Deutsche Bank
Markets Research

Sub-Saharan Africa
South Africa

Periodical
Elephant Book

Date
15 March 2013

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Stretching to find value

The Elephant Book provides a brief overview of the global and South African economies, and an analysis for 54 companies under coverage.

Cover photograph:
Elephant reaching for pods on an Acacia albida tree, Mana Pools, Zimbabwe
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Recent market consolidation provides a compelling entry point into equity markets

The main theme for 2013 is one of reduced tail risks, as this year will likely mark the onset of the post-crisis era as growth returns. Although key sources of potential volatility centre on the political impasse in Italy and fiscal austerity in the US, we do not expect them to generate the turbulence of yesteryear.

...as global growth accelerates, though risks remain prevalent

We expect the Eurozone should emerge from recession in mid-2013, with growth at -0.3% before recovering to 1.1% in 2014. The region will gain some external traction from stronger growth in the US and Europe, while internal demand conditions should be supported by improving credit dynamics. The US should grow by 1.7% in 2013 before increasing to 2.9% in 2014E. Fiscal austerity measures are the main reason for a poor first half, but by the end of the year, the economy could be expanding at around 3%.

We expect GDP growth in China to accelerate and touch trend growth by 2H13, backed by increasing corporate and infrastructure spending on continued urbanisation reform. Exports should also lift as the global economy recovers. We remain constructive on EM, but growth performances are diverging. EM Asia is leading the way, with growth in India poised for modest recovery, supported by stronger core sector production and auto sales.

Domestic growth to exit slumber in 2H13

The domestic economy has been characterised by two primary themes over the last 2-3 years; firstly, increased synchronisation with developed economies, and secondly, a positive terms of trade shock that underpinned a significant upturn in household demand. This period was also accompanied by a significantly overvalued exchange rate of up to 25% at times, which managed to keep inflation and the import bill contained. The combination of these trends has resulted in significant margin expansion for corporates, hence corporate cash buffers still imply good growth prospects down the line, improved business confidence permitting.

In 2013, we expect sub-trend demand growth to dominate, with economic growth remaining mired at 2.5%. The slowdown in terms of trade-driven income growth in 2012 suggests domestic demand will adjust lower following several years of excessive growth. Indeed, based on our forecast of real gross domestic demand of 2.9% in 2013, it will be the weakest year since the recession in 2009, and before that, the weakest since 2001.

We believe the rand exchange rate should correct from an oversold position. Reducing inflation risks, sequentially higher GDP growth, and a reduction in the current account deficit are factors supportive of improving rand fundamentals (DBe 8.40/USD end of 2013). Against the backdrop of poor investor sentiment, which could take time to adjust, risks to our view remain to the upside.

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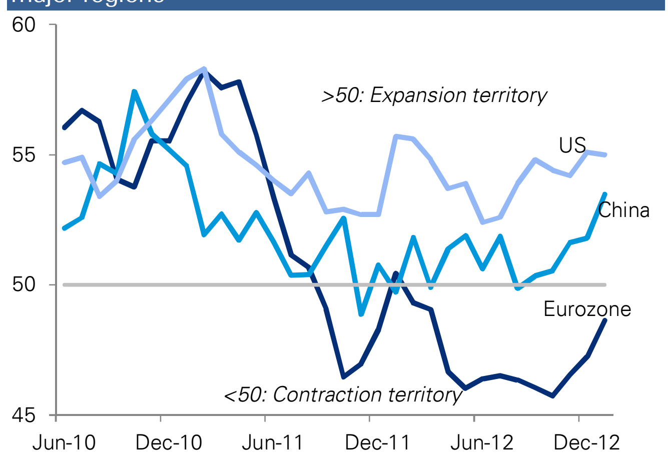
Global macro outlook

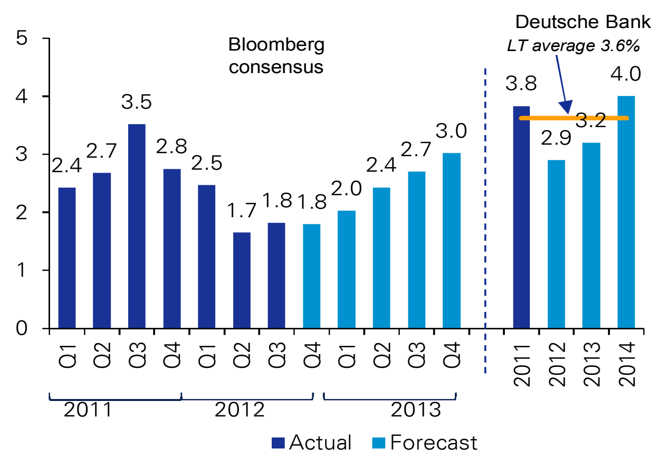
The main theme for 2013 is one of reduced tail risks, as this year will likely mark the onset of the post-crisis era as growth returns. Although key sources of potential volatility centre on elections in Europe and the US sequester, we do not expect them to generate the turbulence of yesteryear. And, while structural long-term issues such debt sustainability in the developed world and lacking growth reform in emerging markets remain prevalent, 2013 should see a return of stabilisation as we exit the crisis fighting world. Growth is certainly appear to be bottoming globally, and set to recover towards trend levels in the second half of the year. Europe's ongoing adjustment does imply that it will be the growth laggard, but with the US and Asia recovering, confidence should soon return in markets alike. DB's latest growth and inflation expectations are shown in Figure 3 below.

Figure 1: Composite PMI: positive momentum across all major regions



Source: Deutsche Bank, Haver Analytics

Figure 2: World GDP growth to return to stronger levels from 2H13



Source: Deutsche Bank, Bloomberg Finance LP

Figure 3: Summary of DB's GDP and inflation forecasts currently compared with the beginning of 2012

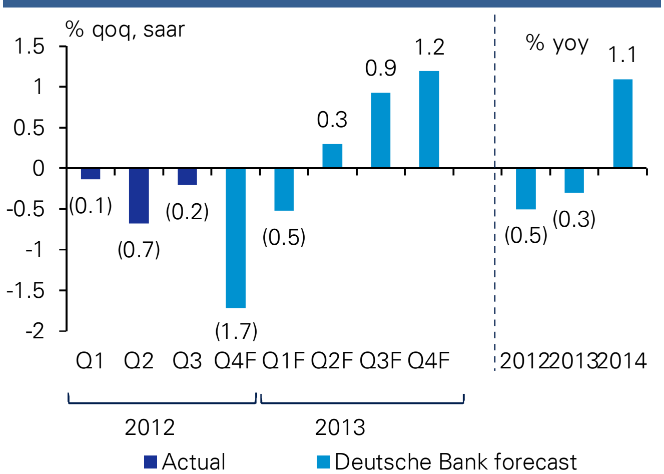
	Forecasts: January 2012				Forecasts: Current					
	GDP growth (%)		CPI inflation		GDP growth (%)			CPI inflation		
	2012F	2013F	2012F	2013F	2012F	2013F	2014F	2012F	2013F	2014F
US	2.5	3.0	3.2	2.4	2.2	1.7	2.9	2.1	2.3	2.5
Japan	0.7	1.1	-0.3	-0.1	1.9	1.0	0.4	0.0	-0.1	1.9
Euroland	-0.5	1.0	1.9	1.5	-0.5	-0.3	1.1	2.5	1.6	1.6
G7	**1.4**	**2.1**	**2.3**	**1.8**	**1.4**	**1.1**	**2.0**	**1.9**	**1.8**	**2.2**
China	8.3	8.6	3.0	3.5	7.7	8.3	8.9	2.6	3.0	3.5
India	7.5	8.0	6.5	7.2	4.6	6.8	7.1	7.5	6.5	6.3
EM Asia	**6.9**	**7.4**	**3.9**	**4.5**	**5.9**	**6.8**	**7.4**	**3.8**	**3.9**	**4.2**
Russia	4.6	4.9	7.0	6.8	3.4	4.3	4.2	5.2	6.5	6.1
EMEA	**3.2**	**4.0**	**6.0**	**5.7**	**2.9**	**3.5**	**3.9**	**5.2**	**5.3**	**5.1**
Brazil	3.2	5.0	5.3	5.6	0.9	3.3	4.2	5.4	6.1	5.6
Latam	**3.6**	**4.2**	**8.0**	**7.7**	**2.7**	**3.5**	**4.0**	**7.8**	**8.0**	**8.0**
Advanced economies	**1.2**	**2.0**	**2.2**	**1.8**	**1.4**	**1.1**	**2.1**	**1.9**	**1.8**	**2.1**
EM economies	**5.4**	**6.1**	**5.2**	**5.3**	**4.7**	**5.5**	**6.1**	**4.8**	**4.9**	**5.1**
World	**3.2**	**3.9**	**3.6**	**3.4**	**2.9**	**3.1**	**3.9**	**3.3**	**3.3**	**3.5**

Source: Deutsche Bank estimates

Eurozone growth, ECB policy dynamics and euro-crisis risks

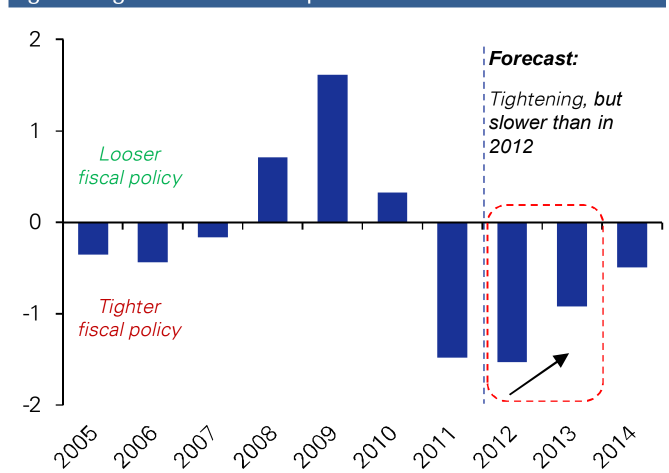
We expect the Eurozone should emerge from recession in mid-2013, with growth at -0.3% before recovering to 1.1% in 2014. The region should gain some external traction from stronger growth in the US and Europe, while internal demand conditions should be supported by improving credit dynamics. However, it remains vulnerable to downside risks stemming from a range of factors, most notably a political shock, whether internally generated (ie Italy) or externally driven (ie political gridlock in the US). The political impasse in Italy increases the downside risks in Europe and could negatively impact the outlook for risky assets, in particular. Though the region will likely see a continuation in fiscal austerity, essentially fiscal tightening is slowing in 2013 relative to 2012. A slowdown in the pace of fiscal tightening should be positive for the economy – this theory is synonymous to the credit impulse, which we expect to turn positive in 2Q this year.

Figure 4: Eurozone GDP growth is expected to resume in 2H13



Source: Deutsche Bank, Haver Analytics

Figure 5: Euro-zone fiscal stance* (% of GDP): more tightening but at a slower pace



*This ratio captures the discretionary tightening/easing of fiscal policy
Source: Deutsche Bank, European Commission

As Europe recovers, we expect ECB policy will likely adopt a wait-and-see attitude. But monetary policy will remain accommodative, given the fragile nature of the recovery. Further negative growth surprises in coming months could spur easing, but as credit conditions begin to improve, leading to credit growth in 2H13, we think these risks are relatively low for now. On a relative basis, we think the Fed is likely to start unwinding its accommodative policy before the ECB, as the former is recovering more strongly.

Our base case still views a muddle through (reactive policy response) in the resolve of the crisis, with politicians only delivering with market pressure. In our base case, the Eurozone break-up risks are low, as reforms are gradually delivered alongside further integration and burden sharing. Overall, the state of the economy and progress at country and institutional level will determine whether the euro-crisis regains centre stage. But we expect Germany will seek to keep a lid on the crisis ahead of the election in autumn.

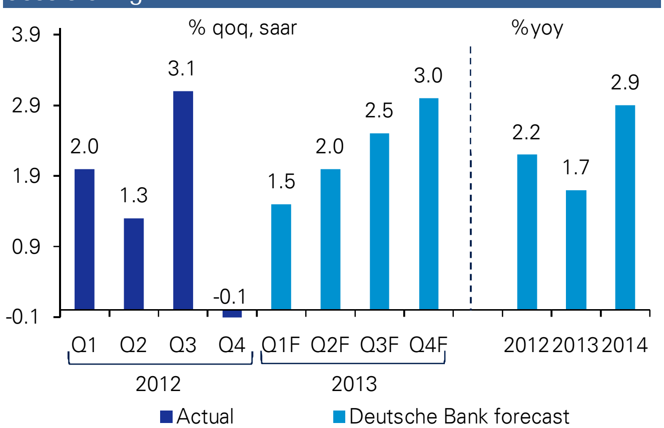
The US growth recovery, the 'fiscal' cliff and the exit of QE

The US should grow by 1.7% in 2013 before increasing to 2.9% in 2014. Fiscal austerity measures are the main reason for a poor first half, but by the end of the year, the economy could be expanding at around 3%. Overall, growth remains mediocre, but a recovery in the labour and housing markets, stronger private sector balance sheets and a consumer that is holding up fairly well is providing decent momentum in the economy. It is worrying that manufacturing and business spending is lagging this recovery, but these trends could improve if fiscal uncertainty reduces.

As expected, the "fiscal cliff" was averted at the 11th hour. In essence, the fiscal drag was reduced to 1.5% of GDP against the worst case outcome of 4.2%. The deal ratified tax increases but spending cuts were delayed. As such, three issues are still posing risk to the economy, including raising the debt ceiling, addressing fiscal austerity and longer-term tax/spending reform. Still ahead of us is the need for a budget and the debt ceiling, albeit the latter delayed to August, we believe. German elections could also be a concern (expected 22 September), while issues in Spain and Cyprus might arise in the interim. On balance, however, none of these events are seen to be sufficient to derail the trajectory of the economy right now.

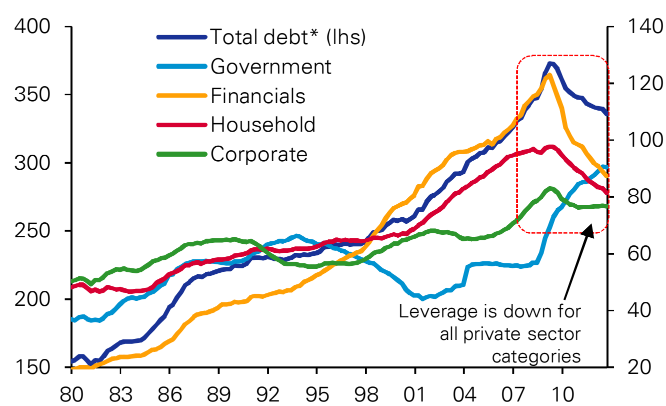
Communiqués from the Fed over December and January suggested that the costs of QE have risen, and could impact the conduct of monetary policy this year. Given the costs facing the Fed, we believe the most probable course of action is for the Committee to alter its QE policy during 2H13. However, so long as the benefits of ongoing monetary stimulus outweigh potential risks or costs (the majority view of Fed officials), any prospective taper to asset purchases will be delayed. In particular, a stronger recovery in the labour market (payrolls averaging 200k per month), would be the signal for a reduction in purchases, which could be signalled sometime in the middle of the year. This will be a strong signal to the market that the exit process is underway. We expect to see a substantial increase in longer-term Treasury yields as a result, with 10-year yields rising to 2.75% by year-end.

Figure 6: US growth to remain slow in 1H before accelerating in 2H



Source: Deutsche Bank, BEA

Figure 7: US debt (% of GDP): private sector deleveraging is well underway



* Total debt includes only domestically held debt
Source: FRB, Haver Analytics, Deutsche Bank

Several trends driver our long-term optimism over the US economic recovery:

- Housing: The sector's recovery is continuing fairly well. We believe that home formation will be an engine of growth over the next few years, supporting house prices, and ultimately household wealth.
- Deleveraging: The US consumer has largely completed what has been a multi-year deleveraging cycle. The household debt ratio has fallen to the lowest level since 4Q03 (84%). Eventually, households will start to re-leverage, which could act as a tailwind to economic activity. In turn, continued private sector deleveraging will encourage consumer spending and business investment, with further positive spillover effects for hiring.
- Declining unemployment: Unemployment has fallen to 7.8% from the crisis peak of 10%, and is expected to fall further to 7.3% by year-end. However, the moderation

will likely be slow as improving economic conditions will attract greater labour force participation.

- Energy: The shale oil and gas boom is transforming the US economy and could make North America energy independent by 2025. This development could create around 800,000 new jobs, create significant upstream and downstream opportunities and halve the trade deficit.

China and other Emerging Markets

We expect GDP growth in China to accelerate and touch trend growth by 2H13, backed by increasing corporate and infrastructure spending on continued urbanisation reform. Exports should also lift as the global economy recovers. We expect GDP growth of 8.3% in 2013, before increasing to 8.9% in 2014. Growth should also be supported by the total stock of social financing, a broad measure of credit in the economy, which has accelerated to 19% yoy from 15% in mid-2012. Further, having remained more or less unchanged for much of last year, manufacturing profits grew by around 20% at the end of last year. Such strong growth could potentially result in higher tax revenue, giving further upside to growth from a larger-than expected fiscal stimulus (in the form of public investment).We expect an additional fiscal stimulus of 0.5-1% of GDP this year. It is worrying, however, that with GDP expected to reach 9% towards the end of 2013 and inflation approaching 4% that risks of overheating could resurface.

In turn, the economy is also faced with downside risks, as overheating could provoke earlier-than-expected tightening of monetary policy. Escalating tensions with Japan, an oil shock resulting from rising tension in the Middle East and a slowdown in the US economy are all downside risks to growth. In the shorter-term, the recent surge in air pollution should be monitored as public pressure for an aggressive response from government could weigh on economic activity in the near term.

Overall, we remain constructive on EM, but growth performances are diverging. EM Asia is leading the way, with growth in India poised for modest recovery, supported by stronger core sector production and auto sales. Inflation momentum has eased, allowing for some monetary easing (three 25bp cuts), but lingering concerns over a wide current account deficit and whether government will adhere to fiscal consolidation targets pose risks to this view. In contrast, in Latin America, Brazil has continued to disappoint, as industrial production continue to face pressure from rising labour costs and increasing competition from cheaper imported goods. However, stimulus measures, via public investment and tax incentives for the private sector could help to prop up growth in the second half of the year. The economy is faced with elevated inflationary pressures, making further policy cuts unlikely. Growth in EMEA is lagging behind considerably, and is still decelerating in some parts (particularly Poland) given the ongoing recession in core Europe. We expect output gaps to close from late 2013, but for some (eg Turkey) this could happen sooner, with the exception of Poland where growth is still decelerating.

SA macro outlook

The domestic economy has been characterised by two primary themes over the last two-three years; firstly, increased synchronisation with developed economies, and secondly, a positive terms of trade (ToT) shock that underpinned a significant upturn in household demand. This period was also accompanied by a significantly overvalued exchange rate of up to 25% at times, which managed to keep inflation and the import bill contained. The combination of these trends has resulted in significant margin expansion for corporates, hence corporate cash buffers still imply good growth prospects down the line, improved business confidence permitting. And, these conditions underpinned stronger government revenues, which gave rise to above-inflation wage increases in the public sector.

However, around the end of 2011, the upturn in global demand that was underway since 2009, a strong commodity boom and an overvalued exchange rate have all reached their turning points. These factors begun to place pressure on the current account deficit, and in the process weakened the exchange rate. The ripple effects have begun to exert greater pressure on the domestic economy via the impact of negative income effects on demand and rising inflation pressure.

In 2013, we expect sub-trend demand growth to dominate, with economic growth remaining mired at 2.5%. The slowdown in terms of trade-driven income growth in 2012 suggests that domestic demand will adjust lower following several years of excessive growth. Indeed, based on our forecast of real gross domestic demand of 2.8% in 2013, it will be the weakest year since the recession in 2009, and before that, the weakest since 2001. Some normalisation in export volumes (stemming from the global recovery and at least some improvement in mining sector capacity), and supportive commodity prices should, however, help to restore terms-of-trade income growth in the economy. Overall, these adjustments will help to narrow the current account deficit this year.

We believe the rand exchange rate should correct from an oversold position. Reducing inflation risks, sequentially higher GDP growth, and a reduction in the current account deficit are factors supportive of improving rand fundamentals (DBe 8.40/USD end of 2013). Against the backdrop of poor investor sentiment, which could take time to adjust, risks to our view remain to the upside.

There is still scope to cut rates given the dismal domestic outlook, and the need to stimulate poor business and consumer confidence. But, for our rate cut call to fall in place, we need to see a retracement in USDZAR toward its fair value of about 8.50/USD. We see inflation pressures subsiding in 2H13 as weaker world food price trends, domestic economic slack and a slowdown in rand depreciation (relative to last year) compresses inflation pressure. Within the next six months, however, rising food prices, pressure on fuel prices, and a weaker exchange rate should push inflation outside the target band in 3Q. We believe that the SARB will stare through these primary inflation drivers, when deciding on policy rates this year. Subdued inflation in 2014 is a supportive backdrop for further policy easing, in our view.

Our key economic forecasts are listed in Figure 8.

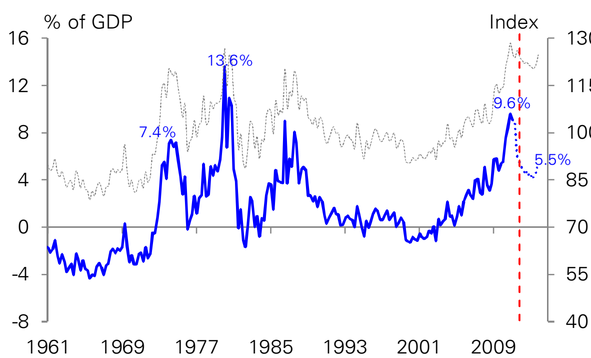
Figure 8: Key macro-economic forecasts

	2009	2010	2011F	2012E	2013F	2014F
Real GDP	-1.9	3.1	3.5	2.5	2.6	3.5
Priv. Consumption	-2	4.4	4.8	3.5	2.6	3.5
Gov't consumption	4.8	4.4	4.6	4.2	3.4	3.6
Investment	-2.2	-2	4.5	5.7	4.4	4.3
Exports	-19.5	4.5	5.9	0.2	2.7	6.3
Imports	-17.4	9.6	9.7	6.5	2.2	5.5
CPI (yoy%)eop	6.3	3.5	6.1	5.7	5.2	5.0
Budget balance (% of GDP)	-6.5	-4.2	-4.5	-5.2	-4.7	-3.6
Current account balance (% of GDP)	-4.1	-2.8	-3.4	-6.3	-5.1	-4.5
FX rate (eop) ZAR/USD	7.5	6.6	8.1	8.4	8.4	8.5
FX rate (eop)ZAR/EUR	10.6	8.8	10.5	11.2	10.1	9.8

Financial markets (eop)	Current	3mnth	6mnth	12mnth
Policy rate (repo rate)	5.0	4.5	4.5	4.5
3-month rate (Jibar)	5.1	4.6	4.6	4.6
10-yr bond yield	6.8	6.6	6.8	7.5

Source: Deutsche Bank, SARB, Bloomberg Finance LP

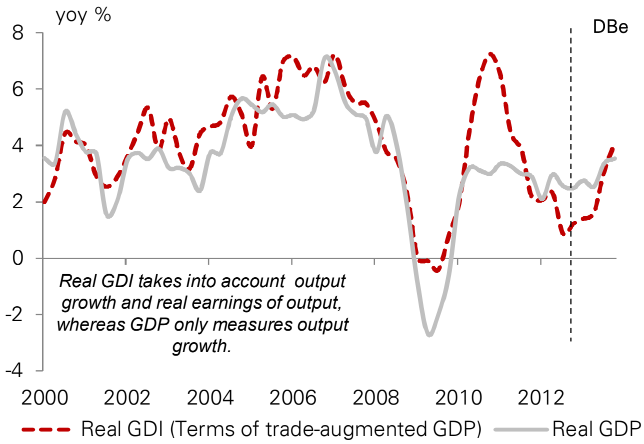
Figure 9: Income earned from terms of trade* halved as commodity prices turned, and exports weakened



** Income generated from terms of trade is a function of exports share of GDP multiplied by change in terms of trade relative to a specific base year*
Source: Deutsche Bank, SARB

Terms of trade (export prices/import prices) have deteriorated: Terms of trade (ToT) measures net income generated from the movement in export prices relative to import prices. ToT deteriorated last year as export prices came under considerable downward pressure, while import prices (mostly oil) remained resilient. This decline was exacerbated by the drop in export volumes, which essentially cut income generated from trade almost in half (blue line in Figure 9). This drop off in income will negatively permeate the economy this year. But as export volumes recover this year, and commodity prices remain supported by a US/China-led global recovery, so would domestic income growth recover.

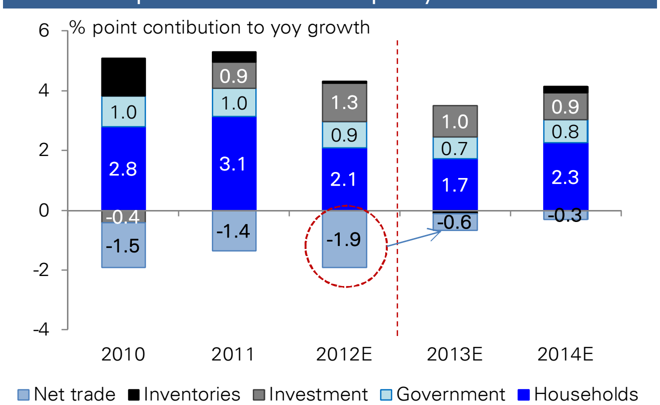
Figure 10: Falling growth in real Gross Domestic Income a function of weak terms of trade and exports



Source: Deutsche Bank, SARB

Domestic income growth to recover in 2H13: Real Gross Domestic Income (GDI) is a superior measure of real economic activity (ie GDP), as it is constructed to take income effects from relative commodity prices into account when calculating GDP growth. Historically, positive income effects (ie GDI > GDP) have led to excess domestic demand growth (ie GDE > GDP), and vice versa if income effects compressed or declined. Our expectation of an easing in GDE growth to 2.8% (from 4.3% p/a over the last three years) may be on the optimistic side compared to the sharp fall in ToT income effects last year. Essentially, domestic demand lags growth in GDI by around two quarters. On balance, this argument forms the basis of our expectation for a narrowing in the CAD in 2013 to -5.1% from -6.3% in 2012.

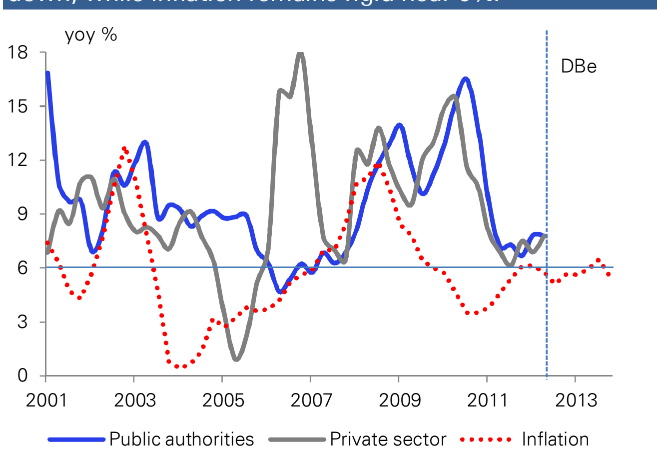
Figure 11: Contributions to growth in GDP: the large drag from net exports in 2012 should partly reverse in 2013



Source: Deutsche Bank, SARB, I-Net Bridge

Growth to remain sluggish in 2013, but global recovery needed to lift exports: The outlook for economic growth remains broadly stable in 2013 relative to last year (around 2.5%) with the pick-up mostly afforded by improving global demand and softer import growth helping to reduce the negative growth contribution of net exports from -1.9% points to -0.6% points. Household consumption remains key growth driver, but much lower in its intensity compared to the past. We believe wage growth should be capped by weaker economy and a squeeze in corporate profit margins. Job cuts are also expected in key supply sectors. The lack of business confidence could pare back private sector capital investment this year, but overall, public sector investment will remain robust, though moderating from a high base.

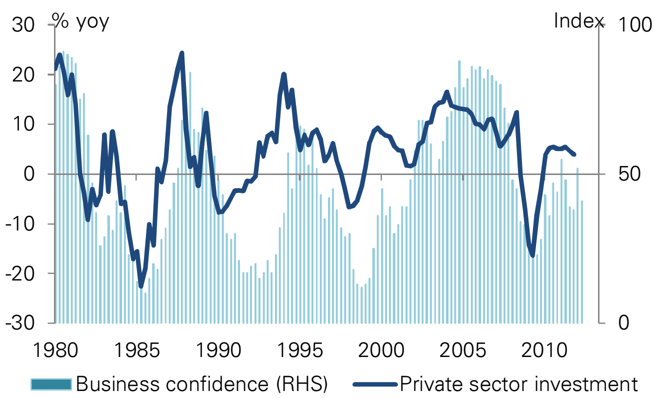
Figure 12: Nominal remuneration per worker slowing down, while inflation remains rigid near 6%.



Source: Deutsche Bank, SARB, StatsSA

Households' growth thrust is falling: In terms of the main source of growth in 2013, the consumer may be in for a tough start. Household demand may grow at 2.6% in 2013 from 3.5% and in 2012. After growing robustly over the last four years, a retracement in demand for durable goods, in particular, is expected. Aside from job losses, particularly in sectors where margins are under pressure from high labour costs, consumer confidence is likely to remain subdued in the face of softer wage growth and rising inflation. The more cumbersome outlook for employment is a partly a function of inexorable increases in labour costs, which have not coincided with improving labour productivity. As highlighted before, the ToT growth spurt over the last few years assisted in making large wage increases and job growth a possibility. However, now that the income effects from ToT have declined significantly, growth in domestic demand should start adjusting lower in line with GDP growth.

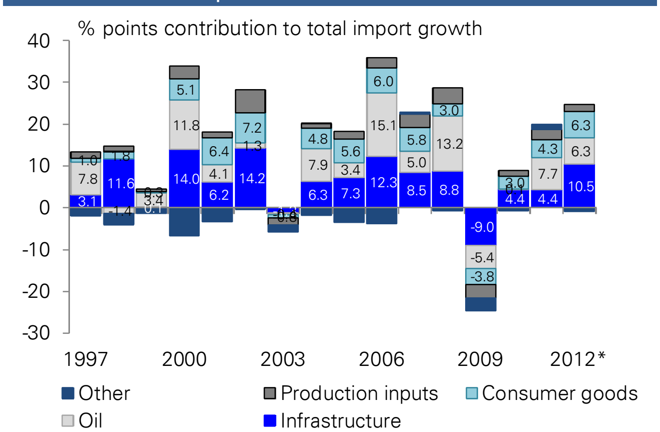
Figure 13: Weak business confidence is weighing on private sector investment



Source: BER, SARB

Growth in fixed investment is expected to moderate slightly to 4.4% in 2013 from 5.7% in 2012. Infrastructure spend by public corporations grew by 9% in 2012, as parastatals maintained spending on road and electricity networks. General government has also upped spending on water infrastructure, and upgrading of social housing and informal settlements. We expect private sector capex to remain subdued, as sectors will mostly replace depreciated capital stock. Typically, private sector capex is a lagging indicator, and could according to historical trends only recover from 2Q14 onwards. In the current environment, where political uncertainty is one of the key constraints to capital investment, the turning point may be postponed if authorities fail to provide concrete policy direction this year.

Figure 14: Decomposition of import growth: Infrastructure components account fore more than 50%



Source: Deutsche Bank, I-Net Bridge

Growth in imports to slow as demand growth weakens: Growth in imports should slow to 2.2% in 2013 as higher base effects kick in. Imports rose by significant 20% (from 24% in 2011) in 2012. When we decompose the origin of this import growth, the source is not at all a result of conspicuous consumption. Infrastructure requirements have been a considerable boost for imports last year, contributing 10.5% points to growth – the strongest since 2006. Imports of oil have been equally robust compared to previous years, though these were admittedly in times of much stronger economic growth. Finally, growth in consumer imports was much stronger last year, but went hand-in-hand with an overvalued exchange rate, low/negative real interest rates, as well as stronger appetite for luxuries. While we expect negative real rates to remain a feature this year, weaker economic conditions should pose a greater constraint on imported consumer items, mostly luxury items.

SA equities

Deutsche Bank's 2013 top picks …

Figure 15: Our 10 outperformers for 2013

	Stock	Rec/price target/TR	Rationale
Financials	ABIL	Buy PT: R38.00 TR 40%	ABIL is our top pick in the general financials universe: 1. We think the recent price action is unwarranted and as a result, the stock is trading at very attractive multiples relative to its own history. 2. Although asset growth might slow marginally from c.30.9% to in the early twenties, top line growth will still be present. 3. Although we are limited as to information presented in the public domain, we do not believe that African Bank will be found guilty in recent allegations by the National Credit Regulator that have been referred to the tribunal, given the precedent that it would set on an industry-wide basis. 4. We remain optimistic about the fact that there is not a bubble in the unsecured lending market and that although we expect credit loss ratios to increase marginally c.11.4% (FY12: 10.8%), we do not anticipate a collapse in the business model.
	Standard Bank	Buy PT: R127.50 TR: 15%	Standard Bank is our top pick among the big four banks: 1. Its top line asset growth remains robust with average asset growth at c.9%, as the South African operation performs well and Standard Bank benefits from additional growth into the rest of Africa. 2. The margin benefit from higher loan growth in unsecured lending of c.24bp will continue to have a positive impact on net interest income growth; we expect this to continue in FY13. 3. Standard Bank is in the process of addressing problems in the offshore business unit, resulting in the additional impairments and costs incurred in FY12 of c.R750m and c.US$80m respectively. The base effect improvement is expected to provide the business with additional positive earnings momentum in FY13.
	Old Mutual	Buy PT: GBP2.30 TR: 14%	Old Mutual is our top pick among the South African insurers. The stock is still attractive on several valuation metrics, offers a promising long-term growth profile and a competitive dividend yield. (1) Old Mutual is currently the only South African insurance stock to trade to a discount to its stated embedded value. As a result of management's successful restructuring programme in FY10-12, debt has been reduced by half, cost savings of over GBP100m have been achieved along with ROEs exceeding targets of c.15% for most core operating divisions. (2) Management announced a focus on growth in the lucrative Sub-Saharan African market as a long-term goal to compliment its strong market position in the profitable South African entry-level operations. (3) Following the FY12 results, management lowered the group's dividend cover to 2.25x, for a yield of c.4.5% now comparable to that of South African and European peers.
Industrials	Shoprite	Buy PT: R221.02 TR: 26%	We think Shoprite could increase its EBIT margin by c.1% over the next five years, and support 20% CAGR in EPS. Gross margins could expand a further 1% over the medium term, benefitting from i) positive change in product mix, ii) stronger buying power (from market share gains), iii) improved supply chain efficiencies. Longer term, Shoprite could see relatively strong growth in its average basket size and trading densities, as its customers (mainly lower end) become more wealthy and trade up into higher margin products and grow their basket size. The group's capital returns (ROE of 35% FY12) are relatively low – we see scope for ROEs to improve to 40-50% over the next 5-7 years, as the heavy capex cycle slows and profitability improves.
	Life Healthcare	Buy PT: R38.00 TR: 17%	We believe the stock has traded down in recent months in sympathy to foreigners selling SA retail stocks. Life Healthcare has over 50% foreign shareholding, which makes it vulnerable to foreign investor sentiment. Post discussions with management recently, we remain convinced the stock represents low risk exposure to SA healthcare, with volume and pricing growth as we anticipate likely to emerge.
	MTN	Buy PT: 185.00 TR: 10.2%	While MTN has re-rated over the last six months, this has been in line with the broader SA market and its Industrial peer group. We expect to be rather subdued from an EBITDA growth perspective as MTN experiences the full year impact of capacity constraints and competitive margin pressure in Nigeria, as well as currency weakness in Iran (sanctions), Syria (sanctions and civil war) and Sudan (economic challenges following secession). Beyond FY13, however, our expectation of better medium-term growth is based on added capacity and competitive stabilisation in Nigeria and, at the least, a lower base in its Large Opco businesses, but upside optionality if politics normalise. Outside SA and Nigeria, which together account for c.67% of EBITDA currently, many of the countries in which MTN operates are enjoying strong growth, having committed to IMF-mandated economic reform in return for foreign debt relief. While some may no doubt fall off this rigorous path, collectively the portfolio offers the potential to sustain relatively high margins and respectable growth for longer than has been the norm in the industry. In our view, MTN provides investors with a good balance of respectable growth as a top-2 operator across all its 21 markets, with an extremely strong balance sheet supporting its progressive dividend policy.

Figure 15: Our 10 outperformers for 2013

	Stock	Rec/price target/TR	Rationale
	British American Tobacco (BAT)	Buy, PT R495.00 TR 7%	We continue to find BAT's combination of high single-figure EPS growth, cash generation and broad geographic diversity attractive. Regulation has the potential to reappear as an issue from time to time, but BAT remains for us one of the highest-quality global Staples stocks which should deliver consistent low-double digit returns over the mid to long term. The tax increases that we have seen recently seem unlikely to cause a major disruption to BAT's business. Early reports from Australia over the impact of plain packaging, suggesting there has been little impact so far, are positive. The UK looks likely to be one of the next sources of newsflow on this front, and is important for sentiment even if BAT's actual earnings exposure is tiny. However, over time we expect that the market will come to realise that plain packaging does not fundamentally disrupt the tobacco business model.
Resources	Exxaro	Buy PT: R215.00 TR: 28%	Exxaro is our top pick among the General Miners: 1. The core coal business will be receiving payment from Eskom for its R9.5bn 14.3mt Medupi (GMEP) project, despite the delays to commissioning of Medupi in terms of the contract with Eskom – this is not priced in our view; 2. We value the coal business at R23bn and at present the rump/core (Exxaro-Kumba-Tronox equivalent stakes) is valued at -R2.5bn vs a historical range before the Tronox transaction of R10-25bn; 3. Tronox (Exxaro 45% directly and 26% of SA mining assets) is currently suffering from a destocking cycle (now 80 days down from 90-95 days 2/3 months ago but above long term 55 day average) and is only operating at 70-75% of capacity. We expect that as inventories are drawn down (US and China housing recovery the driver) for capacity to increase and profitability to return.
Resources	Amplats	Hold PT: R500.00 TR: 19%	Amplats is our top pick of the Precious Metals stocks. The announced restructuring of Amplats – planned cuts to nameplate production of 400kozpa, the potential sale of Union mine and an aggressive cost-cutting target – is likely the most practical, if muted, solution to fixing the group's longer-term profitability, in a difficult South African operating environment. Whilst the implementation of the plan heralds a difficult 12 months for the company, with the full costs of restructuring falling in 2013, we believe Amplats has more options than peers to weather the storm and re-shape itself – closing or selling high-cost operations in the short-term and, in the longer-term, re-directing capital to the higher-margin and higher potential areas of the group.

