recovered two-year forward earnings post-recession. Applying an 8.0x two-year forward PE (10% premium to normalised levels reflecting above-average earnings growth profile) to obtain fair value and rolling this forward at COE less 12 month forward dividend yield, we obtain our price target of 2800cps.

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

Model updated: 18 October 2010

Running the Numbers

S. Africa

South Africa

General Retailers

Steinhoff

Reuters: SHFJ.J Bloomberg: SHF SJ

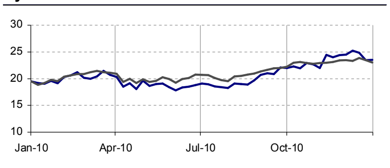
Buy

Price (28 Jan 11)	ZAR 23.50
Target price	ZAR 28.00
52-week Range	ZAR 17.52 – 25.28
Market Cap	ZAR 32,336m
	US$ 4,505m

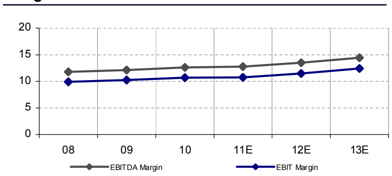
Company Profile

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

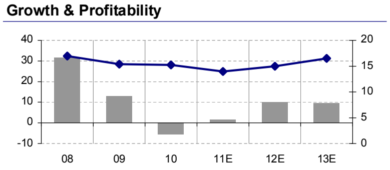
1yr Price Performance



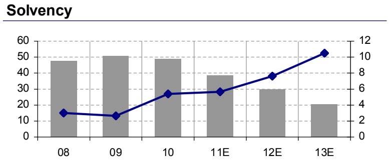
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	2.64	2.53	2.44	2.50	2.99	3.71
Reported EPS (ZAR)	2.58	2.65	2.47	2.50	2.99	3.71
DPS (ZAR)	0.60	0.60	0.63	0.64	0.77	0.96
BVPS (ZAR)	17.04	17.29	17.30	19.21	21.48	24.30
Weighted average shares (m)	1,281	1,276	1,376	1,376	1,376	1,376
Average market cap (ZARm)	23,474	16,121	25,495	32,336	32,336	32,336
Enterprise value (ZARm)	34,206	25,944	36,900	42,368	41,062	39,147
Valuation Metrics						
P/E (DB) (x)	7.0	5.0	7.6	9.4	7.9	6.3
P/E (Reported) (x)	7.1	4.8	7.5	9.4	7.9	6.3
P/BV (x)	0.88	0.77	1.03	1.22	1.09	0.97
FCF Yield (%)	6.9	9.1	15.0	7.8	8.3	11.2
Dividend Yield (%)	3.3	4.7	3.4	2.7	3.3	4.1
EV/Sales (x)	0.76	0.51	0.77	0.87	0.76	0.66
EV/EBITDA (x)	6.5	4.2	6.1	6.8	5.7	4.6
EV/EBIT (x)	7.7	5.0	7.2	8.1	6.7	5.3
Income Statement (ZARm)						
Sales revenue	**45,046**	**50,869**	**48,040**	**48,859**	**53,814**	**59,027**
Gross profit	**14,826**	**17,699**	**16,814**	**17,219**	**19,628**	**22,388**
EBITDA	**5,299**	**6,177**	**6,064**	**6,226**	**7,251**	**8,517**
Depreciation	831	975	920	977	1,076	1,181
Amortisation	0	0	0	0	0	0
EBIT	**4,469**	**5,202**	**5,144**	**5,249**	**6,175**	**7,336**
Net interest income(expense)	-1,491	-1,959	-953	-926	-812	-699
Associates/affiliates	37	7	36	39	42	45
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	787	959	7	5	5	5
Profit before tax	**3,802**	**4,209**	**4,234**	**4,367**	**5,410**	**6,688**
Income tax expense	366	581	481	524	812	1,003
Minorities	126	249	212	259	308	366
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**3,310**	**3,379**	**3,541**	**3,583**	**4,291**	**5,318**
DB adjustments (including dilution)	65	-153	-37	0	0	0
DB Net profit	**3,375**	**3,226**	**3,504**	**3,583**	**4,291**	**5,318**
Cash Flow (ZARm)						
Cash flow from operations	**4,339**	**2,741**	**4,584**	**4,770**	**5,157**	**6,323**
Net Capex	-2,718	-1,273	-747	-2,235	-2,462	-2,701
Free cash flow	**1,621**	**1,468**	**3,837**	**2,535**	**2,695**	**3,623**
Equity raised/(bought back)	-956	-22	2,294	0	0	0
Dividends paid	-108	-157	-112	-902	-1,081	-1,341
Net inc/(dec) in borrowings	2,033	2,452	-1,332	3,865	0	0
Other investing/financing cash flows	-2,660	-3,999	-4,302	0	0	0
Net cash flow	**-70**	**-259**	**385**	**5,497**	**1,614**	**2,281**
Change in working capital	*-542*	*-1,083*	*-194*	*-94*	*-567*	*-596*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,925	4,939	5,121	10,618	12,232	14,513
Tangible fixed assets	10,265	9,808	14,853	16,111	17,497	19,017
Goodwill/intangible assets	21,227	18,875	17,675	17,724	17,778	17,837
Associates/investments	4,042	5,677	4,518	4,518	4,518	4,518
Other assets	16,458	15,989	15,014	15,257	16,729	18,277
Total assets	**56,916**	**55,287**	**57,181**	**64,229**	**68,754**	**74,163**
Interest bearing debt	16,729	17,579	18,348	22,213	22,213	22,213
Other liabilities	15,402	12,785	11,772	11,922	12,827	13,779
Total liabilities	**32,132**	**30,364**	**30,120**	**34,134**	**35,040**	**35,992**
Shareholders' equity	21,815	22,064	24,365	27,041	30,246	34,218
Minorities	2,969	2,860	2,696	2,955	3,263	3,630
Total shareholders' equity	**24,784**	**24,924**	**27,061**	**29,996**	**33,509**	**37,847**
Net debt	*11,805*	*12,640*	*13,227*	*11,595*	*9,981*	*7,699*
Key Company Metrics						
Sales growth (%)	31.6	12.9	-5.6	1.7	10.1	9.7
DB EPS growth (%)	31.7	-4.0	-3.4	2.3	19.7	24.0
EBITDA Margin (%)	11.8	12.1	12.6	12.7	13.5	14.4
EBIT Margin (%)	9.9	10.2	10.7	10.7	11.5	12.4
Payout ratio (%)	23.2	22.7	24.5	24.7	24.7	24.7
ROE (%)	16.9	15.4	15.3	13.9	15.0	16.5
Capex/sales (%)	7.4	3.8	1.6	4.6	4.6	4.6
Capex/depreciation (x)	4.0	2.0	0.8	2.3	2.3	2.3
Net debt/equity (%)	47.6	50.7	48.9	38.7	29.8	20.3
Net interest cover (x)	3.0	2.7	5.4	5.7	7.6	10.5

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications

Telkom SA Ltd

Business description: Telkom is the incumbent fixed-line operator in South Africa. It provides fixed-line services including access, national and international voice, data and directory services. Telkom has some 4.4m fixed-lines today, an element that remains under pressure as mobile substitution continues.

Telkom recently launched its 8.ta mobile offering in the South African market. This is largely seen as a defensive play by the incumbent as traditional fixed-line revenues continue to decline. While the initial launch was for standard pre-paid and post-paid services, the group is expected to launch its bundled products during the early part of 2011. Telkom's international operations are dominated by its CDMA business in Nigeria MultiLinks, although after struggling for some time now, management has confirmed plans to dispose of this operation.

Drivers:

- **Sale of MultiLinks.** Telkom management confirmed at the interim (1H11) results that it would be disposing of the MultiLinks business, and was expected to be concluded by end of March 2011. There remains some uncertainty over the quantum of the costs that Telkom will incur in disposing of this business. Should the costs for the closure of this business be more than the market is expecting or if the process is delayed, this could be a drag on the counter in 2011.
- **Telkom going mobile.** In 4Q10 we saw Telkom launch its mobile business with standard pre-paid and post-paid offerings. In 2011 we expect Telkom to offer its first true bundled products and this will be key in determining Telkom mobile's success. While the market has had little data points to date, the next 12 months should give the market a better indication of the potential success of (or lack thereof) Telkom mobile and we believe will be a key driver of the counter over the next 12-24 months.