Source: Deutsche Bank

… and bottom picks

Figure 16: Our 10 underperformers for 2013

	Stock	Rec/price target/TR	Rationale
Financials	Absa	Hold PT: R145.00 TR: -3.4%	Absa is our least preferred stock among the big four banks: 1. Although there have been impairment adjustments in the base in FY12 and we have decent earnings growth expectations of c.20% in FY13, we remain concerned about growth after that. 2. We maintain our Hold recommendation largely supported by the special dividend that Absa is expected to announce later in the year, post the finalisation of the Barclays Africa acquisition and the increased stake (c.15.6%) that Barclays will take in Absa. 3. Asset growth remains the lowest of the banks and although Absa is attempting to take greater market share, we think it would quite possibly take longer than expected.
	Growthpoint	Hold PT R23.60 TR: -1%	As the 25% sector benchmark by market capitalisation, Growthpoint is trading at a significant premium in the sector and at a increased premium.
	Liberty Holdings	Sell PT: R113.00 TR: 2%	Liberty is our bottom pick in the South African insurance sector. The group has shown a good recovery since its loss-making results in 1H09, which we believe is currently priced in. Compared with peers, we consider Liberty to be at a structural disadvantage for profit growth, and also subject to more earnings volatility than peers. (1) Liberty focuses on the South African affluent savings segment, which drives c.50% of earnings. We consider this segment to be highly competitive, with low margins, and therefore challenging to outperform relative to other stocks in both volume growth and margin expansion long-term. (2) Approximately 40% of Liberty's earnings are derived from returns on shareholder funds. In FY12, the group tracked benchmark indexes closely, suggesting that future profits on shareholder funds are likely to be dictated by overall market returns. Liberty has more of its total earnings exposed to market returns than any other insurer, which is likely to continue subjecting the group to earnings volatility.
Industrials	Vodacom	Hold PT: R110.00 TR: 2.4%	Since listing separately in 2009, Vodacom has defied concerns that its SA business (est c.89% of FY13 EBITDA) was ex-growth. Its business mix makes it a relatively low-risk operator vs its multinational EM peers. However, we believe intensifying competition in the face of growing saturation, moderating consumer tailwinds and a government focus on bringing down communication costs mean that future growth will be increasingly dependent on international operations to supplement what we expect to be mid-single digit growth (with the help of cost-cutting) from its SA operations. Due in part to a rather mixed record playing away from home, Vodacom's progress in meaningfully diversifying away from SA has been limited. Recent results suggest, finally, some encouraging progress in getting traction beyond SA, but very strong sustained performance is required to affect the group materially at the margin. While undeniably supported by its high dividend yield, rated close to an all-time high, we do not think this shift in risks is being acknowledged.
	Clicks	Hold PT: R67.05 TR: 16	Notwithstanding Clicks' strong management team, solid business model and high free cash flow generation, we feel that weak earnings momentum could weigh on the share price in the short term. We see low selling price inflation (3-4%), GP margin pressure and high cost growth constraining earnings growth over the next 12 months. In our view, the group's current premium PE rating does not leave too much room for error. Longer term, we think Clicks is well positioned to deliver attractive shareholder returns (but not in the short term).
Resources	Gold Fields	Sell PT: R75.00 TR: 6%	Gold Fields is our bottom pick of the Precious Metals stocks. 2013 is likely a pivotal year for Gold Fields given it has now spun out its mature South African mines into the newly listed Sibanye Gold and begun to set out a revised strategy for its remaining assets. Gold Fields' has signalled its intent to move away from greenfields, capex intensive projects, towards shorter-term brownfields and near-mine exploration projects. As a result, it has stopped providing longer-term production growth forecasts and capex guidance. Post the Sibanye spin-off, Gold Fields' intended use of cash flow, ie for production growth or to return to shareholders via higher dividends, is uncertain, thus Gold Fields' current sector-leading dividend yield could be at risk. Downside to our target price leads us to rate Gold Fields a Sell.

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
Banks										
Absa	16550	31-Dec	1167	1713	1811	1470	856	9.7	8.9	Hold
FirstRand	3145	30-Jun	224	262	297	126	144	12.0	4.0	Hold
Nedbank	19850	31-Dec	1645	1851	2124	926	1062	10.7	4.7	Buy
RMB Holdings Ltd	4130	30-Jun	318	296	346	123	144	14.0	3.0	Hold
Standard Bank	11770	31-Dec	924	1069	1254	506	600	11.0	4.3	Buy
General Financials										
ABIL	2864	30-Sep	341	407	464	214	238	7.0	7.5	Buy
Capitec Bank	19550	28-Feb	1122	1439	1896	576	807	13.6	2.9	Hold
Transaction Capital	737	31-Dec	81	103	121	21	24	7.2	2.8	Buy
Life Insurance										
Discovery	7600	30-Jun	384	460	520	125	145	16.5	1.6	Hold
Liberty Holdings Ltd	11950	31-Dec	1328	1188	1278	540	570	10.1	4.5	Hold
MMI Holdings	2320	30-Jun	184	203	225	126	135	11.5	5.4	Hold
Old Mutual*****	210	31-Dec	17	21	26	10	12	9.8	0.0	Buy
Sanlam	4825	31-Dec	287	322	349	180	198	15.0	3.7	Buy
Real Estate										
Growthpoint	2756	30-Jun	139	149	160	149	160	18.5	5.4	Hold
Redefine Properties Ltd	988	31-Aug	64	68	73	68	73	14.5	6.9	Buy
General Mining										
ARM	19916	30-Jun	1604	1465	1479	421	426	13.6	2.1	Buy
Anglo American*	25253	31-Dec	214	207	218	85	87	13.4	3.1	Buy
BHP Billiton*	28512	30-Jun	320	259	328	115	119	12.1	3.7	Buy
Exxaro Resources Ltd	16684	31-Dec	1397	1674	2178	550	720	10.0	3.3	Buy
Kumba Iron Ore Ltd	57115	31-Dec	3796	3886	3623	3240	3020	14.7	5.7	Sell
Gold										
AngloGold Ashanti*	22355	31-Dec	148	356	580	23	47	6.9	1.0	Hold
Gold Fields	7250	31-Dec	776	720	856	240	280	10.1	3.3	Sell
Harmony	5635	30-Jun	716	547	1025	110	70	10.3	2.0	Buy
Platinum & Precious Metals										
Amplats	41551	31-Dec	-562	419	1226	0	400	99.2	0.0	Hold
Aquarius Platinum*	747	30-Jun	-35	-13	2	0	0	nm	0.0	Buy
Impala Platinum	13600	30-Jun	689	248	313	65	85	54.8	0.5	Hold
Lonmin*	4583	30-Sep	14	10	21	0	0	52.8	0.0	Hold
Northam	3895	30-Jun	81	149	148	5	18	26.1	0.1	Hold
RBPlat	5350	31-Dec	104	182	207	0	0	29.4	0.0	Hold

Price in ZAR; all other values in US$
** *Price in ZAR; all other values in GBP*
*** *Price in ZAR; all other values in EUR*
**** *Price in CHF; all other values in EUR*
***** *All values in GBP*
All prices are as at Friday, 8 March 2013
Source: Company data; Deutsche Bank estimates

Equity review: Forecast summary (cont)

	Price (cps)	Year end	EPS (cps) Historical	EPS (cps) FY1	EPS (cps) FY2	DPS (cps) FY1	DPS (cps) FY2	PE FY1	DY FY1 %	Rating
Non-mining Resources: Oil & Gas										
Sasol	40300	30-Jun	3681	4656	4776	1750	1838	9.4	4.8	Buy
Non-mining Resources: Paper										
Mondi***	890	31-Dec	76	84	92	22	29	13.3	3.1	Buy
Non-mining Resources: Steel										
ArcelorMittal SA	3112	31-Dec	-127	251	128	84	40	12.4	2.7	Hold
Industrials										
AVI	5846	30-Jun	305	335	386	234	269	17.3	4.0	Hold
British American Tobacco**	48493	31-Dec	206	229	253	149	164	15.4	4.2	Buy
Clicks Group Ltd	5900	31-Aug	272	312	363	173	202	18.9	2.9	Hold
JD Group Ltd	3600	30-Jun	402	549	666	316	384	6.6	8.8	Buy
Lewis Group Ltd	6800	31-Mar	873	963	1078	535	599	7.1	7.9	Hold
Life Healthcare	3499	30-Sep	147	171	205	122	147	20.4	3.5	Buy
Massmart	19000	31-Dec	552	764	895	491	575	24.9	2.6	Hold
Mediclinic	6085	31-Mar	186	260	313	104	121	23.4	1.7	Buy
MTN Group	17577	31-Dec	1089	1251	1459	906	1042	14.1	5.2	Buy
Netcare Limited	2047	30-Sep	111	143	151	71	75	14.3	3.5	Buy
Pick n Pay Stores	4556	28-Feb	158	118	143	96	116	38.6	2.1	Hold
Reinet***	1775	31-Mar	44	3.7	4.2	0.0	0.0	40.0	0.0	Buy
Richemont***	7715	31-Mar	276	340	388	68	78	18.0	1.1	Buy
SABMiller*	46554	31-Mar	213	240	269	103	115	21.3	2.0	Hold
Shoprite	17650	30-Jun	608	763	926	371	452	23.1	2.1	Buy
Spar Group Limited	11345	30-Sep	576	657	760	457	528	17.3	4.0	Buy
Steinhoff	2527	30-Jun	317	336	360	85	91	7.5	3.4	Buy
The Foschini Group Ltd	11149	31-Mar	766	860	966	531	596	13.0	4.8	Buy
Tiger Brands	31935	30-Sep	1654	1891	2180	967	1115	16.9	3.0	Hold
Truworths	9599	30-Jun	517	601	692	379	436	16.0	3.9	Hold
Vodacom	11904	31-Mar	706	832	878	760	802	14.3	6.4	Hold
Woolworths Holdings Ltd	7154	30-Jun	261	331	372	252	297	21.6	3.5	Buy

** Price in ZAR; all other values in US$*
*** Price in ZAR; all other values in GBP*
**** Price in ZAR; all other values in EUR*
***** Price in CHF; all other values in EUR*
****** All values in GBP*
All prices are as at Friday, 8 March 2013
Source: Company data; Deutsche Bank estimates

South Africa – Banks | Price (8 March 2013): 16550c | Target price: 14500c | Rating: Hold

Absa Group Ltd

Stefan Swanepoel

Business description: Absa was formed in 1991 by the merger of United and Allied Building Societies and Volkskas Bank. By January 1992, Absa was the largest local banking group by assets. Absa was historically predominantly a retail bank and has operated under a single brand, Absa Bank, since 1998. The corporate and investment bank was rebranded Absa Capital in 2006 following Barclays' acquisition of a controlling stake (currently 55.5%) in 2005. Outside South Africa, Absa has a limited African footprint, with its largest operation being in Tanzania. Africa contributes just 1% of earnings. Following its unsuccessful foray in micro-lending through the acquisition of UniFer in 2000, which eventually led to a R2bn write-off, Absa has been more cautious on the acquisition front. c.R18.3bn of Barclays' African operations were sold by Barclays to Absa in exchange for an additional c.15.3% shareholding in Absa. The sale also resulted in a restructuring where the holding company will rebranded to Barclays Africa.

Drivers: For the banking operations, retail constitutes the overwhelming majority of net advances relating mostly to mortgages (c.70% of total retail advances). Overall, we expect muted asset growth in FY13 (c.+5.6%) but turn more positive in FY14 (c.+8.9%) and FY15 (c.+10%) as the consumer and corporates rehabilitate by benefiting from the low rate environment, as well as some contribution from Africa in due course. We expect the margins to remain stable in the current year as the bank benefits from re-pricing new credit as well as the continued but declining benefit from the hedging out of the endowment effect. We expect earnings to be driven by declining impairment losses, some, albeit limited growth in non-interest revenue in the medium-term as retail fees remain resilient supplemented by some growth in Absa Capital and Absa Financial Services (Absa's short-term and life insurance unit). Cost management remains key in a lower growth environment, with cost cutting a priority of the broader Barclays group.

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

Valuation: We value Absa on a sum-of-the-parts basis, applying a terminal price-to-book multiple to the three-year forward NAV of the banking operations (based on assumptions of ROE: 17%, COE: 13.9%, g: 6%). This results in a terminal P/B multiple of 1.4x. For Absa Financial Services, we value the Life Insurance operations on multiple to EV and the Short Term and Investment operations on PE basis.

Risks: Upside risks: Interest rates remain a differentiator given the hedging policy that Absa adopts should interest rates decline further; Absa will offer investors some margin protection. Absa could have a higher-than-anticipated dividend resulting in further potential upside. Downside risks: If interest rates increase this could negatively affect the group's net interest margins given Absa's hedging programme. Asset growth might be lower than expected and result in lower top line revenue.

Model updated:20 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Absa

Reuters: ASAJ.J Bloomberg: ASA SJ

Hold

Price (8 Mar 13)	ZAR 165.50
Target Price	ZAR 145.00
52 Week range	ZAR 133.30 – 171.75
Market Cap (m)	ZARm 133,070
	USDm 14,651

Company Profile

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

Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Data Per Share						
EPS (stated)(ZAR)	11.16	13.50	11.67	17.13	18.11	19.89
EPS (DB) (ZAR)	11.16	13.50	11.63	16.25	18.03	19.82
Growth Rate – EPS (DB) (%)	19	21	-14	40	11	10
DPS (ZAR)	4.55	6.84	6.84	14.70	8.56	9.40
BVPS (stated) (ZAR)	78.10	86.55	93.00	97.31	100.60	109.57
Tang. NAV p. sh. (ZAR)	75.62	83.59	89.44	93.81	97.12	105.74
Market Capitalisation (ZARm)	100,898.00	101,505.90	117,948.80	133,069.96	133,069.96	133,069.96
Shares in issue (m)	720.70	719.91	721.73	847.71	852.26	853.68
Valuation Ratios & Profitability Measures						
P/E (stated)	12.5	10.4	14.1	9.7	9.1	8.3
P/E (DB)	12.7	10.4	14.1	10.2	9.2	8.4
P/B (stated)	1.8	1.6	1.8	1.7	1.6	1.5
P/Tangible equity (DB)	1.85	1.69	1.83	1.76	1.70	1.57
ROE(stated)(%)	15.05	16.39	12.99	18.98	18.78	18.95
ROTE (tangible equity) (%)	15.35	17.03	13.48	19.71	19.47	19.64
ROIC (invested capital) (%)	15.3	17.0	13.5	19.7	19.5	19.6
Dividend yield(%)	3.4	5.0	4.6	8.9	5.2	5.7
Dividend cover(x)	2.5	2.0	1.7	1.2	2.1	2.1
Profit & Loss (ZARm)						
Net interest revenue	23,340	24,429	24,111	30,414	32,700	35,421
Non interest income	19,474	21,403	22,741	23,935	26,127	28,520
Commissions	16,740	17,887	19,105	20,192	22,009	23,990
Trading Revenue	0	0	0	0	0	0
Other revenue	2,734	3,516	3,636	3,743	4,118	4,530
Total revenue	42,814	45,832	46,852	54,350	58,827	63,941
Total Operating Costs	24,841	26,529	26,580	28,404	30,480	32,749
Employee Costs	12,537	13,642	13,078	13,928	14,903	16,021
Other costs	12,304	12,887	13,502	14,476	15,577	16,728
Pre-Provision profit/(loss)	17,973	19,303	20,272	25,946	28,347	31,192
Bad debt expense	6,005	5,081	8,290	6,129	6,212	6,773
Operating Profit	11,968	14,222	11,982	19,816	22,135	24,419
Pre-tax associates	-9	40	249	274	301	331
Pre-tax profit	11,959	14,262	12,231	20,090	22,437	24,750
Tax	3,262	4,026	3,377	5,857	6,579	7,325
Other post tax items	-579	-562	-461	-460	-492	-508
Stated net profit	8,041	9,719	8,393	13,774	15,365	16,917
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	8,041	9,719	8,393	13,774	15,365	16,917
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	422,713	424,489	438,216	462,944	504,360	554,783
Interest-earning assets	591,758	618,230	648,351	685,287	736,649	803,914
Customer Loans	508,780	503,503	528,191	558,421	609,377	670,712
Total Deposits	567,549	609,561	621,506	683,657	752,022	827,224
Stated Shareholder Equity	56,290	62,308	66,883	78,244	85,354	93,171
Equals: Tangible Equity	54,496.0	60,173.0	64,322.0	75,426.9	82,395.8	89,909.7
Tier 1 capital	54,061.0	59,620.0	61,661.0	67,223.6	73,288.1	79,811.7
Tier 1 ratio (%)	13	14	14	15	15	14
o/w core tier 1 capital ratio (%)	13	14	14	15	15	14
Credit Quality						
Gross NPLs/Total Loans(%)	7.79	7.06	5.96	4.10	3.58	3.58
Risk Provisions/NPLs(%)	35	34	45	63	67	65
Bad debt / Avg loans (%)	1.18	1.00	1.61	1.13	1.06	1.06
Bad debt/Pre-Provision Profit(%)	33.4	26.3	40.9	23.6	21.9	21.7
Growth Rates & Key Ratios						
Growth in revenues (%)	2	7	2	16	8	9
Growth in costs (%)	14	7	0	7	7	7
Growth in bad debts (%)	-33	-15	63	-26	1	9
Growth in RWA (%)	9	0	3	6	9	10
Net int. margin (%)	4	4	4	5	5	5
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	89.65	82.60	84.99	81.68	81.03	81.08
ROTE Decomposition						
Revenue % ARWAs	10.58	10.82	10.86	12.06	12.16	12.07
Net interest revenue % ARWA	5.77	5.77	5.59	6.75	6.76	6.69
Non interest revenue % ARWA	4.81	5.05	5.27	5.31	5.40	5.39
Costs/income ratio (%)	58.0	57.9	56.7	52.3	51.8	51.2
Bad debts % ARWAs	1.48	1.20	1.92	1.36	1.28	1.28
Tax rate (%)	27.3	28.3	28.2	29.6	29.7	30.0
Adj. Attr. earnings % ARWA	1.99	2.28	1.89	3.00	3.11	3.13
Capital leverage (ARWA/Equity)	7.8	7.4	6.9	6.4	6.1	6.1
ROTE (Adj. earnings/Ave. equity)	15.5	16.9	13.1	19.3	19.1	19.3

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (8 March 2013): 3145c | Target price: 3100c | Rating: Hold

FirstRand Ltd

Stefan Swanepoel

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

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

Drivers: For the banking operations, the dominant earnings driver, real asset growth remains depressed; however, momentum is accelerating as the impact of low interest rates filters through the system. We expect marginal expansion in net interest margin in FY13 and more noticeable pickup in FY14 as the positive endowment impact benefits margins. FirstRand's asset mix (exposure to instalment finance rather than mortgages) results in an earlier impairment cycle than its peers. Additionally, due to this mix, FirstRand has led the recovery. Non interest revenue is impacted by the growth in fee and commission income, principally driven by a combination of higher volumes and price increases. Higher volumes are boosted as the bank gains more primary clients, with price increase subject to increased regulatory scrutiny remain under pressure.

Outlook: FirstRand remains domestically focused growing its asset base and seeing NII growth. Wesbank continues to be the market leader in vehicle and asset finance, which has recovered from a low base to achieve record profits. FNB continues to achieve strong growth in selected segments and the group as a whole managed substantial growth in the unsecured personal loan space. FirstRand has historically had greater than expected volatility through NII as it takes selective views on the interest rate cycle and hence remains exposed to the effects of a changing rate environment. Its ability to generate NIR growth should remain strong, supported by FNB and Wesbank, as it is anticipated to gain further traction in terms of client numbers and new business volumes. Whilst the outlook is favourable, we believe it reflected in the current rating and recommend **Hold**.

Valuation: We value FirstRand on a two-stage Gordon Growth Model that bases the target price on a discounted terminal value, and adds back the value of discounted interim dividends in order to account for all expected cash flows to the investor. In order to calculate the terminal value, we multiply expected year-three book value by a terminal price-to-book multiple of 2.1x (assuming an ROE: 23%, COE: 13.9%, g: 6%).

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

Deutsche Securities (Pty) Ltd

Model updated:06 March 2013

Running the numbers

Sub-Saharan Africa

South Africa

Banks

FirstRand

Reuters: FSRJ.J Bloomberg: FSR SJ

Hold

Price (8 Mar 13)	ZAR 31.45
Target Price	ZAR 31.00
52 Week range	ZAR 23.29 – 33.33
Market Cap (m)	ZARm 177,565
	USDm 19,550

Company Profile

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

Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Data Per Share						
EPS (stated)(ZAR)	1.68	1.82	2.24	2.62	2.97	3.45
EPS (DB) (ZAR)	1.77	1.90	2.26	2.63	2.99	3.47
Growth Rate – EPS (DB) (%)	46.2	7.7	18.6	16.7	13.4	16.2
DPS (ZAR)	0.77	0.81	1.02	1.26	1.44	1.66
BVPS (stated) (ZAR)	10.20	10.44	10.44	11.94	13.65	15.58
Tang. NAV p. sh. (ZAR)	9.83	10.05	10.17	11.70	13.43	15.39
Market Capitalisation	101,821	111,913	148,785	177,565	177,565	177,565
Shares in issue	5,638	5,573	5,639	5,647	5,656	5,666
Valuation Ratios & Profitability Measures						
P/E (stated)	10.8	10.9	11.8	12.0	10.6	9.1
P/E (DB)	10.2	168.4	12.2	11.9	10.5	9.1
P/B (stated)	1.8	1.9	2.5	2.6	2.3	2.0
P/Tangible equity (DB)	1.8	2.0	2.6	2.7	2.3	2.0
ROE(stated)(%)	17.3	17.4	21.5	23.4	23.2	23.6
ROTE (tangible equity) (%)	19.7	1.2	21.4	24.1	23.8	24.1
ROIC (invested capital) (%)	19.7	1.2	21.4	24.1	23.8	24.1
Dividend yield(%)	4.3	4.1	4.6	4.0	4.6	5.3
Dividend cover(x)	2.2	2.2	2.2	2.1	2.1	2.1
Profit & Loss (ZARm)						
Net interest revenue	16,350	17,369	21,882	24,774	27,651	30,795
Non interest income	26,954	29,565	29,494	32,571	36,181	40,670
Commissions	17,396	19,799	19,967	22,485	24,919	28,102
Trading Revenue	3,691	2,844	8,076	7,459	8,354	9,346
Other revenue	5,867	6,922	1,451	2,627	2,909	3,221
Total revenue	43,304	46,934	51,376	57,345	63,832	71,465
Total Operating Costs	25,311	25,198	28,973	31,816	35,022	38,891
Employee Costs	13,076	14,106	15,735	17,151	18,866	20,753
Other costs	12,235	11,092	13,238	14,665	16,156	18,139
Pre-Provision profit/(loss)	17,993	21,736	22,403	25,529	28,810	32,574
Bad debt expense	5,686	3,778	5,065	4,881	6,279	6,300
Operating Profit	12,307	17,958	17,338	20,648	22,531	26,273
Pre-tax associates	700	868	1,120	1,176	1,235	1,297
Pre-tax profit	13,007	18,826	18,458	21,824	23,766	27,570
Tax	3,527	4,582	4,089	5,834	5,648	6,552
Other post tax items	-36	5,821	-1,173	-1,216	-1,337	-1,471
Stated net profit	9,453	10,117	12,642	14,775	16,781	19,546
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	510	488	88	97	106	117
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	9,963	10,605	12,730	14,871	16,887	19,664
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	341,608	385,190	471,468	526,299	561,386	628,752
Interest-earning assets	492,215	532,471	598,929	674,794	735,967	823,296
Customer Loans	434,793	464,593	524,507	595,607	667,081	747,945
Total Deposits	512,469	553,657	592,413	633,882	678,254	725,731
Stated Shareholder Equity	57,509	58,858	58,860	67,434	77,170	88,288
Equals: Tangible Equity	55,405	56,671	57,338	66,064	75,938	87,178
Tier 1 capital	46,116	57,744	65,489	73,378	83,421	95,103
Tier 1 ratio (%)	13	15	14	14	15	15
o/w core tier 1 capital ratio (%)	13.5	15.0	13.9	13.9	14.9	15.1
Credit Quality						
Gross NPLs/Total Loans(%)	5.11	4.26	2.86	2.85	2.74	2.74
Risk Provisions/NPLs(%)	40	50	75	57	60	56
Bad debt / Avg loans (%)	1.33	0.84	1.02	0.87	0.99	0.89
Bad debt/Pre-Provision Profit(%)	31.6	17.4	22.6	19.1	21.8	19.3
Growth Rates & Key Ratios						
Growth in revenues (%)	12	8	9	12	11	12
Growth in costs (%)	8	0	15	10	10	11
Growth in bad debts (%)	-29	-34	34	-4	29	0
Growth in RWA (%)	4	13	22	12	7	12
Net int. margin (%)	3.38	3.39	3.87	3.89	3.92	3.95
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	85	84	89	94	98	103
ROTE Decomposition						
Revenue % ARWAs	12.91	12.92	11.99	11.49	11.74	12.01
Net interest revenue % ARWA	4.87	4.78	5.11	4.97	5.08	5.18
Non interest revenue % ARWA	8.03	8.14	6.89	6.53	6.65	6.83
Costs/income ratio (%)	58.4	53.7	56.4	55.5	54.9	54.4
Bad debts % ARWAs	1.69	1.04	1.18	0.98	1.15	1.06
Tax rate (%)	28.7	25.5	23.6	28.3	25.1	24.9
Adj. Attr. earnings % ARWA	2.76	2.68	2.71	2.75	2.88	3.09
Capital leverage (ARWA/Equity)	6.6	6.5	7.5	8.1	7.7	7.3
ROTE (Adj. earnings/Ave. equity)	18.3	17.4	20.4	22.2	22.0	22.5

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (8 March 2013): 19850c | Target price: 20500c | Rating: Buy

Nedbank Ltd

Stefan Swanepoel

Business description: Nedbank is the smallest of the big four South African banks measured by total assets. Following a failed bid for Standard Bank in 1999, Nedbank embarked on a strategy of extracting efficiencies and forming strategic alliances and JVs intended to plug competitive weaknesses in the group. Nedbank acquired BOE in a R7.5bn transaction in 2002. This propelled Nedbank from being the smallest of the big four South African banks to top spot, as measured by domestic assets, for a short period. The acquired assets were largely wholesale banking-related and are now housed in Nedbank Corporate. It has since disposed of many of its non-core assets. Nedbank also recently acquired the remaining interest in Imperial Bank to boost its asset-based finance franchise to the second largest in the country, as well as the remaining interests in several JVs with Old Mutual, assisting further in the development of its bancassurance and wealth businesses. Nedbank partnered with Ecobank to explore potential African opportunities; however, the agreement currently does not involve any form of ownership, but Nedbank does currently hold options to acquire a c.20% stake in due course. In 2010, parent company Old Mutual plc indicated to the market that its stake in Nedbank was up for sale. HSBC was a potential bidder; however its interest was subsequently withdrawn.

Drivers: The stand-out drivers of strong earnings growth for Nedbank through its 2004-07 turnaround has been a restoration of margin, good cost management and in the latter years, strong asset growth. Nedbank has been focused on achieving a turnaround in its retail banking business post 2007, with a great focus on achieving asset growth in higher margin products, such as unsecured lending. Nedbank has also been focused on growing its primary client base, boosting revenues from non interest income. Impairments have continued to improve over the last few years, largely driven by improvements in the retail division and we expect these to improve further, albeit marginally, but remain slightly higher than the previous through the cycle values due to the change in asset mix to higher margin products.

Outlook: Nedbank offers good earnings growth prospects as management actions are put in place to address strategic issues relative to its peers. In particular, there has been greater focus on achieving NIR growth (relative to expenses). Nedbank remains exposed to the endowment effect despite not seeking to grow its assets materially and hence not expecting a massive uplift in NII. With the increasing rate cycle approaching, it should have greater scope to benefit from higher interest rates. Nedbank benefits from its good corporate franchise in its ability to attract longer-term funding. Nedbank is continuing to invest for growth. In our view, Nedbank does not have the similar industry prospects of paying out excess capital. Buy.

Valuation: We value Nedbank on a two-stage Gordon Growth Model that bases the target price on a discounted terminal value and adds back the value of discounted interim dividends in order to account for all expected cash flows to the investor. In order to calculate the terminal value, we multiply expected year-three book value by a terminal price-to-book multiple of 1.6x (assuming an ROE: 20%, COE: 14.1%, g: 6%).

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

Model updated:26 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Nedbank

Reuters: NEDJ.J — Bloomberg: NED SJ

Buy

Price (8 Mar 13)	ZAR 198.50
Target Price	ZAR 205.00
52 Week range	ZAR 159.12 – 198.50
Market Cap (m)	ZARm 91,767
	USDm 10,104

Company Profile

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

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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Data Per Share						
EPS (stated)(ZAR)	11.03	13.67	16.45	18.51	21.24	24.84
EPS (DB) (ZAR)	11.24	14.02	16.58	18.50	21.20	24.71
Growth Rate – EPS (DB) (%)	11	25	18	12	15	17
DPS (ZAR)	4.80	6.05	7.52	9.26	10.62	11.83
BVPS (stated) (ZAR)	98.32	107.52	117.97	127.55	137.66	160.91
Tang. NAV p. sh. (ZAR)	98.32	107.52	117.97	127.55	137.66	160.91
Market Capitalisation (ZARm)	58,470.33	66,008.08	85,973.02	91,767.21	91,767.21	91,767.21
Shares in issue (m)	448.56	455.23	457.30	462.30	467.30	472.30
Valuation Ratios & Profitability Measures						
P/E (stated)	11.8	10.6	11.4	10.7	9.3	8.0
P/E (DB)	11.4	10.3	11.3	10.7	9.4	8.0
P/B (stated)	1.3	1.3	1.6	1.6	1.4	1.2
P/Tangible equity (DB)	1.33	1.35	1.59	1.56	1.44	1.23
ROE(stated)(%)	11.69	13.31	14.59	15.08	16.02	16.63
ROTE (tangible equity) (%)	12.26	13.72	14.74	15.15	16.07	16.63
ROIC (invested capital) (%)	14.9	16.4	17.4	17.6	18.4	18.8
Dividend yield(%)	3.6	4.4	4.4	4.7	5.4	6.0
Dividend cover(x)	2.3	2.3	2.2	2.0	2.0	2.1
Profit & Loss (ZARm)						
Net interest revenue	16,608	18,034	19,680	21,278	23,768	26,770
Non interest income	13,211	15,412	17,324	19,040	20,846	22,521
Commissions	9,765	11,349	12,545	13,676	14,975	16,172
Trading Revenue	1,796	2,108	2,379	2,471	2,706	2,916
Other revenue	1,650	1,955	2,400	2,892	3,165	3,433
Total revenue	29,819	33,446	37,004	40,318	44,614	49,291
Total Operating Costs	17,045	19,424	21,089	22,907	24,863	26,789
Employee Costs	8,794	10,243	11,390	12,301	13,285	14,348
Other costs	8,251	9,181	9,699	10,605	11,577	12,441
Pre-Provision profit/(loss)	12,774	14,022	15,915	17,411	19,751	22,502
Bad debt expense	6,188	5,331	5,199	5,430	5,882	6,193
Operating Profit	6,586	8,691	10,716	11,982	13,869	16,308
Pre-tax associates	1	0	0	0	0	0
Pre-tax profit	6,587	8,691	10,716	11,982	13,869	16,308
Tax	1,364	2,174	2,875	3,126	3,615	4,241
Other post tax items	-416	-327	-336	-343	-381	-399
Stated net profit	4,896	6,190	7,505	8,512	9,874	11,669
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	148	194	78	42	33	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	5,044	6,384	7,583	8,554	9,907	11,669
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	323,681	331,980	359,658	393,047	436,036	472,556
Interest-earning assets	513,883	541,627	573,581	626,830	695,388	753,630
Customer Loans	475,273	496,048	527,166	576,834	639,153	690,004
Total Deposits	490,440	521,155	550,878	605,966	666,562	733,219
Stated Shareholder Equity	44,101	48,946	53,950	58,966	64,328	75,998
Equals: Tangible Equity	44,101.0	48,946.0	53,950.0	58,966.1	64,327.6	75,997.8
Tier 1 capital	36,861.0	39,519.0	45,519.0	50,535.1	55,896.6	67,566.8
Tier 1 ratio (%)	11	12	13	13	13	14
o/w core tier 1 capital ratio (%)	10	10	11	12	12	13
Credit Quality						
Gross NPLs/Total Loans(%)	5.59	4.65	3.66	3.36	3.24	3.10
Risk Provisions/NPLs(%)	42	50	56	58	57	57
Bad debt / Avg loans (%)	1.34	1.10	1.02	0.98	0.97	0.93
Bad debt/Pre-Provision Profit(%)	48.4	38.0	32.7	31.2	29.8	27.5
Growth Rates & Key Ratios						
Growth in revenues (%)	6	12	11	9	11	10
Growth in costs (%)	10	14	9	9	9	8
Growth in bad debts (%)	-7	-14	-2	4	8	5
Growth in RWA (%)	-1	3	8	9	11	8
Net int. margin (%)	3	3	4	4	4	4
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	96.91	95.18	95.70	95.19	95.89	94.11
ROTE Decomposition						
Revenue % ARWAs	9.17	10.20	10.70	10.71	10.76	10.85
Net interest revenue % ARWA	5.11	5.50	5.69	5.65	5.73	5.89
Non interest revenue % ARWA	4.06	4.70	5.01	5.06	5.03	4.96
Costs/income ratio (%)	57.2	58.1	57.0	56.8	55.7	54.3
Bad debts % ARWAs	1.90	1.63	1.50	1.44	1.42	1.36
Tax rate (%)	20.7	25.0	26.8	26.1	26.1	26.0
Adj. Attr. earnings % ARWA	1.55	1.95	2.19	2.27	2.39	2.57
Capital leverage (ARWA/Equity)	7.8	7.0	6.7	6.7	6.7	6.5
ROTE (Adj. earnings/Ave. equity)	12.0	13.7	14.7	15.2	16.1	16.6

Source: Company data, Deutsche Bank estimates

South Africa – Banks | Price (8 March 2013): 4130c | Target price: 4050c | Rating: Hold

RMB Holdings Ltd

Stefan Swanepoel

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

Drivers: With FirstRand as its only investment, RMB Holdings' drivers are FirstRand's earnings and share price performance, as well as a small consideration of the portion of debt that it has leveraged against its investment and the cost of holding company structure.

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

Valuation: We continue to expect upside from the FirstRand share price, but given the leakage within the structure, we expect the discount to widen. As a minority investor one has rights only to the dividends, we have therefore arrived at our estimate of the appropriate discount using the difference in NPVs of the dividends that one would receive from RMB Holdings vs FirstRand. Using our FirstRand target price of 3100cps, we apply a discount of c.3.5% to reach our target.

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

Model updated:06 March 2013

Running the numbers

Sub-Saharan Africa

South Africa

Banks

RMB Holdings Ltd

Reuters: RMHJ.J Bloomberg: RMH SJ

Hold

Price (8 Mar 13)	ZAR 41.30
Target Price	ZAR 40.50
52 Week range	ZAR 30.51 – 44.75
Market Cap (m)	ZARm 58,303
	USDm 6,419

Company Profile

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

Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E
Data Per Share					
EPS (stated)(ZAR)	2.97	2.86	3.18	2.96	3.46
EPS (DB) (ZAR)	2.96	-3.00	3.37	2.98	3.47
Growth Rate – EPS (DB) (%)	nm	-201.1	212.6	-11.7	16.5
DPS (ZAR)	1.24	1.01	1.33	1.23	1.44
BVPS (stated) (ZAR)	19.76	16.79	18.73	20.29	22.32
Tang. NAV p. sh. (ZAR)	19.76	16.79	18.73	20.29	22.32
Market Capitalisation	18,860	37,622	49,240	58,303	58,303
Shares in issue	1,199	1,236	1,336	1,406	1,412
Valuation Ratios & Profitability Measures					
P/E (stated)	5.2	9.3	11.0	14.0	11.9
P/E (DB)	5.3	-2.9	10.3	13.9	11.9
P/B (stated)	0.8	1.6	1.9	2.0	1.9
P/Tangible equity (DB)	0.8	1.6	1.9	2.0	1.9
ROE(stated)(%)	15.0	15.7	17.9	15.1	16.2
ROTE (tangible equity) (%)	14.8	-48.0	18.0	15.2	16.3
ROIC (invested capital) (%)	14.8	-48.0	18.0	15.2	16.3
Dividend yield(%)	8.5	4.9	4.6	3.0	3.5
Dividend cover(x)	2.4	2.8	2.4	2.4	2.4
Profit & Loss (ZARm)					
Net interest revenue	0	0	0	0	0
Non interest income	9	13	24	26	29
Commissions	0	0	0	0	0
Trading Revenue	0	0	0	0	0
Other revenue	9	13	24	26	29
Total revenue	9	13	24	26	29
Total Operating Costs	122	148	139	156	173
Employee Costs	9	7	8	8	9
Other costs	113	141	131	147	164
Pre-Provision profit/(loss)	-113	-135	-115	-130	-144
Bad debt expense	0	0	0	0	0
Operating Profit	-113	-135	-115	-130	-144
Pre-tax associates	2,543	4,255	4,618	4,315	5,041
Pre-tax profit	2,430	4,120	4,503	4,186	4,897
Tax	-1	-1	13	14	16
Other post tax items	1,176	7,347	0	0	0
Stated net profit	3,594	3,746	4,490	4,172	4,882
Goodwill	0	0	0	0	0
Extraordinary & Other items	-40	-7,585	18	19	21
Bad Debt Provisioning	0	0	0	0	0
Investment reval, cap gains / losses	0	136	0	0	0
DB adj. core earnings	3,554	-3,703	4,508	4,191	4,903
Key Balance Sheet Items (ZARm) & Capital Ratios					
Risk-weighted assets	0	0	0	0	0
Interest-earning assets	0	0	0	0	0
Customer Loans	na	na	na	na	na
Total Deposits	0	0	0	0	0
Stated Shareholder Equity	23,884	23,701	26,447	28,648	31,504
Equals: Tangible Equity	23,884	23,701	26,447	28,648	31,504
Tier 1 capital	0	0	0	0	0
Tier 1 ratio (%)	na	na	na	na	na
o/w core tier 1 capital ratio (%)	nm	nm	nm	nm	nm
Credit Quality					
Gross NPLs/Total Loans(%)	na	na	na	na	na
Risk Provisions/NPLs(%)	nm	nm	nm	nm	nm
Bad debt / Avg loans (%)	na	na	na	na	na
Bad debt/Pre-Provision Profit(%)	0.0	0.0	0.0	0.0	0.0
Growth Rates & Key Ratios					
Growth in revenues (%)	nm	44	85	10	10
Growth in costs (%)	na	21	-6	12	11
Growth in bad debts (%)	nm	nm	nm	nm	nm
Growth in RWA (%)	nm	nm	nm	nm	nm
Net int. margin (%)	nm	nm	nm	nm	nm
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	nm	nm	nm	nm	nm
ROTE Decomposition					
Revenue % ARWAs	nm	nm	nm	nm	nm
Net interest revenue % ARWA	nm	nm	nm	nm	nm
Non interest revenue % ARWA	nm	nm	nm	nm	nm
Costs/income ratio (%)	1,355.6	1,138.5	579.2	590.8	596.1
Bad debts % ARWAs	nm	nm	nm	nm	nm
Tax rate (%)	0.9	0.7	-11.3	-11.0	-10.9
Adj. Attr. earnings % ARWA	nm	nm	nm	nm	nm
Capital leverage (ARWA/Equity)	0.0	0.0	0.0	0.0	0.0
ROTE (Adj. earnings/Ave. equity)	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (8 March 2013): 11770c | Target price: 12750c | Rating: Buy

Standard Bank Group Ltd

Stefan Swanepoel

Business description: Standard Bank's domestic operations are significant across all areas of retail and corporate banking, while its African and international operations offer more restricted services. Standard Bank has representation in 17 African countries and 13 countries outside Africa (with an emerging-market focus). Standard Bank owns 54% of Liberty (a listed insurance business) to strengthen its position in the wealth-management and long-term savings markets. Early in 2008, the Industrial and Commercial Bank of China (ICBC) purchased a 20% stake in the group, at the time making it one of the largest investments of the ICBC outside Asia. After the global financial crisis, Standard Bank refined its strategy, with a greater focus on Africa, and has consequently sold its investment in Russia to Sberbank and the majority stake in its Argentinean business to the ICBC. Standard Bank no longer has ambitions to buy or build additional domestic businesses in markets outside Africa. It has identified key areas in Africa for further expansion, among others Nigeria, Kenya and Angola, where it has currently subscale presence.