Outlook: Telkom remains the dominant fixed line operator in South Africa, although the competitive environment has changed over the past few years with the licensing of the second national operator (SNO) Neotel. Competition for Telkom has been further impacted by the roll-out of fibre networks by the mobile operators that has seen the mobile operators compete in Telkom's traditional corporate data market. The launch of Telkom's mobile business will be keenly watched by investors over the medium term. We rate the shares Hold, with the market likely to remain cautious.

Valuation: While Telkom appears undemandingly valued on most metrics, the market is likely to adopt a more cautious approach to the performance and likely to give little credit to management expectations over the medium term. Given these risks facing the business we believe a forward PE multiple of between 5.0x and 6.0x on the core business is appropriate and as such we maintain our **Hold** recommendation and 3750cps target price. We note the challenges in valuing the mobile business given the limited disclosure to date.

Risks: The key downside risk facing Telkom would be increased competition in the domestic South African market from the SNO, Neotel, as well as the mobile operators in the group's traditional corporate market. Another significant risk for Telkom remains the resolution of the MultiLink's issues which will likely consume further cash flow, in addition to a number of pending legal cases that remain unresolved. The key upside risk for Telkom would be a better-than-expected performance from the group's mobile business. Given market concerns over Telkom mobile, this could lead to better-than-expected upside.

Model updated: 14 January 2011

Running the Numbers

S. Africa

South Africa

Telecommunications

Telkom

Reuters: TKGJ.J Bloomberg: TKG SJ

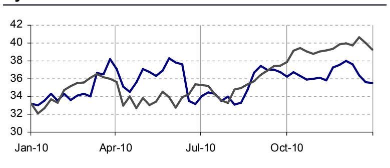
Hold

Price (28 Jan 11)	ZAR 35.50
Target price	ZAR 37.50
52-week Range	ZAR 32.85 – 39.10
Market Cap	ZAR 18,085m US$ 2,519m

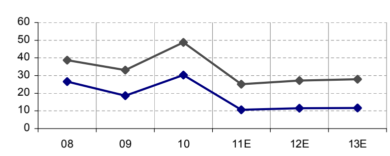
Company Profile

Telkom is the incumbent fixed-line operator in South Africa. It provides the majority of fixed-line services including national and international voice, data and directory services. Telkom owns 100% of Multi-Links in Nigeria and is set to launch its mobile business in 2010

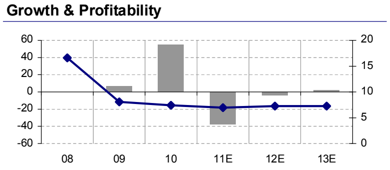
1yr Price Performance



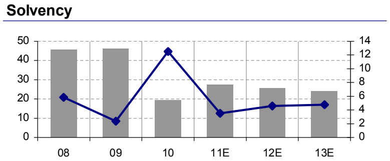
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	10.29	5.33	4.73	4.14	4.40	4.58
Reported EPS (ZAR)	10.29	5.33	4.73	4.14	4.40	4.58
DPS (ZAR)	6.60	3.75	3.00	1.50	1.75	1.85
BVPS (ZAR)	61.99	69.19	59.32	59.97	62.31	64.55
Weighted average shares (m)	510	501	504	509	514	519
Average market cap (ZARm)	38,988	28,665	20,355	18,085	18,263	18,440
Enterprise value (ZARm)	52,610	44,479	25,139	25,423	25,408	25,378
Valuation Metrics						
P/E (DB) (x)	7.4	10.7	8.5	8.6	8.1	7.8
P/E (Reported) (x)	7.4	10.7	8.5	8.6	8.1	7.8
P/BV (x)	1.00	0.72	0.58	0.59	0.57	0.55
FCF Yield (%)	12.4	5.7	17.4	nm	5.6	6.4
Dividend Yield (%)	8.6	6.6	7.4	4.2	4.9	5.2
EV/Sales (x)	1.54	1.22	0.45	0.72	0.75	0.74
EV/EBITDA (x)	4.0	3.7	0.9	2.9	2.8	2.6
EV/EBIT (x)	5.8	6.6	1.5	6.8	6.5	6.3
Income Statement (ZARm)						
Sales revenue	**34,083**	**36,378**	**56,432**	**35,151**	**33,795**	**34,471**
Gross profit	**13,203**	**12,052**	**27,502**	**8,848**	**9,194**	**9,621**
EBITDA	**13,203**	**12,052**	**27,502**	**8,848**	**9,194**	**9,621**
Depreciation	4,134	5,293	10,364	5,092	5,310	5,581
Amortisation	0	0	0	0	0	0
EBIT	**9,069**	**6,759**	**17,138**	**3,756**	**3,884**	**4,040**
Net interest income(expense)	-1,556	-2,843	-1,370	-1,068	-850	-850
Associates/affiliates	3,138	2,162	106	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	168	183	26,196	258	250	250
Profit before tax	**7,681**	**4,099**	**41,964**	**2,946**	**3,284**	**3,440**
Income tax expense	2,647	1,765	4,485	1,121	920	963
Minorities	123	77	127	85	100	100
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**8,049**	**4,419**	**37,458**	**1,741**	**2,265**	**2,377**
DB adjustments (including dilution)	-2,806	-1,752	-35,072	367	0	0
DB Net profit	**5,243**	**2,667**	**2,386**	**2,108**	**2,265**	**2,377**
Cash Flow (ZARm)						
Cash flow from operations	**16,335**	**14,768**	**8,063**	**4,114**	**7,526**	**8,128**
Net Capex	-11,488	-13,148	-4,524	-5,500	-6,500	-6,950
Free cash flow	**4,847**	**1,620**	**3,539**	**-1,386**	**1,026**	**1,178**
Equity raised/(bought back)	-1,647	0	0	401	0	0
Dividends paid	-5,732	-3,336	-11,380	-1,513	-764	-900
Net inc/(dec) in borrowings	4,562	7,956	-8,588	263	0	0
Other investing/financing cash flows	-2,546	-4,750	18,442	-114	-128	-144
Net cash flow	**-516**	**1,490**	**2,013**	**-2,349**	**134**	**134**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,134	1,931	3,855	1,506	1,640	1,773
Tangible fixed assets	46,815	41,254	37,938	38,642	40,052	41,641
Goodwill/intangible assets	8,468	7,232	4,338	4,012	3,762	3,512
Associates/investments	1,499	1,383	1,437	1,581	1,739	1,913
Other assets	12,456	33,971	9,251	9,787	9,955	10,040
Total assets	**70,372**	**85,771**	**56,819**	**55,528**	**57,148**	**58,879**
Interest bearing debt	15,733	18,275	9,737	10,000	10,000	10,000
Other liabilities	22,528	32,001	16,818	14,550	14,570	14,725
Total liabilities	**38,261**	**50,276**	**26,555**	**24,550**	**24,570**	**24,725**
Shareholders' equity	31,589	34,642	29,925	30,553	32,054	33,530
Minorities	522	853	339	424	524	624
Total shareholders' equity	**32,111**	**35,495**	**30,264**	**30,977**	**32,578**	**34,154**
Net debt	*14,599*	*16,344*	*5,882*	*8,494*	*8,360*	*8,227*
Key Company Metrics						
Sales growth (%)	na	6.7	55.1	-37.7	-3.9	2.0
DB EPS growth (%)	na	-48.2	-11.2	-12.5	6.4	3.9
EBITDA Margin (%)	38.7	33.1	48.7	25.2	27.2	27.9
EBIT Margin (%)	26.6	18.6	30.4	10.7	11.5	11.7
Payout ratio (%)	41.8	42.5	4.0	43.9	39.8	40.4
ROE (%)	16.6	8.1	7.4	7.0	7.2	7.2
Capex/sales (%)	34.2	36.3	8.1	15.6	19.2	20.2
Capex/depreciation (x)	2.8	2.5	0.4	1.1	1.2	1.2
Net debt/equity (%)	45.5	46.0	19.4	27.4	25.7	24.1
Net interest cover (x)	5.8	2.4	12.5	3.5	4.6	4.8

Source: Company data, Deutsche Bank estimates

South Africa – Food Producers

Tiger Brands Ltd

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

Drivers:

- **Domestic food division:** This division is the biggest contributor to profitability, contributing c.85% of FY10 group EBIT. Consumer spending and food inflation, as well as international agricultural commodity prices are the key drivers for this division. The grains division put in a record performance in the FY10 as margins benefited from a reduction in soft commodity prices. We expect margins to soften in this division going forward.
- **Home and Personal Care (HPC):** The HPC division contributes 15% to group EBIT and is driven by general economic conditions, consumer spending patterns, brand equity and brand awareness, pest season and input costs.
- **Exports and International division:** While this division currently contributes a relatively small (c.1%) proportion of EBIT, this is impacted by losses in the deciduous fruit export business equivalent to 2.6% of EBIT. The group is looking at acquisitions to obtain a share of growth in the African regions as a means to drive growth in revenue and profitability.
- **Fishing division:** The group derives its fishing earnings from an equity accounted 45% stake in JSE-listed Oceana after recently divesting its interest in Sea Harvest.