Drivers: Standard Bank derives a substantial portion of its total profit from retail banking and is, along with Absa, the dominant retail bank in South Africa. In addition, its corporate and investment bank makes up a further c.56% of earnings, with the international CIB operations accounting for c.23% of the c.56%. Its life insurance and asset management operations, through its stake in Liberty, account for the remainder of the group earnings. Regarding the retail operations, most attention will likely be focussed on asset growth, slowing bad debts and net interest margin. We expect rate hikes to start supporting margins while bad debts are expected to remain stable. Standard Bank's Corporate and Investment Banking (CIB) operations remain focussed primarily on debt and commodities businesses although Standard Bank has started to expand into areas like equities. With domestic markets at a fairly mature stage, CIB is likely to be driven more by the international operations, particularly in Africa.

Outlook: The outlook for the group remains positive in South Africa as it is arguably the most exposed to the positive impact from the endowment effect. Standard Bank has also been actively writing mortgages, gaining market share and margins, to positively impact the embedded value of its mortgage book. NIR growth is supported by the levels of asset growth and the extent of the exposure of the operations in Africa. Although there is considerable release of capital with the sale of Troika (Russian operation) and Standard Bank Argentina (c.US$750m), as well as further release of capital expected from balance sheet optimisation (of c.US$750m), Standard Bank has indicated it is going to use those funds to expand in key African countries; we therefore caution against excessive dividend expectations. **Buy**.

Valuation: We value Standard Bank on a sum-of-the parts basis. The banking operation is valued using a two-stage Gordon Growth Model that bases the target price on a discounted terminal value, and adds back the value of discounted interim dividends to account for all expected cash flows to investors. The above results in a terminal PB multiple of 1.7x (assuming an ROE: 19%, COE: 14.1%, g: 6%). Liberty (insurance operation) is valued on a multiple to embedded value.

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

Model updated:08 March 2013

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Standard Bank

Reuters: SBKJ.J Bloomberg: SBK SJ

Buy

Price (8 Mar 13)	ZAR 117.70
Target Price	ZAR 127.50
52 Week range	ZAR 101.79 – 120.30
Market Cap (m)	ZARm 188,442
	USDm 20,748

Company Profile

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

Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Data Per Share						
EPS (stated)(ZAR)	7.03	8.51	9.24	10.69	12.54	14.72
EPS (DB) (ZAR)	7.07	8.13	8.76	10.44	12.25	14.37
Growth Rate – EPS (DB) (%)	-6	15	8	19	17	17
DPS (ZAR)	3.86	4.25	4.55	5.06	6.00	6.68
BVPS (stated) (ZAR)	57.26	64.36	71.14	85.84	94.30	104.52
Tang. NAV p. sh. (ZAR)	50.71	56.35	61.97	76.58	84.95	96.11
Market Capitalisation (ZARm)	170,470.73	157,312.40	190,331.28	188,442.05	188,442.05	188,442.05
Shares in issue (m)	1,599.03	1,601.26	1,609.26	1,609.26	1,609.26	1,609.26
Valuation Ratios & Profitability Measures						
P/E (stated)	15.3	11.6	12.9	11.0	9.4	8.0
P/E (DB)	15.0	12.0	15.1	11.5	9.8	8.3
P/B (stated)	1.9	1.5	1.7	1.4	1.2	1.1
P/Tangible equity (DB)	2.12	1.75	1.92	1.54	1.39	1.22
ROE(stated)(%)	12.31	13.87	13.53	13.48	13.79	14.66
ROTE (tangible equity) (%)	14.44	15.51	13.40	14.79	14.94	15.68
ROIC (invested capital) (%)	14.4	15.5	13.4	14.8	14.9	15.7
Dividend yield(%)	3.6	4.3	4.1	4.3	5.1	5.7
Dividend cover(x)	1.8	2.0	2.0	2.1	2.1	2.2
Profit & Loss (ZARm)						
Net interest revenue	28,742	28,827	34,015	37,493	42,466	47,404
Non interest income	30,004	29,724	34,474	37,406	41,438	46,265
Commissions	18,641	19,782	21,319	23,237	25,591	28,539
Trading Revenue	8,509	7,895	8,868	10,016	11,200	12,523
Other revenue	2,854	2,047	4,287	4,153	4,648	5,203
Total revenue	58,746	58,551	68,489	74,900	83,904	93,669
Total Operating Costs	36,656	34,725	39,998	43,709	47,667	51,985
Employee Costs	19,542	19,141	22,195	24,304	26,612	29,141
Other costs	17,114	15,584	17,803	19,405	21,055	22,844
Pre-Provision profit/(loss)	22,090	23,826	28,491	31,191	36,237	41,684
Bad debt expense	7,524	6,436	8,800	8,072	8,987	9,532
Operating Profit	14,566	17,390	19,691	23,119	27,249	32,152
Pre-tax associates	584	257	675	743	817	898
Pre-tax profit	15,150	17,647	20,366	23,861	28,066	33,051
Tax	4,490	5,398	5,773	7,216	8,463	10,050
Other post tax items	184	976	1,490	698	679	736
Stated net profit	10,969	13,399	14,639	16,943	19,882	23,337
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	344	-381	-559	-137	-167	-215
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	11,313	13,019	14,105	16,807	19,715	23,121
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	620,064	710,725	789,613	843,745	941,804	1,034,201
Interest-earning assets	737,307	803,052	847,006	976,281	1,097,292	1,210,244
Customer Loans	713,025	803,811	813,892	889,391	1,004,326	1,109,659
Total Deposits	796,635	888,968	930,153	1,013,867	1,115,253	1,226,779
Stated Shareholder Equity	90,755	102,523	113,905	137,433	150,977	167,347
Equals: Tangible Equity	80,372.0	89,769.0	99,218.0	122,606.7	136,009.6	153,876.3
Tier 1 capital	72,392.0	80,140.0	86,808.0	111,546.5	122,579.5	136,238.1
Tier 1 ratio (%)	12	11	11	13	13	13
o/w core tier 1 capital ratio (%)	11	11	10	13	12	13
Credit Quality						
Gross NPLs/Total Loans(%)	5.99	4.16	3.91	3.06	3.06	3.06
Risk Provisions/NPLs(%)	40	45	56	71	69	67
Bad debt / Avg loans (%)	1.05	0.85	1.09	0.95	0.95	0.90
Bad debt/Pre-Provision Profit(%)	34.1	27.0	30.9	25.9	24.8	22.9
Growth Rates & Key Ratios						
Growth in revenues (%)	-6	0	17	9	12	12
Growth in costs (%)	12	-5	15	9	9	9
Growth in bad debts (%)	-38	-14	37	-8	11	6
Growth in RWA (%)	3	15	11	7	12	10
Net int. margin (%)	4	4	4	4	4	4
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	89.50	90.42	87.50	87.72	90.05	90.45
ROTE Decomposition						
Revenue % ARWAs	9.63	8.80	9.13	9.17	9.40	9.48
Net interest revenue % ARWA	4.71	4.33	4.53	4.59	4.76	4.80
Non interest revenue % ARWA	4.92	4.47	4.60	4.58	4.64	4.68
Costs/income ratio (%)	62.4	59.3	58.4	58.4	56.8	55.5
Bad debts % ARWAs	1.23	0.97	1.17	0.99	1.01	0.96
Tax rate (%)	30.8	31.0	29.3	31.2	31.1	31.3
Adj. Attr. earnings % ARWA	1.76	1.92	1.79	1.97	2.12	2.25
Capital leverage (ARWA/Equity)	7.7	7.8	7.9	7.4	6.9	6.8
ROTE (Adj. earnings/Ave. equity)	13.5	15.0	14.2	14.5	14.6	15.3

Source: Company data, Deutsche Bank estimates

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South Africa – Financial Services | Price (8 March 2013): 2864c | Target price: 3800c | Rating: Buy

African Bank Investments Ltd (ABIL)

Stefan Swanepoel

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 R2.8bn 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 strong advances growth. We expect some cost savings to be driven by more a change in the retail distribution model, from decentralised to centralised.

Outlook: ABIL's share price has trended relatively flat since reaching the c.3500cps level in mid 2007. The counter suffered after the Global Financial Crisis (GFC), in line with businesses of this nature around the globe. We believe that it was penalised further when it became clear that the Ellerines Holdings Ltd (EHL, Ellerines) acquisition posed significant challenges. Over the long term, we expect asset growth to mimic the long-term sustainable rate, closer to nominal GDP. Exponential gains in asset growth facilitated by structural changes to unsecured lending, following the introduction of the National Credit Act (NCA), are not likely to persist. Despite intense competition in the unsecured lending space, we expect ABIL to generate earnings by leveraging its c.2.6m strong client base. Opportunities to roll out more products to this base exist in the form of credit cards (now) and funeral insurance plans (later). Buy.

Valuation: We value ABIL using a sum-of-the-parts valuation method that combines a multi-stage forward exit PB multiple for African Bank and the average of a forward exit PE and dividend discount model for EHL. We have added back the value of discounted interim dividends to account for all expected future cash flows to investors. On this basis, having detailed forecasts for the period FY12-14, we arrive at a terminal P/B for African Bank of 1.76x (assuming a sustainable ROE of 21.5%, cost of equity of 14.8% and sustainable growth rate of 6%, based on nominal GDP).

Risks: Key downside risks include significant deterioration in asset quality and negative effects of intense competition in the unsecured lending space. This may require an increase in risk appetite to defend market share and grow assets. Rapid duration extension is another key risk, as is the fact that the immediate need for capital may place short-term dividends at risk. Driving efficiencies within EHL may also prove more challenging than what we anticipate.

Model updated:19 November 2012

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

ABIL

Reuters: ABLJ.J | Bloomberg: ABL SJ

Buy

Price (8 Mar 13)	ZAR 28.64
Target Price	ZAR 38.00
52 Week range	ZAR 28.35 – 40.49
Market Cap (m)	ZARm 23,377
	USDm 2,574

Company Profile

African Bank Investments Ltd.

Fiscal year end 30-Sep	2010	2011	2012	2013E	2014E	2015E
Data Per Share						
EPS (stated)(ZAR)	2.35	2.91	3.41	4.07	4.64	5.08
EPS (DB) (ZAR)	2.35	2.91	3.41	4.07	4.64	5.08
Growth Rate – EPS (DB) (%)	-4.0	23.8	17.2	19.1	14.1	9.5
DPS (ZAR)	1.85	1.85	1.95	2.14	2.38	2.60
BVPS (stated) (ZAR)	16.02	17.38	19.19	20.72	23.20	25.87
Tang. NAV p. sh. (ZAR)	9.22	10.57	12.39	14.02	16.49	19.16
Market Capitalisation	28,813	26,522	26,578	23,377	23,377	23,377
Shares in issue	804	804	804	816	816	816
Valuation Ratios & Profitability Measures						
P/E (stated)	15.2	11.3	9.7	7.0	6.2	5.6
P/E (DB)	15.2	11.3	9.7	7.0	6.2	5.6
P/B (stated)	2.2	1.9	1.7	1.4	1.2	1.1
P/Tangible equity (DB)	3.9	3.1	2.7	2.0	1.7	1.5
ROE(stated)(%)	14.8	17.4	18.7	20.5	21.1	20.7
ROTE (tangible equity) (%)	25.9	29.4	29.7	31.0	30.4	28.5
ROIC (invested capital) (%)	14.8	17.4	18.7	20.5	21.1	20.7
Dividend yield(%)	5.8	5.2	5.4	7.5	8.3	9.1
Dividend cover(x)	1.3	1.6	1.7	1.9	1.9	1.9
Profit & Loss (ZARm)						
Net interest revenue	3,567	4,458	6,239	7,657	8,998	10,300
Non interest income	6,489	7,635	8,494	9,771	10,634	11,464
Commissions	2,491	2,930	3,291	3,530	3,744	4,141
Trading Revenue	0	0	0	0	0	0
Other revenue	3,998	4,705	5,203	6,241	6,890	7,322
Total revenue	10,056	12,093	14,733	17,428	19,632	21,764
Total Operating Costs	4,481	4,931	5,467	5,916	6,337	6,989
Employee Costs	2,162	2,408	2,610	2,761	2,961	3,242
Other costs	2,319	2,523	2,857	3,155	3,376	3,747
Pre-Provision profit/(loss)	5,575	7,162	9,266	11,512	13,295	14,776
Bad debt expense	2,693	3,596	5,197	6,818	7,953	8,935
Operating Profit	2,882	3,566	4,069	4,694	5,343	5,840
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	2,882	3,566	4,069	4,694	5,343	5,840
Tax	940	1,195	1,264	1,314	1,496	1,635
Other post tax items	-52	-32	-61	-61	-61	-61
Stated net profit	1,890	2,339	2,744	3,318	3,786	4,144
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	1,890	2,339	2,744	3,318	3,786	4,144
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	25,848	32,256	42,042	54,362	62,434	68,944
Interest-earning assets	27,186	37,875	50,335	56,671	62,183	66,224
Customer Loans	25,362	35,002	48,156	53,639	59,015	62,914
Total Deposits	0	0	0	0	0	0
Stated Shareholder Equity	12,879	13,965	15,433	16,914	18,933	21,114
Equals: Tangible Equity	7,407	8,493	9,961	11,442	13,461	15,642
Tier 1 capital	5,159	6,043	8,261	8,259	10,108	11,162
Tier 1 ratio (%)	20	19	20	15	16	16
o/w core tier 1 capital ratio (%)	20.0	18.7	19.6	15.2	16.2	16.2
Credit Quality						
Gross NPLs/Total Loans(%)	35.89	31.53	31.48	34.91	38.56	42.90
Risk Provisions/NPLs(%)	61	61	60	61	62	63
Bad debt / Avg loans (%)	11.55	11.91	12.50	13.40	14.12	14.66
Bad debt/Pre-Provision Profit(%)	48.3	50.2	56.1	59.2	59.8	60.5
Growth Rates & Key Ratios						
Growth in revenues (%)	2	20	22	18	13	11
Growth in costs (%)	-2	10	11	8	7	10
Growth in bad debts (%)	7	34	45	31	17	12
Growth in RWA (%)	31	25	30	29	15	10
Net int. margin (%)	14.51	13.70	14.15	14.31	15.14	16.04
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	nm	nm	nm	nm	nm	nm
ROTE Decomposition						
Revenue % ARWAs	44.09	41.63	39.66	36.16	33.62	33.13
Net interest revenue % ARWA	15.64	15.34	16.79	15.89	15.41	15.68
Non interest revenue % ARWA	28.45	26.28	22.86	20.27	18.21	17.45
Costs/income ratio (%)	44.6	40.8	37.1	33.9	32.3	32.1
Bad debts % ARWAs	11.81	12.38	13.99	14.14	13.62	13.60
Tax rate (%)	32.6	33.5	31.1	28.0	28.0	28.0
Adj. Attr. earnings % ARWA	8.29	8.05	7.39	6.88	6.48	6.31
Capital leverage (ARWA/Equity)	3.1	3.7	4.0	4.5	4.7	4.5
ROTE (Adj. earnings/Ave. equity)	25.9	29.4	29.7	31.0	30.4	28.5

Source: Company data, Deutsche Bank estimates

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South Africa – Financial Services | Price (8 March 2013): 19550c | Target price: 22250c | Rating: Hold

Capitec Bank Holdings Ltd

Stefan Swanepoel

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

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

Outlook: Capitec is a primary provider of personal loans in South Africa and also offers transaction banking products. It operates in an increasingly competitive banking and lending environment. Since the introduction of the National Credit Act in 2007 (NCA), the proliferation of unsecured credit has been strong (39% CAGR in unsecured loans between 2H09 and 2H12), allowing both Capitec and the industry to rapidly grow advances. However, this has led to intense competition and rapid asset growth rates, and fears that an unsecured lending bubble is developing. Capitec appears to have termed out (increased the average length of its loans) a large proportion of its clients in FY11 and FY12, and this is likely to strengthen asset growth headwinds, the most formidable of which is a highly penetrated South African market. By our calculations, the revenue generated from the retail transaction business as well as the cost savings through the deposit franchise imply that the retail business is no longer a drag on group earnings. Hold.

Valuation: We value Capitec Bank using a multi-stage forward exit PB multiple, which bases the target price on a discounted terminal value, and adds back the value of discounted dividends to account for all expected cash flows to investors. On this basis, using detailed forecasts for the period FY13-15, we arrive at a terminal PB multiple of 1.95x (assuming a sustainable ROE of 24.5%, COE of 15.5% and a sustainable growth rate of 6%, based on nominal GDP).

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

Model updated:08 October 2012

Running the numbers

Sub-Saharan Africa

South Africa

Banks

Capitec Bank

Reuters: CPIJ.J | Bloomberg: CPI SJ

Hold

Price (8 Mar 13)	ZAR 195.50
Target Price	ZAR 222.50
52 Week range	ZAR 183.00 – 232.00
Market Cap (m)	ZARm 19,965
	USDm 2,198

Company Profile

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

Fiscal year end 28-Feb	2010	2011	2012	2013E	2014E	2015E
Data Per Share						
EPS (stated)(ZAR)	5.25	7.57	11.22	14.39	18.96	23.79
EPS (DB) (ZAR)	5.09	7.30	10.96	14.49	18.58	23.31
Growth Rate – EPS (DB) (%)	-3.5	43.5	50.1	32.2	28.3	25.4
DPS (ZAR)	2.10	2.90	4.25	5.76	8.07	11.90
BVPS (stated) (ZAR)	18.97	37.74	51.43	80.84	86.86	100.66
Tang. NAV p. sh. (ZAR)	18.97	37.74	51.43	80.84	86.86	100.66
Market Capitalisation	6,633	13,447	17,577	19,965	19,965	19,965
Shares in issue	85	88	98	101	113	113
Valuation Ratios & Profitability Measures						
P/E (stated)	15.2	21.0	16.4	13.6	10.3	8.2
P/E (DB)	15.7	21.8	16.7	13.5	10.5	8.4
P/B (stated)	4.2	4.2	3.6	2.4	2.3	1.9
P/Tangible equity (DB)	4.2	4.2	3.6	2.4	2.3	1.9
ROE(stated)(%)	2.9	3.2	4.9	5.5	7.3	8.5
ROTE (tangible equity) (%)	30.8	26.9	26.5	22.3	23.5	25.4
ROIC (invested capital) (%)	3.3	3.7	5.1	6.0	7.5	8.8
Dividend yield(%)	3.9	2.3	2.4	2.9	4.1	6.1
Dividend cover(x)	2.5	2.6	2.6	2.5	2.4	2.0
Profit & Loss (ZARm)						
Net interest revenue	1,273	2,057	3,325	5,148	7,165	8,760
Non interest income	1,304	1,706	2,346	2,657	3,221	3,709
Commissions	1,282	1,684	2,307	2,615	3,176	3,662
Trading Revenue	0	0	0	0	0	0
Other revenue	22	23	39	42	44	47
Total revenue	2,577	3,764	5,671	7,805	10,385	12,469
Total Operating Costs	1,387	1,835	2,509	3,183	3,858	4,562
Employee Costs	694	972	1,391	1,774	2,072	2,338
Other costs	693	863	1,118	1,408	1,787	2,224
Pre-Provision profit/(loss)	1,190	1,928	3,162	4,623	6,527	7,907
Bad debt expense	548	988	1,604	2,544	3,581	4,203
Operating Profit	642	940	1,558	2,079	2,946	3,704
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	642	940	1,558	2,079	2,946	3,704
Tax	193	284	464	582	825	1,037
Other post tax items	-14	-16	-19	-27	-29	-29
Stated net profit	435	640	1,075	1,470	2,092	2,638
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	435	640	1,075	1,470	2,092	2,638
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	5,349	9,462	15,545	25,440	31,288	35,325
Interest-earning assets	9,098	13,902	18,062	35,293	42,370	47,391
Customer Loans	na	na	na	na	na	na
Total Deposits	0	0	0	0	0	0
Stated Shareholder Equity	1,573	3,192	4,926	8,256	9,582	11,160
Equals: Tangible Equity	1,573	3,192	4,926	8,256	9,582	11,160
Tier 1 capital	1,664	3,350	4,815	7,902	9,080	10,369
Tier 1 ratio (%)	31	35	31	31	29	29
o/w core tier 1 capital ratio (%)	31.1	35.4	31.0	31.1	29.0	29.4
Credit Quality						
Gross NPLs/Total Loans(%)	na	na	na	na	na	na
Risk Provisions/NPLs(%)	nm	nm	nm	nm	nm	nm
Bad debt / Avg loans (%)	na	na	na	na	na	na
Bad debt/Pre-Provision Profit(%)	46.0	51.2	50.7	55.0	54.9	53.2
Growth Rates & Key Ratios						
Growth in revenues (%)	20	46	51	38	33	20
Growth in costs (%)	29	32	37	27	21	18
Growth in bad debts (%)	17	80	62	59	41	17
Growth in RWA (%)	66	77	64	64	23	13
Net int. margin (%)	18.53	17.89	20.80	19.30	18.45	19.52
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	nm	nm	nm	nm	nm	nm
ROTE Decomposition						
Revenue % ARWAs	60.10	50.82	45.35	38.09	36.62	37.44
Net interest revenue % ARWA	29.69	27.78	26.59	25.12	25.26	26.30
Non interest revenue % ARWA	30.40	23.04	18.76	12.97	11.35	11.14
Costs/income ratio (%)	53.8	48.8	44.2	40.8	37.2	36.6
Bad debts % ARWAs	12.77	13.34	12.83	12.41	12.63	12.62
Tax rate (%)	30.1	30.2	29.8	28.0	28.0	28.0
Adj. Attr. earnings % ARWA	10.14	8.65	8.60	7.17	7.38	7.92
Capital leverage (ARWA/Equity)	3.0	3.1	3.1	3.1	3.2	3.2
ROTE (Adj. earnings/Ave. equity)	30.8	26.9	26.5	22.3	23.5	25.4

Source: Company data, Deutsche Bank estimates

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South Africa – Banks | Price (8 March 2013): 737c | Target price: 920c | Rating: Buy

Transaction Capital Ltd

Stefan Swanepoel

Business description: Transaction Capital provides specialist expertise in finance and financial services to the emerging mass market. It has a strong bias towards lending business and providers investors with both secured and unsecured exposure to the emerging mass market. The credit and payment services business offer unique opportunities to invest in companies not present in other listed alternatives. Transaction Capital is a non-deposit taking independent financial services provider in Southern Africa. The group has its entrepreneurial roots in lending franchises focused on LSM groups 5-9. This has evolved to include the asset-backed lending business (SA Taxi Finance), the credit consulting business (MBD Services), payment services business (ATM Solutions) and most recently the unsecured lending business (Bayport). Transactional Capital listed in 2012.

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

Outlook: In our view, earnings will be driven over the next few years by a combination of growth in the level of advances in both secured and unsecured lending margin expansion from rising interest rates as well as benefits from the capitalisation of the group and the repayment of some of the more expensive debt. Our expectations for strong asset growth are funded by an easier and potentially cheaper funding environment as the group has recapitalised itself as well as a decent growth in its market share as a small player. On our expectations, the group could generate a respectable RoTE of c.28% in the medium term, placing it ahead of that generated by the other SA banks. We expect strong compounded annual earnings growth over the next three years at c.20% pa. Recommend **Buy**.

Valuation: We value TC on a sum-of-the-parts basis, using a fair P/B multiple for the lending business and a fair PE multiple for the services business. We apply a P/B multiple of the year-three NAV of the lending operations of 2.18x (based on assumptions of ROE: 27%; COE: 14.8%, g: 4.5%). For the services operations we value the business based on a PE multiple of 10.5x, on one year forward earnings.

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

Model updated:29 November 2012

Running the numbers

Sub-Saharan Africa

South Africa

General Financial

Transaction Capital

Reuters: TCPJ.J | Bloomberg: TCP SJ

Buy

Price (8 Mar 13)	ZAR 7.37
Target Price	ZAR 9.20
52 Week range	ZAR 6.99 – 8.04
Market Cap (m)	ZARm 4,322,748
	USDm 475,945

Company Profile

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

Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Data Per Share						
EPS (stated)(ZAR)	0.49	0.65	0.81	1.03	1.21	1.41
EPS (DB) (ZAR)	0.50	0.81	0.83	1.03	1.20	1.40
Growth Rate – EPS (DB) (%)	nm	61.8	3.0	23.9	17.0	16.6
DPS (ZAR)	0.00	0.00	0.09	0.21	0.24	0.28
BVPS (stated) (ZAR)	3.00	3.54	5.45	5.66	6.62	6.82
Tang. NAV p. sh. (ZAR)	0.81	1.43	3.57	3.82	4.60	4.60
Market Capitalisation	0	0	4,083,398	4,322,748	4,322,748	4,322,748
Shares in issue	433,205	454,987	494,544	556,037	589,033	592,033
Valuation Ratios & Profitability Measures						
P/E (stated)	na	na	9.6	7.2	6.1	5.2
P/E (DB)	na	na	9.4	7.2	6.1	5.3
P/B (stated)	na	na	1.4	1.3	1.1	1.1
P/Tangible equity (DB)	na	na	2.2	1.9	1.6	1.6
ROE(stated)(%)	18.3	20.0	17.8	18.5	19.6	21.0
ROTE (tangible equity) (%)	62.6	80.6	32.4	27.8	28.7	30.6
ROIC (invested capital) (%)	55.7	80.6	32.4	27.8	28.7	30.6
Dividend yield(%)	na	na	1.2	2.8	3.3	3.8
Dividend cover(x)	nm	nm	9.0	5.0	5.0	5.0
Profit & Loss (ZARm)						
Net interest revenue	608,422	987,185	1,341,000	1,783,108	2,191,019	2,619,158
Non interest income	1,553,512	1,820,774	2,126,000	2,505,994	2,829,441	3,230,797
Commissions	1,553,512	1,820,774	2,126,000	2,505,994	2,829,441	3,230,797
Trading Revenue	0	0	0	0	0	0
Other revenue	0	0	0	0	0	0
Total revenue	2,161,934	2,807,959	3,467,000	4,289,102	5,020,460	5,849,954
Total Operating Costs	1,555,357	1,787,912	2,182,000	2,609,042	2,972,231	3,436,010
Employee Costs	0	0	0	0	0	0
Other costs	1,555,357	1,787,912	2,182,000	2,609,042	2,972,231	3,436,010
Pre-Provision profit/(loss)	606,577	1,020,047	1,285,000	1,680,061	2,048,229	2,413,945
Bad debt expense	278,038	566,391	739,000	882,068	1,053,418	1,259,809
Operating Profit	328,539	453,656	546,000	797,993	994,811	1,154,135
Pre-tax associates	-5,028	0	0	0	0	0
Pre-tax profit	323,511	453,656	546,000	797,993	994,811	1,154,135
Tax	94,914	107,993	112,000	177,730	221,994	245,814
Other post tax items	-27,750	-95,184	-34,353	-48,682	-64,240	-77,866
Stated net profit	211,813	297,007	399,647	571,581	708,577	830,455
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	3,983	69,614	10,800	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	215,796	366,621	410,447	571,581	708,577	830,455
Key Balance Sheet Items (ZARm) & Capital Ratios						
Risk-weighted assets	0	0	0	0	0	0
Interest-earning assets	5,716,409	6,720,185	8,721,000	10,809,190	14,731,385	17,483,995
Customer Loans	5,716,409	6,720,185	8,721,000	10,809,190	14,731,385	17,483,995
Total Deposits	0	0	0	0	0	0
Stated Shareholder Equity	1,334,496	1,636,992	2,854,135	3,320,201	3,895,063	4,028,724
Equals: Tangible Equity	362,345	662,847	1,870,249	2,237,926	2,704,560	2,719,171
Tier 1 capital	0	0	0	0	0	0
Tier 1 ratio (%)	na	na	na	na	na	na
o/w core tier 1 capital ratio (%)	nm	nm	nm	nm	nm	nm
Credit Quality						
Gross NPLs/Total Loans(%)	23.54	27.50	26.58	26.52	23.15	22.96
Risk Provisions/NPLs(%)	26	31	44	46	49	52
Bad debt / Avg loans (%)	6.27	9.11	9.57	9.03	8.25	7.82
Bad debt/Pre-Provision Profit(%)	45.8	55.5	57.5	52.5	51.4	52.2
Growth Rates & Key Ratios						
Growth in revenues (%)	nm	30	23	24	17	17
Growth in costs (%)	nm	15	22	20	14	16
Growth in bad debts (%)	nm	104	30	19	19	20
Growth in RWA (%)	nm	nm	nm	nm	nm	nm
Net int. margin (%)	13.72	15.88	17.37	18.26	17.16	16.26
Cap.-market rev. / Total revs (%)	0	0	0	0	0	0
Total loans / Total deposits (%)	nm	nm	nm	nm	nm	nm
ROTE Decomposition						
Revenue % ARWAs	nm	nm	nm	nm	nm	nm
Net interest revenue % ARWA	nm	nm	nm	nm	nm	nm
Non interest revenue % ARWA	nm	nm	nm	nm	nm	nm
Costs/income ratio (%)	71.9	63.7	62.9	60.8	59.2	58.7
Bad debts % ARWAs	nm	nm	nm	nm	nm	nm
Tax rate (%)	28.9	23.8	20.5	22.3	22.3	21.3
Adj. Attr. earnings % ARWA	nm	nm	nm	nm	nm	nm
Capital leverage (ARWA/Equity)	0.0	0.0	0.0	0.0	0.0	0.0
ROTE (Adj. earnings/Ave. equity)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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South Africa – Life Assurance | Price (8 March 2013): 7600c | Target price: 6500c | Rating: Hold

Discovery Holdings Ltd

Larissa van Deventer

Business description: Discovery is a South African based financial services group. The company is the market leader in health administration, while its life insurance operations have become increasingly prominent in recent years, and now constitute the largest driver of earnings. A core underpin to Discovery's business strategy is "Vitality", a wellness programme that offers financial and lifestyle benefits to customers who manage their health in a positive manner, which enables the company to provide a differentiated product offering. The group's South African operations dominate its earnings and asset profiles, but Discovery is also active in the UK, and partnered with Ping An Health Insurance Company in the Chinese market in 2010, although that venture remains in its infancy. The group also launched a short-term insurance offering, Discovery Insure, in May 2011.

Drivers: We believe the health earnings will continue their steady growth. Furthermore, we believe Discovery has the ability to maintain its position as a leading product innovator in the risk insurance market mainly due to management constantly re-innovating products and finding new and better ways to lock in clients via the Vitality concept. Although we do not expect any the group's offshore ventures to contribute significantly to earnings in the near term, we expect the UK ventures turned profitable in FY12, and we expect modest but continued growth from those operations.

Outlook: Discovery is the clear leader within the SA health schemes market and a successful niche player in the life insurance industry, in our view. The business has attained this position through product innovation, with the Vitality concept being a particularly strong differentiator. In 2010, Discovery invested R1.6bn to increase its UK presence and extend its Vitality offering into that market. These operations have since achieved scale and turned profitable. We value Discovery's track record of innovation, strong market position of its SA Health operations and profitable SA Life business, which we expect to continue. However, at current pricing levels we consider the upside largely priced in. **Hold**.

Valuation: We value insurers listed on the JSE using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. The standard cost of equity we apply across the South African insurance sector is 14%, which we adjust for a 'franchise score' that quantifies the 'quality' we consider inherent to the stock.

Risks: Discovery's South African Life and Health operations are particularly exposed to increased lapse rates and related negative reserve write-offs. The group is also exposed to currency risk through its UK and Chinese ventures; this risk will likely become increasingly important as the relative contributions from these countries grow. Upside risks include better-than-expected earnings growth in the group's peripheral divisions (especially the UK) that have shorter history and less forecast accuracy than the more mature South African operations.

IFRS P&L (Rm)

Discovery Holdings Ltd					
Tickers	**Reuters**	DSYJ.J		**Bloomberg**	DSY SJ
Price at 8 March 2013		R76.00			
Target price		R65.00			
Rating		Hold			

	FY11	FY12	% change	FY13e	% change	FY14e	% change	FY15e	% change
SA: Health	1,379	1,541	12	1,679	9	1,814	8	1,984	9
SA: Life	1,837	1,946	6	2,103	8	2,249	7	2,505	11
SA: Invest	108	171		186	9	201	8	217	8
SA: Vitality	25	10	-60	28	184	67	135	89	33
SA: Insure		-140		-162	16	-84	-48	23	
UK: Health (@100%)	73	96	32	229	138	269	18	250	-7
UK: Life (@100%)	-47	212		278	31	256	-8	229	-11
US: Health	-4	-40	900	54		75	38	98	30
New business development	-183	-86	-53	-120	40	-120	0	-120	0
Other	-1	-70		0		0	n/a	0	n/a
Profit from operations	**3,187**	**3,640**	**14**	**4,276**	**17**	**4,727**	**11**	**5,274**	**12**
Amortisation of intangibles		-152		-152	0	-152	0	-152	0
Investment income to equity holders		40							
Finance costs	-168	-194	15	-172	-11	-187	9	-187	0
Foreign exchange	-14	33		0		0	n/a	0	n/a
Other		-13							
Recapture of reinsurance	-313			0		0		0	
Impact from business combinations	759			0	n/a	0	n/a	0	n/a
Profit before taxation	**3,451**	**3,354**	**-3**	**3,951**	**18**	**4,388**	**11**	**4,935**	**12**
Taxation	-872	-1,132	30	-1,185	5	-1,229	4	-1,382	12
Profit for the year	**2,579**	**2,222**	**-14**	**2,766**	**24**	**3,159**	**14**	**3,553**	**12**
Attributable to:	2,579	2,222		2,766		3,159		3,553	
Equity holders	2,577	2,199		2,657		3,026		3,405	
Preference shareholders		23		23		23		23	
Minority interests	2	0		86	n/a	110	28	125	14
Reconciliation of earnings									
Basic earnings	2577	2199	-15	2657	21	3026	14	3405	13
– Realised profit on AFS instruments	-174	-70	-60	-19	-72	-47	145	-61	28
– Realised profit on IP	-166	0		0		0		0	
– Gain on disposal of JV	-599	0		0		0		0	
Headline earnings	**1638**	**2129**	**30**	**2637**	**24**	**2979**	**13**	**3344**	**12**
– Amortisation of intangibles	70	69		69		69		69	
– Finance costs on puttable interest	86	152		152		152		152	
– Fair value of puttable interest		13		13		13		13	
– Non-contr allocation if no put options		-14		-14		-14		-14	
– Other	234	-33		-33		-33		-33	
Normalised headline earnings	**2028**	**2316**	**14**	**2824**	**22**	**3166**	**12**	**3531**	**12**
Diluted, normalised HEPS	**3.65**	**4.17**	**14**	**4.92**	**18**	**5.52**	**12**	**6.15**	**12**
Dividend per share, declared (R)	**0.90**	**1.04**	**15**	**1.25**	**21**	**1.45**	**16**	**1.60**	**10**
– Interim	0.42	0.50	19	0.60	20	0.70	17	0.75	7
– Final	0.48	0.54	11	0.65	21	0.75	15	0.85	13

Source: Deutsche Bank, Company data; Bloomberg Finance LP

South Africa – Life Assurance | Price (8 March 2013): 11950c | Target price: 11300c | Rating: Hold

Liberty Holdings Ltd

Larissa van Deventer

Business description: Liberty is a financial services and wealth management group. The company is controlled by Standard Bank, a listed South African banking group. Liberty's South African life insurance operations are complimented by STANLIB, one of the largest asset managers in the country, alongside several smaller ventures, notably in health administration and property management. The group has a presence in several African countries, although the contribution to earnings from the rest of Africa is not meaningful at present.

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

Outlook: Liberty can access Standard Bank's established presence in Africa to facilitate low-risk entry and growth in the continent. Also, we note the group has sufficient capital to support new ventures such as its recently launched African health administration operations and other non-life pursuits. The group remains dependent on the performance of its core SA affluent life and asset management operations in the near term. In addition, c.40% of HEPS is derived from returns on shareholder funds. We believe that the turnaround has been largely priced in at current levels, but considering the stock's attractive dividend yield at c.5%, we rate Liberty a Hold.

Valuation: We value insurers listed on the JSE using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. The standard cost of equity we apply across the South African insurance sector is 14%, which we adjust for a 'franchise score' that quantifies the 'quality' we consider inherent to the stock.

Risks: Sector risks include 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. Liberty is moreover exposed to currency fluctuations through the c.20% of its shareholder funds that are invested off-shore (mainly developed markets). Upside risks to our valuation include improved persistency, or a step change in growth in the South African entry-level segment, or in life and health operations in the rest of Africa. Downside risks include adverse financial market movements and their related impact on earnings. Customer retention rates (persistency) and related write-offs for lapses are also a concern.