The acceleration in profitability seen in the groups largest earnings contributor (grains business >400bps margin expansion 2H vs 1H) will only exacerbate investors concerns over margin sustainability. With these margins in the FY10 earnings base, our expectations for near-term earnings growth is muted as we expect margins will compress. We continue to highlight the strong brand portfolio, low gearing levels and unchallenging rating.

Outlook: Tiger Brands is our preferred pick in the sector; this focused-FMCG company has strong brands, a diverse EBIT make-up and low gearing levels. We believe the sector faces headwinds (food inflation) and believe Tiger Brands' strong brands and highly diverse earnings stream will position the company well to withstand these pressures, notwithstanding a challenging environment. **Buy**.

Valuation: We value Tiger Brands on a DCF basis. We calculate a DCF-based price target of 20000c. Inputs into our five-year DCF include WACC of 12.7% (COE of 13.7%, 15% D:E, levered beta of 1.15x), risk-free rate of 8.5% (in line with our house long bond forecast), market risk premium of 4.5%, and terminal growth rate of 4.5% (mid-point inflation target; South Africa has 3-6% inflation targeting).

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

Model updated: 25 November 2010

Running the Numbers

S. Africa

South Africa

Food Producers

Tiger Brands

Reuters: TBSJ.J Bloomberg: TBS SJ

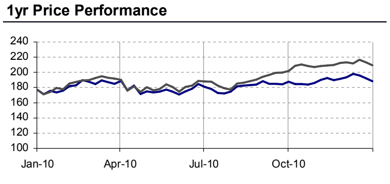
Buy

Price (28 Jan 11)	ZAR 188.40
Target price	ZAR 200.00
52-week Range	ZAR 168.95 – 198.00
Market Cap	ZAR 29,804m US$ 4,152m

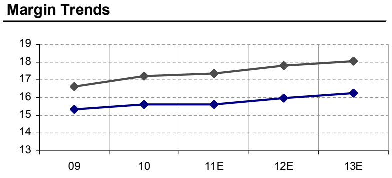
Company Profile

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

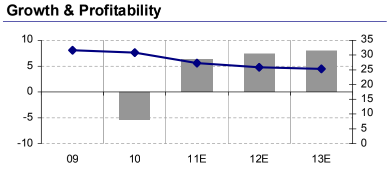
1yr Price Performance



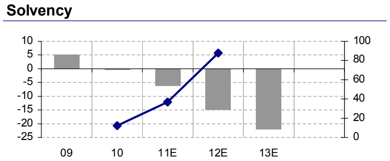
Margin Trends



Growth & Profitability



Solvency



Warren Goldblum
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Fiscal year end 30-Sep	2009	2010	2011E	2012E	2013E
Financial Summary					
DB EPS (ZAR)	13.98	14.65	15.16	16.49	18.49
Reported EPS (ZAR)	13.98	14.65	15.16	16.49	18.49
DPS (ZAR)	7.04	7.46	7.71	8.38	9.36
BVPS (ZAR)	44.48	52.57	60.41	69.19	79.21
Weighted average shares (m)	157	158	158	158	158
Average market cap (ZARm)	22,034	27,450	29,804	29,804	29,804
Enterprise value (ZARm)	21,202	25,976	27,759	26,695	25,556
Valuation Metrics					
P/E (DB) (x)	10.0	11.8	12.4	11.4	10.2
P/E (Reported) (x)	10.0	11.8	12.4	11.4	10.2
P/BV (x)	3.38	3.61	3.12	2.72	2.38
FCF Yield (%)	9.1	5.5	5.9	7.8	8.5
Dividend Yield (%)	5.0	4.3	4.1	4.4	5.0
EV/Sales (x)	1.04	1.34	1.35	1.21	1.07
EV/EBITDA (x)	6.2	7.8	7.8	6.8	5.9
EV/EBIT (x)	6.8	8.6	8.7	7.6	6.6
Income Statement (ZARm)					
Sales revenue	**20,430**	**19,316**	**20,543**	**22,068**	**23,833**
Gross profit	**20,430**	**19,316**	**20,543**	**22,068**	**23,833**
EBITDA	**3,395**	**3,325**	**3,568**	**3,928**	**4,303**
Depreciation	262	310	360	404	428
Amortisation	0	0	0	0	0
EBIT	**3,133**	**3,015**	**3,208**	**3,524**	**3,874**
Net interest income(expense)	-255	-82	-37	17	95
Associates/affiliates	204	252	286	305	325
Exceptionals/extraordinaries	-221	164	0	0	0
Other pre-tax income/(expense)	374	-169	45	42	46
Profit before tax	**3,457**	**3,016**	**3,503**	**3,889**	**4,341**
Income tax expense	978	840	1,065	1,225	1,367
Minorities	49	-17	0	12	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	**2,210**	**2,356**	**2,438**	**2,652**	**2,973**
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	**2,210**	**2,356**	**2,438**	**2,652**	**2,973**
Cash Flow (ZARm)					
Cash flow from operations	**1,841**	**2,615**	**2,665**	**2,909**	**3,171**
Net Capex	172	-1,100	-897	-570	-644
Free cash flow	**2,013**	**1,514**	**1,768**	**2,339**	**2,527**
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-1,259	-1,180	-1,197	-1,263	-1,375
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0
Net cash flow	**754**	**335**	**571**	**1,076**	**1,152**
Change in working capital	*-471*	*-113*	*-133*	*-159*	*0*
Balance Sheet (ZARm)					
Cash and other liquid assets	506	921	1,016	2,092	3,245
Tangible fixed assets	2,203	2,586	3,123	3,288	3,503
Goodwill/intangible assets	1,669	1,986	1,986	1,986	1,986
Associates/investments	1,510	1,717	1,717	1,717	1,717
Other assets	5,800	5,774	6,163	6,620	7,197
Total assets	**11,687**	**12,984**	**14,005**	**15,704**	**17,648**
Interest bearing debt	884	880	404	404	404
Other liabilities	3,519	3,503	3,759	4,057	4,403
Total liabilities	**4,403**	**4,383**	**4,163**	**4,461**	**4,807**
Shareholders' equity	6,984	8,316	9,557	10,945	12,531
Minorities	301	286	285	297	311
Total shareholders' equity	**7,285**	**8,601**	**9,842**	**11,243**	**12,841**
Net debt	*377*	*-42*	*-613*	*-1,688*	*-2,841*
Key Company Metrics					
Sales growth (%)	na	-5.5	6.4	7.4	8.0
DB EPS growth (%)	na	4.8	3.5	8.8	12.1
EBITDA Margin (%)	16.6	17.2	17.4	17.8	18.1
EBIT Margin (%)	15.3	15.6	15.6	16.0	16.3
Payout ratio (%)	50.0	50.1	50.0	50.0	49.8
ROE (%)	31.6	30.8	27.3	25.9	25.3
Capex/sales (%)	-0.8	5.7	4.4	2.6	2.7
Capex/depreciation (x)	-0.7	3.6	2.5	1.4	1.5
Net debt/equity (%)	5.2	-0.5	-6.2	-15.0	-22.1
Net interest cover (x)	12.3	36.7	87.8	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Truworths International Ltd

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

Truworths commands a significant share of both the womenswear (c.21%) and menswear (c.18%) CFT (Clothing, footwear and textile) market in South Africa. Its target market is predominantly LSM7-10 consumers with the core age group being 24-30 years old. Various brands appeal to specific niche consumer segments eg Uzzi and Identity appealing to a younger 18-24 year-old demographic. Truworths has consistently positioned itself as a high fashion retailer. The group has 523 stores, with 507 retail stores in South Africa, 11 in Namibia and 5 in Swaziland. A further 16 franchise stores are located in Africa.