IFRS P&L (Rm)

Liberty Holdings Ltd				
Tickers	**Reuters**	LBHJ.J	**Bloomberg**	LBH SJ
Price at 8 March 2013		R119.50		
Target price		R113.00		
Rating		Hold		

	FY11	FY12	% change	FY13ee	% change	FY14	% change	FY15e	% change
Insurance operations									
Life insurance	**1,809**	**2,460**	**36**	**2,147**	**-13**	**2,315**	**8**	**2,514**	**9**
Insurance operating surplus	1,981	2,555	29	2,242	-12	2,410	7	2,609	8
Present value of in-force business	-115	-95	-17	-95	0	-95	0	-95	0
STC – Bancassurance dividends	-57	0							
Investment income	**583**	**776**	**33**	**597**	**-23**	**582**	**-3**	**579**	**0**
Investment income	615	822	34	647	-21	657	2	679	3
Net investment gains									
Libfin allocated expenses	-32	-46		-50		-75		-100	
Financing of insurance operations	**156**	**254**	**63**	**271**	**7**	**297**	**10**	**321**	**8**
Fixed assets and working capital	335	427	27	450	5	473	5	496	5
Callable capital bonds and pref shares	-179	-173	-3	-179	3	-175	-2	-175	0
Total insurance operations	**2,548**	**3,490**	**37**	**3,015**	**-14**	**3,193**	**6**	**3,414**	**7**
Asset management operations	**510**	**537**	**5**	**578**	**8**	**630**	**9**	**687**	**9**
STANLIB	435	489	12	537	10	586	9	642	9
Liberty Group Properties	64	39	-39	41	6	43	6	46	6
Fountainhead	11	9	-18						
Business development initiatives	**-91**	**-11**	**-88**	**34**		**72**	**112**	**122**	**69**
Liberty Africa	19	69	263	70	1	72	3	75	4
Liberty Health	-65	-45	-31	-40	-11	-25	-38	0	
Total health trust	2	3	50	4		5		7	
Frank Financial Services	-47	-38	-19	0		20		40	100
Shareholder expenses & sundry income	-294	-308	5	-325	6	-343	6	-362	6
Pref share div	-2	-2	0	-2	0	-2	0	-2	0
Headline earnings	**2671**	**3706**	**39**	**3300**	**-11**	**3550**	**8**	**3860**	**9**
BEE normalised headline (R/share)	**9.567**	**13.283**	**39**	**11.880**	**-11**	**12.780**	**8**	**13.870**	**9**
Distributions declared (R/share)	**4.80**	**6.58**	**37**	**5.40**	**-18**	**5.70**	**6**	**5.93**	**4**
Dividend per share (R)	2.98	5.28		5.40		5.70		5.93	
– Half year		1.92		2.00		2.10		2.18	
– Full year	2.98	3.36		3.40		3.60		3.74	
Capital distribution per share (R)	1.82	0.00		0.00		0.00		0.00	
– Half year	1.82								
– Full year	0.00								
Special		1.30							
Dividend cover	1.99	2.02		2.20		2.24		2.34	

Source: Deutsche Bank, Company data; Bloomberg Finance LP

South Africa– Life Assurance | Price (8 March 2013): 2320c | Target price: 2300c | Rating: Hold

MMI Holdings Ltd

Larissa van Deventer

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

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

Outlook: MMI Holdings represents a large, diversified listed insurer that should prove more defensive than its component parts through economic cycles (Metropolitan was focussed on the entry-level market, while Momentum was focussed on the middle- to affluent segments). The benefit of potential cost synergies remains, in our view. Operational re-rating efficiencies should arise from the merger in the long term, we believe, as processes are aligned and margins strengthened. We expect those to become apparent from FY13, with the full benefit of merger synergies becoming apparent in FY14. **Hold**.

Valuation: We value insurers listed on the JSE using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. The standard cost of equity we apply across the South African insurance sector is 14%, which we adjust for a 'franchise score' that quantifies the 'quality' we consider inherent to the stock.

Risks: Key sector risks pertain to financial market volatility, solvency, liquidity and regulatory risk. The key mid to affluent operations are exposed to margin compression in that highly competitive market segment. Our earnings estimates and valuation could be adversely impacted by a change in mix due to more pronounced customer preferences for lower-margin savings products. MMI's South African entry-level life volumes and profits would also be adversely impacted if the group's contract with FNB Life is not renewed. Upside risks include better than expected margin improvement and further life sales volume increases.

IFRS P&L (Rm)

MMI Holdings Ltd				
Tickers	**Reuters**	MMIJ.J	**Bloomberg**	MMI SJ
Price at 8 March 2013		R23.20		
Target price		R23.00		
Rating		Hold		

	FY11	FY12	% change	FY13e	% change	FY14e	% change	FY15e	% change
Momentum Retail	759	1,064	40	1,255	18	1,381	10	1,419	3
Metropolitan Retail	394	438	11	523	19	601	15	660	10
Momentum EB	187	249	33	271	9	297	9	309	4
Metropolitan International	32	57	78	67	17	74	11	78	5
Life operations	**1,372**	**1,808**	**32**	**2,116**	**17**	**2,353**	**11**	**2,466**	**5**
Momentum Investments	131	125	-5	152	21	192	27	211	10
Metropolitan Health	114	133	17	172	29	189	10	206	9
Shareholder capital	1,031	889	-14	810	-9	879	8	947	8
Diluted core earnings (post-tax)	**2,648**	**2,955**	**12**	**3,250**	**10**	**3,613**	**11**	**3,829**	**6**
Metropolitan pre-merger	-489	0	-100	0	n/a	0	n/a	0	n/a
Core headline earnings	2,159	2,955	37	3,250	10	3,613	11	3,829	6
Investment income on treasury shares	-6	-14		-14		-14		-14	
Dilutory effect of subsidiaries	6	14		14		14		14	
Merger transaction costs	-29	0		0		0		0	
STC	-90	-144		0		0		0	
Amortisation of intangible assets	-318	-516		-516		-516		-516	
FNB Life (90%)	174	0		0		0		0	
Basis and other changes and investment variances	-253	-292		181		129		132	
Net gains on excess	43	250		394		97		112	
Other		-3		0		0		0	
Headline earnings	**1,686**	**2,250**	**33**	**3,309**	**47**	**3,324**	**0**	**3,557**	**7**
Diluted core HEPS (R/share)	1.65	1.84	12	2.03	10	2.25	11	2.39	6
Dividend per share, declared (R)	1.26	1.78	41	1.26	-29	1.35	7	1.45	7
– June	0.63	0.69		0.75		0.80		0.85	
– December	0.42	0.44		0.51		0.55		0.60	
– Special	0.21	0.65							

Source: Deutsche Bank, Company data; Bloomberg Finance LP

South Africa – Life Assurance | Price (8 March 2013): 210p | Target price: 230p | Rating: Buy

Old Mutual plc

Larissa van Deventer

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 businesses include life insurance and asset management operations, while the operations in the SA pertain to asset management. Operations in other geographies include India and China.

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 (c.75% of operational earnings before central costs). Growth in Europe should be sustained by the group's position as one of the leading open architecture platforms. With the stock's share price more than doubling between December 2011 and March 2013, we consider this a growth stock rather than a value proposition, and look for sustained growth in the South African operations to support the investment case.

Outlook: Our investment thesis is based on the growth potential and continued profitability of the group's key emerging market operations. Debt continues to reduce and operational metrics have improved and reached target levels above c.15% we consider sustainable. SA operations should continue to grow profitability (75-80% of earnings before central costs). Longer-term streamlining are (1) the ultimate IPO of the USAM operations, and (2) decisions whether to retain Nedbank. The most uncertain near-term earnings considerations pertain to the Skandia UK operations given market turmoil expected from the implementation of the Retail Distribution Review. **Buy**.

Valuation: We value OML using a sum-of-the-parts approach. Life operations are valued using an adjusted appraisal value; asset management and other admin businesses are valued using a discounted earnings approach. The standard cost of equity we apply across the European insurance sector is 11% (and 14% for the South African operations), which we adjust for two factors: (a) a 'franchise score', and (b) a markets-related stress test which incorporates sensitivity to investment markets.

Risks: Key risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Downside risks include currency exposure, specifically to the ZAR.

Figure 17: Old Mutual – IFRS earnings (GBPm)

Old Mutual plc				
Tickers	**Reuters**	OML.L	**Bloomberg**	OML LN
Price at 8 March 2013		GBP2.10		
Target price		GBP2.30		
Rating		Buy		

	FY11	FY12	% change	FY13e	% change	FY14e	% change	FY15e	% change
Emerging markets	447	432	-3	502	16	582	16	628	8
Wealth management	197	152	-23	166	9	204	23	231	13
Total long term savings	644	584	-9	668	14	786	18	859	9
Nedbank	298	319	7	365	15	435	19	514	18
Mutual & Federal	59	26	-56	50	94	53	6	55	3
USAM	59	76	29	85	12	98	15	113	15
Other operating segments	-205	-163	-20	-135	-17	-126	-7	-129	2
AOP of core operations	**855**	**842**	**-2**	**1,034**	**23**	**1,247**	**21**	**1,413**	**13**
AOP per share	**18.0**	**17.5**	**-3**	**21.5**	**23**	**25.9**	**21**	**29.3**	**13**
Ordinary dividend per share (declared)	**5.00**	**7.00**	**40**	**9.54**	**36**	**11.50**	**21**	**13.03**	**13**
– Interim	1.50	1.75		2.10		2.86		3.45	
– Final	3.50	5.25		7.44		8.64		9.58	
Special dividend		18.00							
Dividend cover	3.6	2.5		2.25		2.25		2.25	

Source: Deutsche Bank, Company data; Bloomberg Finance LP

South Africa – Life Assurance | Price (8 March 2013): 4825c | Target price: 5000c | Rating: Buy

Sanlam Ltd

Larissa van Deventer

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

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

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

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

Risks: Key sector risks pertain to financial market volatility, solvency, liquidity and regulatory risk. Sanlam's earnings are exposed to equity market direction as a result of shareholder fund exposure to equities. The group is further at risk of sub-optimal returns on its excess capital. Sanlam is also exposed to country and political risk in its chosen emerging markets, specifically in Africa, where regional unrest may disrupt business, resulting in lower than expected income. The group is also exposed to currency risk in its various markets; this risk will become increasingly important as the relative contribution from other countries grows.

IFRS P&L (Rm)

Sanlam Ltd			
Tickers	**Reuters**	SLMJ.J	**Bloomberg** SLM SJ
Price at 8 March 2013		R48.25	
Target price		R50.00	
Rating		Buy	

	FY11	FY12	% change	FY13e	% change	FY14e	% change	FY15e	% change
Sanlam Personal Finance	1,990	2,351	18	2,504	7	2,659	6	2,779	5
Sanlam Emerging Markets	309	428	39	509	19	544	7	574	6
Sanlam Investments	945	975	3	1,096	12	1,194	9	1,278	7
Shriram Capital (India)				283		369	31	457	24
Short term insurance	659	405	-39	643	59	701	9	767	9
Total: Operating businesses	**3,903**	**4,159**	**7**	**5,035**	**21**	**5,468**	**9**	**5,855**	**7**
Corporate and other	-124	-129	4	-130	1	-135	4	-140	4
Net result from financial services	**3,779**	**4,030**	**7**	**4,905**	**22**	**5,333**	**9**	**5,715**	**7**
Net investment income	792	1,127	42	1,180	5	1,266	7	1,417	12
Core earnings	4,571	5,157	13	6,085	18	6,599	8	7,132	8
Project expenses	-25	-23	0	-24	6	-26	6	-27	6
Amortisation of value of business acquired	-108	-155	6	-164	6	-173	6	-182	6
Equity participation costs	-26	-56	115	-56	0	-56	0	-56	0
Net equity accounted headline earnings	64	58	6	61	6	65	6	68	6
Net investment surpluses	715	1,171	64	768	-34	812	6	882	9
STC	-168	-233	39	0		0	n/a	0	n/a
Discontinued operations	0	0	n/a	0	n/a	0	n/a	0	n/a
Normalised headline earnings	**5,023**	**5,919**	**18**	**6,670**	**13**	**7,221**	**8**	**7,817**	**8**
Net result from financial services EPS (R)	1.871	1.989	6	2.371	19	2.574	9	2.754	7
Normalised HEPS (ex fund transfers) (R)	2.487	2.921	17	3.224	10	3.485	8	3.767	8
Dividend per share (R)	1.30	2.15	65	1.80	-16	1.98	10	2.18	10
– Of which special		0.50							

Source: Deutsche Bank, Company data; Bloomberg Finance LP

South Africa – Real Estate | Price (8 March 2013): 2756c | Target price: 2360c | Rating: Hold

Growthpoint Properties Ltd

Ahmed Motara

Business description: The portfolio (ex V&A) geographically by GLA has 50% exposure in Greater Johannesburg, 12% in Pretoria, 20% in the Western Cape, 9% in KwaZulu-Natal and the remaining 9% in the Eastern Cape, North West and other provinces. By net property income, 24% is generated from retail, 29% from office, 17% from industrial, 24% from Growthpoint Australia (GOZ) and 6% from the V&A.

Growthpoint is the largest local property stock, with a market capitalisation of R47bn. The current value of the South African physical portfolio is R36bn, with the consolidated holding in GOZ equating to R15bn. The valuation of the 50% interest in the V&A is 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 is earlier years of a controlling stake in Orchard Industrial Fund (now renamed Growthpoint Australia, commonly referred to as GOZ). From a portfolio perspective, Growthpoint remains a defensive play in a slowing economic environment given the defensive component in its retail exposure, the high quality office space in its portfolio and the industrial space with a focus on warehousing and distribution facilities. In the shorter term, property fundamentals for GRT are expected to remain stable, with a good performance evident in cost/income control and rental growth achieved ahead of our expectations, even with a worsening in office vacancies materialising. Arrears remain negligible, as do bad debt write-offs. Growthpoint has indicated it intends to bring the Australian operations up to scale and increase liquidity in GOZ further. We do however note that increased global investment in Australian property is reducing the ability to identify opportunities that are materially yield enhancing, given increased competition for property assets. The South African development pipeline has been largely non-existent in recent months, with disposals largely offsetting developments and capex spend. Our expectation for no significant developments to be undertaken until increased certainty emerges of an improvement in GDP and consumer spending.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect in-force escalations to remain in the 8-9% range with new and expiring leases negotiated at upwards reversions that, while overall still positive, are below escalation levels. Vacancies are anticipated to remain at current levels in the retail and industrial space, but to start showing improved levels in the office arena over FY13. We believe the near term will remain tough for South African property operationally, but expect to see signs of stabilisation in the letting environment starting to materialise. 1H13 has seen on the SA portfolio revenue increases ahead of property expenses, which is a strong outcome given significant pressures on administered costs that are increasingly evident. Growthpoint has continued to surprise us with relatively strong rental growth and good cost control resulting in a lower cost/income ratio emerging than we had anticipated. Continued strong cost control is a key driver in FY13 of above inflation distribution growth.

Outlook: Growthpoint has significant exposure to defensive industrial, office and retail space. Management's focus remains on sustainable earnings and long term positive distribution growth, with less focus now expected on SA acquisitions post the V&A acquisition. Expected focus areas for the medium term are on disposing of smaller operations and ongoing extensions, tenant retention, refurbishments and the bedding down of the V&A acquisition On GOZ, further acquisitive opportunities will continue to be pursued. The prospect statement provided by management suggests 7-7.5% distribution growth as achievable in FY13. We believe that given the significant weighting of the stock in the sector and its liquidity, it will always be "expensive" relative to the sector. Management credibility is exceptional, we believe, and we anticipate the stock could continue to be a solid performer on a long-term basis. On a 12-month view, however, we have a Hold rating.

Valuation: We apply a DCF to ensure our bond yield-derived price target is reasonably supported by distributable cash flows. In our DCF, we use a 0.50x beta, a risk free rate of 7.5%, a terminal growth rate of 3.6% based on our SA IPD stats over the past 15 years and a standard ERP for SA stocks of 4.5%. We derive a 2760c DCF PT using the above assumptions. We derive our 12-month official bond yield relative price target by capitalising our interpolated F2 DPS. We expect the stock to exit at a -47bp premium to our 7.5% long bond forecast yield.

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

Model updated:28 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Property

Growthpoint

Reuters: GRTJ.J | Bloomberg: GRT SJ

Hold

Price (8 Mar 13)	ZAR 27.56
Target Price	ZAR 23.60
52 Week range	ZAR 19.97 – 27.80
Market Cap (m)	ZARm 48,715
	USDm 5,364

Company Profile

Growthpoint is property loan stock (PLS) with a balanced diversified portfolio spread across retail, office and industrial properties. The strategy is to remain diversified while maintaining its position as the biggest local property stock (market capitalisation of c.R18bn) with the highest liquidity. Rental contribution is 37% retail, 39% office and 24% industrial, with high quality portfolio evident.

Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	1.21	1.31	1.39	1.49	1.60	1.72
Reported EPS (ZAR)	1.46	16.88	1.95	1.59	1.75	1.80
DPS (ZAR)	1.21	1.31	1.39	1.49	1.60	1.72
BVPS (ZAR)	14.76	164.96	17.63	18.93	20.23	21.60
Valuation Metrics						
Price/Sales (x)	5.9	0.6	6.3	8.7	7.8	7.4
P/E (DB) (x)	11.7	13.2	14.0	18.5	17.2	16.0
P/E (Reported) (x)	9.7	1.0	10.0	17.3	15.8	15.3
P/BV (x)	1.1	0.1	1.3	1.5	1.4	1.3
FCF yield (%)	nm	nm	nm	nm	nm	nm
Dividend yield (%)	8.6	7.6	7.2	5.4	5.8	6.3
EV/Sales	8.6	4.5	10.2	12.6	11.4	10.9
EV/EBITDA	11.9	6.1	13.7	17.2	15.6	15.1
EV/EBIT	11.9	6.1	13.7	17.2	15.6	15.1
Income Statement (ZARm)						
Sales	3,706	4,230	5,336	5,623	6,261	6,627
EBITDA	2,690	3,086	3,951	4,118	4,572	4,817
EBIT	2,690	3,086	3,951	4,118	4,572	4,817
Pre-tax profit	1,661	1,939	2,470	2,186	2,464	2,561
Net income	1,625	2,060	2,768	2,186	2,464	2,561
Cash Flow (ZARm)						
Cash flow from operations	0	0	529	-32	0	0
Net Capex	0	-7,458	-2,994	-2,373	-700	-1,000
Free cash flow	0	-7,458	-2,465	-2,406	-700	-1,000
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	7,493	2,592	2,373	700	1,000
Other investing/financing cash flows	0	15	17	0	0	0
Net cash flow	0	50	144	-32	0	0
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and cash equivalents	310	339	395	1,008	1,008	1,008
Property, plant & equipment	34,208	45,163	52,503	56,998	60,000	63,424
Goodwill	0	0	0	0	0	0
Other assets	3,173	3,229	2,888	2,888	2,888	2,888
Total assets	37,691	48,731	55,786	60,894	63,896	67,320
Debt	10,338	16,502	20,744	23,117	23,817	24,817
Other liabilities	4,512	5,968	4,318	4,318	4,318	4,318
Total liabilities	14,850	22,470	25,062	27,435	28,135	29,135
Total shareholders' equity	22,841	26,261	30,724	33,458	35,761	38,185
Net debt	*10,028*	*16,163*	*20,349*	*22,109*	*22,809*	*23,809*
Key Company Metrics						
Sales growth (%)	23.9	14.1	26.1	5.4	11.3	5.9
DB EPS growth (%)	5.8	8.0	6.1	7.3	7.4	7.6
Payout ratio (%)	nm	nm	nm	nm	nm	nm
EBITDA Margin (%)	72.6	73.0	74.0	73.2	73.0	72.7
EBIT Margin (%)	72.6	73.0	74.0	73.2	73.0	72.7
ROE (%)	10.5	10.9	11.9	8.8	8.9	8.6
Net debt/equity (%)	43.9	61.5	66.2	66.1	63.8	62.4
Net interest cover (x)	2.6	2.7	2.7	2.1	2.2	2.1
DuPont Analysis						
EBIT margin (%)	72.6	73.0	74.0	73.2	73.0	72.7
x Asset turnover (x)	0.1	0.1	0.1	0.1	0.1	0.1
x Financial cost ratio (x)	0.6	0.6	0.6	0.5	0.5	0.5
x Tax and other effects (x)	1.4	1.4	1.4	1.3	1.3	1.2
= ROA (post tax) (%)	6.4	6.2	6.5	4.8	5.0	4.9
x Financial leverage (x)	1.6	1.8	1.8	1.8	1.8	1.8
= ROE (%)	10.5	10.9	11.9	8.8	8.9	8.6
annual growth (%)	*6.3*	*4.3*	*8.9*	*-26.4*	*1.9*	*-3.5*
x NTA/share (avg) (x)	13.9	154.2	16.3	18.2	19.6	20.9
= Reported EPS	1.46	16.88	1.95	1.59	1.75	1.80
annual growth (%)	*4.2*	*1,059.8*	*-88.5*	*-18.3*	*9.9*	*3.1*

Source: Company data, Deutsche Bank estimates

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South Africa – Real Estate | Price (8 March 2013): 988c | Target price: 1030c | Rating: Buy

Redefine Properties Ltd

Ahmed Motara

Business description: Redefine's 2009 acquisition of ApexHi, Madison and Ambit created one of the largest property stocks on the JSE, with a current R28bn market cap. The net property income contribution at FY12 is 38% retail, 48% office, 13% industrial and 1% foreign. Redefine also has a 30% listed holding in Hyprop and a 32% effective holding in Redefine International plc. The Redefine business remains in the evolution phase with management focused on restructuring and rationalising the SA portfolio into higher physical quality/lower management intensiveness. We would categorise Redefine as having high quality retail exposure (Hyprop) through its listed holding and exposure to a defensively placed portfolio in the UK, Australia and continental Europe via its offshore holdings. While a hybrid in nature, Redefine is still dominated by its physical portfolio contribution to the revenue line. There are, however, elements of non-core income through fees and trading income included in the revenue line. Concerns have been addressed on a significant level of debt that matured in Redefine International plc in 2012, which was geared materially higher than the SA balance sheet.

Drivers: Revenue drivers can be classified into escalations, new and expiring leases and vacancies. We expect escalations to remain 7-8% with new and expiring leases negotiated at reversionary levels below escalation rates. Our reversionary expectations are for 8% reversions in retail, -4% in office and 4% in industrial. Redefine has large exposure to commuter based shopping centres (not significantly large retail centres by GLA) and office space largely below the A-grade component, where significant negative rental growth is still a feature. Exposure to government and Standard Bank as significant office tenants with the exposure to a largely cash-based consumer in the retail space mitigates the risk posed in a weak letting environment. While the portfolio is not largely A-grade, recent disposals and indications suggest a drive to improve overall portfolio quality. We believe the next six months will continue to remain tough for SA property operationally. We expect strong cost containment and a shift in portfolio mix to lower management intensive, increased single occupancy buildings to assist in keeping the cost/income ratio at 24%. A key factor for Redefine is also the efficiencies to be realised in the medium term by bedding down the acquisitively grown portfolio and acquiring and developing larger properties increasingly consisting of larger retail offerings. We expect Redefine's international operations are unlikely to become meaningful in the medium term given that SA operations and the physical SA portfolio still dominate revenue contribution. We expect non-core income to become increasingly less relevant in FY13, with physical contractual income anticipated to rise from 60% of total revenue in FY08 to 81% in FY14. Listed securities income makes up 10% of the remainder, which puts contractual rental income for RDF at over 90% in FY14.

Outlook: The physical SA portfolio by contractual rental income consists of 49% office, 36% retail and 15% industrial as of FY12. Redefine also has a 49% stake in Redefine International and a 5% stake in Cromwell. For FY13, we expect a return to 5.5-7%p.a distribution growth to emerge, in line with company guidance. We expect Redefine's portfolio to show improvements in quality and the maintenance of a steady cost/income ratio in the medium term. We expect continued growth in core property income ahead of core property cost growth is unlikely to be maintained, with office rental growth a particular concern. Our current forecast does not build in any potential future disposal of Hyprop shares, nor the acquisition of the FPT portfolio in the next 12 months. These would all represent positive catalysts, which would underpin a stock rerating. Buy.

Valuation: We apply a DCF to ensure our bond yield-derived price target is reasonably supported by distributable cash flows. In our DCF, we use a 0.75x beta, a risk free rate of 7.5%, a terminal growth rate of 3.8% based on our SA IPD stats over the past 15 years and a standard ERP for SA stocks of 4.5%. We derive a 1061c DCF PT using the above assumptions. We derive our 12-month official bond yield relative price target by capitalising our interpolated F2 DPS. We expect the stock to exit at a -29bp premium to our 7.5% long bond forecast yield.

Risks: The fund's hybrid structure raises the risk profile, with the potential for overpaying for growth a potential risk. This risk is lessened due to the economy of scale now being reached and an increased revenue contribution from the physical portfolio. Forecast risk is above sector average, given the multiple revenue streams on which its income is based. We do note however that increased disclosure and better long term development plans have lowered this risk relative to prior years. Downside risks to our view would involve management disappointing the market on distribution growth, a material change in stated strategy or a significant acquisition that increases the risk profile without being materially distribution enhancing. Risks general to the sector are a slow and prolonged recovery in GDP growth, a lack of liquidity and a long bond yield above or below our expectations.

Model updated:28 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Property

Redefine Properties Ltd

Reuters: RDFJ.J Bloomberg: RDF SJ

Buy

Price (8 Mar 13)	ZAR 9.88
Target Price	ZAR 10.30
52 Week range	ZAR 7.90 – 10.08
Market Cap (m)	ZARm 27,274
	USDm 3,003

Company Profile

Redefine's acquisition of ApexHi, Madison and Ambit in 2009 will potentially create the second largest property stock on the JSE with a market capitalisation of over R17bn. The rental contribution is 37% retail, 49% office and 14% industrial. Redefine is a hybrid fund, with listed holdings in Hyprop, Sycom, Wichford plc and CIREF

Fiscal year end 31-Aug	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	0.67	0.68	0.64	0.68	0.73	0.78
Reported EPS (ZAR)	1.09	0.47	0.36	0.90	0.97	1.03
DPS (ZAR)	0.67	0.68	0.64	0.68	0.73	0.78
BVPS (ZAR)	7.19	7.31	7.26	7.68	8.15	8.65
Valuation Metrics						
Price/Sales (x)	6.3	6.0	5.5	5.9	5.5	5.2
P/E (DB) (x)	11.1	11.5	12.7	14.5	13.5	12.6
P/E (Reported) (x)	6.8	16.6	22.7	11.0	10.2	9.6
P/BV (x)	1.1	1.1	1.3	1.3	1.2	1.1
FCF yield (%)	nm	2.6	nm	nm	nm	nm
Dividend yield (%)	9.0	8.7	7.9	6.9	7.4	7.9
EV/Sales	8.3	10.3	9.2	9.5	8.9	8.6
EV/EBITDA	10.5	13.8	12.3	12.5	11.7	11.2
EV/EBIT	10.5	13.8	12.3	12.5	11.7	11.2
Income Statement (ZARm)						
Sales	3,137	3,497	4,052	4,642	5,004	5,258
EBITDA	2,464	2,606	3,031	3,519	3,811	4,035
EBIT	2,464	2,606	3,031	3,519	3,811	4,035
Pre-tax profit	3,058	1,236	1,513	2,473	2,665	2,850
Net income	2,896	1,262	976	2,473	2,665	2,850
Cash Flow (ZARm)						
Cash flow from operations	-26	545	-186	0	0	0
Net Capex	-3,116	0	-2,590	0	0	0
Free cash flow	-3,142	545	-2,777	0	0	0
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	3,678	2,799	2,393	1,881	675	500
Other investing/financing cash flows	-41	5	75	0	0	0
Net cash flow	496	3,349	-309	1,881	675	500
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and cash equivalents	607	660	351	351	351	351
Property, plant & equipment	21,651	28,848	29,736	32,785	34,751	36,622
Goodwill	0	0	0	0	0	0
Other assets	12,715	14,855	15,438	15,438	15,438	15,438
Total assets	34,972	44,363	45,525	48,574	50,540	52,412
Debt	11,549	18,412	19,442	21,323	21,999	22,499
Other liabilities	3,480	4,063	4,739	4,739	4,739	4,739
Total liabilities	15,029	22,476	24,181	26,063	26,738	27,238
Total shareholders' equity	19,943	21,888	21,344	22,511	23,803	25,174
Net debt	*10,942*	*17,752*	*19,091*	*20,972*	*21,647*	*22,147*
Key Company Metrics						
Sales growth (%)	177.2	11.5	15.9	14.6	7.8	5.1
DB EPS growth (%)	17.6	2.3	-5.9	6.6	6.9	7.2
Payout ratio (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	78.5	74.5	74.8	75.8	76.2	76.7
EBIT Margin (%)	78.5	74.5	74.8	75.8	76.2	76.7
ROE (%)	15.5	6.5	4.9	12.0	12.2	12.3
Net debt/equity (%)	54.9	81.1	89.4	93.2	90.9	88.0
Net interest cover (x)	4.6	2.8	1.7	2.0	2.0	2.0
DuPont Analysis						
EBIT margin (%)	78.5	74.5	74.8	75.8	76.2	76.7
x Asset turnover (x)	0.1	0.1	0.1	0.1	0.1	0.1
x Financial cost ratio (x)	0.8	0.6	0.4	0.5	0.5	0.5
x Tax and other effects (x)	1.5	0.8	0.8	1.4	1.4	1.4
= ROA (post tax) (%)	9.5	3.2	2.2	5.3	5.4	5.5
x Financial leverage (x)	1.6	2.0	2.3	2.3	2.3	2.2
= ROE (%)	15.5	6.5	4.9	12.0	12.2	12.3
annual growth (%)	*343.0*	*-58.3*	*-24.1*	*143.7*	*1.7*	*0.8*
x NTA/share (avg) (x)	7.0	7.2	7.3	7.5	7.9	8.4
= Reported EPS	1.09	0.47	0.36	0.90	0.97	1.03
annual growth (%)	*169.6*	*-56.8*	*-23.8*	*150.0*	*7.7*	*6.9*

Source: Company data, Deutsche Bank estimates

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South Africa – General Mining | Price (8 March 2013): 19916c | Target price: 21500c | Rating: Buy

African Rainbow Minerals Ltd

Tim Clark

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

The ferrous metals division (NAV contribution: 37%) consists of the 50% effective ownership of Assmang, comprising three divisions – manganese, iron ore and chrome. About 90% of its ferrous metal production is exported via Saldanha Bay, Port Elizabeth, Durban and Richards Bay. The division has significant growth opportunities at the Khumani iron ore mine, which is commissioning the expansion to 14mtpa of iron ore. Manganese volumes are limited to rail capacity where prices no longer support trucking. The ferrochrome business is being reduced due to the conversion of furnaces to ferromanganese, a higher margin and less cyclical business.

The nickel and platinum divisions (NAV contribution: 43%) comprise Nkomati, Modikwa, Two Rivers and Kalplats. Nkomati is in transition from being a high grade, low volume to a low grade, high volume nickel mine, though with significant PGM (platinum group metal), chrome and base metal by-products. The mine is currently experiencing some high grades and improved recoveries. Modikwa and Two Rivers have performed well from a cost perspective recently and both have significant expansion potential.

Harmony (7% of NAV) is predominantly a South African gold producer; with most production remaining in South Africa. Harmony acquired 100% of Avgold in 1H04. ARM holds 15% of Harmony; we expect it to retain this stake in the short and medium term.

Copper and coal, ARM's copper business (7% of NAV) is held through a 50:50 joint venture with Vale. The Lubambe (Konkola North) project is now a growth area for ARM, with the initial 45ktpa in ramp up. ARM Coal (6% of NAV) is owned through a BEE structure with Xstrata, the business has taken considerable capital resulting in R1.6bn of debt and has recently produced good results from Goedgevonden and from the now opencast Xstrata operations.

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 FY13 (Khumani, Nkomati and Lubambe).

Outlook: ARM through its '2X2010' strategy delivered 170% production growth from its establishment in 2004 to 2010/11, and has transformed the portfolio into one of long life and low cost. The result of this growth and constraints to further growth; as a result of a higher base, rail and power constraints we well as the JV structure; have put ARM into a cash-generative position in the medium term. ARM is using this cash to invest further into manganese, iron ore and copper. We believe that recent weaker PGM and manganese markets, causing lower prices and volumes, as well as operating issues in chrome has resulted in the company trading below our valuation and target price. The strong cash generation and cheap long term valuation along with upside potential to our valuation, lead us to rate ARM as a **Buy**.

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

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

Model updated:26 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

ARM

Reuters: ARIJ.J	Bloomberg: ARI SJ

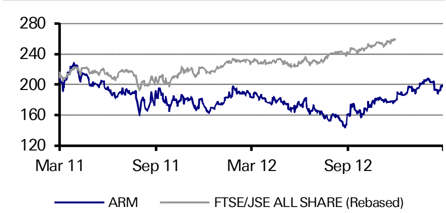
Buy

Price (8 Mar 13)	ZAR 199.16
Target Price	ZAR 215.00
52 Week range	ZAR 144.00 – 208.00
Market Cap (m)	ZARm 42,558
	USDm 4,686

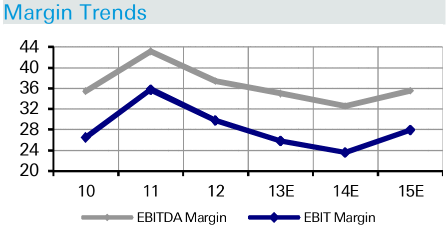
Company Profile

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

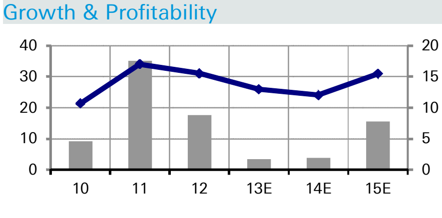
Price Performance



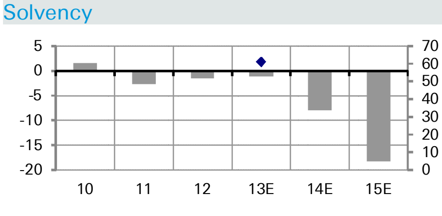
Margin Trends



Growth & Profitability



Solvency



Tim Clark
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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	7.98	15.52	16.04	14.65	14.79	21.17
Reported EPS (ZAR)	8.44	15.48	15.98	14.65	14.79	21.17
DPS (ZAR)	2.00	4.50	4.75	4.21	4.26	6.09
BVPS (ZAR)	83.5	99.3	108.6	118.5	129.2	146.3
Weighted average shares (m)	212	213	214	214	214	214
Average market cap (ZARm)	35,232	41,256	38,389	42,558	42,558	42,558
Enterprise value (ZARm)	29,537	34,125	32,289	36,832	34,836	31,134
Valuation Metrics						
P/E (DB) (x)	20.8	12.5	11.2	13.6	13.5	9.4
P/E (Reported) (x)	19.7	12.5	11.2	13.6	13.5	9.4
P/BV (x)	1.93	1.90	1.53	1.68	1.54	1.36
FCF Yield (%)	1.1	4.4	2.1	0.1	6.9	11.0
Dividend Yield (%)	1.2	2.3	2.6	2.1	2.1	3.1
EV/Sales (x)	2.7	2.3	1.8	2.0	1.9	1.4
EV/EBITDA (x)	7.6	5.3	4.9	5.8	5.7	4.0
EV/EBIT (x)	10.1	6.4	6.2	7.9	7.9	5.1
Income Statement (ZARm)						
Sales revenue	11,022	14,893	17,530	18,118	18,800	21,724
Gross profit	3,907	6,427	6,551	6,341	6,119	7,714
EBITDA	3,907	6,427	6,551	6,341	6,119	7,714
Depreciation	987	1,105	1,335	1,666	1,691	1,648
Amortisation	0	0	0	0	0	0
EBIT	2,920	5,322	5,216	4,675	4,428	6,066
Net interest income(expense)	17	0	47	-77	81	392
Associates/affiliates	-51	-135	11	91	225	257
Exceptionals/extraordinaries	97	-11	-70	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,983	5,176	5,204	4,690	4,734	6,715
Income tax expense	1,009	1,671	1,633	1,330	1,300	1,853
Minorities	162	194	133	209	252	307
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,812	3,311	3,438	3,151	3,183	4,555
DB adjustments (including dilution)	-98	8	13	0	0	0
DB Net profit	1,714	3,319	3,451	3,151	3,183	4,555
Cash Flow (ZARm)						
Cash flow from operations	2,892	4,754	4,847	3,311	4,563	5,844
Net Capex	-2,487	-2,945	-4,045	-3,262	-1,640	-1,183
Free cash flow	405	1,809	802	49	2,923	4,661
Equity raised/(bought back)	44	37	50	22	0	0
Dividends paid	-371	-425	-959	-1,011	-900	-909
Net inc/(dec) in borrowings	-773	-625	129	934	0	0
Other investing/financing cash flows	163	-347	-32	978	0	0
Net cash flow	-532	449	-10	972	2,023	3,751
Change in working capital	*0*	*0*	*0*	*-1,477*	*-317*	*-676*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,039	3,668	3,590	4,690	6,713	10,464
Tangible fixed assets	13,480	15,714	18,707	20,509	20,458	19,993
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	6,766	7,490	6,952	6,858	7,083	7,340
Other assets	4,948	5,437	6,067	7,327	7,969	8,854
Total assets	28,233	32,309	35,316	39,383	42,222	46,651
Interest bearing debt	3,346	3,069	3,237	4,381	4,381	4,381
Other liabilities	6,358	7,125	7,674	8,232	8,535	9,012
Total liabilities	9,704	10,194	10,911	12,613	12,916	13,393
Shareholders' equity	17,765	21,157	23,200	25,331	27,613	31,259
Minorities	764	958	1,205	1,440	1,693	2,000
Total shareholders' equity	18,529	22,115	24,405	26,771	29,306	33,258
Net debt	*307*	*-599*	*-353*	*-309*	*-2,332*	*-6,083*
Key Company Metrics						
Sales growth (%)	9.2	35.1	17.7	3.4	3.8	15.6
DB EPS growth (%)	-26.0	94.4	3.4	-8.7	1.0	43.1
EBITDA Margin (%)	35.4	43.2	37.4	35.0	32.5	35.5
EBIT Margin (%)	26.5	35.7	29.8	25.8	23.6	27.9
Payout ratio (%)	23.4	28.9	29.5	28.6	28.6	28.6
ROE (%)	10.7	17.0	15.5	13.0	12.0	15.5
Capex/sales (%)	22.7	19.8	23.1	18.1	8.7	5.4
Capex/depreciation (x)	2.5	2.7	3.0	2.0	1.0	0.7
Net debt/equity (%)	1.7	-2.7	-1.4	-1.2	-8.0	-18.3
Net interest cover (x)	nm	nm	nm	61.0	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (8 March 2013): 25253c | Target price: 31000c | Rating: Buy

Anglo American plc

Tim Clark / Grant Sporre

Business description: Anglo American's (Anglo's) portfolio now consists of seven core mining-based divisions (metallurgical and thermal coal, nickel, platinum, iron ore (incorporating Kumba, Minas Rio and Samancor), diamonds and copper) and the 'other mining and industrial group' (industrial minerals, Amapa, Copebras and Catalao). 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 when the industrial minerals market improves.