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

- **Superior volume growth and continued organic expansion** of stores leading to markets share gains. The offset to top line support from store expansion is in dilution of trading densities and hence returns and margin pressure from already high levels. Truworths' top line has been defensive relative to peers throughout the last few years.
- **Reigning in the extension of new credit** and containment of further bad debts resulting in lower operating costs and a significant recovery in FY11 and FY12. Bad debts rolled more quickly than expected in addition to a very tightly contained 'other costs' category (-5.3% y-o-y for FY10). We expect a steady declining profile in net bad debts as % of gross book towards normalised levels in FY13.
- **Selective acquisitions:** Cash and cash equivalents of R1.3bn at year-end 2010 represents c.5% of current market cap. While R34m of share buybacks was undertaken during FY10, dividend cover remains at 1.9x HEPS. This provides the group with opportunities to assess potential acquisitions that compliment the core fashion business.

Management highlighted the positive impacts of high real wage increases, low inflation and interest rates on the consumer. However, the high level of consumer indebtedness was raised as a continuing concern despite the improvement in the quality of the debtors' book. While it appears FY11 has kicked off well with 15.3% 1H11 top line growth y-o-y, management indicated that the trading environment would remain tough, with product inflation a muted 1% over the last six months.

Outlook: The continued rollout of 6% trading space y-o-y in FY11 could increase cost pressures and improving metrics on the book bode well for softer bad debts. So while this is not an exciting geared recovery play (low operational gearing historically), we see a solid performer producing 16% 3-year CAGR in earnings, a very strong balance sheet and 12m dividend yield of c.3%. Despite this, after a substantial rally the stock offers significant negative 12m total return with respect to our 5600cps target price. **Sell**.

Valuation: We value TRU using a PE-relative methodology employing a normalised 2-year forward PE of 9.3x discounted at our 2-year earnings growth to obtain fair valuation. Rolling this value forward at COE-dividend yield we arrive at our 12-month price target of 5600cps.

Risks: Key upside risks to our forecast includes 1) faster-than-expected rollover in bad debts as credit consumers deleverage, 2) stronger credit sales growth than anticipated, 3) continued GP margin expansion with better product sourcing resulting in lower markdowns, and 4) announcement of a special dividend or share buyback program to deploy current excess cash

Model updated: 17 January 2011

Running the Numbers

S. Africa

South Africa

General Retailers

Truworths

Reuters: TRUJ.J Bloomberg: TRU SJ

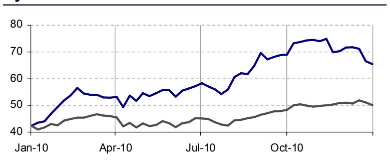
Sell

Price (28 Jan 11)	ZAR 65.42
Target price	ZAR 56.00
52-week Range	ZAR 42.00 – 75.66
Market Cap	ZAR 28,379m
	US$ 3,954m

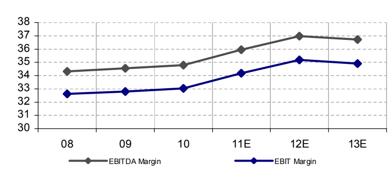
Company Profile

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

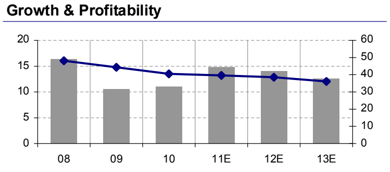
1yr Price Performance



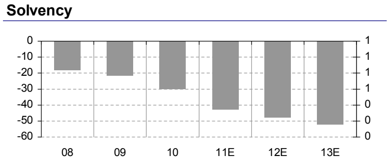
Margin Trends



Growth & Profitability



Solvency



Nick Higham
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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	2.90	3.32	3.70	4.39	5.15	5.74
Reported EPS (ZAR)	2.90	3.31	3.70	4.39	5.15	5.74
DPS (ZAR)	1.44	1.71	2.00	2.37	2.78	3.10
BVPS (ZAR)	6.55	8.35	10.29	12.41	14.89	17.67
Weighted average shares (m)	441	433	433	434	434	435
Average market cap (ZARm)	12,891	13,867	19,836	28,379	28,412	28,445
Enterprise value (ZARm)	12,358	13,100	18,518	26,112	25,382	24,533
Valuation Metrics						
P/E (DB) (x)	10.1	9.7	12.4	14.9	12.7	11.4
P/E (Reported) (x)	10.1	9.7	12.4	14.9	12.7	11.4
P/BV (x)	3.51	4.43	5.21	5.27	4.39	3.70
FCF Yield (%)	8.6	8.1	6.5	5.2	6.5	7.4
Dividend Yield (%)	4.9	5.3	4.4	3.6	4.2	4.7
EV/Sales (x)	2.19	2.10	2.67	3.28	2.80	2.40
EV/EBITDA (x)	6.4	6.1	7.7	9.1	7.6	6.5
EV/EBIT (x)	6.7	6.4	8.1	9.6	7.9	6.9
Income Statement (ZARm)						
Sales revenue	**5,651**	**6,248**	**6,937**	**7,961**	**9,078**	**10,215**
Gross profit	**2,865**	**3,199**	**3,588**	**4,178**	**4,824**	**5,385**
EBITDA	**1,939**	**2,158**	**2,413**	**2,862**	**3,357**	**3,751**
Depreciation	96	109	121	141	164	186
Amortisation	0	0	0	0	0	0
EBIT	**1,843**	**2,049**	**2,292**	**2,721**	**3,193**	**3,565**
Net interest income(expense)	37	65	69	71	81	91
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	**1,880**	**2,114**	**2,360**	**2,792**	**3,274**	**3,656**
Income tax expense	596	680	756	886	1,039	1,161
Minorities	7	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,277**	**1,434**	**1,604**	**1,906**	**2,235**	**2,496**
DB adjustments (including dilution)	0	2	0	0	0	0
DB Net profit	**1,277**	**1,436**	**1,604**	**1,906**	**2,235**	**2,496**
Cash Flow (ZARm)						
Cash flow from operations	**1,276**	**1,307**	**1,509**	**1,715**	**2,037**	**2,314**
Net Capex	-166	-191	-211	-250	-200	-200
Free cash flow	**1,110**	**1,116**	**1,298**	**1,465**	**1,837**	**2,114**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-575	-683	-785	-1,007	-1,180	-1,316
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-218	-201	38	491	106	84
Net cash flow	**317**	**232**	**551**	**949**	**763**	**882**
Change in working capital	*-104*	*-236*	*-216*	*-332*	*-362*	*-368*
Balance Sheet (ZARm)						
Cash and other liquid assets	533	767	1,318	2,267	3,030	3,912
Tangible fixed assets	527	618	694	803	839	853
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	2,780	3,073	3,364	3,808	4,293	4,787
Total assets	**3,840**	**4,458**	**5,376**	**6,879**	**8,162**	**9,551**
Interest bearing debt	0	0	0	0	0	0
Other liabilities	920	907	1,005	1,609	1,837	2,045
Total liabilities	**920**	**907**	**1,005**	**1,609**	**1,837**	**2,045**
Shareholders' equity	2,920	3,551	4,371	5,270	6,325	7,506
Minorities	0	0	0	0	0	0
Total shareholders' equity	**2,920**	**3,551**	**4,371**	**5,270**	**6,325**	**7,506**
Net debt	*-533*	*-767*	*-1,318*	*-2,267*	*-3,030*	*-3,912*
Key Company Metrics						
Sales growth (%)	16.3	10.6	11.0	14.8	14.0	12.5
DB EPS growth (%)	19.4	14.6	11.6	18.7	17.1	11.5
EBITDA Margin (%)	34.3	34.5	34.8	36.0	37.0	36.7
EBIT Margin (%)	32.6	32.8	33.0	34.2	35.2	34.9
Payout ratio (%)	49.7	51.6	54.0	54.0	54.0	54.0
ROE (%)	48.1	44.3	40.5	39.5	38.6	36.1
Capex/sales (%)	2.9	3.1	3.0	3.1	2.2	2.0
Capex/depreciation (x)	1.7	1.8	1.7	1.8	1.2	1.1
Net debt/equity (%)	-18.3	-21.6	-30.2	-43.0	-47.9	-52.1
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications

Vodacom Group Ltd

Business description: Vodacom Group Ltd operates a cellular telephone network in South Africa. It also has mobile operations in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo. The group's South African business remains the key contributor to profitability for the group

Importantly with mobile penetration in South Africa in excess of 100% and new competition from Telkom's mobile business 8.ta, growth in this key region has started to slow. Vodacom acquired the Gateway business in 2008, which routes traffic for telecoms operators across the African continent. In line with global trends Vodacom, is investing in more traditional fixed line areas like fibre to support the acceleration in data traffic that the group has seen across its network in recent months.

Drivers:

- **Growing the data revenue.** While core voice revenues in South Africa remain under pressure, Vodacom has invested significantly in its domestic data network; we expect to see further strong growth in the group's data business in 2011. We also expect to see Vodacom compete head on with Telkom in traditional fixed line data services where it has already made some progress. This growth in the data business in CY11, while expected by the market, should offer some support to the counter.

- **Some changes in Africa.** The group's African operations have had a tough two years with the DRC in particular struggling under the current economic climate. We believe the most likely outcome will see Vodacom exit its investment in the DRC but expect the turnaround seen in the last quarter in Tanzania to continue. While these changes in the African operations are small in the context of the group, we believe the market will be encouraged by an end to the negative trend.

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

Valuation: While revenue growth is expected to remain muted, given the cuts in mobile termination rates, the group is nevertheless expected to see margin expansion over the next few years. The stock is currently trading inline with the sector and we believe an exit EV/EBITDA (March 2012) multiple of 5.5x is appropriate reflecting the more muted top-line growth. This would imply an exit price of approximately 7500cps. Our valuation for the group is underpinned by the group's better than sector dividend yield (approximately 5%) and a business which in our view is defensive in nature in the current volatile markets.

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

Model updated: 23 July 2010

Running the Numbers

S. Africa

South Africa

Telecommunications

Vodacom

Reuters: VODJ.J Bloomberg: VOD SJ

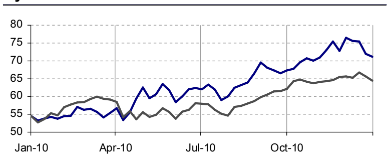
Hold

Price (28 Jan 11)	ZAR 71.14
Target price	ZAR 75.00
52-week Range	ZAR 53.25 – 78.26
Market Cap	ZAR 105,853m US$ 14,747m

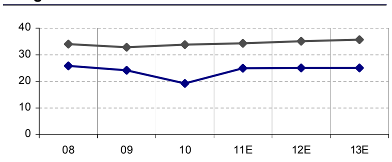
Company Profile

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

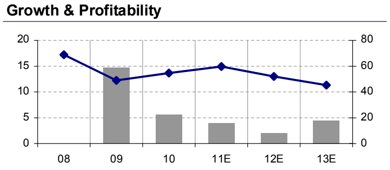
1yr Price Performance



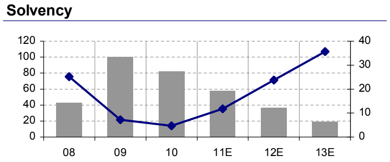
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	5.28	4.17	5.10	6.26	6.83	7.20
Reported EPS (ZAR)	5.28	4.17	5.10	6.26	6.83	7.20
DPS (ZAR)	3.99	3.49	2.85	3.76	4.10	4.32
BVPS (ZAR)	7.66	9.42	9.24	11.75	14.48	17.38
Weighted average shares (m)	1,488	1,488	1,486	1,488	1,488	1,488
Average market cap (ZARm)	na	na	82,353	105,853	105,853	105,853
Enterprise value (ZARm)	na	na	95,215	116,975	114,369	111,250
Valuation Metrics						
P/E (DB) (x)	na	na	10.9	11.4	10.4	9.9
P/E (Reported) (x)	na	na	10.9	11.4	10.4	9.9
P/BV (x)	na	na	6.02	6.06	4.91	4.09
FCF Yield (%)	na	na	10.6	6.8	8.1	8.9
Dividend Yield (%)	na	na	5.1	5.3	5.8	6.1
EV/Sales (x)	na	na	1.63	1.92	1.84	1.72
EV/EBITDA (x)	na	na	4.8	5.6	5.2	4.8
EV/EBIT (x)	na	na	8.5	7.7	7.4	6.8
Income Statement (ZARm)						
Sales revenue	**48,334**	**55,442**	**58,535**	**60,820**	**62,068**	**64,847**
Gross profit	**16,432**	**18,182**	**19,765**	**20,826**	**21,793**	**23,121**
EBITDA	**16,432**	**18,182**	**19,765**	**20,826**	**21,793**	**23,121**
Depreciation	3,941	4,795	8,527	5,673	6,240	6,864
Amortisation	0	0	0	0	0	0
EBIT	**12,491**	**13,387**	**11,238**	**15,153**	**15,553**	**16,257**
Net interest income(expense)	-496	-1,857	-2,396	-1,285	-654	-456
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	72	-1,293	103	116	118	123
Profit before tax	**12,067**	**10,237**	**8,945**	**13,984**	**15,016**	**15,925**
Income tax expense	4,109	4,045	4,745	4,894	5,030	5,335
Minorities	147	103	4	-225	-175	-125
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**7,811**	**6,089**	**4,196**	**9,315**	**10,161**	**10,715**
DB adjustments (including dilution)	49	121	3,383	0	0	0
DB Net profit	**7,860**	**6,210**	**7,579**	**9,315**	**10,161**	**10,715**
Cash Flow (ZARm)						
Cash flow from operations	**10,866**	**10,386**	**14,947**	**14,512**	**15,976**	**17,204**
Net Capex	-6,530	-7,211	-6,222	-7,298	-7,448	-7,782
Free cash flow	**4,335**	**3,175**	**8,725**	**7,214**	**8,528**	**9,422**
Equity raised/(bought back)	0	0	-385	0	0	0
Dividends paid	-5,741	-6,203	-3,908	-5,589	-6,096	-6,429
Net inc/(dec) in borrowings	3,227	8,351	-4,255	-1,437	-1,126	-847
Other investing/financing cash flows	-877	-5,076	-310	0	0	0
Net cash flow	**945**	**247**	**-133**	**188**	**1,305**	**2,146**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	978	1,104	1,061	1,139	2,444	4,590
Tangible fixed assets	19,120	21,844	21,383	23,009	24,217	25,135
Goodwill/intangible assets	4,224	11,794	6,673	7,007	7,357	7,725
Associates/investments	0	0	0	0	0	0
Other assets	9,853	12,617	12,574	13,065	13,333	13,930
Total assets	**34,175**	**47,359**	**41,691**	**44,219**	**47,351**	**51,379**
Interest bearing debt	5,991	16,191	13,025	11,588	10,462	9,615
Other liabilities	16,378	16,070	14,030	14,481	14,847	15,524
Total liabilities	**22,369**	**32,261**	**27,055**	**26,069**	**25,308**	**25,139**
Shareholders' equity	11,402	14,017	13,738	17,477	21,545	25,868
Minorities	404	1,081	898	673	498	373
Total shareholders' equity	**11,806**	**15,098**	**14,636**	**18,150**	**22,043**	**26,241**
Net debt	*5,013*	*15,087*	*11,964*	*10,449*	*8,018*	*5,024*
Key Company Metrics						
Sales growth (%)	na	14.7	5.6	3.9	2.1	4.5
DB EPS growth (%)	na	-21.0	22.2	22.8	9.1	5.5
EBITDA Margin (%)	34.0	32.8	33.8	34.2	35.1	35.7
EBIT Margin (%)	25.8	24.1	19.2	24.9	25.1	25.1
Payout ratio (%)	76.1	85.4	101.0	60.0	60.0	60.0
ROE (%)	68.9	48.9	54.6	59.7	52.1	45.2
Capex/sales (%)	13.5	13.0	10.6	12.0	12.0	12.0
Capex/depreciation (x)	1.7	1.5	0.7	1.3	1.2	1.1
Net debt/equity (%)	42.5	99.9	81.7	57.6	36.4	19.1
Net interest cover (x)	25.2	7.2	4.7	11.8	23.8	35.7

Source: Company data, Deutsche Bank estimates

South Africa – Construction

Wilson Bayly Holmes-Ovcon Ltd

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

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

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

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

Outlook: WBHO focuses on building contracts, roads, and civil engineering projects in South Africa, the rest of Africa, and Australia. Over time, the company has maintained an above-average track record, growing earnings at a 10-year CAGR of 30%, and maintaining ROCE and ROE both between 25% and 35%. Its quality of earnings and cash generation also remains above average.