Anglo has appointed a new CEO from April (Mark Cutifani). We do not expect to hear from Mark before the interim results in July and hence expect 1H13 to be a quite period for Anglo. In terms of projects the Minas Rio project capex has been increased to US$8.8bn and is set for first delivery by the end of 2014. Any delays to this project will remain a drag on Anglo. Anglo has also indicated that the Barro Alto project is reaching nameplate capacity. In copper Anglo has limited mining flexibility at Los Bronces and is stripping additional waste, benefits are expected in 2014. At Collahuasi there has been a recent improvement in grades and ball mill performance, the mine is expected to ramp up to a capacity level of 400kt (100%, Anglo has 44%) in 2013.

We think that Anglo will announce greater focus on shareholder returns and on capital constraint at the interim results. We also expect Mark Cutifani to announce a back to basics approach and a focus on operational accountability and performance. This will be positive for Anglo.

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

Drivers:

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

Anglo's primary business driver remains the global economic cycle with consumer exposure through diamonds and platinum. The group has significant exposure to PGMs and diamonds that performed late in this cycle. Its earnings base, dominated by South African assets, faces the greatest rand exposure of any of the large diversified houses.

Outlook: Anglo is focused on value delivery through optimisation of its portfolio and also on delivering the four major growth projects expected to come on line between 2011 and 2014 (Barro Alto, Los Bronces, Kolomela and Minas Rio). Anglo has three major issues that are potential value catalysts at present. Firstly the recent underperformance of the copper division has resulted in a delay to Anglo's copper growth; the recovery of grade and the mill at Collahuasi as well as the stripping at Los Bronces to improved flexibility should deliver growth over the next year. Second, the Minas Rio project continues to be plagued by delays and we have pushed out first production to 2Q15 and the capex budget to US$8.5bn. Thirdly, the market is anticipating an announcement early in 2013 from the Amplats operational review, which is currently underway; we expect the review to herald a major change in the way that Amplats fits into Anglo (as a smaller and lower cost solution). We think that on balance the Amplats review is likely to be the most positive catalyst. Given the upside potential based on our valuation we rate Anglo as a Buy.

Valuation: Our price target reflects a valuation taking into consideration both DCF over life-of-mine (9.5% WACC – Beta 1.25, ERP 4.5%, Rf 5%, COD 6% on a through-the-cycle target gearing of 30%) for core asset valuations and market values or peer group multiples for non-core assets. We apply a 0.9x NAV multiple to reflect management's performance relative to the broader Metals and Mining sector.

Risks: Risks include stronger-than-expected operating currencies (rand, A$) and lower commodity prices, in particular PGMs, copper and iron ore. More specific risks include potential cost increases at Minas Rio, the Platinum operational review failing to reach expectations and delays to project approvals.

Model updated:17 February 2013

Running the numbers

Europe

United Kingdom

Metals & Mining

Anglo American

Reuters: AGLJ.J Bloomberg: AGL SJ

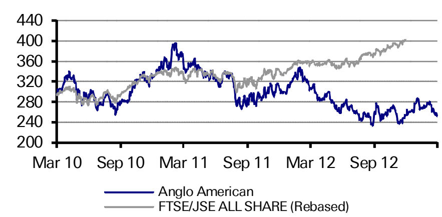
Buy

Price (8 Mar 13)	ZAR 252.53
Target Price	ZAR 310.00
52 Week range	ZAR 233.11 – 315.30
Market Cap (m)	ZARm 316,673
	USDm 34,866

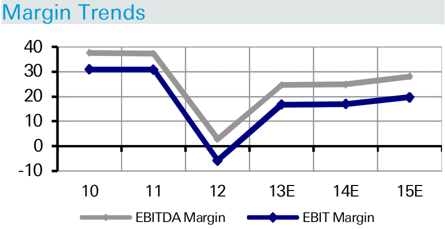
Company Profile

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

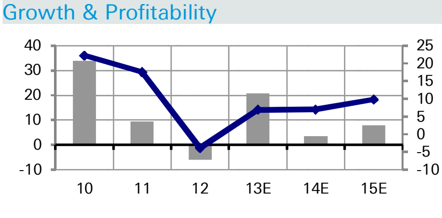
Price Performance



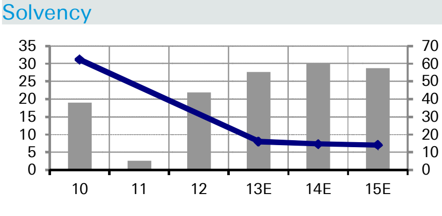
Margin Trends



Growth & Profitability



Solvency



Tim Clark
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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (USD)	4.01	5.06	2.14	2.07	2.18	3.26
Reported EPS (USD)	5.23	5.10	-1.16	2.07	2.18	3.26
DPS (USD)	0.65	0.74	0.85	0.85	0.87	0.00
BVPS (USD)	28.4	32.3	30.3	31.3	32.7	35.2
Weighted average shares (m)	1,206	1,210	1,244	1,254	1,254	1,254
Average market cap (USDm)	49,694	53,916	41,954	34,866	34,866	34,866
Enterprise value (USDm)	51,691	63,840	54,853	51,634	54,132	47,612
Valuation Metrics						
P/E (DB) (x)	10.3	8.8	15.7	13.4	12.8	8.5
P/E (Reported) (x)	7.9	8.7	nm	13.4	12.8	8.5
P/BV (x)	1.83	1.13	1.01	0.89	0.85	0.79
FCF Yield (%)	5.1	6.0	0.1	nm	1.5	6.5
Dividend Yield (%)	1.6	1.7	2.5	3.1	3.1	0.0
EV/Sales (x)	1.8	2.1	1.9	1.5	1.5	1.2
EV/EBITDA (x)	4.9	5.6	66.9	6.0	6.1	4.4
EV/EBIT (x)	6.0	6.8	nm	8.8	8.8	6.2
Income Statement (USDm)						
Sales revenue	27,960	30,580	28,761	34,723	35,974	38,829
Gross profit	10,532	11,406	819	8,572	8,939	10,912
EBITDA	10,532	11,406	819	8,572	8,939	10,912
Depreciation	1,866	1,967	2,507	2,729	2,816	3,258
Amortisation	0	0	0	0	0	0
EBIT	8,666	9,439	-1,688	5,843	6,122	7,654
Net interest income(expense)	-139	183	-377	-364	-417	-543
Associates/affiliates	822	977	432	369	431	573
Exceptionals/extraordinaries	1,579	183	1,394	0	0	0
Other pre-tax income/(expense)	154	264	0	0	0	0
Profit before tax	11,082	11,046	-239	5,848	6,137	7,684
Income tax expense	2,809	2,860	375	1,671	1,812	1,842
Minorities	1,575	1,753	879	1,522	1,530	1,663
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,698	6,433	-1,493	2,654	2,795	4,179
DB adjustments (including dilution)	-1,568	-49	4,244	0	0	0
DB Net profit	5,130	6,384	2,751	2,654	2,795	4,179
Cash Flow (USDm)						
Cash flow from operations	7,727	9,362	5,562	6,573	7,356	8,868
Net Capex	-5,216	-6,126	-5,541	-8,058	-6,821	-6,619
Free cash flow	2,511	3,236	21	-1,485	535	2,249
Equity raised/(bought back)	-64	-347	24	26	26	26
Dividends paid	-919	-2,222	-2,237	-1,968	-1,982	-2,098
Net inc/(dec) in borrowings	-788	4,667	6,106	0	0	0
Other investing/financing cash flows	1,882	299	-6,453	236	-417	-543
Net cash flow	2,622	5,633	-2,539	-3,192	-1,838	-366
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (USDm)						
Cash and other liquid assets	6,401	11,732	9,094	5,902	6,064	5,698
Tangible fixed assets	39,810	40,549	45,089	50,018	54,022	57,383
Goodwill/intangible assets	2,695	2,682	4,964	4,764	4,764	4,764
Associates/investments	8,915	8,804	9,339	9,484	9,786	10,275
Other assets	8,835	8,675	10,883	10,001	10,203	10,607
Total assets	66,656	72,442	79,369	80,169	84,839	88,727
Interest bearing debt	13,581	12,873	18,673	18,673	20,673	20,673
Other liabilities	15,104	16,380	16,909	15,475	15,777	15,895
Total liabilities	28,685	29,253	35,582	34,148	36,450	36,568
Shareholders' equity	34,239	39,092	37,657	39,269	41,012	44,113
Minorities	3,732	4,097	6,130	6,751	7,377	8,046
Total shareholders' equity	37,971	43,189	43,787	46,021	48,389	52,159
Net debt	*7,180*	*1,141*	*9,579*	*12,771*	*14,609*	*14,975*
Key Company Metrics						
Sales growth (%)	34.0	9.4	-5.9	20.7	3.6	7.9
DB EPS growth (%)	92.3	26.4	-57.6	-3.4	5.3	49.5
EBITDA Margin (%)	37.7	37.3	2.8	24.7	24.8	28.1
EBIT Margin (%)	31.0	30.9	-5.9	16.8	17.0	19.7
Payout ratio (%)	11.7	13.9	nm	40.2	39.0	0.0
ROE (%)	22.2	17.5	-3.9	6.9	7.0	9.8
Capex/sales (%)	18.9	20.3	19.5	23.2	19.0	17.0
Capex/depreciation (x)	2.8	3.2	2.2	3.0	2.4	2.0
Net debt/equity (%)	18.9	2.6	21.9	27.7	30.2	28.7
Net interest cover (x)	62.3	nm	nm	16.0	14.7	14.1

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (8 March 2013): 28512c | Target price: 32500c | Rating: Buy

BHP Billiton plc

Tim Clark

Business description: BHP Billiton (BHP) is the world's largest mining group; formed from the June 2001 unification of Billiton plc and BHP Ltd. BHP's assets are geographically diverse with most in Australia (49% of operating assets), North America (29%), South America (11%) and Southern Africa (5%). The group is also well diversified from a commodity perspective, with exposure to petroleum, natural gas, iron ore, aluminium, alumina, metallurgical coal, thermal coal, copper, nickel, potash, diamonds, and manganese.

We believe BHP's investment case remains its ability to deliver consistent growth over the longer term whilst balancing with higher than industry average capital returns to shareholders. We estimate it can grow at 5% CAGR in copper equivalent terms – above many peers over an extended period. BHP's growth strategy is increasingly focused on six basins and five commodities, each with over a 100 years worth of resources (Western Australian iron ore; Queensland coal; Escondida copper; onshore US gas, Olympic Dam copper/uranium and Saskatchewan potash). In terms of peak demand commodity cycles, the Pilbara iron ore and Queensland coking coal basins serve the strong near-term demand in steel, Olympic Dam and Escondida serve the more medium term copper demand, and the two newest additions – Saskatchewan and the onshore US petroleum – serve longer dated energy demand. This in our view leaves BHP well positioned across the various commodity cycles.

2012 was a year where BHP changed tack from being focussed on delivering growth (capturing the margin in essence at higher costs effectively) to balancing growth with cost efficiency, taking account of the expectation that prices would not increase in future in real terms as over the last decade and in some commodities would be in real decline. BHP has spent several years ensuring that it has the systems in place to benchmark operational performance. It is driving this operational performance that will be the key objective of the new CEO, Andrew Mackenzie.

Drivers: BHP's FY13 earnings profile remains dominated by carbon the steel materials – iron ore, coking coal and manganese (46% of EBIT); the petroleum (27% of EBIT) CSGs and copper (20% of EBIT) CSGs. Key currency exposures include the A$, CHP and rand, having a significant impact on US$ operating costs and earnings. We believe BHP's attractiveness as an investment rests on its ability to:

- Successfully develop a number of projects in the petroleum, copper, nickel, iron ore and coking coal sectors that given continued global growth, will boost volumes so that prices are not adversely affected.
- Maintain and enhance return on capital employed targets.

Outlook: The long-term BHP Billiton story remains one of growth, both organically and through acquisitions. The recent US$15bn purchase of tight oil assets in the lower US shows a focus on further diversification and value-accretive acquisitions. The company is embarking on a portfolio streamlining process by divesting non-core assets and is also cutting costs. The company's capital allocation strategy is focused on: 1. Organic growth, with a focus on returns. 2. Balance sheet management (maintaining the A rating), 3. Progressively growing (and periodically rebasing) the dividend, and 4. Returning excess cash to shareholders. The petroleum business should be seen as a positive when a rising energy cost environment returns. Commodity skew is very much biased to Chinese raw material shortages – specifically iron ore, oil, coking coal and copper, amongst others. BHP Billiton's assets are long life, low operating cost, and in lower- to moderate-risk countries (Australia, North America, Europe, Southern Africa, Brazil, Chile) and overall are considered premium quality relative to the sector, offering above-average returns and operating margins. We rate BHP a **Buy** due to the attractive valuation and superior growth and diversification vs peers.

Valuation: Our price target is set at 1.1x NAV, using life of mine cash flows with a WACC of 8.88% (COE 11.4% – Rf 6%, Rp 4.5%; CoD 6.0% on a D/E of 35%; Beta is 1.20). The 10% premium is based on the management performance relative to the broader Metals and Mining peer group under our coverage. Our price target is set using a USD/GBP exchange rate of 1.55 and ZAR/USD of 7.67.

Risks: The key risks include variance in commodity prices and exchange rates vs our estimates. Downside risks include the ability to continue to deliver on planned growth at reasonable costs. Delivery risk also exists on the large iron ore expansions in the Pilbara, and the petroleum growth projects. A potential near-term slowdown in Chinese steel demand may result in lower iron ore and coking coal demand and therefore lower bulk commodity prices. An extended period of gas over-supply in the US may lead to questions of value in the company's recently acquired shale gas business, with larger-than-expected write-downs a downside risk.

Model updated:20 February 2013

Running the numbers

Europe

United Kingdom

Metals & Mining

BHP Billiton Plc

Reuters: BILJ.J Bloomberg: BIL SJ

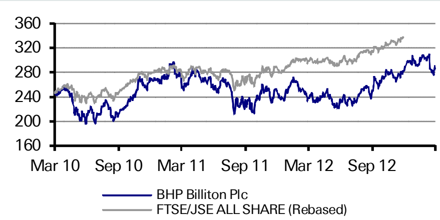
Buy

Price (8 Mar 13)	ZAR 285.12
Target Price	ZAR 325.00
52 Week range	ZAR 221.10 – 309.50
Market Cap (m)	ZARm 1,517,152
	USDm 167,042

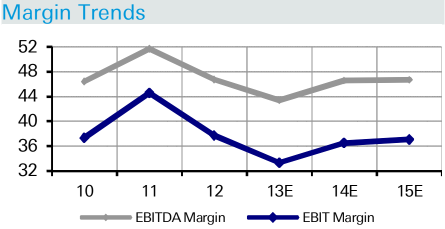
Company Profile

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

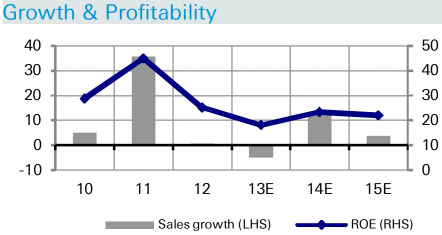
Price Performance



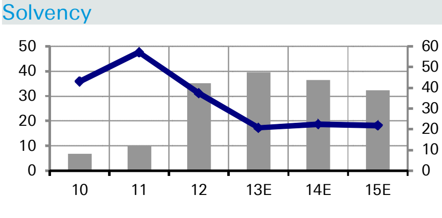
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (USD)	2.23	4.06	3.20	2.59	3.28	3.46
Reported EPS (USD)	2.27	4.42	2.88	2.32	3.28	3.46
DPS (USD)	0.87	1.01	1.12	1.15	1.19	1.23
BVPS (USD)	8.7	10.7	12.4	13.4	14.9	16.8
Weighted average shares (m)	5,565	5,321	5,321	5,321	5,321	5,321
Average market cap (USDm)	162,320	191,669	165,339	167,042	167,042	167,042
Enterprise value (USDm)	164,630	196,619	186,955	194,904	195,601	195,579
Valuation Metrics						
P/E (DB) (x)	13.1	8.9	9.7	12.1	9.6	9.1
P/E (Reported) (x)	12.8	8.1	10.8	13.5	9.6	9.1
P/BV (x)	3.00	3.67	2.32	2.33	2.11	1.87
FCF Yield (%)	5.4	10.4	4.9	3.4	4.4	4.9
Dividend Yield (%)	3.0	2.8	3.6	3.7	3.8	3.9
EV/Sales (x)	3.1	2.7	2.6	2.8	2.5	2.4
EV/EBITDA (x)	6.7	5.3	5.5	6.5	5.5	5.2
EV/EBIT (x)	8.3	6.1	6.9	8.5	7.0	6.6
Income Statement (USDm)						
Sales revenue	52,798	71,739	72,226	68,651	76,905	79,871
Gross profit	24,513	37,093	33,748	30,298	36,730	38,345
EBITDA	24,513	37,093	33,748	29,796	35,832	37,308
Depreciation	4,794	5,113	6,504	6,930	7,738	7,697
Amortisation	0	0	0	0	0	0
EBIT	19,719	31,980	27,244	22,866	28,094	29,611
Net interest income(expense)	-459	-561	-730	-1,107	-1,250	-1,354
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	312	-164	-3,486	-2,777	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	19,572	31,255	23,028	18,982	26,845	28,258
Income tax expense	6,563	7,309	7,490	6,418	9,128	9,610
Minorities	287	298	115	136	155	127
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	12,722	23,648	15,423	12,428	17,562	18,521
DB adjustments (including dilution)	-253	-1,964	1,700	1,445	0	0
DB Net profit	12,469	21,684	17,123	13,873	17,562	18,521
Cash Flow (USDm)						
Cash flow from operations	17,920	31,061	26,384	23,307	24,268	27,232
Net Capex	-9,191	-11,067	-18,226	-17,654	-16,980	-19,107
Free cash flow	8,729	19,994	8,158	5,653	7,289	8,125
Equity raised/(bought back)	12	-9,828	-62	8	0	0
Dividends paid	-4,618	-5,054	-5,877	-6,166	-6,362	-6,553
Net inc/(dec) in borrowings	-588	-799	9,007	8,836	2,200	2,500
Other investing/financing cash flows	-1,912	-6,685	-16,529	-4,502	-1,506	-1,454
Net cash flow	1,623	-2,372	-5,303	3,830	1,621	2,618
Change in working capital	*-2,115*	*461*	*-76*	*1,883*	*-3,266*	*-1,165*
Balance Sheet (USDm)						
Cash and other liquid assets	12,456	10,084	4,781	8,611	10,232	12,850
Tangible fixed assets	55,576	68,468	95,247	103,627	112,874	124,284
Goodwill/intangible assets	687	904	5,112	5,464	5,943	6,396
Associates/investments	1,802	1,866	3,148	2,318	2,318	2,318
Other assets	18,331	21,569	20,985	22,367	24,231	24,884
Total assets	88,852	102,891	129,273	142,387	155,598	170,732
Interest bearing debt	15,764	15,907	28,330	37,485	39,685	42,185
Other liabilities	23,759	29,229	33,858	32,046	35,346	37,895
Total liabilities	39,523	45,136	62,188	69,531	75,031	80,080
Shareholders' equity	48,525	56,762	65,870	71,551	79,143	89,131
Minorities	804	993	1,215	1,305	1,424	1,520
Total shareholders' equity	49,329	57,755	67,085	72,856	80,567	90,652
Net debt	*3,308*	*5,823*	*23,549*	*28,874*	*29,453*	*29,335*
Key Company Metrics						
Sales growth (%)	5.2	35.9	0.7	-4.9	12.0	3.9
DB EPS growth (%)	16.4	82.0	-21.0	-19.0	26.6	5.5
EBITDA Margin (%)	46.4	51.7	46.7	43.4	46.6	46.7
EBIT Margin (%)	37.3	44.6	37.7	33.3	36.5	37.1
Payout ratio (%)	38.1	22.7	38.6	49.2	36.1	35.2
ROE (%)	28.8	44.9	25.2	18.1	23.3	22.0
Capex/sales (%)	17.7	15.5	25.5	29.3	22.1	23.9
Capex/depreciation (x)	1.9	2.2	2.8	2.9	2.2	2.5
Net debt/equity (%)	6.7	10.1	35.1	39.6	36.6	32.4
Net interest cover (x)	43.0	57.0	37.3	20.7	22.5	21.9

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (8 March 2013): 16684c | Target price: 21500c | Rating: Buy

Exxaro Resources Ltd

Tim Clark

Business description: Exxaro, South Africa's premier BEE-owned and managed mining company, was created from Kumba Resources and Eyesizwe Mining. Exxaro's controlling shareholder, BEE Holdco, is in turn controlled by Sipho Nkosi's Eyesizwe Mining. Exxaro is the third largest South African coal producer with capacity of 45mtpa. Exxaro holds an interest in pigment and mineral sands through its 45% holding in Tronox and 26% direct stake in Tronox's South African Mining assets (KZN Sands, Namakwa). Exxaro also owns 20% of Sishen Iron Ore Company (SIOC), a world class iron ore asset based in the Northern Cape, owned (74%) and controlled by Kumba Iron Ore (Kumba) and in turn by Anglo.

Exxaro should also be able to offer itself as a preferred supplier to Eskom. Given the current expansion potential at Eskom, it looks well positioned for further growth, particularly in the Waterberg at Exxaro's Grootegeluk mine. Given its BEE status, Exxaro has acquired 6.3mtpa allocation at the expanded Richards Bay Coal Terminal (RBCT). Annual production is 42mt; 83% of which is sold to Eskom on various terms including two cost+ agreements and various coal mining inflation-linked contracts. Only 6-8% is exported; the balance is sold locally (ArcelorMittal, ferroalloys and Sasol). Upside for the business is project delivery (see below) and cost control below inflationary increases as well as sales of high value coking coals and other by-products not included in the Eskom contracts. Total export allocation is to be 6.3mtpa when the RBCT expansion is complete, but the Witbank/RBCT Spoornet COALlink expansion remains a constraint to realising this potential capacity.

Current projects are dominated by the R9.5bn Medupi project (a new power station near Grootegeluk requiring 15mtpa). Longer term growth is in the Waterberg (Eskom commercial coal) from various projects and in Australia at Moranbah South (hard coking coal with Anglo in Australia) as well as pigment and sands growth through Tronox. Exxaro is also in the feasibility stage of construction of a 2mtpa DSO iron ore mine in the Democratic Republic of Congo to be constructed at a cost of R3.5bn. This initial investment will offer a direct entry point into this important commodity and has significant potential longer term, with the possibility of development of a 10-20mt mine if iron ore markets remain constructive.

Drivers:

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

Outlook: We rate Exxaro Resources a Buy, primarily based on upside potential to our 12-month target price.

Exxaro is the cheapest of the South African diversified miners on the basis of both DCF and shorter term PE multiples. 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 (starting with Medupi, 14.3mt ramping up from 2014) and we anticipate these high-return projects will be the driver of value for Exxaro for years to come. Tronox is also performing at sub-optimal 75% capacity levels in pigment at present and is suffering from some accounting adjustments from the merger with Exxaro's mineral sands business.

We see pigment inventories falling through 1H13 to normal levels, after which capacity levels will increase driving profitability. **Buy**.

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

Risks: Downside risks include lower-than-expected heavy minerals, iron ore and coal prices, stronger-than-expected currencies including the A$ and rand vs the US$ as well as lower export coal volumes given a poor Transnet performance. Company-specific risks include the delivery of the project pipeline on time and budget, as well as realising benefit from the anticipated growth at Eskom.

Model updated:07 March 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

Exxaro Resources Ltd

Reuters: EXXJ.J | Bloomberg: EXX SJ

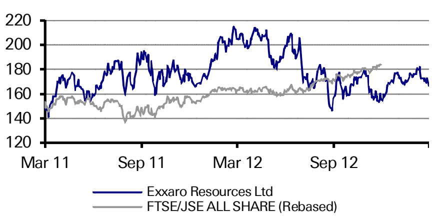
Buy

Price (8 Mar 13)	ZAR 166.84
Target Price	ZAR 215.00
52 Week range	ZAR 146.25 – 213.99
Market Cap (m)	ZARm 59,061
	USDm 6,503

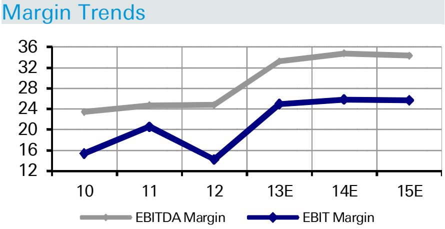
Company Profile

Exxaro is a diversified South African mining company with interests in coal, pigment, mineral sands and iron ore. It has exposure to iron ore through a 20% interest in Sishen Iron Ore Company and the Mayoko project in RoC. Exxaro is the fourth-largest South African coal producer with capacity of 45m tonnes pa and through its significant investment in Tronox is a global leader in pigment and titanium feedstock markets. As South Africa's largest black-controlled, diversified mining company, Exxaro has a strong domestic potential project pipeline.

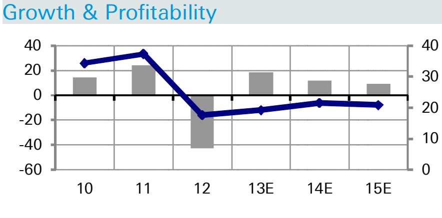
Price Performance



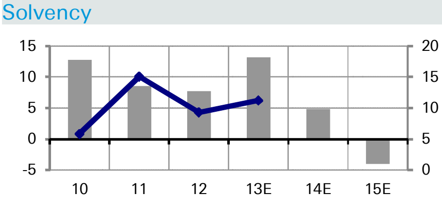
Margin Trends



Growth & Profitability



Solvency



Tim Clark
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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	14.41	20.69	13.97	16.74	21.78	24.48
Reported EPS (ZAR)	14.43	21.68	12.97	16.74	21.78	24.48
DPS (ZAR)	5.00	7.46	5.00	5.50	7.20	8.10
BVPS (ZAR)	48.7	65.9	80.4	92.6	108.1	124.8
Weighted average shares (m)	347	352	354	354	354	354
Average market cap (ZARm)	41,524	59,176	64,662	59,061	59,061	59,061
Enterprise value (ZARm)	38,466	54,897	47,001	42,637	37,665	31,108
Valuation Metrics						
P/E (DB) (x)	8.3	8.1	13.1	10.0	7.7	6.8
P/E (Reported) (x)	8.3	7.8	14.1	10.0	7.7	6.8
P/BV (x)	2.80	2.55	2.10	1.80	1.54	1.34
FCF Yield (%)	1.8	2.3	nm	nm	3.8	6.2
Dividend Yield (%)	4.2	4.4	2.7	3.3	4.3	4.9
EV/Sales (x)	2.2	2.6	3.8	2.9	2.3	1.7
EV/EBITDA (x)	9.6	10.4	15.5	8.8	6.7	5.1
EV/EBIT (x)	14.6	12.5	27.0	11.8	9.0	6.8
Income Statement (ZARm)						
Sales revenue	17,155	21,305	12,229	14,515	16,261	17,806
Gross profit	4,016	5,268	3,028	4,825	5,657	6,107
EBITDA	4,016	5,268	3,028	4,825	5,657	6,107
Depreciation	1,380	887	1,290	1,202	1,456	1,539
Amortisation	0	0	0	0	0	0
EBIT	2,636	4,381	1,738	3,623	4,200	4,568
Net interest income(expense)	-455	-291	-187	-323	0	0
Associates/affiliates	3,719	4,668	3,132	3,719	4,957	5,693
Exceptionals/extraordinaries	0	0	473	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	5,900	8,758	5,156	7,019	9,158	10,261
Income tax expense	665	1,110	537	1,044	1,364	1,509
Minorities	27	-5	15	32	63	61
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,208	7,653	4,604	5,943	7,731	8,691
DB adjustments (including dilution)	-5	-351	354	0	0	0
DB Net profit	5,203	7,302	4,958	5,943	7,731	8,691
Cash Flow (ZARm)						
Cash flow from operations	3,420	5,907	5,796	2,742	4,175	4,561
Net Capex	-2,677	-4,549	-7,685	-6,091	-1,913	-915
Free cash flow	743	1,358	-1,889	-3,349	2,262	3,646
Equity raised/(bought back)	29	15	24	0	0	0
Dividends paid	-1,056	-2,123	-4,783	-1,575	-2,184	-2,721
Net inc/(dec) in borrowings	-304	-620	369	0	0	0
Other investing/financing cash flows	1,705	3,237	638	2,748	2,433	2,738
Net cash flow	1,117	1,867	-5,641	-2,176	2,511	3,664
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,140	1,065	553	377	2,888	6,552
Tangible fixed assets	13,305	10,695	15,881	20,770	21,227	20,603
Goodwill/intangible assets	121	194	1,442	1,442	1,442	1,442
Associates/investments	5,255	6,302	19,881	20,852	23,377	26,331
Other assets	7,788	18,664	3,849	4,329	4,831	5,175
Total assets	28,609	36,920	41,606	47,771	53,765	60,104
Interest bearing debt	4,360	3,068	2,761	4,761	4,761	4,761
Other liabilities	6,835	10,244	10,039	9,804	10,187	10,495
Total liabilities	11,195	13,312	12,800	14,565	14,948	15,256
Shareholders' equity	17,437	23,588	28,794	33,162	38,709	44,679
Minorities	-23	20	12	44	108	169
Total shareholders' equity	17,414	23,608	28,806	33,206	38,817	44,847
Net debt	*2,220*	*2,003*	*2,208*	*4,384*	*1,873*	*-1,791*
Key Company Metrics						
Sales growth (%)	14.3	24.2	-42.6	18.7	12.0	9.5
DB EPS growth (%)	105.3	43.5	-32.5	19.9	30.1	12.4
EBITDA Margin (%)	23.4	24.7	24.8	33.2	34.8	34.3
EBIT Margin (%)	15.4	20.6	14.2	25.0	25.8	25.7
Payout ratio (%)	33.3	34.3	38.4	32.8	33.0	33.0
ROE (%)	34.3	37.3	17.6	19.2	21.5	20.8
Capex/sales (%)	15.6	23.1	62.8	42.0	11.8	5.1
Capex/depreciation (x)	1.9	5.6	6.0	5.1	1.3	0.6
Net debt/equity (%)	12.7	8.5	7.7	13.2	4.8	-4.0
Net interest cover (x)	5.8	15.1	9.3	11.2	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Mining | Price (8 March 2013): 57115c | Target price: 43000 | Rating: Sell

Kumba Iron Ore Ltd

Tim Clark

Business description: Kumba Iron Ore (Kumba) comprises a 74% holding in Sishen Iron Ore Company (SIOC), the fifth-largest listed quality seaborne iron ore producer globally. Kumba has an impressive potential growth pipeline, limited by Transnet's Sishen/Saldanha (861km) rail link. Capacity is currently 49mt; 5mt (10%) being sold to ArcelorMittal (subject to offtake requirements and currently in dispute). The Kolomela project recently ramped up and has reached its nameplate 9mtpa capacity. Longer term expansions are dependent on an expansion of the Orex rail line from 60mt (current expanded capacity approved and in ramp-up) to 80-90mt or the approval of the Zandrivierspoort project (more than likely domestic). We expect announcements of Sishen/Kolomela expansions with the Orex line in late 2013 or 2014.

Anglo controls SIOC through its 70%-held subsidiary, Kumba. Its economic interest in SIOC is only 52%, however. Given Anglo's stated objective to make iron ore the cornerstone of its business, 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. In 2012 Anglo paid an average price of R519ps for an additional 4.5% We believe Anglo will further increase its exposure in the long term by diluting down (given capex requirements for the expansions) or acquiring Exxaro's 20% SIOC stake when the requirements of the Mining Charter have been met in 2014 and the terms for the BEE deal met in 2016.

Kumba has sold between 60-70% of export volumes to China recently and is highly exposed to Chinese steel demand. At present we are forecasting prices to fall towards an equilibrium level of US$115/t as Australian and Brazilian expansions are delivered.

Kumba is valued on the basis of a dividend yield and currently pays dividends on the basis of a 1.2x cover. We see this cover level as sustainable and that dividends will now fluctuate with profitability.

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.
- Timing of further rail capacity increases.

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

Outlook: Kumba has delivered 100% export volume growth since 2006 in delivery of the SEP (13mtpa) and Kolomela (9mtpa at steady state in 2013) projects). Further growth is limited by Transnet's expansion of the rail link between Sishen and Saldanha, which is unlikely to be delivered before 2017, in our view. Of current production capacity of 49mt exports contribute 44mt and 5mt is sold on a cost +3% basis to ArcelorMittal SA, though the terms of this arrangement are in dispute. The 10-year strategy is to increase production to 70mtpa. Anglo American controls SIOC through its 69.7%-held subsidiary Kumba. Kumba has limited growth after 2013e and has guided to Sishen costs rising at 10% pa above inflation in 2013-15, we thus see margin pressure at present. In addition the current dividend cover of 1.2x results in a yield that is less attractive than recent levels. Downside to our valuation, and the likelihood of margin pressure limiting dividends lead to our Sell recommendation.

Valuation: We value Kumba on a multiples basis as the stock trades in line with short-term earnings and the spot ZAR/USD fob iron ore price. We value Kumba in line with the long-term global iron ore FY2 sector average multiple of 12.0x. Kumba has limited growth but pays out earnings based on our forecast of a 1.2x cover. Kumba trades well in excess of its long-term DCF valuation (1.6x).

Risks: Upside risks include a weaker-than-assumed ZAR/USD exchange rate and higher than expected iron ore prices, railings and production. Specific risks include the potential for a positive outcome from the dispute with ArcelorMittal SA and an offer from Anglo American for the minorities.

Model updated:12 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Mining

Kumba Iron Ore Ltd

Reuters: KIOJ.J Bloomberg: KIO SJ

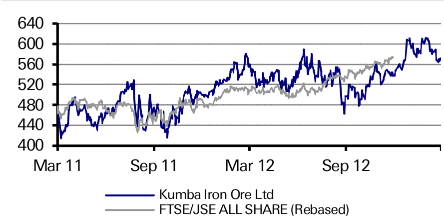
Sell

Price (8 Mar 13)	ZAR 571.15
Target Price	ZAR 430.00
52 Week range	ZAR 462.66 – 611.58
Market Cap (m)	ZARm 183,423
	USDm 20,195

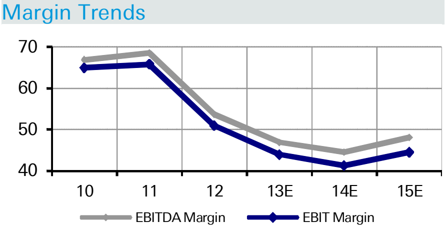
Company Profile

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

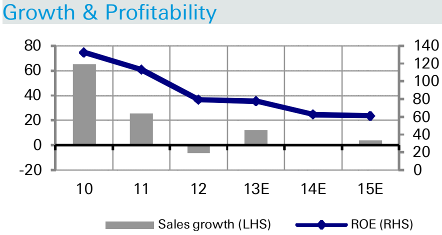
Price Performance



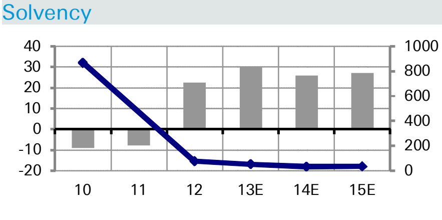
Margin Trends



Growth & Profitability



Solvency



Tim Clark
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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	44.52	52.97	37.96	38.86	36.23	40.65
Reported EPS (ZAR)	44.52	52.97	37.96	38.86	36.23	40.65
DPS (ZAR)	34.50	44.30	31.70	32.40	30.20	33.90
BVPS (ZAR)	45.1	49.2	46.5	53.7	62.0	71.1
Weighted average shares (m)	320	321	321	321	321	321
Average market cap (ZARm)	114,296	150,830	171,397	183,423	183,423	183,423
Enterprise value (ZARm)	116,204	153,304	179,356	193,606	193,756	195,231
Valuation Metrics						
P/E (DB) (x)	8.0	8.9	14.1	14.7	15.8	14.1
P/E (Reported) (x)	8.0	8.9	14.1	14.7	15.8	14.1
P/BV (x)	9.41	10.17	12.24	10.63	9.22	8.03
FCF Yield (%)	11.8	13.0	7.8	6.5	6.8	7.0
Dividend Yield (%)	9.7	9.4	5.9	5.7	5.3	5.9
EV/Sales (x)	3.0	3.2	3.9	3.8	3.8	3.7
EV/EBITDA (x)	4.5	4.6	7.4	8.1	8.5	7.7
EV/EBIT (x)	4.6	4.8	7.7	8.7	9.2	8.3
Income Statement (ZARm)						
Sales revenue	38,704	48,554	45,446	50,873	51,082	53,047
Gross profit	25,896	33,279	24,398	23,855	22,758	25,513
EBITDA	25,896	33,279	24,398	23,855	22,758	25,513
Depreciation	765	1,312	1,245	1,495	1,656	1,900
Amortisation	0	0	0	0	0	0
EBIT	25,131	31,967	23,153	22,360	21,102	23,612
Net interest income(expense)	-29	92	-303	-425	-654	-668
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	25,102	32,059	22,850	21,935	20,448	22,944
Income tax expense	6,813	9,760	6,750	5,484	5,112	5,736
Minorities	3,966	5,256	3,888	3,948	3,681	4,130
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	14,323	17,043	12,212	12,503	11,655	13,078
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	14,323	17,043	12,212	12,503	11,655	13,078
Cash Flow (ZARm)						
Cash flow from operations	18,241	25,500	18,728	16,795	16,336	19,011
Net Capex	-4,723	-5,849	-5,399	-4,903	-3,803	-6,225
Free cash flow	13,518	19,651	13,329	11,892	12,533	12,786
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-6,714	-19,606	-18,006	-14,059	-12,414	-13,971
Net inc/(dec) in borrowings	-2,943	0	2,678	0	0	0
Other investing/financing cash flows	-10	-2	-19	0	0	0
Net cash flow	3,851	43	-2,018	-2,166	119	-1,185
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	4,855	4,774	1,527	-639	-520	-1,705
Tangible fixed assets	15,866	20,878	24,765	28,173	30,319	34,644
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	460	702	728	728	728	728
Other assets	6,694	8,059	9,516	11,551	12,456	12,301
Total assets	27,875	34,413	36,536	39,813	42,984	45,968
Interest bearing debt	3,185	3,191	5,869	5,869	5,869	5,869
Other liabilities	6,314	10,630	11,358	12,242	12,491	12,239
Total liabilities	9,499	13,821	17,227	18,111	18,360	18,108
Shareholders' equity	14,338	15,833	14,964	17,298	19,951	22,898
Minorities	4,038	4,759	4,345	4,403	4,672	4,963
Total shareholders' equity	18,376	20,592	19,309	21,702	24,624	27,861
Net debt	*-1,670*	*-1,583*	*4,342*	*6,508*	*6,389*	*7,574*
Key Company Metrics						
Sales growth (%)	65.3	25.4	-6.4	11.9	0.4	3.8
DB EPS growth (%)	104.3	19.0	-28.3	2.4	-6.8	12.2
EBITDA Margin (%)	66.9	68.5	53.7	46.9	44.6	48.1
EBIT Margin (%)	64.9	65.8	50.9	44.0	41.3	44.5
Payout ratio (%)	77.1	83.4	83.4	83.2	83.2	83.2
ROE (%)	132.5	113.0	79.3	77.5	62.6	61.0
Capex/sales (%)	12.2	12.0	11.9	9.6	7.4	11.7
Capex/depreciation (x)	6.2	4.5	4.3	3.3	2.3	3.3
Net debt/equity (%)	-9.1	-7.7	22.5	30.0	25.9	27.2
Net interest cover (x)	866.6	nm	76.4	52.7	32.3	35.3

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (8 March 2013): 22355c | Target price: 26000c | Rating: Hold

AngloGold Ashanti Ltd

Anna Mulholland, CFA

Business description: AngloGold Ashanti is the most diversified of the South African listed gold miners, with operations in South Africa, Tanzania, Ghana, Mali, Guinea, the USA, Brazil, Argentina and Australia. Currently, around 25% of the group attributable production comes from South Africa, and AngloGold is therefore less geographically exposed to the region relative to its South African gold mining peers, Harmony and Gold Fields. On the whole, AngloGold is a lower-cost producer than its peers, and falls into the third quartile of the global gold mining cost curve. This results in the company having more robust operating margins in a constant currency and gold price environment. The company is investing in new projects outside South Africa to maintain its diversification. Current projects in the pipeline include Kibali in the DRC, Tropicana in Australia and Gramalote in Colombia. AngloGold is cutting non-essential corporate and exploration costs and has placed a number of its potential projects under review with the aim of cutting capex. In addition, the company has initiated a review of its mines and has so far announced that its mine in Namibia, Navachab, is up for sale.