Over the past year, the group has broadened its focus to include large-scale civil engineering government-related contracts, shifting its contract mix to over 70% government and 30% private sector. The short- to medium-term outlook remains moderate.

Although the group's strong multiyear order book should support the earnings base over the short to medium term, we believe a number of challenges are emerging. Rising competitive pressure for government work, and rapidly slowing private sector investment growth, particularly in mining and building, may all prove negative for revenue growth and margins. We have a **Hold** rating on the stock, reflecting what we see as a balanced risk/reward scenario.

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

Risks: Downside risks: Sustained decline in global commodity prices below current levels; Greater-than-expected wage settlements; Significant disruptions from ongoing labour industrial action; and Inability to transfer skills from building to civil engineering. Upside risks all relate to an earlier-than-expected recovery in domestic private sector investment (WBHO is a leading builder focusing largely on private sector building) and commodity prices (the group is involved in development of mining infrastructure, which benefits from higher commodity prices).

Model updated: 06 December 2010

Running the Numbers

S. Africa

South Africa

Construction & Building Materials

WBHO

Reuters: WBOJ.J	Bloomberg: WBO SJ

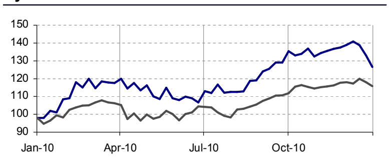
Hold

Price (28 Jan 11)	ZAR 126.49
Target price	ZAR 122.00
52-week Range	ZAR 97.60 – 140.86
Market Cap	ZAR 8,348m
	US$ 1,163m

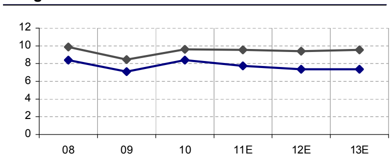
Company Profile

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

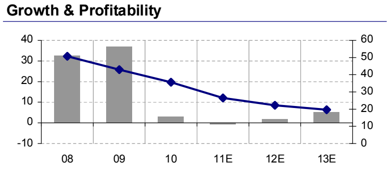
1yr Price Performance



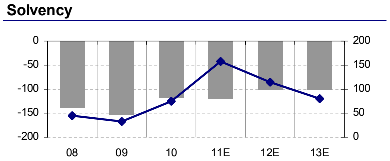
Margin Trends



Growth & Profitability



Solvency



Roy Mutooni, CFA
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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	12.99	16.19	17.49	16.38	16.69	17.48
Reported EPS (ZAR)	12.59	16.05	17.54	16.38	16.69	17.48
DPS (ZAR)	2.42	3.00	3.30	3.08	3.14	3.29
BVPS (ZAR)	26.24	36.13	45.94	56.83	68.17	80.11
Weighted average shares (m)	66.0	66.0	66.0	66.0	66.0	66.0
Average market cap (ZARm)	8,031	7,112	7,409	8,348	8,348	8,348
Enterprise value (ZARm)	4,966	2,912	3,349	3,366	3,379	2,652
Valuation Metrics						
P/E (DB) (x)	9.4	6.7	6.4	7.7	7.6	7.2
P/E (Reported) (x)	9.7	6.7	6.4	7.7	7.6	7.2
P/BV (x)	4.21	2.94	2.38	2.23	1.86	1.58
FCF Yield (%)	22.2	25.7	6.8	14.3	2.9	11.8
Dividend Yield (%)	2.0	2.8	2.9	2.4	2.5	2.6
EV/Sales (x)	0.46	0.20	0.22	0.22	0.22	0.16
EV/EBITDA (x)	4.7	2.3	2.3	2.3	2.3	1.7
EV/EBIT (x)	5.5	2.8	2.6	2.9	3.0	2.2
Income Statement (ZARm)						
Sales revenue	**10,784**	**14,769**	**15,201**	**15,096**	**15,375**	**16,188**
Gross profit	**1,066**	**1,250**	**1,458**	**1,440**	**1,445**	**1,546**
EBITDA	**1,066**	**1,250**	**1,458**	**1,440**	**1,445**	**1,546**
Depreciation	161	202	184	273	314	353
Amortisation	0	0	0	0	0	0
EBIT	**905**	**1,049**	**1,274**	**1,168**	**1,131**	**1,193**
Net interest income(expense)	-20	-32	-17	-7	-10	-15
Associates/affiliates	-21	31	-30	-27	-25	-22
Exceptionals/extraordinaries	32	-24	-9	0	0	0
Other pre-tax income/(expense)	163	329	280	233	294	299
Profit before tax	**1,101**	**1,329**	**1,524**	**1,394**	**1,415**	**1,477**
Income tax expense	318	398	467	404	410	428
Minorities	46	73	66	62	63	65
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**694**	**882**	**965**	**900**	**918**	**961**
DB adjustments (including dilution)	22	7	-3	0	0	0
DB Net profit	**716**	**890**	**961**	**900**	**918**	**961**
Cash Flow (ZARm)						
Cash flow from operations	**2,157**	**2,057**	**719**	**1,592**	**759**	**1,530**
Net Capex	-374	-230	-213	-400	-515	-543
Free cash flow	**1,783**	**1,827**	**506**	**1,192**	**244**	**987**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-88	-173	-194	-181	-169	-173
Net inc/(dec) in borrowings	-30	-123	-55	0	0	0
Other investing/financing cash flows	-157	-275	-398	0	0	0
Net cash flow	**1,508**	**1,255**	**-141**	**1,011**	**75**	**815**
Change in working capital	*751*	*843*	*-1,077*	*342*	*-591*	*38*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,782	4,033	3,891	4,902	4,977	5,792
Tangible fixed assets	1,041	1,114	1,204	1,331	1,532	1,722
Goodwill/intangible assets	161	206	293	293	293	293
Associates/investments	597	438	417	389	365	343
Other assets	3,378	3,816	3,553	4,116	4,187	4,393
Total assets	**7,958**	**9,608**	**9,358**	**11,031**	**11,354**	**12,543**
Interest bearing debt	167	76	51	51	51	51
Other liabilities	5,913	6,952	6,079	6,971	6,482	6,818
Total liabilities	**6,081**	**7,028**	**6,130**	**7,022**	**6,534**	**6,869**
Shareholders' equity	1,732	2,385	3,032	3,751	4,499	5,288
Minorities	145	195	196	258	321	386
Total shareholders' equity	**1,877**	**2,580**	**3,228**	**4,009**	**4,820**	**5,674**
Net debt	*-2,614*	*-3,957*	*-3,840*	*-4,851*	*-4,926*	*-5,740*
Key Company Metrics						
Sales growth (%)	32.7	37.0	2.9	-0.7	1.8	5.3
DB EPS growth (%)	159.7	24.6	8.0	-6.3	1.9	4.7
EBITDA Margin (%)	9.9	8.5	9.6	9.5	9.4	9.5
EBIT Margin (%)	8.4	7.1	8.4	7.7	7.4	7.4
Payout ratio (%)	23.0	22.4	22.6	22.6	22.6	22.6
ROE (%)	50.8	42.9	35.6	26.6	22.2	19.6
Capex/sales (%)	4.1	2.0	1.7	2.6	3.3	3.4
Capex/depreciation (x)	2.7	1.5	1.4	1.5	1.6	1.5
Net debt/equity (%)	-139.3	-153.4	-118.9	-121.0	-102.2	-101.2
Net interest cover (x)	44.5	32.9	74.9	157.3	114.3	80.4

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers

Woolworths Holdings Ltd

Business description: Woolworths operates 419 corporate food, clothing and homeware outlets (both full-line stores containing all three product categories and food-only stores) predominantly in South Africa. It owns 88% of Country Road retailing clothing and homeware through retail outlets and concessions in large department stores in Australia and New Zealand. In addition, the company operates c.160 franchise stores. Woolworths also operates a joint venture with Absa offering consumer finance through store cards, visa cards and personal loans. On an turnover level, we estimate Clothing and Home contributes c.35%, Food 52%, Country Road contributes c.12% with the remainder being generated from 'logistic and other'.