Drivers: Key value drivers for AngloGold include:

- The gold price;
- Production growth;
- Wage and electricity cost inflation.

The following sensitivity applies to our FY13e earnings expectations: a 10% increase in the US$ gold price would result in a c.34% increase in EPS.

Outlook: We rate AngloGold Ashanti **Hold** due to limited upside to our valuation. Our target price reflects a robust gold price trend, production growth, and solid unit cost control. We incorporate over US$2bn of capex pa in our model and assume that AngloGold continues to pay a quarterly dividend. All of these factors assume near-perfect execution, in our view, of the company's current plan for production growth and cost control. In addition, AngloGold is conducting a review of its six South African mines post the 2H12 strike interruptions and thus the future production profile and capex plans of the group are uncertain. As such, we see few incremental positive catalysts for earnings or cash flow upgrades in the medium term.

Valuation: We value AngloGold based on a sum-of-the-parts DCF model of individual operations and projects, in line with the methodology used across our South African resources coverage. We apply a WACC of 11.1% and a 1x multiple to our DCF-derived net asset value for the company. We believe this is a conservative but sensible approach given our confidence that our therefore long-term gold price assumption and long-term ZAR/USD rate reflect reasonable incentive pricing for the projects we expect AngloGold to develop for IRRs of 9-15% (on a real post-tax basis). We derive our one-year forward target price from rolling our DCF forward at the cost of equity (11.7%) less the expected dividend yield.

Risks: Upside risks to our target price being achieved include higher-than-expected production growth leading to lower-than-expected unit costs. Higher-than-expected gold prices and a weaker-than-expected ZAR/USD rate are also upside risks. Downside risks to our target price being achieved include further interruptions to production from labour unrest in South Africa and slower-than-expected improvement in AngloGold's key Continental Africa mines, particularly Obuasi, which have underperformed recently. Lower-than-expected gold prices; a stronger-than-expected ZAR/USD rate; and higher-than-expected mining inflation and costs are also downside risks to our target price.

Deutsche Securities (Pty) Ltd

Model updated:21 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Gold

AngloGold Ashanti

Reuters: ANGJ.J Bloomberg: ANG SJ

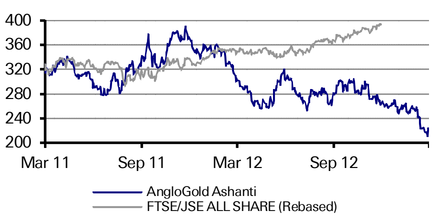
Hold

Price (8 Mar 13)	ZAR 223.55
Target Price	ZAR 260.00
52 Week range	ZAR 210.70 – 319.50
Market Cap (m)	ZARm 86,386
	USDm 9,511

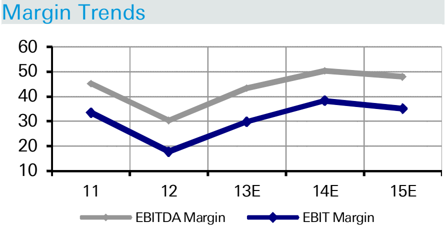
Company Profile

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

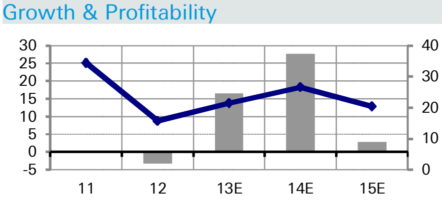
Price Performance



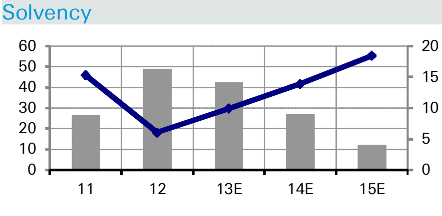
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013E	2014E	2015E
Financial Summary					
DB EPS (USD)	3.23	1.48	3.56	5.80	5.51
Reported EPS (USD)	3.69	2.13	3.56	5.80	5.51
DPS (USD)	0.13	0.37	0.23	0.47	0.49
BVPS (USD)	13.0	14.1	19.1	24.5	29.5
Weighted average shares (m)	386	386	386	386	386
Average market cap (USDm)	17,372	13,767	9,511	9,511	9,511
Enterprise value (USDm)	18,183	15,420	11,495	10,805	9,544
Valuation Metrics					
P/E (DB) (x)	13.9	24.1	6.9	4.2	4.5
P/E (Reported) (x)	12.2	16.7	6.9	4.2	4.5
P/BV (x)	3.26	2.20	1.29	1.01	0.83
FCF Yield (%)	7.4	0.2	nm	11.1	16.8
Dividend Yield (%)	0.3	1.0	0.9	1.9	2.0
EV/Sales (x)	2.8	2.4	1.6	1.1	1.0
EV/EBITDA (x)	6.1	8.0	3.6	2.3	2.1
EV/EBIT (x)	8.3	13.7	5.2	3.0	2.8
Income Statement (USDm)					
Sales revenue	6,570	6,352	7,398	9,443	9,703
Gross profit	3,394	3,089	3,930	5,673	5,598
EBITDA	2,972	1,925	3,210	4,754	4,654
Depreciation	770	797	1,004	1,133	1,250
Amortisation	0	0	0	0	0
EBIT	2,202	1,128	2,206	3,621	3,404
Net interest income(expense)	-144	-187	-223	-261	-185
Associates/affiliates	73	-28	119	111	98
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	190	251	0	0	0
Profit before tax	2,248	1,192	1,983	3,359	3,220
Income tax expense	723	321	694	1,176	1,127
Minorities	46	20	34	51	63
Other post-tax income/(expense)	0	0	0	0	0
Net profit	1,552	823	1,375	2,243	2,128
DB adjustments (including dilution)	-190	-251	0	0	0
DB Net profit	1,362	572	1,375	2,243	2,128
Cash Flow (USDm)					
Cash flow from operations	2,655	1,801	1,391	3,355	3,541
Net Capex	-1,374	-1,779	-2,142	-2,302	-1,941
Free cash flow	1,281	22	-751	1,052	1,600
Equity raised/(bought back)	9	1	0	0	0
Dividends paid	-170	-230	-124	-199	-254
Net inc/(dec) in borrowings	-158	1,215	0	0	0
Other investing/financing cash flows	-436	-1,561	-223	-261	-185
Net cash flow	526	-553	-1,099	592	1,161
Change in working capital	*-169*	*-219*	*-1,263*	*-266*	*29*
Balance Sheet (USDm)					
Cash and other liquid assets	1,112	892	-207	385	1,546
Tangible fixed assets	6,525	7,648	8,786	9,955	10,647
Goodwill/intangible assets	210	315	315	315	315
Associates/investments	702	1,060	1,179	1,290	1,388
Other assets	2,253	2,780	4,214	4,520	4,588
Total assets	10,802	12,695	14,288	16,466	18,485
Interest bearing debt	2,488	3,583	2,936	2,936	2,936
Other liabilities	3,148	3,643	3,953	4,035	4,117
Total liabilities	5,636	7,226	6,889	6,971	7,053
Shareholders' equity	5,029	5,447	7,379	9,462	11,401
Minorities	137	22	20	33	32
Total shareholders' equity	5,166	5,469	7,400	9,495	11,432
Net debt	*1,376*	*2,691*	*3,143*	*2,551*	*1,390*
Key Company Metrics					
Sales growth (%)	nm	-3.3	16.5	27.6	2.8
DB EPS growth (%)	na	-54.2	140.3	63.2	-5.1
EBITDA Margin (%)	45.2	30.3	43.4	50.3	48.0
EBIT Margin (%)	33.5	17.8	29.8	38.3	35.1
Payout ratio (%)	3.2	17.4	6.6	8.1	9.0
ROE (%)	34.4	15.7	21.4	26.6	20.4
Capex/sales (%)	21.2	28.1	28.9	24.4	20.0
Capex/depreciation (x)	1.8	2.2	2.1	2.0	1.6
Net debt/equity (%)	26.6	49.2	42.5	26.9	12.2
Net interest cover (x)	15.3	6.0	9.9	13.9	18.4

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (8 March 2013): 7250c | Target price: 7500c | Rating: Sell

Gold Fields Ltd

Anna Mulholland, CFA

Business description: Gold Fields is a gold miner with operations in South Africa, Ghana, Peru and Australia, and with six major projects around the world. The South Deep mine, one of Gold Fields' larger mines, is now the company's sole operating gold mine in South Africa after Gold Fields spun-out its other two South Africa-based mines, KDC and Beatrix, in a 1-for-1 issuance of shares in Sibanye Gold Ltd, in 1Q13. Gold Fields has stepped away from providing specific production growth targets but its strategy is to grow the company, largely through development of its project pipeline and additional exploration, increasing the geographical diversification of its portfolio of assets in the process. Gold Fields aims to maintain a 20% operating margin post capex (NCE margin) on its existing assets in the short-term and to increase this to 25% in the medium-term.

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

Gold Fields pays out 25-35% of its normalised earnings to shareholders and the company seeks to remain one of the highest dividend payers in the industry. We see a risk to the level of dividends if Gold Fields implements its full project pipeline – at present, project capex is at low levels relative to peers.

Drivers: Key value drivers for Gold Fields include:

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

The following sensitivities apply to our FY13 earnings expectations (year to June): A 10% weakening in the ZAR/USD exchange rate would result in a c.37% increase in rand EPS. A 10% increase in the US$ gold price would result in a c.37% increase in rand EPS.

Outlook: 2013 is likely a pivotal year for Gold Fields as it spins out its mature South African mines into a newly listed vehicle (Sibanye) in 1Q13 and then establishes a revised strategy for its remaining assets. We expect a continuation of Gold Fields' recent move away from greenfields, capex intensive projects, towards shorter-term brownfields and near-mine exploration projects. If continued, this is likely to result in the group abandoning its long-held target for 5moz in production or development by 2015 and the approval/roll-out of the company's six major projects is likely to be affected as a result, in our view. Post the Sibanye spin-off, Gold Fields' intended use of cash flow, ie for production growth or to return to shareholders via higher dividends, is uncertain at present, thus Gold Fields' current sector-leading dividend yield could be at risk. Downside to our fair value leads us to rate Gold Fields Sell.

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

Risks: Upside risks to our view include current operations outperforming our expectations, in particular the group's major growth project in South Africa (South Deep); sooner-than-expected approval and development of capital projects, higher-than-expected gold prices and a weaker-than-expected ZAR/USD rate.

Deutsche Securities (Pty) Ltd

Model updated:14 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Gold

Gold Fields

Reuters: GFIJ.J | Bloomberg: GFI SJ

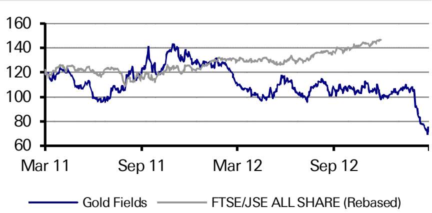
Sell

Price (8 Mar 13)	ZAR 72.50
Target Price	ZAR 75.00
52 Week range	ZAR 69.45 – 117.45
Market Cap (m)	ZARm 53,045
	USDm 5,840

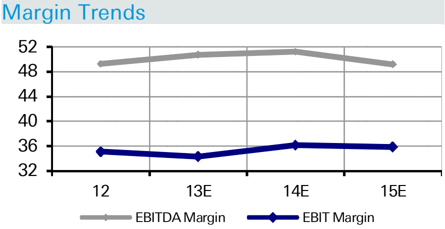
Company Profile

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

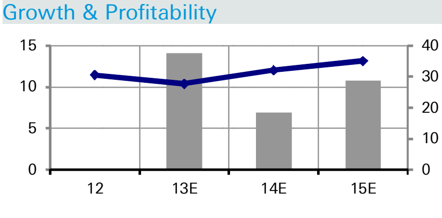
Price Performance



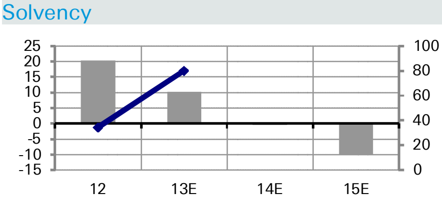
Margin Trends



Growth & Profitability



Solvency



Anna Mulholland, CFA
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Fiscal year end 31-Dec	2012	2013E	2014E	2015E
Financial Summary				
DB EPS (ZAR)	7.76	7.20	8.56	9.57
Reported EPS (ZAR)	7.76	7.20	8.56	9.57
DPS (ZAR)	2.35	2.40	2.80	3.10
BVPS (ZAR)	70.5	75.1	81.0	87.7
Weighted average shares (m)	729	732	732	732
Average market cap (ZARm)	79,625	53,045	53,045	53,045
Enterprise value (ZARm)	89,506	50,255	44,608	38,710
Valuation Metrics				
P/E (DB) (x)	14.1	10.1	8.5	7.6
P/E (Reported) (x)	14.1	10.1	8.5	7.6
P/BV (x)	1.47	0.97	0.89	0.83
FCF Yield (%)	2.1	11.8	15.2	16.1
Dividend Yield (%)	2.2	3.3	3.9	4.3
EV/Sales (x)	3.1	1.5	1.3	1.0
EV/EBITDA (x)	6.3	3.0	2.5	2.0
EV/EBIT (x)	8.8	4.4	3.5	2.8
Income Statement (ZARm)				
Sales revenue	28,916	32,986	35,280	39,071
Gross profit	15,296	18,033	19,458	20,760
EBITDA	14,243	16,741	18,076	19,230
Depreciation	4,094	5,416	5,320	5,211
Amortisation	0	0	0	0
EBIT	10,149	11,325	12,756	14,019
Net interest income(expense)	-295	-142	0	0
Associates/affiliates	-407	-523	-586	-644
Exceptionals/extraordinaries	-1,483	-262	-262	-262
Other pre-tax income/(expense)	-1,467	-1,853	-1,938	-2,097
Profit before tax	6,905	9,068	10,557	11,660
Income tax expense	3,718	2,720	3,167	3,498
Minorities	273	556	539	514
Other post-tax income/(expense)	3,152	0	0	0
Net profit	5,658	5,269	6,264	7,004
DB adjustments (including dilution)	3,446	2,527	2,706	2,956
DB Net profit	9,104	7,796	8,970	9,960
Cash Flow (ZARm)				
Cash flow from operations	11,807	11,077	12,191	12,871
Net Capex	-10,146	-4,793	-4,108	-4,344
Free cash flow	1,662	6,284	8,082	8,526
Equity raised/(bought back)	16	0	0	0
Dividends paid	-2,943	-1,750	-1,896	-2,114
Net inc/(dec) in borrowings	-394	0	0	0
Other investing/financing cash flows	4,363	0	0	0
Net cash flow	2,704	4,534	6,187	6,412
Change in working capital	*435*	*-184*	*29*	*-14*
Balance Sheet (ZARm)				
Cash and other liquid assets	5,196	10,153	16,339	22,751
Tangible fixed assets	53,789	53,166	51,954	51,088
Goodwill/intangible assets	4,459	4,459	4,459	4,459
Associates/investments	2,689	10,958	10,958	10,958
Other assets	17,090	6,310	6,634	7,316
Total assets	83,222	85,046	90,345	96,572
Interest bearing debt	16,016	16,016	16,016	16,016
Other liabilities	14,049	11,797	12,189	13,013
Total liabilities	30,065	27,813	28,204	29,028
Shareholders' equity	51,408	54,927	59,295	64,185
Minorities	1,750	2,305	2,845	3,359
Total shareholders' equity	53,157	57,232	62,140	67,544
Net debt	*10,820*	*5,863*	*-324*	*-6,736*
Key Company Metrics				
Sales growth (%)	nm	14.1	7.0	10.7
DB EPS growth (%)	na	-7.2	18.9	11.8
EBITDA Margin (%)	49.3	50.8	51.2	49.2
EBIT Margin (%)	35.1	34.3	36.2	35.9
Payout ratio (%)	30.3	33.3	32.7	32.4
ROE (%)	30.5	27.7	32.1	35.1
Capex/sales (%)	35.1	14.5	11.6	11.1
Capex/depreciation (x)	2.5	0.9	0.8	0.8
Net debt/equity (%)	20.4	10.2	-0.5	-10.0
Net interest cover (x)	34.4	79.8	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Gold | Price (8 March 2013): 5635c | Target price: 10000c | Rating: Buy

Harmony Gold Mining Co Ltd

Anna Mulholland, CFA

Business description: Harmony Gold produces around 1.2m ounces of gold each year from a portfolio of 10 mines in South Africa, plus surface operations and one mine in Papua New Guinea (PNG). The group aims to expand its production to 1.7m ounces by FY15 (year to June). Harmony has a 50% share in the Morobe Mining Joint Venture with Newcrest Mining – the JV is developing the Wafi-Golpu project in Papua New Guinea.

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

Wafi-Golpu has yielded positive drill results to date, with the resource measured to be 1bnt. The current concept for the project is to build a block-cave mining operation with an average annual production level (first 15 years) of 400koz gold and 250kt copper, and cash costs in the lowest quartile. The high-grade, low-cost mining potential of this deposit could prompt consolidation interest for other companies seeking exposure to Wafi-Golpu. This attention could come from either gold miners seeking low-cost gold production or, more likely, in our opinion, from a diversified miner seeking access to low-cost, relatively high-grade copper production.

Drivers: Key value drivers for Harmony include:

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

The following sensitivities apply to our FY13 earnings expectations (year to June): A 10% weakening in the ZAR/USD exchange rate would result in a c.24% increase in rand EPS. A 10% increase in the US$ gold price would result in a c.59% increase in rand EPS.

Outlook: We rate Harmony **Buy** based on the upside implied by our valuation. The company aims to increase its margins and profitability by developing new lower-cost underground mines in South Africa (Doornkop and Phakisa) and investing in PNG. In particular, the company's 50%-owned Golpu project in PNG has yielded positive drill results and work is advancing towards a Feasibility Study. The Golpu resource is measured to be 1bnt and at steady state the mine will be a large gold and copper producer with costs in the lowest quartile of the gold cost curve.

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

Risks: Downside risks include slippage in Harmony's strategy of targeting lower-cost South African ounces and the build-up of the PNG projects. Harmony is highly exposed to a rising inflationary environment in South Africa and as a result, its operating margins may come under pressure before its South African exposure is reduced. Grade management and sustainability of any grade improvements is uncertain. With regard to PNG, risks include the prospect of slippage in delivering the Golpu project on time and on budget; higher wage inflation, which would pressure margins; a change in government, which could mean unfavourable changes to tax treatment or licensing regime for mining projects; and logistics issues at the Golpu project, specifically related to infrastructure. Other downside risks are lower-than-expected gold prices and a weaker-than-expected ZAR/USD exchange rate.

Model updated:04 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Gold

Harmony

Reuters: HARJ.J Bloomberg: HAR SJ

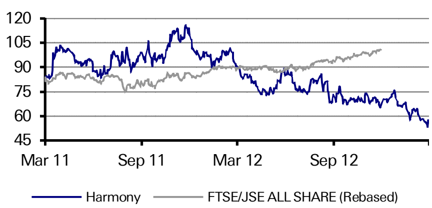
Buy

Price (8 Mar 13)	ZAR 56.35
Target Price	ZAR 100.00
52 Week range	ZAR 53.40 – 90.00
Market Cap (m)	ZARm 24,304
	USDm 2,676

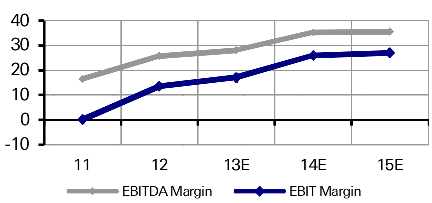
Company Profile

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

Price Performance

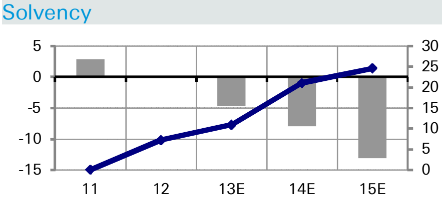


Margin Trends



Growth & Profitability

Solvency



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Fiscal year end 30-Jun	2011	2012	2013E	2014E	2015E
Financial Summary					
DB EPS (ZAR)	0.24	7.16	5.47	10.25	12.03
Reported EPS (ZAR)	1.47	5.99	5.47	10.25	12.03
DPS (ZAR)	0.60	0.90	1.10	0.70	0.00
BVPS (ZAR)	69.9	78.9	84.4	94.0	105.4
Weighted average shares (m)	431	431	431	431	431
Average market cap (ZARm)	36,017	40,165	24,304	24,304	24,304
Enterprise value (ZARm)	36,698	40,063	22,442	20,910	18,168
Valuation Metrics					
P/E (DB) (x)	352.0	13.0	10.3	5.5	4.7
P/E (Reported) (x)	56.7	15.5	10.3	5.5	4.7
P/BV (x)	1.29	0.97	0.67	0.60	0.53
FCF Yield (%)	nm	2.7	4.8	7.4	12.5
Dividend Yield (%)	0.7	1.0	2.0	1.2	0.0
EV/Sales (x)	2.9	2.6	1.2	0.9	0.7
EV/EBITDA (x)	17.9	10.2	4.4	2.4	1.9
EV/EBIT (x)	nm	19.5	7.3	3.3	2.5
Income Statement (ZARm)					
Sales revenue	12,445	15,169	18,064	24,270	27,251
Gross profit	2,870	4,893	6,267	9,864	11,086
EBITDA	2,055	3,919	5,079	8,564	9,703
Depreciation	1,776	1,921	1,988	2,252	2,325
Amortisation	264	-60	0	0	0
EBIT	15	2,058	3,091	6,311	7,377
Net interest income(expense)	-288	-286	-283	-300	-300
Associates/affiliates	-51	0	0	0	0
Exceptionals/extraordinaries	319	61	242	0	0
Other pre-tax income/(expense)	140	97	129	129	129
Profit before tax	135	1,930	3,179	6,140	7,206
Income tax expense	-480	-63	819	1,719	2,018
Minorities	0	0	0	0	0
Other post-tax income/(expense)	20	592	0	0	0
Net profit	635	2,585	2,360	4,421	5,189
DB adjustments (including dilution)	-533	503	0	0	0
DB Net profit	102	3,088	2,360	4,421	5,189
Cash Flow (ZARm)					
Cash flow from operations	2,379	4,213	4,960	6,641	7,496
Net Capex	-3,110	-3,139	-3,795	-4,850	-4,452
Free cash flow	-731	1,074	1,166	1,790	3,044
Equity raised/(bought back)	44	26	0	0	0
Dividends paid	-214	-431	-434	-259	-302
Net inc/(dec) in borrowings	379	195	505	0	0
Other investing/financing cash flows	445	216	1,067	0	0
Net cash flow	-77	1,080	2,304	1,532	2,742
Change in working capital	*345*	*-330*	*128*	*-176*	*-68*
Balance Sheet (ZARm)					
Cash and other liquid assets	693	1,773	4,077	5,608	8,351
Tangible fixed assets	31,221	32,853	33,587	36,184	38,311
Goodwill/intangible assets	2,170	2,196	2,192	2,192	2,192
Associates/investments	185	146	159	159	159
Other assets	4,541	6,320	6,918	7,589	7,925
Total assets	38,810	43,288	46,932	51,733	56,937
Interest bearing debt	1,559	1,816	2,373	2,373	2,373
Other liabilities	6,976	7,455	8,160	8,797	9,115
Total liabilities	8,535	9,271	10,533	11,170	11,488
Shareholders' equity	30,160	34,022	36,401	40,563	45,449
Minorities	0	0	0	0	0
Total shareholders' equity	30,160	34,022	36,401	40,563	45,449
Net debt	*866*	*43*	*-1,704*	*-3,235*	*-5,978*
Key Company Metrics					
Sales growth (%)	nm	21.9	19.1	34.4	12.3
DB EPS growth (%)	na	2,917.6	-23.6	87.3	17.4
EBITDA Margin (%)	16.5	25.8	28.1	35.3	35.6
EBIT Margin (%)	0.1	13.6	17.1	26.0	27.1
Payout ratio (%)	40.8	15.0	20.1	6.8	0.0
ROE (%)	2.4	9.6	8.7	16.1	18.6
Capex/sales (%)	25.0	20.7	21.0	20.0	16.3
Capex/depreciation (x)	1.8	1.6	1.9	2.2	1.9
Net debt/equity (%)	2.9	0.1	-4.7	-8.0	-13.2
Net interest cover (x)	0.1	7.2	10.9	21.0	24.6

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (8 March 2013): 41551c | Target price: 50000c | Rating: Hold

Anglo American Platinum Ltd

Anna Mulholland, CFA

Business description: Anglo American Platinum (Amplats) is the world's largest platinum miner. As part of its recently announced portfolio review, the group has set its annual targeted output at between 2.1-2.3moz refined platinum. This is from seven wholly-owned mines (one of which, Union, is up for sale), and four Joint Venture mines, supplemented by purchased concentrate from third parties and associates. Anglo American owns 79.6% of Amplats shares, with the remainder as free float on the Johannesburg Stock Exchange.

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

Amplats' main competitors include Impala (total platinum production of around 1.3m ounces) and Lonmin (total platinum production of around 0.75m ounces). The industry is highly consolidated with major barriers to entry in the form of smelting and refining technology (and capital costs) and a lack of alternate ore sources. Customers buy the vast majority of their metal through volume contracts with pricing based on the relatively illiquid spot market. While platinum group metals (PGMs) can be substituted amongst each other, there are few, if any, viable substitute outside the PGM family in autocatalysis (PGMs' primary market), although given the relatively high pricing environment, auto manufacturers try very hard to thrift down the required amount of metal per vehicle.

Drivers: Key value drivers for Amplats include:

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

Although Amplats's primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. Based on our FY13e forecasts (year to December), Amplats is likely to deliver a gross profit margin of around 7% (FY12: 2%). The following sensitivities apply to our FY13 earnings expectations: A 10% weakening in the ZAR/USD exchange rate would result in a c.311% increase in rand EPS. A 10% increase in the US$ platinum and palladium prices would result in a c.230% and c.53% increase in rand EPS respectively.

Outlook: The announced restructuring of Amplats – planned cuts to nameplate production of 400kozpa, the potential sale of Union mine and an aggressive cost cutting target – is likely the most practical, if muted, solution to fixing the group's longer-term profitability, in our view, in a difficult South African operating environment. However, the implementation of the plan heralds a difficult 12 months for the company: the full costs of restructuring fall in 2013, with a potential 14,000 job losses before Amplats looks to redeploy employees and sees some cost cutting benefits; in addition, other mines are still in ramp-up mode post-strikes and remain at risk of production stoppages, in our opinion. Within this difficult operating context, we rate Amplats Hold.

Valuation: We value Amplats on a sum-of-the-parts DCF basis, using a WACC of 13% and applying a 1x DCF exit multiple to derive our target price. Our target price is made up of R338 per share value for the group post-planned production and capex cuts, plus an NPV per share value of R38 for planned revenue enhancement initiatives and R82 per share for planned corporate cost savings. In the next 12 months (for 2013e), we use a platinum price forecast of US$1,686 per ounce and a ZAR/USD forecast of 8.58.

Risks: Upside risks to our price target include delivery of cost savings more quickly than currently planned by the company and a higher sale price for Union mine than our current valuation. Downside risks to our price target include further production interruptions from strikes and safety stoppages and lower-than-expected revenue enhancements and corporate cost reductions.

Model updated:04 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Amplats

Reuters: AMSJ.J | Bloomberg: AMS SJ

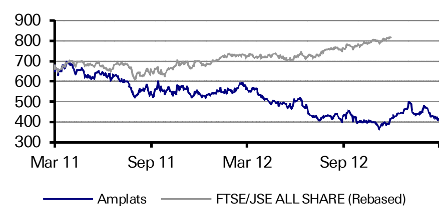
Hold

Price (8 Mar 13)	ZAR 415.51
Target Price	ZAR 500.00
52 Week range	ZAR 363.02 – 568.00
Market Cap (m)	ZARm 108,448
	USDm 11,940

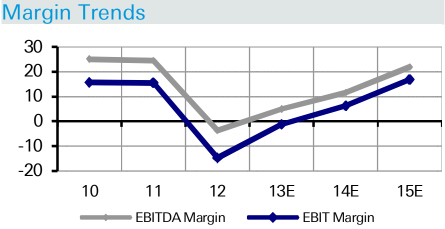
Company Profile

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

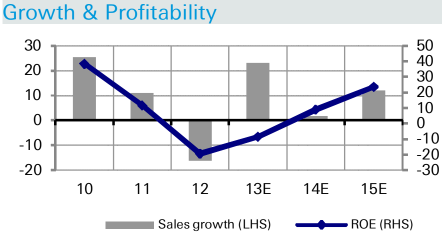
Price Performance



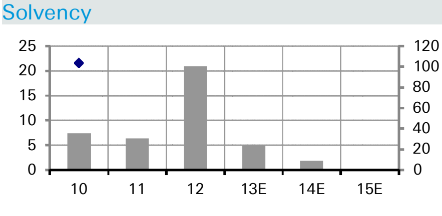
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	19.29	13.54	-5.62	4.19	12.26	34.68
Reported EPS (ZAR)	38.96	13.63	-25.35	-11.42	12.15	34.37
DPS (ZAR)	6.83	7.00	0.00	0.00	4.00	6.45
BVPS (ZAR)	214.1	216.8	191.1	229.6	255.7	280.3
Weighted average shares (m)	255	261	261	261	261	261
Average market cap (ZARm)	183,561	160,521	123,059	108,448	108,448	108,448
Enterprise value (ZARm)	180,224	157,036	126,559	104,504	102,676	101,495
Valuation Metrics						
P/E (DB) (x)	37.3	45.4	nm	99.2	33.9	12.0
P/E (Reported) (x)	18.5	45.0	nm	nm	34.2	12.1
P/BV (x)	3.24	2.45	2.34	1.81	1.63	1.48
FCF Yield (%)	1.2	3.2	nm	nm	nm	0.7
Dividend Yield (%)	0.9	1.1	0.0	0.0	1.0	1.6
EV/Sales (x)	3.9	3.1	3.0	2.0	1.9	1.7
EV/EBITDA (x)	15.6	12.6	nm	40.1	16.5	7.7
EV/EBIT (x)	24.8	19.7	nm	nm	30.7	10.0
Income Statement (ZARm)						
Sales revenue	46,025	51,117	42,838	52,729	53,671	60,163
Gross profit	12,355	13,082	5,637	7,028	10,636	13,566
EBITDA	11,574	12,492	-1,587	2,608	6,216	13,146
Depreciation	4,321	4,527	4,747	3,258	2,869	2,993
Amortisation	0	0	0	0	0	0
EBIT	7,253	7,965	-6,334	-650	3,347	10,153
Net interest income(expense)	-70	0	-215	807	1,390	1,194
Associates/affiliates	-426	-479	-659	-262	-262	-280
Exceptionals/extraordinaries	5,254	0	-358	-4,100	0	0
Other pre-tax income/(expense)	302	-825	-51	0	0	0
Profit before tax	12,313	6,661	-7,617	-4,205	4,475	11,067
Income tax expense	2,197	2,974	-897	-1,178	1,253	1,979
Minorities	157	96	-43	-21	22	35
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	9,959	3,591	-6,677	-3,007	3,200	9,053
DB adjustments (including dilution)	-5,028	-25	5,209	4,100	0	0
DB Net profit	4,931	3,566	-1,468	1,093	3,200	9,053
Cash Flow (ZARm)						
Cash flow from operations	10,231	12,312	1,889	3,178	6,249	8,866
Net Capex	-7,961	-7,228	-7,099	-6,837	-8,112	-8,087
Free cash flow	2,270	5,084	-5,210	-3,659	-1,863	779
Equity raised/(bought back)	12,422	1	0	0	0	0
Dividends paid	0	-3,116	-532	0	-1,044	-1,684
Net inc/(dec) in borrowings	-16,418	-687	6,706	9,000	4,500	2,000
Other investing/financing cash flows	727	-1,520	-1,086	143	236	87
Net cash flow	-999	-238	-122	5,485	1,828	1,181
Change in working capital	*-582*	*161*	*-3,309*	*833*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,533	0	0	7,659	9,487	10,669
Tangible fixed assets	37,438	44,499	43,946	47,525	52,769	57,863
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	7,908	7,532	7,295	7,295	7,295	7,295
Other assets	35,921	32,953	32,532	33,050	32,554	32,554
Total assets	83,800	84,984	83,773	95,529	102,105	108,381
Interest bearing debt	6,644	3,662	10,491	10,706	10,706	10,706
Other liabilities	22,139	24,579	23,182	24,620	24,384	24,234
Total liabilities	28,783	28,241	33,673	35,326	35,090	34,940
Shareholders' equity	54,557	56,654	49,882	59,924	66,735	73,161
Minorities	460	381	280	280	280	280
Total shareholders' equity	55,017	57,035	50,162	60,204	67,015	73,441
Net debt	*4,111*	*3,662*	*10,491*	*3,047*	*1,219*	*37*
Key Company Metrics						
Sales growth (%)	25.5	11.1	-16.2	23.1	1.8	12.1
DB EPS growth (%)	562.2	-29.8	na	na	192.7	182.9
EBITDA Margin (%)	25.1	24.4	-3.7	4.9	11.6	21.9
EBIT Margin (%)	15.8	15.6	-14.8	-1.2	6.2	16.9
Payout ratio (%)	17.5	50.9	nm	nm	32.6	18.6
ROE (%)	38.4	11.6	-19.6	-8.6	8.9	23.5
Capex/sales (%)	17.4	14.7	16.8	13.0	15.1	13.4
Capex/depreciation (x)	1.8	1.7	1.5	2.1	2.8	2.7
Net debt/equity (%)	7.5	6.4	20.9	5.1	1.8	0.1
Net interest cover (x)	103.6	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (8 March 2013): 747c | Target price: 1120c | Rating: Buy

Aquarius Platinum Ltd

Anna Mulholland, CFA / Grant Sporre

Business description: Aquarius' primary assets comprise a 100% holding in Aquarius Platinum South Africa (which in turn holds 50% shareholdings in Kroondal and Marikana (both 50/50 JVs with Amplats), as well as a 100% holding in Everest and Blue Ridge (all based in South Africa), a 50% stake in Mimosa (a Zimbabwean mine, co-owned by Implats), 50% of the Chromite Tailings Retreatment Plant (CTRP) (also in South Africa) and a 91.7% stake in Platinum Mile (tailings re-treatment). Aquarius is the fourth-largest platinum producer in the world, with attributable production potential of around 350kozpa platinum. In the medium term, output from the group is lower than capacity as Marikana, Everest, Blue Ridge and CTRP are all on care and maintenance for at least two years given the low rand basket price environment. Aquarius sells its concentrate to the majors (Amplats and Impala) for a percentage of the value of metal contained in the concentrate (around 82%). Although some of the margin is lost in the process, it also de-risks the business to an extent.

Drivers: Key value drivers for Aquarius include:

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

On our calculations, a 10% fall in the ZAR/USD exchange rate results in a c.227% increase in SAc EPS. A 10% increase in the US$ platinum price results in a c.327% increase in SAc EPS. A 10% increase in the US$ palladium price results in a c.80% increase in SAc EPS, all else being equal.

Outlook: AQP faces a number of operational headwinds. At the heart of its problems is the risk in transitioning to an owner-operator model, away from the previous model of outsourcing its South African mining operations. This, coupled with a focus on turning around the performance of Kroondal, Aquarius' sole operating mine in South Africa, is a key driver of the shares. However, we think the recent conclusion of an indigenisation deal in Zimbabwe with respect to the Mimosa mine (50% owned by AQP) is an important step in removing some of the overhang on the stock and maintaining access to much needed cash flows from the operation. 51% of Mimosa will be sold to three separate indigenous entities for the sum of US$550m, based on a market fair value for Mimosa of US$1,078m. This value is significantly higher than our value of US$600m. In addition, the outlook for PGM prices is improving with improved OECD demand and continued industry supply constraints. Buy on valuation.

Valuation: Our price target is set at a 0.7x our NPV. Our target also reflects a 5% discount to our valuation for Mimosa post the successful conclusion of a deal to finalise the company's Zimbabwean credits. The 30% discount to our NAV reflects the track record of the operations and management over the past five years. We value AQP on a sum-of-the-parts asset DCF valuation basis, applying a nominal WACC of 10.4% (cost of equity post tax 12.7% (beta 1.45), cost of debt 7%). Our NPV assumes a real long-term 3E PGM (Pt, Pd, Rh) basket price of US$1,878/oz.

Risks: Downside risks to our price target include: 1) Lower-than-forecast PGM metals prices, 2) A stronger-than-forecast ZAR/USD exchange rate, 3) Industrial action/prolonged strike action, 4) The company's cash flow hinges on the successful turnaround of the flagship Kroondal mine, which if it fails, is a risk.

Model updated:11 February 2013

Running the numbers

Australasia

Australia

M&M – Other Metals

Aquarius Platinum Limited

Reuters: AQPJ.J	Bloomberg: AQP SJ

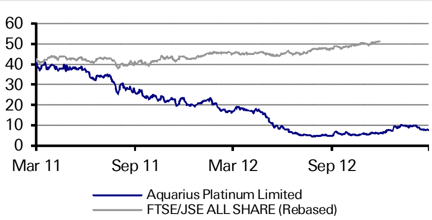
Buy

Price (8 Mar 13)	ZAR 7.47
Target Price	ZAR 11.20
52 Week range	ZAR 4.55 – 19.09
Market Cap (m)	ZARm 3,583
	USDm 394

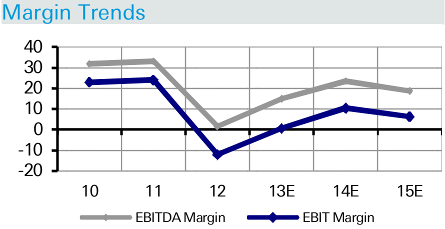
Company Profile

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

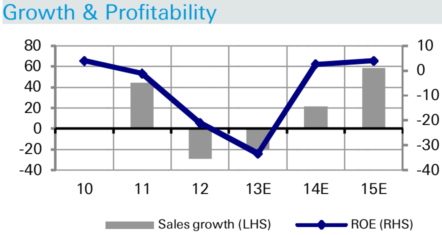
Price Performance



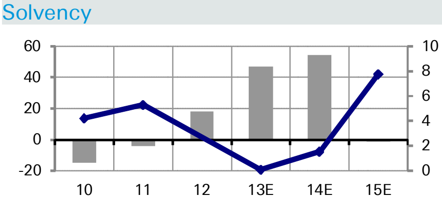
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (USD)	0.05	0.31	-0.35	-0.13	0.02	0.06
Reported EPS (USD)	0.06	-0.02	-0.35	-0.39	0.02	0.05
DPS (USD)	0.06	0.08	0.00	0.00	0.00	0.00
BVPS (USD)	1.9	1.8	1.4	0.9	0.9	1.7
Weighted average shares (m)	452	463	467	480	484	485
Average market cap (USDm)	2,425	2,502	1,251	394	398	399
Enterprise value (USDm)	2,299	2,462	1,372	603	639	396
Valuation Metrics						
P/E (DB) (x)	102.0	17.5	nm	nm	35.1	14.0
P/E (Reported) (x)	87.3	nm	nm	nm	35.1	15.7
P/BV (x)	2.88	2.77	0.51	0.87	0.89	0.47
FCF Yield (%)	0.8	0.9	nm	nm	nm	nm
Dividend Yield (%)	1.1	1.5	0.0	0.0	0.0	0.0
EV/Sales (x)	4.9	3.6	2.8	1.6	1.4	0.5
EV/EBITDA (x)	15.3	10.9	184.3	10.5	5.8	2.9
EV/EBIT (x)	21.2	15.0	nm	261.6	13.2	8.5
Income Statement (USDm)						
Sales revenue	472	683	483	383	467	741
Gross profit	162	239	19	72	125	152
EBITDA	150	226	7	57	109	138
Depreciation	42	62	66	55	61	92
Amortisation	0	0	0	0	0	0
EBIT	108	164	-58	2	49	46
Net interest income(expense)	-26	-31	-35	-32	-32	-6
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-19	-168	-4	-145	0	0
Other pre-tax income/(expense)	-5	60	-95	-26	0	-3
Profit before tax	58	25	-192	-200	17	37
Income tax expense	31	36	-31	-11	5	12
Minorities	0	0	0	-1	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	28	-10	-161	-189	11	25
DB adjustments (including dilution)	-4	153	0	128	0	3
DB Net profit	24	143	-161	-61	11	28
Cash Flow (USDm)						
Cash flow from operations	94	162	8	-11	24	126
Net Capex	-75	-140	-96	-55	-59	-145
Free cash flow	19	22	-88	-66	-35	-19
Equity raised/(bought back)	43	1	0	0	0	0
Dividends paid	-9	-46	-19	0	0	0
Net inc/(dec) in borrowings	174	14	7	-7	-7	50
Other investing/financing cash flows	1	-44	-49	-15	9	9
Net cash flow	228	-54	-148	-88	-32	40
Change in working capital	*-14*	*-27*	*-9*	*-9*	*31*	*0*
Balance Sheet (USDm)						
Cash and other liquid assets	382	328	180	92	59	100
Tangible fixed assets	272	326	276	286	284	337
Goodwill/intangible assets	73	78	88	74	74	74
Associates/investments	0	0	0	0	0	0
Other assets	653	725	657	503	543	543
Total assets	1,379	1,457	1,201	955	961	1,054
Interest bearing debt	259	292	304	303	303	87
Other liabilities	283	314	221	200	208	124
Total liabilities	542	606	525	503	512	211
Shareholders' equity	837	851	677	452	449	843
Minorities	0	0	0	0	0	0
Total shareholders' equity	837	851	677	452	449	843
Net debt	*-122*	*-36*	*124*	*212*	*244*	*-13*
Key Company Metrics						
Sales growth (%)	nm	44.6	-29.3	-20.6	21.9	58.8
DB EPS growth (%)	na	486.1	na	63.2	na	150.5
EBITDA Margin (%)	31.8	33.1	1.5	15.0	23.4	18.7
EBIT Margin (%)	22.9	24.0	-12.1	0.6	10.4	6.3
Payout ratio (%)	97.5	nm	nm	nm	0.0	0.0
ROE (%)	3.8	-1.2	-21.1	-33.5	2.5	3.9
Capex/sales (%)	15.9	20.5	19.8	14.4	12.6	19.5
Capex/depreciation (x)	1.8	2.3	1.4	1.0	1.0	1.6
Net debt/equity (%)	-14.6	-4.2	18.3	46.8	54.3	-1.5
Net interest cover (x)	4.2	5.3	nm	0.1	1.5	7.7

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (8 March 2013): 13600c | Target price: 19000c | Rating: Hold

Impala Platinum Holdings Ltd

Anna Mulholland, CFA

Business description: Impala Platinum is the world's second-largest platinum miner, producing gross refined platinum of 1.4m ounces in the year to June 2012. Its operations are in southern Africa (around 80% from its three South African mines and the Impala Refining Services (IRS), and 20% from its two mines in Zimbabwe). The group's largest asset is the Impala Platinum mine in Rustenburg (also known as the Lease Area) – the mine has been designed to produce up to 1mozpa platinum but has struggled to produce above 800kozpa recently due to production interruptions from safety and strike stoppages plus a lack of effective development and falling productivity levels. The IRS operations process all metal from the group as well concentrate from third-party, toll-refining and recycling contracts. Impala has holdings in Zimplats (87%), Marula (73%) and Two Rivers (45%), and is fully compliant with the 2014 Black Economic Empowerment (BEE) regulation, with the Royal Bafokeng Nation holding around 13% of Impala's issued shares.

Drivers: Key value drivers for Impala include:

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

Although Impala's primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. Based on our FY13 forecasts (year to June), Impala is likely to deliver a gross profit margin of around 13.3% (FY12: 25.2%). The following sensitivities apply to our FY13 earnings expectations: A 10% weakening in the ZAR/USD exchange rate would result in a c.100% increase in rand EPS. A 10% increase in the US$ platinum and palladium prices would result in a c.70% and c.15% increase in rand EPS respectively.

Outlook: We believe Impala's plan for renewed operational focus at its Lease Area mine is a positive but that the ramp-up following the 2012 labour unrest will be slow and difficult, with upside risks to unit costs as a result. We believe management remains committed to ramping up its three new vertical shaft projects at the Lease Area, spending a cumulative R20bn from FY12-16e. Whilst the group balance sheet can comfortably support this capex plan post the issuance of US$500m of convertible bonds, gearing levels still rise to a peak in FY13 of 7.5%. As such, we assume dividend cover is maintained at 3.5x. Impala's second-largest mine, Zimplats, remains one of the industry's lowest-cost mines and continues to ramp up towards steady-state of 270koz platinum by FY15. **Hold** on what we see as balanced risk/reward.

Valuation: We value Impala on a sum-of-the-parts DCF model of life-of-mine cash flows. We use a WACC of 13% and apply a 1x DCF exit multiple to derive our target price. Given the agreement in principle between Impala and the Zimbabwean government regarding 51% ownership of Impala's Zimplats and Mimosa mines, we now include Impala's residual stakes in these mines in our target price – we had previously excluded their value from our target price. On a 12-month view (for calendar 2013e), we use a platinum price forecast of US$1,686 per ounce and a ZAR/USD rate of 8.58.

Risks: Upside risks include a faster-than-guided ramp-up of the Lease Area following the 2012 labour unrest. Downside risks include a return to a strike situation, or further production interruptions at the Lease Area mine; deterioration in safety trends leading to increased production stoppages; higher-than-expected mining cost inflation; and further delays to the rollout of the Rustenburg mine projects (20, 16 and 17 shafts).

Model updated:14 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Impala Platinum

Reuters: IMPJ.J — Bloomberg: IMP SJ

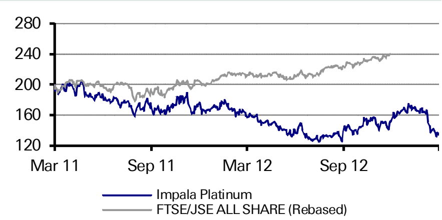
Hold

Price (8 Mar 13)	ZAR 136.00
Target Price	ZAR 190.00
52 Week range	ZAR 125.33 – 175.00
Market Cap (m)	ZARm 82,503
	USDm 9,084

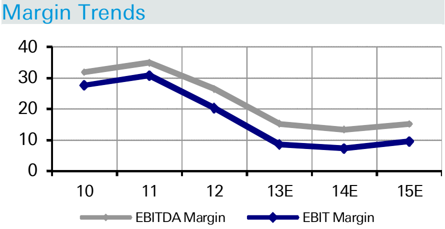
Company Profile

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

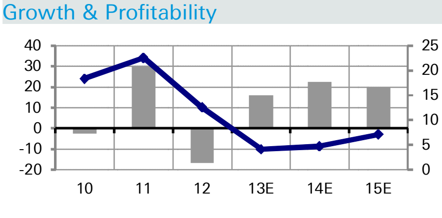
Price Performance



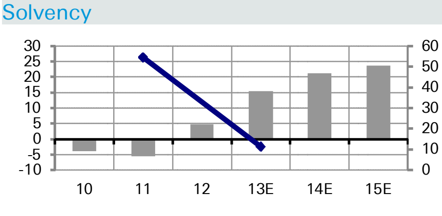
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	7.85	11.65	6.89	2.48	3.13	5.22
Reported EPS (ZAR)	7.85	11.04	6.89	2.48	3.13	5.22
DPS (ZAR)	3.90	5.70	1.95	0.65	0.85	1.40
BVPS (ZAR)	73.0	79.2	82.8	84.2	86.9	90.7
Weighted average shares (m)	600	601	606	607	607	607
Average market cap (ZARm)	114,040	119,278	98,966	82,503	82,503	82,503
Enterprise value (ZARm)	112,310	116,578	101,382	91,857	95,426	97,453
Valuation Metrics						
P/E (DB) (x)	24.2	17.0	23.7	54.8	43.5	26.1
P/E (Reported) (x)	24.2	18.0	23.7	54.8	43.5	26.1
P/BV (x)	2.47	2.30	1.63	1.61	1.57	1.50
FCF Yield (%)	1.2	2.5	nm	nm	nm	nm
Dividend Yield (%)	2.1	2.9	1.2	0.5	0.6	1.0
EV/Sales (x)	4.4	3.5	3.7	2.9	2.4	2.1
EV/EBITDA (x)	13.8	10.1	13.9	18.8	18.2	13.7
EV/EBIT (x)	16.0	11.4	18.1	33.7	33.5	21.8
Income Statement (ZARm)						
Sales revenue	25,446	33,132	27,593	32,005	39,228	47,018
Gross profit	9,235	13,013	8,659	6,407	6,581	8,548
EBITDA	8,114	11,565	7,299	4,884	5,253	7,103
Depreciation	1,083	1,371	1,707	2,157	2,408	2,631
Amortisation	0	0	0	0	0	0
EBIT	7,031	10,194	5,592	2,727	2,845	4,472
Net interest income(expense)	2	-187	9	-241	72	396
Associates/affiliates	95	238	117	147	202	226
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	97	-683	532	250	-40	-40
Profit before tax	7,225	9,562	6,250	2,882	3,080	5,054
Income tax expense	2,431	2,752	1,951	1,292	961	1,578
Minorities	79	172	119	85	221	309
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,715	6,638	4,180	1,506	1,898	3,167
DB adjustments (including dilution)	0	368	0	1	1	1
DB Net profit	4,715	7,006	4,180	1,506	1,899	3,168
Cash Flow (ZARm)						
Cash flow from operations	5,918	8,286	4,978	911	1,408	3,076
Net Capex	-4,542	-5,289	-7,284	-6,287	-4,921	-4,746
Free cash flow	1,377	2,997	-2,306	-5,376	-3,513	-1,670
Equity raised/(bought back)	82	77	0	0	0	0
Dividends paid	-1,920	-2,519	-3,364	-578	-305	-849
Net inc/(dec) in borrowings	22	-602	0	0	0	0
Other investing/financing cash flows	942	812	281	160	267	575
Net cash flow	502	765	-5,389	-5,794	-3,551	-1,945
Change in working capital	*-1,184*	*-371*	*-1,133*	*-2,530*	*-2,650*	*-2,231*
Balance Sheet (ZARm)						
Cash and other liquid assets	3,858	4,542	1,193	149	1,098	1,353
Tangible fixed assets	33,940	37,431	44,463	48,593	51,106	53,220
Goodwill/intangible assets	1,018	1,018	1,018	1,018	1,018	1,018
Associates/investments	1,004	980	1,102	1,249	1,451	1,677
Other assets	22,751	23,633	24,851	28,157	32,079	35,681
Total assets	62,571	67,604	72,627	79,166	86,751	92,950
Interest bearing debt	2,128	1,842	3,609	8,359	12,859	15,059
Other liabilities	14,710	16,152	16,543	17,320	18,591	19,963
Total liabilities	16,838	17,994	20,152	25,679	31,450	35,022
Shareholders' equity	43,792	47,563	50,168	51,095	52,688	55,006
Minorities	1,941	2,047	2,307	2,392	2,612	2,922
Total shareholders' equity	45,733	49,610	52,475	53,487	55,301	57,928
Net debt	*-1,730*	*-2,700*	*2,416*	*8,210*	*11,761*	*13,706*
Key Company Metrics						
Sales growth (%)	-2.6	30.2	-16.7	16.0	22.6	19.9
DB EPS growth (%)	-21.1	48.4	-40.8	-64.0	26.0	66.9
EBITDA Margin (%)	31.9	34.9	26.5	15.3	13.4	15.1
EBIT Margin (%)	27.6	30.8	20.3	8.5	7.3	9.5
Payout ratio (%)	49.6	51.6	28.3	26.4	27.2	26.8
ROE (%)	18.3	22.5	12.6	4.1	4.7	7.1
Capex/sales (%)	17.9	16.0	26.4	19.6	12.5	10.1
Capex/depreciation (x)	4.2	3.9	4.3	2.9	2.0	1.8
Net debt/equity (%)	-3.8	-5.4	4.6	15.4	21.3	23.7
Net interest cover (x)	nm	54.5	nm	11.3	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (8 March 2013): 4583c | Target price: 4800c | Rating: Hold

Lonmin plc

Anna Mulholland, CFA / Grant Sporre

Business description: Lonmin is the third largest platinum producer in the world, with around 700koz of platinum sales forecast for the year to September 2013. Lonmin's assets consist primarily of an 82% holding in its South African subsidiary, Lonplats which owns the group's flagship Marikana mine and processing assets, its Limpopo project (where it targets to conclude a BEE deal with partner Shanduka Resources) and the Akanani project. Xstrata owns 25% of Lonmin's shares. Lonmin concluded a US$800m rights issue in 2012, the capital from which will be used to drive group production towards 950koz of platinum in the medium-term.

Drivers: Key value drivers for Lonmin include:

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

Although Lonmin's primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. Based on our FY13 forecasts the group's EBITDA margin will be 14% (FY12: 12%). On our calculations, a 10% fall in the ZAR/USD exchange rate results in a c.73% increase in US$ basic underlying EPS. A 10% increase in the US$ platinum price results in a c.64% increase in US$ basic underlying EPS. A 10% increase in the US$ palladium price results in a c.12.5% increase in US$ basic underlying EPS, all else being equal.

Outlook: Lonmin's approved US$800m rights issue, and amended debt covenants will ensure the company's survival, in our view. Company management still have a significant challenge in delivering production growth and controlling costs in a difficult South African mining environment. However, the company's approach to an operational recovery has been successful and the mining performance in 1Q, suggests a run-rate close to full capacity. This augers well for the unit cash costs in the medium-term, putting the company in a profitable position. However, the company is unlikely to be FCF positive, on our estimates, for the mid-term, given the need to start deploying capital to maintain the production base and grow back to 800koz. Despite the promising start risks around the execution of the Lonmin Renewal Plan, remain. Hence we have a **Hold** recommendation on the stock.

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

Risks: Upside/Downside risks to our price target include higher/lower than forecast PGM metals prices; and a weaker/stronger than forecast ZAR/USD exchange rate. Management may achieve better operational efficiencies than we have assumed, but given the need for rebuilding the relationship with the workforce, further labour disruption remains a downside risk. Lastly, a potential bid by its major shareholder for the remaining 75% of the company is a possible upside risk.

Deutsche Securities (Pty) Ltd

Model updated:06 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Lonmin Plc

Reuters: LONJ.J   Bloomberg: LON SJ

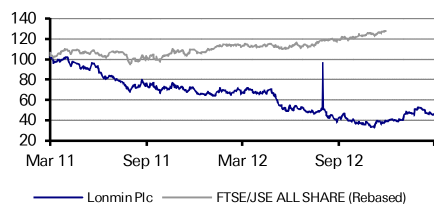
Hold

Price (8 Mar 13)	ZAR 45.83
Target Price	ZAR 48.00
52 Week range	ZAR 33.06 – 96.61
Market Cap (m)	ZARm 26,041
	USDm 2,867

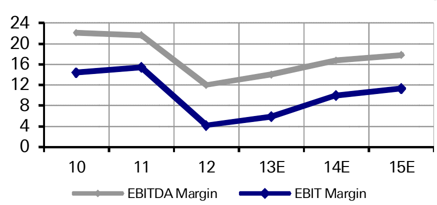
Company Profile

Lonmin specializes in the mining of PGMs (platinum group metals). The Group operates a number of platinum mines, concentrators, smelters and a refinery within its core Marikana operations, all situated in the Bushveld Igneous Complex of South Africa. After declining production from 2006, the company's new growth target is 950koz of platinum ounces by 2015

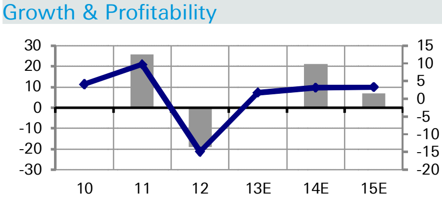
Price Performance



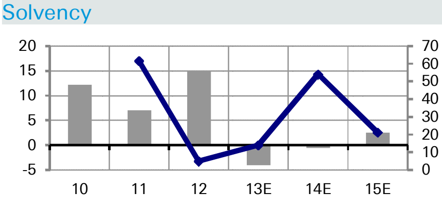
Margin Trends



Growth & Profitability



Solvency



Anna Mulholland, CFA
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Fiscal year end 30-Sep	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (USD)	1.31	2.08	0.14	0.10	0.21	0.24
Reported EPS (USD)	1.06	2.52	-3.76	0.10	0.21	0.24
DPS (USD)	0.28	0.28	0.00	0.00	0.00	0.05
BVPS (USD)	25.8	27.1	23.6	6.3	6.9	7.5
Weighted average shares (m)	105	108	108	568	570	571
Average market cap (USDm)	1,517	1,472	817	2,867	2,877	2,882
Enterprise value (USDm)	2,265	2,117	1,495	2,983	3,147	3,315
Valuation Metrics						
P/E (DB) (x)	11.0	6.5	55.0	52.8	24.5	21.1
P/E (Reported) (x)	13.6	5.4	nm	52.8	24.5	21.1
P/BV (x)	0.55	0.32	0.20	0.80	0.73	0.67
FCF Yield (%)	nm	14.9	nm	nm	nm	nm
Dividend Yield (%)	1.9	2.1	0.0	0.0	0.0	1.0
EV/Sales (x)	1.4	1.1	0.9	1.8	1.6	1.6
EV/EBITDA (x)	6.5	4.9	7.7	13.1	9.5	8.8
EV/EBIT (x)	9.9	6.9	22.3	31.3	16.0	13.9
Income Statement (USDm)						
Sales revenue	1,585	1,992	1,614	1,623	1,967	2,106
Gross profit	359	425	202	236	339	384
EBITDA	350	431	193	227	330	375
Depreciation	122	124	126	132	134	137
Amortisation	0	0	0	0	0	0
EBIT	228	307	67	95	196	238
Net interest income(expense)	1	-5	-14	-7	-4	-11
Associates/affiliates	8	9	4	8	7	6
Exceptionals/extraordinaries	3	-18	-755	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	240	293	-698	96	200	233
Income tax expense	118	-28	-148	29	60	70
Minorities	10	48	-140	13	22	26
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	112	273	-410	55	118	137
DB adjustments (including dilution)	26	-47	425	0	0	0
DB Net profit	138	226	15	55	118	137
Cash Flow (USDm)						
Cash flow from operations	80	630	263	-52	88	263
Net Capex	-264	-410	-404	-175	-220	-400
Free cash flow	-184	220	-141	-227	-132	-137
Equity raised/(bought back)	234	1	0	0	0	0
Dividends paid	-22	-40	-45	0	0	0
Net inc/(dec) in borrowings	123	-223	424	-400	250	100
Other investing/financing cash flows	0	-30	1	10	0	0
Net cash flow	151	-72	239	-617	118	-37
Change in working capital	*-229*	*232*	*275*	*-244*	*-178*	*-31*
Balance Sheet (USDm)						
Cash and other liquid assets	148	76	315	490	608	571
Tangible fixed assets	2,199	2,742	2,889	3,107	3,414	3,927
Goodwill/intangible assets	1,091	1,106	502	502	502	502
Associates/investments	576	400	578	578	578	578
Other assets	810	538	339	849	728	779
Total assets	4,824	4,862	4,623	5,525	5,829	6,357
Interest bearing debt	523	310	736	336	586	686
Other liabilities	1,219	1,211	1,072	1,338	1,010	1,060
Total liabilities	1,742	1,521	1,808	1,674	1,596	1,746
Shareholders' equity	2,709	2,930	2,558	3,581	3,941	4,293
Minorities	373	411	257	270	292	318
Total shareholders' equity	3,082	3,341	2,815	3,851	4,233	4,611
Net debt	*375*	*234*	*421*	*-154*	*-22*	*115*
Key Company Metrics						
Sales growth (%)	nm	25.7	-19.0	0.6	21.2	7.1
DB EPS growth (%)	na	59.0	-93.4	-30.4	115.6	16.2
EBITDA Margin (%)	22.1	21.6	12.0	14.0	16.8	17.8
EBIT Margin (%)	14.4	15.4	4.2	5.9	10.0	11.3
Payout ratio (%)	26.3	11.1	nm	0.0	0.0	20.9
ROE (%)	4.1	9.7	-14.9	1.8	3.1	3.3
Capex/sales (%)	16.7	20.6	25.0	10.8	11.2	19.0
Capex/depreciation (x)	2.2	3.3	3.2	1.3	1.6	2.9
Net debt/equity (%)	12.2	7.0	15.0	-4.0	-0.5	2.5
Net interest cover (x)	nm	61.4	4.8	13.8	53.8	21.1

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (8 March 2013): 3895c | Target price: 4400c | Rating: Hold

Northam Platinum Ltd

Anna Mulholland, CFA

Business description: Northam is a relatively small PGM miner, producing around 200kozpa of platinum from its Zondereinde mine in the northern part of the Western Limb of the Bushveld Complex. Northam operates the deepest vertical shaft in the platinum mining industry at Zondereinde, down to 2.2km, resulting in structurally higher operating costs and maintenance capex compared with peers. We estimate Zondereinde will be in the fourth quartile of the industry cost curve in 2013, on a cash cost plus SIB capex basis. In the past 18 months, development and stoping has been hampered by difficult ground conditions at the mine and we forecast that Northam will therefore struggle to reach the mine's design capacity of 300kozpa of platinum in the medium-term – in FY13, we forecast production of 229koz of platinum.

Northam aims to increase group production by around 50% with the ramp-up of the Booysendal mine on the Eastern Limb. Booysendal will be low-cost, mechanised, shallow UG2 mine, producing around 100koz of platinum at steady-state (from FY16 on our estimates).

Drivers: Key value drivers for Northam include:

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

Although Northam's primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. Based on our FY13e forecasts (year to June), Northam is likely to deliver an operating profit margin of around 18.8% (9.2% in FY12). The following sensitivities apply to our FY13e earnings expectations: a 10% weakening in the ZAR/USD exchange rate would result in a c.40% increase in rand EPS. A 10% increase in the US$ platinum and palladium prices would result in a c.30% and c.6% increase in rand EPS respectively.

Outlook: 2013 should see the delivery of first production from Northam's R4bn low-cost, UG2 Booysendal North project, on time and within budget – we believe its assessed value is fully priced into the shares. Northam's current operating mine, Zondereinde, continues its steady but slow drive to work through difficult Merensky ground. Whilst this mine emerged relatively unscathed from 2012's industry labour relations difficulties, we believe wage negotiations across the sector will be difficult in 1H13 and that without production growth from the mine, Zondereinde's operating margins will bear the brunt of wage inflation during the period. Given what we see as a fair risk/reward balance, we rate the shares **Hold**.

Valuation: We value Northam on a sum-of-the-parts DCF basis, using a WACC of 13% and applying a 1x DCF exit multiple to derive our target price. For the next 12 months (calendar 2013e), we use a platinum price forecast of US$1,686/oz and a ZAR/USD rate of 8.58.

Risks: Upside risks include a faster-than-guided turnaround at Zondereinde mine with regards to working through difficult ground conditions. Downside risks include unexpected production interruptions from labour unrest or safety stoppages; a slower-than-expected ramp-up of the Booysendal project; and slower-than-expected recovery of the Zondereinde mine with regards to the current difficult geological conditions.

Model updated:24 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Northam

Reuters: NHMJ.J | Bloomberg: NHM SJ

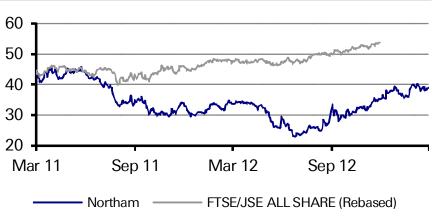
Hold

Price (8 Mar 13)	ZAR 38.95
Target Price	ZAR 44.00
52 Week range	ZAR 22.90 – 40.22
Market Cap (m)	ZARm 14,900
	USDm 1,641

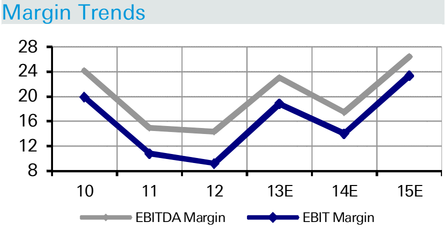
Company Profile

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

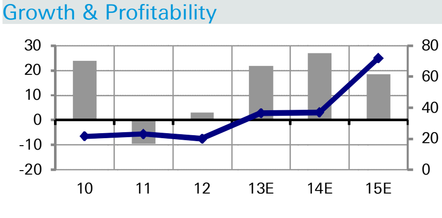
Price Performance



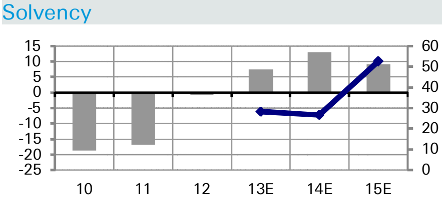
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	0.84	0.96	0.81	1.49	1.48	2.88
Reported EPS (ZAR)	0.84	0.96	0.81	1.49	1.48	2.88
DPS (ZAR)	0.40	0.15	0.05	0.05	0.18	0.72
BVPS (ZAR)	25.7	27.9	27.3	28.7	30.0	32.1
Weighted average shares (m)	381	363	382	383	383	383
Average market cap (ZARm)	16,343	16,361	12,417	14,900	14,900	14,900
Enterprise value (ZARm)	14,514	14,663	12,345	15,199	15,878	15,506
Valuation Metrics						
P/E (DB) (x)	50.9	46.9	40.0	26.1	26.3	13.5
P/E (Reported) (x)	50.9	46.9	40.0	26.2	26.4	13.5
P/BV (x)	1.77	1.52	0.85	1.36	1.30	1.21
FCF Yield (%)	1.1	nm	nm	nm	nm	4.3
Dividend Yield (%)	0.9	0.3	0.2	0.1	0.5	1.8
EV/Sales (x)	3.7	4.1	3.4	3.4	2.8	2.3
EV/EBITDA (x)	15.2	27.5	23.3	14.7	15.9	8.7
EV/EBIT (x)	18.5	38.1	36.4	18.0	19.9	9.8
Income Statement (ZARm)						
Sales revenue	3,945	3,571	3,684	4,488	5,697	6,744
Gross profit	952	533	529	1,033	996	1,783
EBITDA	952	533	529	1,033	996	1,783
Depreciation	167	148	190	188	199	208
Amortisation	0	0	0	0	0	0
EBIT	785	385	339	845	797	1,574
Net interest income(expense)	232	86	54	-30	-30	-30
Associates/affiliates	14	7	17	9	3	6
Exceptionals/extraordinaries	-372	0	0	0	0	0
Other pre-tax income/(expense)	10	53	43	53	53	53
Profit before tax	668	531	453	877	822	1,603
Income tax expense	347	182	142	307	258	503
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	321	349	311	569	565	1,100
DB adjustments (including dilution)	0	0	0	1	1	1
DB Net profit	321	349	311	570	565	1,101
Cash Flow (ZARm)						
Cash flow from operations	556	785	438	833	690	1,436
Net Capex	-372	-957	-2,015	-1,696	-1,296	-790
Free cash flow	184	-172	-1,578	-863	-606	647
Equity raised/(bought back)	16	0	0	0	0	0
Dividends paid	-216	-90	-57	-14	-73	-275
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-24	0	0	0	0	0
Net cash flow	-41	-262	-1,635	-877	-679	371
Change in working capital	*1*	*182*	*-90*	*76*	*-82*	*127*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,829	1,698	105	464	5	377
Tangible fixed assets	8,010	8,499	9,136	10,644	11,741	12,322
Goodwill/intangible assets	181	172	125	125	125	125
Associates/investments	272	505	505	505	505	505
Other assets	840	1,055	2,382	2,521	2,915	3,067
Total assets	11,132	11,930	12,254	14,259	15,292	16,396
Interest bearing debt	0	0	33	1,268	1,488	1,488
Other liabilities	1,323	1,814	1,798	2,012	2,334	2,613
Total liabilities	1,323	1,814	1,831	3,280	3,822	4,101
Shareholders' equity	9,808	10,116	10,423	10,979	11,470	12,295
Minorities	0	0	0	0	0	0
Total shareholders' equity	9,808	10,116	10,423	10,979	11,470	12,295
Net debt	*-1,829*	*-1,698*	*-72*	*804*	*1,483*	*1,112*
Key Company Metrics						
Sales growth (%)	23.8	-9.5	3.2	21.8	26.9	18.4
DB EPS growth (%)	-54.1	14.3	-15.6	83.6	-0.8	94.8
EBITDA Margin (%)	24.1	14.9	14.4	23.0	17.5	26.4
EBIT Margin (%)	19.9	10.8	9.2	18.8	14.0	23.3
Payout ratio (%)	47.5	15.6	6.2	3.4	12.5	25.0
ROE (%)	21.6	23.0	19.9	36.4	37.0	71.9
Capex/sales (%)	9.6	26.8	54.7	37.8	22.8	11.7
Capex/depreciation (x)	2.3	6.5	10.6	9.0	6.5	3.8
Net debt/equity (%)	-18.6	-16.8	-0.7	7.3	12.9	9.0
Net interest cover (x)	nm	nm	nm	28.2	26.6	52.6

Source: Company data, Deutsche Bank estimates

South Africa – Platinum | Price (8 March 2013): 5350c | Target price: 6800c | Rating: Hold

Royal Bafokeng Platinum Ltd

Anna Mulholland, CFA

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

The company has one operating asset, the Boschkoppie mine, which we forecast will produce around 170koz of platinum in concentrate form in the year to December 2013, which is then sold to JV partner Amplats for smelting and refining. Boschkoppie is in the lower half of the 2012 cost curve, on a cash costs plus SIB capex basis. RBPlat aims to double its group production through the ramp-up of the Styldrift project – this Merensky mine is contiguous to Boschkoppie on the group's Western Limb property, and will deliver 200kozpa of platinum in concentrate from 2018. The mine should be in the lower half of the 2018 cost curve, in our view, given its relatively shallow, lower-cost, shaft (sunk to a depth of 740m) and the use of mechanised mining methods. RBPlat does not plan to pay a dividend until the completion of phase 1 of the Styldrift project in 2017.

Drivers: Key value drivers for RBPlat include:

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

Although RBPlat's primary revenue source is from platinum sales, the balance of the PGM basket price and the ZAR/USD exchange rate has a marked effect on earnings. Based on our FY13e forecasts (year to December), RBPlat is likely to deliver a gross profit margin of around 13.4% (19% in FY12e). The following sensitivities apply to our FY13 earnings expectations: A 10% weakening in the ZAR/USD exchange rate would result in a c.56% increase in rand EPS. A 10% increase in the US$ platinum and palladium prices would result in a c.43% and c.8% increase in rand EPS respectively.

Outlook: We see a balance of positive and negative catalysts for RBPlat's shares. The company's current operating mine, Boschkoppie, is struggling with development and cost control. In our view, until the operating environment improves in South Africa, particularly with regards to safety and labour relations, it will remain difficult to implement the far-reaching cost and productivity improvements that RBPlat is targeting. RBPlat's major project, Styldrift, is currently on time for first production in 2015. Funding of RBPlat's R7.9bn share of the project capital may be affected by a squeeze on Boschkoppie's FCF. From December 2012, the veto against an Impala bid for RBPlat was lifted and thus 2013 could see a revival of a bid or bids for RBPlat, resulting in significant interest in its assets by the end of the year. Hold.

Valuation: We value RBPlat using a DCF, assuming a WACC of 13% and applying a 1x DCF exit multiple to derive our target price. On a 12 month view, we use a platinum price forecast of US$1,686 per ounce and a ZAR/USD rate of 8.58.

Risks: Upside risks are management success in saving capital costs (up to R1bn) at the R7.9bn Styldrift project and announcement of corporate action: either Impala Platinum reviving its ambitions to buy 100% of the BRPM mine, or RBPlat announcing its own acquisition interests. Downside risks include delays to the Styldrift project as a result of the 2012 re-scoping of key project design elements; slower-than-expected improvement in Boschkoppie face availability, reducing flexibility in the face of more difficult operating conditions and squeezing FCF affecting funding plans for the Styldrift project.