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

- **A recovery in the primary food business** assisted by the repositioning of price points (to incorporate more value price points). Inflation in food running higher than the market due to the higher number of value-add products and lower commodity mix. Management has highlighted that Woolworths food volumes are fairly inelastic with changes in price inflation, suggesting less downward pressure on top line vs its retail food peers.
- **Focus is on driving down costs:** With top line just growing in double digits and GP margins remaining stable, better cost control is critical to growing earnings ahead of sales growth in next two years.
- **Repositioning the clothing business** as a more accessible fashionable retailer growing market shares and potentially enhancing trading margins further in the format post a successful turnaround in the division in 2010.
- **Launch of loyalty card:** Management highlighted the big opportunity that exists in launching a loyalty card programme for customers and mining the data from card sales to better learn the behaviour of its core customers (like Clicks group).
- **Purchasing of franchisee operations:** Management has indicated that it is in the process of purchasing a significant number of franchise stores that it feels can generate better profits run as corporate stores. Depending on the multiples paid for the stores, this could result in value accretion.

The bottom line is that all the low hanging fruit appears to have been picked and what remains is driving costs out of the business to achieve stated EBIT margin targets. Management guided that sales should track similar growth to FY10 (ex the World Cup impact ie c.10%) and with GP margins holding, comparable store cost growth needs to be curbed below comparable sales growth levels to deliver solid earnings growth ahead of top line.

Outlook: With signs of improvement in the store card book, the top line starting to show a little resilience supported by the value price point offerings and positive surprises on the clothing GP margin, we believe the outlook for Woolworths has improved. We expect robust three-year CAGR in earnings of c.18% however with limited upside from current levels, we believe this is already fully priced in. We do not anticipate any near-term catalysts in the stock but believe that it offers an attractive yield, keeping the stock treading water. This supports our **Hold** recommendation.

Valuation: We value Woolworths using a PE-relative methodology employing a normalised two-year forward PE of 9.7x discounted at our two year earnings growth to obtain fair value. Rolling our fair value forward at COE-dividend yield we arrive at our 12 month price target of 2300cps.

Risks: Downside risks include: 1) A weaker-than-expected consumer environment due to the impact of retrenchments and increased savings causing continued trading down by consumers (high-end focus of Woolworths exposes it to greater risk); 2) Rapidly reverting food inflation below CPIX, and 3) Upward cost pressures due to the aggressive roll-out of trading space over the last two years, causing weaker operating margins. Upside risks include: 1) More aggressive rate cuts than expected; 2) A quicker recovery in bad debts and higher synergies realised on the WFS deal; and 3) Better-than-expected top-line growth due to acceptance of the value proposition on food and success in passing on higher clothing inflation than expected to consumers.

Model updated: 27 August 2010

Running the Numbers

S. Africa

South Africa

General Retailers

Woolworths Holdings Ltd

Reuters: WHLJ.J Bloomberg: WHL SJ

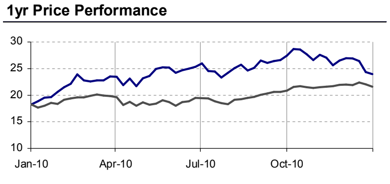
Hold

Price (28 Jan 11)	ZAR 23.98
Target price	ZAR 23.00
52-week Range	ZAR 18.20 – 28.69
Market Cap	ZAR 18,833m
	US$ 2,624m

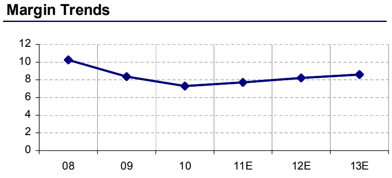
Company Profile

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

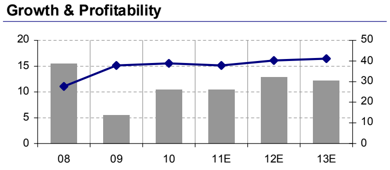
1yr Price Performance



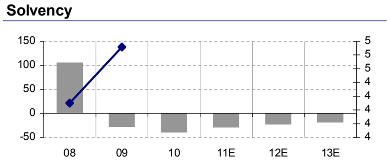
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ZAR)	1.13	1.07	1.59	1.75	2.14	2.54
Reported EPS (ZAR)	1.13	1.55	1.57	1.75	2.14	2.54
DPS (ZAR)	0.79	0.85	1.05	1.17	1.43	1.69
BVPS (ZAR)	4.36	3.92	4.42	5.10	5.89	6.81
Weighted average shares (m)	830	801	794	785	783	783
Average market cap (ZARm)	12,896	9,511	14,942	18,833	18,783	18,783
Enterprise value (ZARm)	16,741	8,714	13,637	17,764	17,839	17,877
Valuation Metrics						
P/E (DB) (x)	13.8	11.0	11.8	13.7	11.2	9.5
P/E (Reported) (x)	13.8	7.7	12.0	13.7	11.2	9.5
P/BV (x)	2.34	3.30	5.42	4.71	4.07	3.52
FCF Yield (%)	0.3	3.3	6.3	3.5	5.2	6.7
Dividend Yield (%)	5.1	7.2	5.6	4.9	6.0	7.1
EV/Sales (x)	0.83	0.41	0.58	0.69	0.61	0.55
EV/EBITDA (x)	8.1	4.9	8.0	8.9	7.4	6.4
EV/EBIT (x)	8.1	4.9	8.0	8.9	7.4	6.4
Income Statement (ZARm)						
Sales revenue	**20,065**	**21,175**	**23,393**	**25,828**	**29,142**	**32,673**
Gross profit	**4,623**	**4,590**	**4,809**	**5,403**	**6,149**	**6,935**
EBITDA	**2,060**	**1,772**	**1,709**	**1,993**	**2,397**	**2,808**
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	**2,060**	**1,772**	**1,709**	**1,993**	**2,397**	**2,808**
Net interest income(expense)	-503	-360	24	39	68	87
Associates/affiliates	0	70	81	94	109	133
Exceptionals/extraordinaries	-60	316	-66	-66	-66	-66
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**1,558**	**1,411**	**1,733**	**2,032**	**2,465**	**2,896**
Income tax expense	553	546	491	671	814	956
Minorities	9	12	10	11	15	19
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**937**	**1,239**	**1,247**	**1,378**	**1,679**	**1,987**
DB adjustments (including dilution)	-1	-378	17	0	0	0
DB Net profit	**936**	**861**	**1,264**	**1,378**	**1,679**	**1,987**
Cash Flow (ZARm)						
Cash flow from operations	**674**	**932**	**1,457**	**1,350**	**1,672**	**1,962**
Net Capex	-638	-614	-514	-700	-700	-700
Free cash flow	**35**	**318**	**943**	**650**	**972**	**1,262**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-636	-654	-689	-891	-1,086	-1,285
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	345	4,973	264	0	0	0
Net cash flow	**-255**	**4,637**	**518**	**-241**	**-114**	**-24**
Change in working capital	*-332*	*67*	*215*	*-11*	*20*	*22*
Balance Sheet (ZARm)						
Cash and other liquid assets	826	2,391	2,917	2,692	2,583	2,565
Tangible fixed assets	1,811	1,937	1,991	2,691	3,391	4,091
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	8,205	3,586	3,733	4,363	4,542	5,047
Total assets	**10,842**	**7,914**	**8,642**	**9,746**	**10,517**	**11,703**
Interest bearing debt	4,618	1,547	1,555	1,555	1,555	1,555
Other liabilities	2,640	3,295	3,634	3,962	4,403	4,867
Total liabilities	**7,259**	**4,842**	**5,189**	**5,517**	**5,958**	**6,422**
Shareholders' equity	3,531	3,025	3,396	3,883	4,475	5,177
Minorities	52	47	57	68	84	103
Total shareholders' equity	**3,583**	**3,072**	**3,453**	**3,951**	**4,559**	**5,281**
Net debt	*3,793*	*-844*	*-1,362*	*-1,137*	*-1,028*	*-1,010*
Key Company Metrics						
Sales growth (%)	15.5	5.5	10.5	10.4	12.8	12.1
DB EPS growth (%)	-10.1	-4.7	48.2	10.1	22.2	18.4
EBITDA Margin (%)	10.3	8.4	7.3	7.7	8.2	8.6
EBIT Margin (%)	10.3	8.4	7.3	7.7	8.2	8.6
Payout ratio (%)	70.0	55.0	66.8	66.7	66.7	66.7
ROE (%)	27.6	37.8	38.8	37.9	40.2	41.2
Capex/sales (%)	3.2	2.9	2.2	2.7	2.4	2.1
Capex/depreciation (x)	na	na	na	na	na	na
Net debt/equity (%)	105.9	-27.5	-39.5	-28.8	-22.6	-19.1
Net interest cover (x)	4.1	4.9	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Stocks by market capitalisation

Rank	Share Name	Sector	Market cap (Rm)	Annual value traded (Rm)	Market cap (US$m)	Annual value traded (US$m)
1	BHP Billiton	General Mining	607,992	203,616	84,766	28,388
2	British American Tobacco	Tobacco	529,756	35,025	73,858	4,883
3	Anglo	General Mining	466,802	311,989	65,081	43,497
4	SABMiller	Beverages	383,590	84,728	53,480	11,813
5	MTN Group	Telecommunications	231,797	211,130	32,317	29,436
6	Sasol	Oil & Gas Producers	222,610	141,114	31,036	19,674
7	Richemont	Luxury Goods	203,737	71,537	28,405	9,974
8	AngloPlat	Platinum	185,164	65,866	25,815	9,183
9	Standard Bank	Banks	166,780	124,300	23,252	17,330
10	Naspers	Media	151,502	156,011	21,122	21,751
11	Kumba Iron Ore	General Mining	144,941	35,078	20,208	4,891
12	Impala Platinum	Platinum	128,794	112,664	17,956	15,708
13	FirstRand	Banks	109,883	66,514	15,320	9,273
14	Vodacom	Telecommunications	104,157	24,805	14,521	3,458
15	Absa	Banks	95,522	48,258	13,318	6,728
16	Old Mutual	Life Assurance	81,269	47,944	11,331	6,684
17	Nedbank	Banks	64,269	35,379	8,960	4,932
18	Sanlam	Life Assurance	57,120	25,986	7,964	3,623
19	Exxaro	General Mining	51,389	24,171	7,165	3,370
20	Bidvest	Service	50,248	36,096	7,006	5,033
21	Shoprite	General Retailers	48,424	45,397	6,751	6,329
22	ARM	General Mining	44,822	21,865	6,249	3,048
23	Steinhoff	General Retailers	35,483	23,491	4,947	3,275
24	Tiger Brands	Food Producers	35,399	31,718	4,935	4,422
25	ABIL	Financial Services	29,352	28,199	4,092	3,932
26	Truworths	General Retailers	29,315	24,943	4,087	3,478
27	Investec plc	Financial Services	29,231	21,419	4,075	2,986
28	Growthpoint	Real Estate	27,046	12,612	3,771	1,758
29	MMI Holdings	Life Assurance	24,658	9,057	3,438	1,263
30	Imperial	General Industrial	23,147	24,293	3,227	3,387
31	Discovery	Life Assurance	22,299	8,809	3,109	1,228
32	Liberty Holdings	Life Assurance	20,628	7,292	2,876	1,017
33	Pick n Pay	General Retailers	20,561	12,371	2,867	1,725
34	Woolworths	General Retailers	20,005	24,549	2,789	3,423
35	Foschini Group	General Retailers	19,117	20,995	2,665	2,927
36	Telkom	Telecommunications	18,321	17,490	2,554	2,438
37	PPC	Construction & Building Materials	18,289	14,508	2,550	2,023
38	Barloworld	General Industrial	15,975	13,068	2,227	1,822
39	Spar	General Retailers	15,586	11,938	2,173	1,664
40	Nampak	Service	15,208	5,942	2,120	828
41	Aveng	Construction & Building Materials	14,990	19,188	2,090	2,675
42	Clicks	General Retailers	10,638	13,794	1,483	1,923
43	AVI	Food Producers	10,473	3,625	1,460	505
44	Murray & Roberts	Construction & Building Materials	10,322	14,947	1,439	2,084
45	Adcock	Healthcare	9,796	6,834	1,366	953
46	JD Group	General Retailers	8,866	11,479	1,236	1,600
47	Optimum Coal	General Mining	8,208	517	1,144	72
48	WBHO	Construction & Building Materials	8,118	3,647	1,132	509
49	Lewis	General Retailers	7,452	4,611	1,039	643
50	Group 5	Construction & Building materials	3,882	2,178	541	304

Source: Deutsche Bank

Appendix A: Equity valuations

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

Executive summary

Introduction
The note serves four main purposes:

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

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

Standard valuation inputs
We have standardised the following inputs:

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

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

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

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

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

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

Appendix: Valuation and price target methodologies

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

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

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

Glossary

Abbreviation	Explanation
¢	US cents
A$	Australian dollar
ABIL	African Bank Investments Ltd
ALSI	FTSE/JSE Africa All Share Index
Anglo	Anglo American plc
AngloPlat	Anglo Platinum Ltd
ARM	African Rainbow Minerals Ltd
ARMgold	African Rainbow Minerals Gold
ARMI	African Rainbow Minerals Investments
ARV	Anti Retro Virals
AUD	Australian dollar
BAT	British American Tobacco plc
BEE	Black Economic Empowerment
BHP	BHP Billiton
bn	billion
BOT	Build Operate Transfer
bps	basis points
c	South African cents
c.	circa
Capex	Capital expenditure
CAPM	Capital Asset Pricing Model
CAT	Caterpillar
CHP	Chilean Peso
CEO	Chief Executive Officer
CIB	Corporate & Investment Banking
cps	South African cents per share
CSG	Consumer Sector Group
CTL	Coal-to-Liquids
DB	Deutsche Bank
DC	Distribution Centre
DCF	Discounted Cash Flow
DIY	Do-it-yourself
DLC	Dual Listed Company
DRC	Democratic Republic of the Congo
EBIT	Earnings Before Interest & Taxation
EBITDA	Earnings before Interest, Taxation, Dividends and Amortisation
EM	Emerging Markets
EUR	Euro
EV	Enterprise Value
EY	Earnings Yield
Fed	US Federal Reserve
FMCG	Fast Moving Consumer Goods
FT	Fischer-Tropsch
GBP	British pound
GBP	British pound
GDP	Gross Domestic Product
GFAM	Guinness Flight Asset Management
GTL	Gas-to-Liquids

Abbreviation	Explanation
HPC	Home & Personal Care
IRS	Impala Refining Services
ISP	Internet Service Provider
IT	Information Technology
JDG	JD Group
JSE	JSE Stock Exchange South Africa
JV	Joint Venture
Kumba	Kumba Iron Ore
LNG	Liquefied Natural Gas
LSE	London Stock Exchange
m	million
moz	million ounces
NAV	Net Asset Value
NCA	National Credit Act
NIH	National Health Insurance
NTRLI	Non-Traditional Retail Lending Institutions
OTC	Over The Counter
p	British pence
P/B	Price/Book
pa	per annum
PCE	Private Consumption Expenditure
PE	Price/Earnings
PGM	Platinum Group Metals
PMI	Purchasing Managers Index
PPC	Pretoria Portland Cement Company Ltd
pps	pence per share
PSCE	Private Sector Credit Extension
RBCT	Richards Bay Coal Terminal
RCS	Retail Credit Solutions
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
SA	South Africa
SABM	SABMiller plc
SARB	South African Reserve Bank
SBG	Standard Bank Group
SIOC	Sishen Iron Ore Company
SNO	Second National Operator
SOTP	Sum-of-the-parts
SPI	Sasol Petroleum International
US$	US dollar
US¢	US cents
USD	US dollar
WACC	Weighted Average Cost of Capital
WBHO	Wilson Bayly Holmes-Ovcon Ltd
ZAR	South African rand
ZWD	Zimbabwe dollar

Appendix 1

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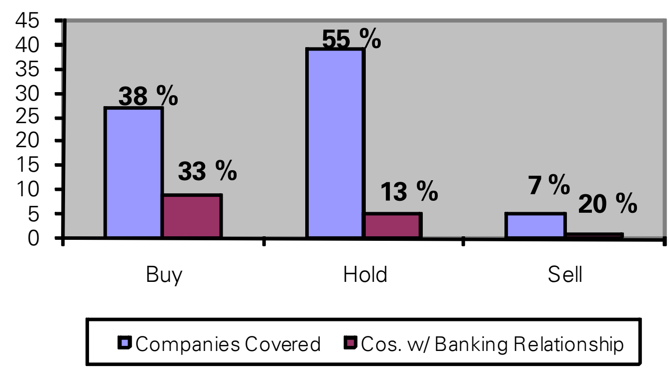
Equity rating dispersion and banking relationships



GEMs South African Universe

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