Model updated:05 March 2013

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

RBPlat

Reuters: RBPJ.J Bloomberg: RBP SJ

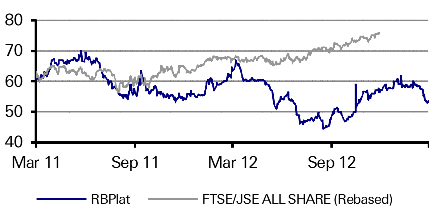
Hold

Price (8 Mar 13)	ZAR 53.50
Target Price	ZAR 68.00
52 Week range	ZAR 44.50 – 66.89
Market Cap (m)	ZARm 8,772
	USDm 966

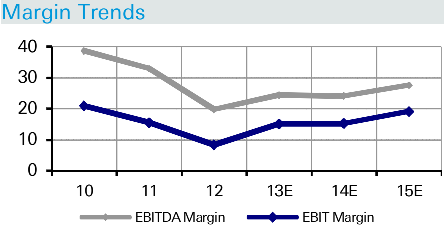
Company Profile

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

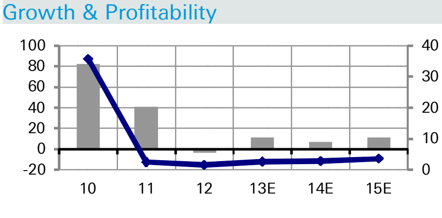
Price Performance



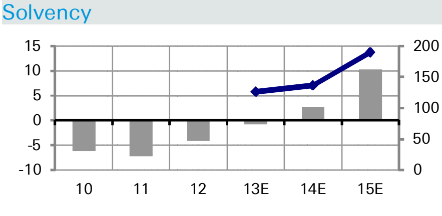
Margin Trends



Growth & Profitability



Solvency



Anna Mulholland, CFA
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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	1.93	2.00	1.04	1.82	2.07	2.86
Reported EPS (ZAR)	22.41	1.66	1.04	1.82	2.07	2.86
DPS (ZAR)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (ZAR)	77.5	68.9	70.2	72.1	78.4	81.3
Weighted average shares (m)	141	164	164	164	164	164
Average market cap (ZARm)	9,331	10,039	8,985	8,772	8,772	8,772
Enterprise value (ZARm)	11,588	12,534	12,039	12,484	13,265	14,844
Valuation Metrics						
P/E (DB) (x)	34.2	30.7	52.9	29.4	25.9	18.7
P/E (Reported) (x)	3.0	36.9	52.9	29.4	25.9	18.7
P/BV (x)	0.86	0.80	0.82	0.74	0.68	0.66
FCF Yield (%)	0.6	nm	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	5.5	4.2	4.2	3.9	3.9	3.9
EV/EBITDA (x)	14.2	12.8	21.3	16.1	16.1	14.2
EV/EBIT (x)	26.3	27.2	50.6	26.0	25.6	20.6
Income Statement (ZARm)						
Sales revenue	2,107	2,975	2,865	3,184	3,406	3,780
Gross profit	874	1,085	667	891	937	1,158
EBITDA	814	980	566	776	822	1,043
Depreciation	347	463	272	240	247	265
Amortisation	26	56	56	56	56	56
EBIT	440	461	238	480	519	722
Net interest income(expense)	3	0	0	-4	-4	-4
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	2,895	0	0	0	0	0
Other pre-tax income/(expense)	2	113	123	143	190	256
Profit before tax	3,340	574	361	620	705	974
Income tax expense	172	164	86	174	197	273
Minorities	2	137	105	147	167	231
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,166	273	170	299	340	470
DB adjustments (including dilution)	-2,893	55	0	0	0	0
DB Net profit	273	328	170	299	340	470
Cash Flow (ZARm)						
Cash flow from operations	777	998	687	981	1,000	1,316
Net Capex	-719	-1,147	-1,174	-1,150	-2,112	-2,345
Free cash flow	59	-148	-487	-169	-1,112	-1,029
Equity raised/(bought back)	942	0	0	0	700	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	500	500	0
Other investing/financing cash flows	-161	-5	-8	0	0	0
Net cash flow	840	-153	-495	331	88	-1,029
Change in working capital	*-57*	*-101*	*-13*	*19*	*-55*	*-25*
Balance Sheet (ZARm)						
Cash and other liquid assets	899	1,099	650	639	526	0
Tangible fixed assets	7,338	7,999	8,899	9,809	11,674	13,753
Goodwill/intangible assets	8,848	9,068	9,023	8,968	8,912	8,857
Associates/investments	251	265	261	261	261	261
Other assets	1,115	1,061	1,269	1,297	1,386	1,468
Total assets	18,451	19,493	20,101	20,974	22,758	24,338
Interest bearing debt	0	0	0	500	1,000	1,822
Other liabilities	4,100	4,355	4,621	4,547	4,624	4,723
Total liabilities	4,100	4,355	4,621	5,047	5,624	6,546
Shareholders' equity	10,944	11,278	11,516	11,815	12,855	13,325
Minorities	3,407	3,859	3,965	4,112	4,279	4,511
Total shareholders' equity	14,351	15,137	15,481	15,927	17,134	17,835
Net debt	*-899*	*-1,099*	*-650*	*-139*	*474*	*1,822*
Key Company Metrics						
Sales growth (%)	82.4	41.2	-3.7	11.1	7.0	11.0
DB EPS growth (%)	-95.0	3.3	-48.1	75.5	13.8	38.1
EBITDA Margin (%)	38.6	32.9	19.7	24.4	24.1	27.6
EBIT Margin (%)	20.9	15.5	8.3	15.1	15.2	19.1
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	35.7	2.5	1.5	2.6	2.8	3.6
Capex/sales (%)	34.1	38.5	41.0	36.1	62.0	62.0
Capex/depreciation (x)	1.9	2.2	3.6	3.9	7.0	7.3
Net debt/equity (%)	-6.3	-7.3	-4.2	-0.9	2.8	10.2
Net interest cover (x)	nm	nm	nm	126.4	136.6	190.0

Source: Company data, Deutsche Bank estimates

South Africa – Oil & Gas | Price (8 March 2013): 40300c | Target price: 44000 | Rating: Buy

Sasol Ltd

Jarrett Geldenhuys

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

Drivers: Sasol's key earnings driver is the rand, which remains weaker than our forecast and expected to driver strong HEPS growth in 2013. We believe Sasol has a good handle on unit cost inflation through internal power generation, industry leading employee relations and positive volume momentum from Synfuels. The international business remains balanced with favourable feedstock prices in US chemicals and solid operating performances in Oryx GTL cancelled out by difficulties with the realisation of the Iranian polymers asset. Net-net positive existing business drivers into 2013 with Sasol's valuation attractive on spot multiples and comparing favourably to peers on dividend expectation. We believe oil to be supported, but range bound in the 110-120 US$/bbl range over 2013 with Sasol discounting US$90/bbl, in line with peers.

In terms of attracting marginal investors, Sasol needs to bed down a sustainable growth path in the US among its numerous options, while balancing dividend expectations relative to peers. While we see viable options, we do not expect US growth to be a catalyst in 2013 despite at least US$15bn of final investment decisions.

Outlook: Sasol is an integrated liquid fuel and chemical company with upstream coal, gas and oil assets. Sasol leverages value from coal and gas feedstock through its proprietary coal-to-liquids (CTL) and gas-to-liquids (GTL) technologies in the production of liquid fuels and chemicals. Management is actively seeking expansion opportunities created by its technological positioning, most noticeably in Lake Charles (US). We forecast strong medium-term cash generation through high leverage to oil prices given the low cost nature of existing assets. Rand depreciation has to date protected elevated margins from cost inflation pressures specific to South Africa (electricity and labour). The strong expected cash flows should allow the group further expansion opportunities while maintaining dividend yield levels (c.4-5%). Buy.

Valuation: Our valuation includes only existing operations and committed capex. We see further potential upside to our valuation primarily from the Uzbekistan GTL project, as well as Lake Charles GTL and Ethylene expansion projects. We are cautious in including our assessment of the projects' value given the extended period until initial revenue generation and project-specific risks and uncertainties. We use a discounted cash flow valuation (DCF) as the primary tool in arriving at our price target and investment view on Sasol. We believe this methodology allows us to take a much wider range of fundamental factors into account than would a comparable multiples valuation, which often fails to factor in differences related to capex plans, capital structure, and longer-term growth rates. Our discount rate is based on CAPM. Our one-year target price is derived by rolling our DCF forward at the cost of equity less expected dividend yield. Our WACC of 12.3% incorporates a debt/equity ratio of 20:80, beta of 1.1x, risk-free rate of 8.5% and an equity risk premium of 4.5%. Our estimates of the cost of debt incorporate our estimates of the South African risk-free rate together with an appropriate corporate credit spread. Our 3% terminal growth rate represents a conservative outlook weighted according to Sasol's operational regions and products. Sasol's volume growth is dependent on the successful implementation of carbon sequestration technology and retaining its proven technological advantage.

Risks: Risks include a weaker-than-forecast oil price and a stronger-than-forecast ZAR/USD exchange rate. Delayed project delivery, cost overruns and suboptimal ramp-up are also risks. Sasol has an interest in, and may invest in, various higher-risk-rated countries including Iran and Uzbekistan. Implementation of carbon costing is an additional risk. We highlight the additional potential financial leverage risk added to an already highly operationally levered (c.1x oil, c.2.5x ZAR/USD) EPS base, should a rand-oil environment below R525/bbl continue or weaken during the proposed projects' (Lake Charles, Uzbekistan GTL) financing period.

Model updated:08 January 2013

Running the numbers

Sub-Saharan Africa

South Africa

Oil & Gas Producers

Sasol

Reuters: SOLJ.J Bloomberg: SOL SJ

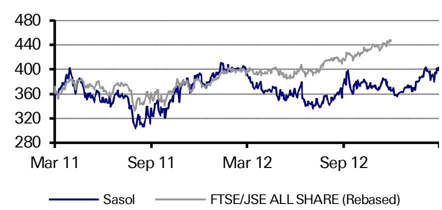
Buy

Price (8 Mar 13)	ZAR 403.00
Target Price	ZAR 440.00
52 Week range	ZAR 336.00 – 403.00
Market Cap (m)	ZARm 243,090
	USDm 26,765

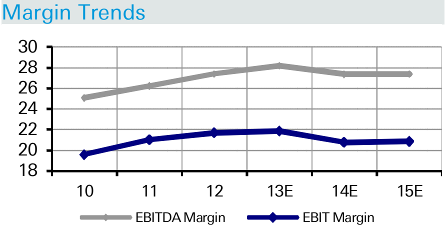
Company Profile

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

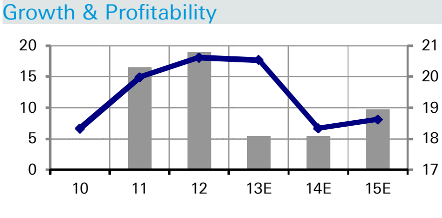
Price Performance



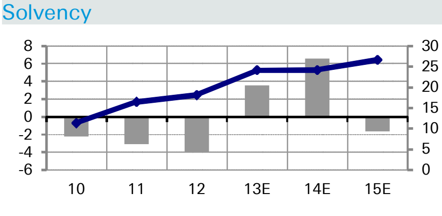
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	26.24	32.44	38.61	46.56	47.76	46.54
Reported EPS (ZAR)	26.24	32.44	38.61	46.56	47.76	46.54
DPS (ZAR)	10.50	13.00	17.50	18.38	19.29	20.26
BVPS (ZAR)	158.5	179.3	207.6	236.7	266.5	292.7
Weighted average shares (m)	598	600	603	605	605	605
Average market cap (ZARm)	173,161	201,427	219,665	246,497	246,497	246,497
Enterprise value (ZARm)	168,011	195,351	212,671	248,627	252,626	248,376
Valuation Metrics						
P/E (DB) (x)	11.0	10.3	9.4	8.8	8.5	8.8
P/E (Reported) (x)	11.0	10.3	9.4	8.8	8.5	8.8
P/BV (x)	1.73	1.99	1.65	1.72	1.53	1.39
FCF Yield (%)	2.8	5.9	3.9	0.7	3.0	6.7
Dividend Yield (%)	3.6	3.9	4.8	4.5	4.7	5.0
EV/Sales (x)	1.4	1.4	1.3	1.4	1.4	1.4
EV/EBITDA (x)	5.5	5.2	4.6	4.8	4.7	4.7
EV/EBIT (x)	7.0	6.5	5.8	6.1	6.0	6.2
Income Statement (ZARm)						
Sales revenue	122,256	142,436	169,446	178,055	175,174	176,381
Gross profit	43,073	51,969	58,404	64,702	67,713	67,643
EBITDA	30,637	37,348	46,408	52,113	54,217	52,954
Depreciation	6,700	7,398	9,650	11,109	12,136	13,035
Amortisation	0	0	0	0	0	0
EBIT	23,937	29,950	36,758	41,004	42,081	39,920
Net interest income(expense)	-2,114	-1,817	-2,030	-1,616	-1,616	-1,616
Associates/affiliates	217	292	479	420	420	420
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	1,332	991	796	804	820	837
Profit before tax	23,372	29,416	36,003	40,612	41,706	39,560
Income tax expense	6,985	9,196	11,746	11,371	11,678	11,077
Minorities	446	426	674	746	792	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	15,941	19,794	23,583	28,494	29,236	28,483
DB adjustments (including dilution)	207	207	207	207	207	207
DB Net profit	16,148	20,001	23,790	28,701	29,443	28,690
Cash Flow (ZARm)						
Cash flow from operations	20,889	32,430	37,624	34,492	43,634	40,462
Net Capex	-16,056	-20,497	-29,160	-32,763	-36,130	-23,987
Free cash flow	4,833	11,933	8,464	1,729	7,504	16,476
Equity raised/(bought back)	110	430	0	0	0	0
Dividends paid	-5,360	-6,614	-9,600	-10,566	-11,168	-11,846
Net inc/(dec) in borrowings	628	244	0	0	0	0
Other investing/financing cash flows	-788	-4,781	649	0	0	0
Net cash flow	-577	1,212	-487	-8,836	-3,665	4,630
Change in working capital	*-3,424*	*-2,379*	*-2,271*	*-5,797*	*1,624*	*-823*
Balance Sheet (ZARm)						
Cash and other liquid assets	16,711	18,019	18,060	9,224	5,559	10,189
Tangible fixed assets	93,541	108,997	129,457	150,946	174,940	185,891
Goodwill/intangible assets	1,931	2,012	2,001	2,001	2,001	2,001
Associates/investments	5,494	5,343	5,015	5,473	5,931	6,389
Other assets	38,807	43,601	49,220	55,935	53,368	54,630
Total assets	156,484	177,972	203,753	223,579	241,799	259,100
Interest bearing debt	14,543	14,595	13,001	13,001	13,001	13,001
Other liabilities	44,699	53,037	62,438	63,754	63,114	63,777
Total liabilities	59,242	67,632	75,439	76,755	76,115	76,778
Shareholders’ equity	94,730	107,649	125,234	143,163	161,230	177,030
Minorities	2,512	2,691	3,080	3,826	4,618	5,456
Total shareholders’ equity	97,242	110,340	128,314	146,989	165,848	182,486
Net debt	*-2,168*	*-3,424*	*-5,059*	*3,777*	*7,442*	*2,812*
Key Company Metrics						
Sales growth (%)	nm	16.5	19.0	5.1	-1.6	0.7
DB EPS growth (%)	na	23.7	19.0	20.6	2.6	-2.6
EBITDA Margin (%)	25.1	26.2	27.4	29.3	31.0	30.0
EBIT Margin (%)	19.6	21.0	21.7	23.0	24.0	22.6
Payout ratio (%)	39.4	39.4	44.8	39.0	39.9	43.0
ROE (%)	18.1	19.8	20.4	21.4	19.3	17.0
Capex/sales (%)	13.2	14.5	17.2	18.4	20.6	13.6
Capex/depreciation (x)	2.4	2.8	3.0	2.9	3.0	1.8
Net debt/equity (%)	-2.2	-3.1	-3.9	2.6	4.5	1.5
Net interest cover (x)	11.3	16.5	18.1	25.4	26.0	24.7

Source: Company data, Deutsche Bank estimates

UK – Paper | Price (8 March 2013): 890p | Target price: 950p | Rating: Buy

Mondi plc

Matthias Pfeifenberger

Business description: Mondi is an integrated producer of packaging paper, converted packaging (including corrugated packaging – 31% of sales in 2008 and bags and specialities – 33% of sales) and business paper (36% of sales). The group operates in Western Europe, Eastern Europe and South Africa, and has leading market positions in selected paper and packaging grades. Mondi is the fourth largest European producer of corrugated packaging and second largest producer of virgin containerboard. Within the printing and writing paper segment, Mondi is the third largest producer of uncoated fine papers (Europe) with a market share of 11%. Mondi Packaging operates six mills in Europe with an annual capacity of c.1.9m tonnes and four mills in South Africa with an annual capacity of c.0.7m tonnes (Kraftliner/testliner). The bags and specialities division operates six mills in Europe with an annual capacity of c.1m tonnes. Mondi also operates 1.4m tonnes of uncoated fine paper in Europe and a further 0.5m tonnes of capacity in South Africa. Mondi has a distinct low-cost advantage relative to other paper and packaging producers, which follows from the geographical locations of the company's assets.

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

- Containerboard and corrugated board prices.
- Uncoated fine paper prices.
- Sack paper prices.
- Softwood and hardwood pulp prices.
- ZAR/USD and EUR/USD exchange rates.
- Movement of input costs.
- Economic growth in Europe.

Outlook: We rate Mondi shares a **Buy**. We like Mondi's positioning as leading producer of industrial and consumer packaging products and uncoated fine paper, operating a well-invested, fully integrated (wood, pulp), low-cost emerging-markets asset base, including its Syktyvkar & Swiecie mills in Russia & Poland and very cost-competitive forestry operations in Russia & South Africa, offering superior returns across the cycle. With more than 50% revenue exposure to emerging markets such as Russia, emerging Europe and South Africa, Mondi benefits from comparatively higher volume growth. Following the acquisition of Nordenia, offering returns even superior to its conventional business (as well as cost & revenue synergies and double-digit earnings accretion until 2014), Mondi has strengthened its consumer packaging footprint, its emerging markets exposure within CP and added to the business' overall resilience (more than 90% exposure to FMCG). Post cash outflows for Nordenia, Świecie minorities, Aylesford Newsprint phase-out and Duropack, strong CF generation should leave leverage at more normal levels as early as 2014, enabling to company to make additional return-enhancing one-off investments (energy, de-bottlenecking etc) and more value- and earnings accretive acquisitions. In the shorter-term, initial price increases across main packaging paper grades could lead to packaging and paper price increases in a best case – as a starting point and including initial op. profit contribution from Nordenia, the yoy turn-around in earnings growth appears to be reached in Q4-12.

Valuation: Our target price is derived from DCF valuation, employing WACC of 7.7% (RfR 3.5%, ERP of 5.5%) and a terminal growth rate of 1%, which is a mix of 0.5% growth for graphic papers and 2% growth in packaging. Mondi trades on 11x forward earnings and 6x forward EBITDA, which we consider not ambitious but rather well-deserved given market and cost positions, business resilience, emerging-market footprint and superior returns, as well as potential from recent earnings- and value-accretive acquisitions.

Risks: The main risks relate to year-end price negotiations in industrial bags and coatings, Mondi's ability to secure wood in Russia and pass through input cost increases via sales prices. In the shorter-term, availability of recycled paper could become a risk particularly in Poland – while additional recycled containerboard capacity is expected to come on stream locally in early 2013 (pot. neg. margin impact as concern), new paper capacity additions (also early 2013E) and the reduction of import tariffs due to the country's WTO inclusion over a four-year period, could impact Russian uncoated fine paper operations.

Model updated:22 February 2013

Running the numbers

Europe

United Kingdom

Paper & Forest Products

Mondi

Reuters: MNDI.L Bloomberg: MNDI LN

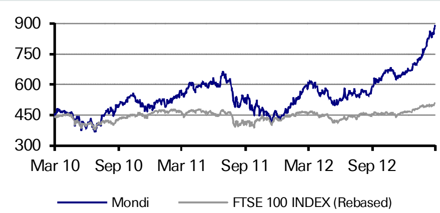
Buy

Price (8 Mar 13)	GBP 890.00
Target Price	GBP 950.00
52 Week range	GBP 499.60 – 890.00
Market Cap (m)	GBPm 4,299
	USDm 6,420

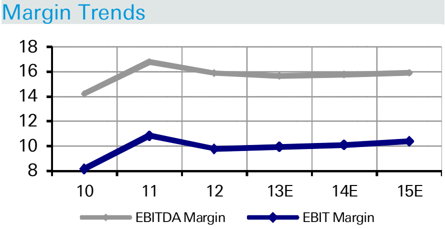
Company Profile

Mondi is an internationally leading paper and packaging ompany, having generated revenues of E5.7bn in 2011. Its low-cost asset base is located in central Europe, Russia and South Africa, primarily involved in the manufacture of packaging paper, converted packaging products and uncoated fine paper (UFP).

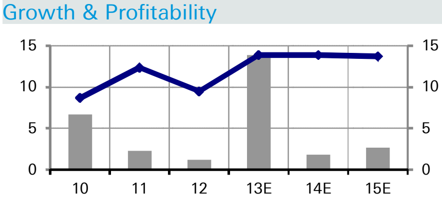
Price Performance



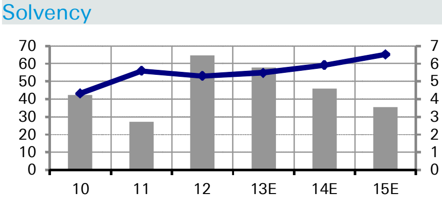
Margin Trends



Growth & Profitability



Solvency



Matthias Pfeifenberger
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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (EUR)	0.40	0.67	0.69	0.77	0.84	0.90
Reported EPS (EUR)	0.44	0.65	0.50	0.77	0.84	0.90
DPS (EUR)	0.20	0.26	0.28	0.32	0.35	0.38
BVPS (EUR)	5.4	5.2	5.3	5.8	6.3	6.8
Weighted average shares (m)	508	499	483	483	483	483
Average market cap (EURm)	2,657	3,088	3,454	4,937	4,937	4,937
Enterprise value (EURm)	4,431	4,326	5,590	7,054	6,846	6,625
Valuation Metrics						
P/E (DB) (x)	13.1	9.2	10.3	13.3	12.2	11.4
P/E (Reported) (x)	12.0	9.5	14.2	13.3	12.2	11.4
P/BV (x)	1.10	1.05	1.55	1.76	1.62	1.50
FCF Yield (%)	11.6	16.3	0.4	8.2	10.5	10.9
Dividend Yield (%)	3.8	4.2	3.9	3.1	3.4	3.7
EV/Sales (x)	0.8	0.8	1.0	1.1	1.0	1.0
EV/EBITDA (x)	5.6	4.5	6.1	6.8	6.4	6.0
EV/EBIT (x)	9.7	7.0	9.8	10.7	10.1	9.2
Income Statement (EURm)						
Sales revenue	5,610	5,739	5,807	6,612	6,733	6,910
Gross profit	5,610	5,739	5,807	6,612	6,733	6,910
EBITDA	798	964	923	1,036	1,062	1,099
Depreciation	340	342	355	378	382	382
Amortisation	0	0	0	0	0	0
EBIT	458	622	568	658	681	718
Net interest income(expense)	-106	-111	-107	-120	-115	-110
Associates/affiliates	2	1	1	1	1	1
Exceptionals/extraordinaries	13	-12	-91	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	333	457	371	539	567	609
Income tax expense	82	100	92	135	129	140
Minorities	61	70	35	32	33	34
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	224	330	244	372	405	434
DB adjustments (including dilution)	-19	10	92	0	0	0
DB Net profit	205	340	336	372	405	434
Cash Flow (EURm)						
Cash flow from operations	638	834	740	875	987	990
Net Capex	-329	-331	-725	-470	-470	-450
Free cash flow	309	503	15	405	517	540
Equity raised/(bought back)	-2	-13	-332	0	0	0
Dividends paid	-72	-169	-157	-145	-162	-176
Net inc/(dec) in borrowings	-165	-139	417	-130	-200	-220
Other investing/financing cash flows	-179	-98	-101	-120	-115	-110
Net cash flow	-109	84	-158	10	40	34
Change in working capital	*-121*	*-68*	*-80*	*-59*	*32*	*7*
Balance Sheet (EURm)						
Cash and other liquid assets	83	191	56	66	106	140
Tangible fixed assets	3,976	3,377	3,706	3,887	3,975	4,044
Goodwill/intangible assets	312	238	695	695	695	695
Associates/investments	50	43	33	34	35	36
Other assets	2,071	1,796	2,124	2,216	2,203	2,224
Total assets	6,492	5,645	6,614	6,898	7,014	7,139
Interest bearing debt	1,447	1,023	1,921	1,880	1,680	1,460
Other liabilities	1,822	1,587	1,817	1,882	1,923	1,975
Total liabilities	3,269	2,610	3,738	3,762	3,603	3,435
Shareholders' equity	2,763	2,586	2,572	2,799	3,043	3,301
Minorities	460	449	304	336	369	403
Total shareholders' equity	3,223	3,035	2,876	3,136	3,412	3,704
Net debt	*1,364*	*832*	*1,865*	*1,814*	*1,574*	*1,320*
Key Company Metrics						
Sales growth (%)	6.7	2.3	1.2	13.9	1.8	2.6
DB EPS growth (%)	112.0	68.8	2.9	10.8	8.8	7.2
EBITDA Margin (%)	14.2	16.8	15.9	15.7	15.8	15.9
EBIT Margin (%)	8.2	10.8	9.8	10.0	10.1	10.4
Payout ratio (%)	45.4	39.3	55.4	41.5	41.7	42.3
ROE (%)	8.7	12.3	9.5	13.9	13.9	13.7
Capex/sales (%)	7.8	5.3	6.2	7.1	7.0	6.5
Capex/depreciation (x)	1.3	0.9	1.0	1.2	1.2	1.2
Net debt/equity (%)	42.3	27.4	64.8	57.8	46.1	35.6
Net interest cover (x)	4.3	5.6	5.3	5.5	5.9	6.5

Source: Company data, Deutsche Bank estimates

South Africa – Steel | Price (8 March 2013): 3112c | Target price: 4500c | Rating: Hold

ArcelorMittal South Africa Ltd

Jarrett Geldenhuys

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

Drivers: An unfavoured stock for good reason; uncertainty on operational stability and long term iron ore supply, weak local steel demand and cost pressures running well above inflation. With value unlock from returning to a cost +3% iron ore agreement not foreseen in 2013, we have no visible catalysts to drive the share. Margins are expected to be squeezed further by the recent fire in Vanderbijlpark operations as products will now need to be imported at AMSA's cost. The weak rand environment relative to our forecast is expected to allow the business to stay cash positive, but poor utilisation keeps us from calling a bottom just yet.

Outlook: While it is difficult to see how the outlook for AMSA could further significantly deteriorate, barring additional major operational failures, we fail to see short term catalysts. The remainder of FY13 is expected to be extremely difficult for AMSA. South African steel demand remains weak and AMSA is in maximum cash preservation mode. A significant re-rating is only expected on greater clarity over numerous risks (operational stability, iron-ore supply, environmental compliance, developmental steel pricing, competition commission issues and carbon tax) or a significant turn-around in the global macro outlook and subsequently steel demand and prices (post Chinese New Year). Valuation risks resulting from the outcome of the Sishen Supply Agreement arbitration, mining rights allocation and potential implementation of developmental steel pricing are neutral, on balance, for AMSA from our base case assumptions. We expect an outcome allowing a compromise considering implications for employment, raw material beneficiation, the potential impact on balance of payments, local steel supply security and prices. Barring investors seeking a high risk return around the potential supply agreement outcomes, a significant re-rating is only expected on greater clarity over inherent risks. A lack of short term catalysts amongst the headwinds leads us to rate AMSA a **Hold**.

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

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

Model updated:06 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Industrial Metals

ArcelorMittal South Africa

Reuters: ACLJ.J Bloomberg: ACL SJ

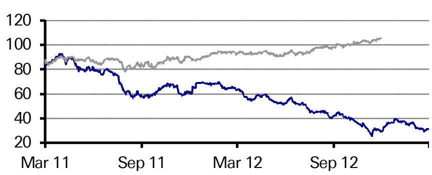
Hold

Price (8 Mar 13)	ZAR 31.12
Target Price	ZAR 45.00
52 Week range	ZAR 25.35 – 63.65
Market Cap (m)	ZARm 12,485
	USDm 1,375

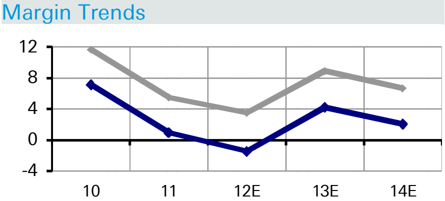
Company Profile

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

Price Performance

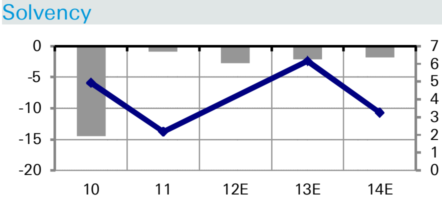


Margin Trends



Growth & Profitability

Solvency



Jarrett Geldenhuys
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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Financial Summary					
DB EPS (ZAR)	3.35	0.02	-1.27	2.51	1.28
Reported EPS (ZAR)	3.35	0.02	-1.27	2.51	1.28
DPS (ZAR)	1.50	0.55	0.00	0.84	0.40
BVPS (ZAR)	56.2	56.5	55.4	57.1	58.1
Weighted average shares (m)	401	401	401	401	401
Average market cap (ZARm)	34,760	29,830	12,485	12,485	12,485
Enterprise value (ZARm)	28,884	26,803	8,641	8,594	8,484
Valuation Metrics					
P/E (DB) (x)	25.8	nm	nm	12.4	24.4
P/E (Reported) (x)	25.8	nm	nm	12.4	24.4
P/BV (x)	1.41	1.21	0.56	0.54	0.54
FCF Yield (%)	0.6	nm	7.4	1.6	0.6
Dividend Yield (%)	1.7	0.7	0.0	2.7	1.3
EV/Sales (x)	1.0	0.9	0.3	0.2	0.2
EV/EBITDA (x)	8.2	15.6	7.7	2.8	3.7
EV/EBIT (x)	13.4	90.2	nm	5.9	11.9
Income Statement (ZARm)					
Sales revenue	30,224	31,453	32,291	34,654	34,869
Gross profit	30,224	31,453	32,291	34,654	34,869
EBITDA	3,522	1,720	1,121	3,078	2,321
Depreciation	1,360	1,409	1,582	1,603	1,591
Amortisation	11	14	16	15	19
EBIT	2,151	297	-477	1,460	712
Net interest income(expense)	-436	-137	-274	-237	-219
Associates/affiliates	122	-34	59	173	174
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	1,837	126	-692	1,396	667
Income tax expense	492	118	-184	391	154
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	1,345	8	-508	1,006	513
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	1,345	8	-508	1,006	513
Cash Flow (ZARm)					
Cash flow from operations	1,939	-1,147	1,794	1,687	1,709
Net Capex	-1,714	-1,220	-875	-1,486	-1,638
Free cash flow	225	-2,367	919	201	71
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-602	-221	0	-327	-135
Net inc/(dec) in borrowings	-43	-195	-90	0	0
Other investing/financing cash flows	-422	135	-251	0	0
Net cash flow	-842	-2,648	578	-126	-64
Change in working capital	*-1,100*	*-2,701*	*998*	*-764*	*-239*
Balance Sheet (ZARm)					
Cash and other liquid assets	3,506	439	884	758	694
Tangible fixed assets	16,432	16,618	16,068	15,908	15,908
Goodwill/intangible assets	84	126	121	149	177
Associates/investments	2,594	2,829	3,230	3,403	3,578
Other assets	9,102	12,410	10,595	12,187	12,578
Total assets	31,718	32,422	30,898	32,404	32,934
Interest bearing debt	224	241	270	270	270
Other liabilities	8,938	9,512	8,386	9,214	9,366
Total liabilities	9,162	9,753	8,656	9,484	9,636
Shareholders' equity	22,556	22,669	22,242	22,921	23,298
Minorities	0	0	0	0	0
Total shareholders' equity	22,556	22,669	22,242	22,921	23,298
Net debt	*-3,282*	*-198*	*-614*	*-488*	*-424*
Key Company Metrics					
Sales growth (%)	nm	4.1	2.7	7.3	0.6
DB EPS growth (%)	na	-99.4	na	na	-49.0
EBITDA Margin (%)	11.7	5.5	3.5	8.9	6.7
EBIT Margin (%)	7.1	0.9	-1.5	4.2	2.0
Payout ratio (%)	44.7	nm	nm	33.3	31.2
ROE (%)	6.0	0.0	-2.3	4.5	2.2
Capex/sales (%)	5.7	3.9	2.7	4.3	4.7
Capex/depreciation (x)	1.3	0.9	0.5	0.9	1.0
Net debt/equity (%)	-14.6	-0.9	-2.8	-2.1	-1.8
Net interest cover (x)	4.9	2.2	nm	6.2	3.2

Source: Company data, Deutsche Bank estimates

South Africa – Food Producers | Price (8 March 2013): 5846c | Target price: 5100c | Rating: Hold

AVI Ltd

Warren Goldblum, CFA

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

Drivers:

- **Food and beverage brands division:** This division is the biggest contributor to profitability, contributing around two-thirds of FY12 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 the balance of around one-third of FY12 group EBIT. In the middle of calendar 2012, the group acquired Green Cross (manufacturer, importer and retailer of shoes in South Africa); this acquisition should result in an FY13E EBIT split of 60/40 between the group's food/beverage business and fashion brands business (from two-thirds/one-thirds in FY12).

Outlook: Over the past five years the group has returned c.R2.5bn to shareholders, split between ordinary dividends (c.R1.5bn) and share repurchases/capital distributions (c.R1bn); a strong track record. We believe the strong brands, robust margins and defensive nature of product demand across the sector justifies a greater use of debt in the capital structure of those food producers with low gearing levels. In the absence of acquisitions we believe potential upside exists to distributions over the medium-term; however given the actions undertaken in FY12 (lowering of cover and declaration of special dividend), we believe increased distributions to shareholders are less likely over the next 12 months. **Hold**.

Valuation: We value AVI on a DCF basis. Inputs into our five-year DCF include WACC of 12.9% (COE of 13.9%, 20% D:E, levered beta of 1.2x), risk-free rate of 8.5% (in line with our house long bond forecast), market risk premium of 4.5%, and terminal growth rate of 4.5% (4.5% is the mid-point inflation target; South Africa has 3-6% inflation targeting).

Risks:

Downside risks

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

Upside risks

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

Model updated:15 January 2013

Running the numbers

Sub-Saharan Africa

South Africa

Food Producers

AVI

Reuters: AVIJ.J — Bloomberg: AVI SJ

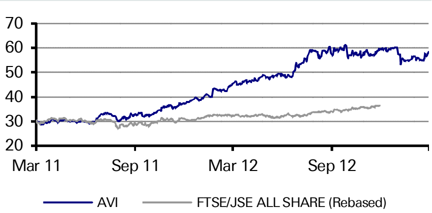
Hold

Price (8 Mar 13)	ZAR 58.46
Target Price	ZAR 51.00
52 Week range	ZAR 44.90 – 61.35
Market Cap (m)	ZARm 17,493
	USDm 1,926

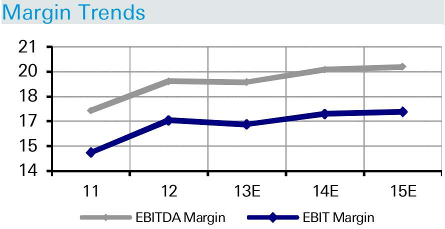
Company Profile

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

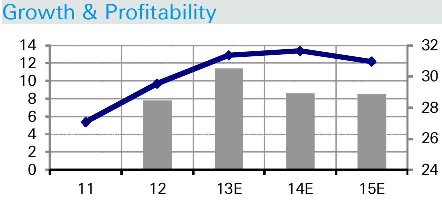
Price Performance



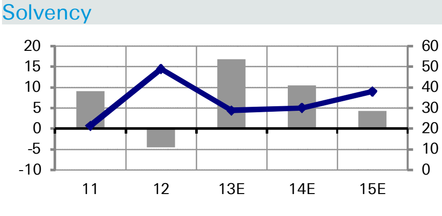
Margin Trends



Growth & Profitability



Solvency



Warren Goldblum, CFA
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Fiscal year end 30-Jun	2011	2012	2013E	2014E	2015E
Financial Summary					
DB EPS (ZAR)	2.52	3.05	3.35	3.86	4.25
Reported EPS (ZAR)	2.52	3.05	3.48	3.86	4.25
DPS (ZAR)	1.25	3.83	2.34	2.69	2.97
BVPS (ZAR)	9.5	12.1	11.7	13.2	14.9
Weighted average shares (m)	303	299	299	299	299
Average market cap (ZARm)	8,510	11,839	16,517	16,517	16,517
Enterprise value (ZARm)	8,177	11,340	16,653	16,396	16,155
Valuation Metrics					
P/E (DB) (x)	11.2	13.0	16.5	14.3	13.0
P/E (Reported) (x)	11.2	13.0	15.9	14.3	13.0
P/BV (x)	3.29	4.14	4.71	4.17	3.71
FCF Yield (%)	8.4	4.0	5.1	6.2	6.7
Dividend Yield (%)	4.4	9.7	4.2	4.9	5.4
EV/Sales (x)	1.1	1.4	1.8	1.6	1.5
EV/EBITDA (x)	6.2	7.2	9.4	8.2	7.4
EV/EBIT (x)	7.3	8.3	10.8	9.5	8.6
Income Statement (ZARm)					
Sales revenue	7,686	8,287	9,299	10,145	11,030
Gross profit	7,686	8,287	9,299	10,145	11,030
EBITDA	1,319	1,568	1,777	1,995	2,182
Depreciation	196	196	240	272	296
Amortisation	0	0	0	0	0
EBIT	1,123	1,373	1,537	1,722	1,886
Net interest income(expense)	-53	-28	-72	-42	-29
Associates/affiliates	36	47	28	42	44
Exceptionals/extraordinaries	53	12	0	0	0
Other pre-tax income/(expense)	-8	0	60	17	18
Profit before tax	1,098	1,391	1,554	1,740	1,919
Income tax expense	363	444	440	506	558
Minorities	0	2	2	3	3
Other post-tax income/(expense)	0	0	0	0	0
Net profit	788	958	1,112	1,231	1,357
DB adjustments (including dilution)	0	0	-43	0	0
DB Net profit	788	958	1,068	1,231	1,357
Cash Flow (ZARm)					
Cash flow from operations	1,031	972	1,357	1,432	1,561
Net Capex	-315	-493	-510	-406	-463
Free cash flow	716	479	847	1,026	1,099
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-562	-476	-1,200	-766	-854
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	0	0	-377	0	0
Net cash flow	154	3	-731	260	244
Change in working capital	*144*	*-238*	*-125*	*-74*	*-95*
Balance Sheet (ZARm)					
Cash and other liquid assets	380	242	444	504	548
Tangible fixed assets	1,460	1,757	2,027	2,161	2,327
Goodwill/intangible assets	759	749	1,126	1,126	1,126
Associates/investments	572	318	338	338	338
Other assets	2,143	2,405	2,678	2,886	3,123
Total assets	5,314	5,471	6,613	7,015	7,463
Interest bearing debt	639	79	916	716	516
Other liabilities	1,829	1,795	2,130	2,265	2,407
Total liabilities	2,468	1,874	3,045	2,981	2,923
Shareholders' equity	2,867	3,615	3,565	4,030	4,533
Minorities	-20	-18	2	5	8
Total shareholders' equity	2,847	3,597	3,567	4,034	4,541
Net debt	*259*	*-163*	*472*	*212*	*-32*
Key Company Metrics					
Sales growth (%)	nm	7.8	12.2	9.1	8.7
DB EPS growth (%)	na	21.3	9.7	15.2	10.3
EBITDA Margin (%)	17.2	18.9	19.1	19.7	19.8
EBIT Margin (%)	14.6	16.6	16.5	17.0	17.1
Payout ratio (%)	48.0	119.7	63.0	65.5	65.5
ROE (%)	27.1	29.5	31.0	32.4	31.7
Capex/sales (%)	4.1	5.9	5.5	4.0	4.2
Capex/depreciation (x)	1.6	2.5	2.1	1.5	1.6
Net debt/equity (%)	9.1	-4.5	13.2	5.2	-0.7
Net interest cover (x)	21.3	48.8	21.4	41.3	64.8

Source: Company data, Deutsche Bank estimates

South Africa – Food Beverage & Tobacco | Price (8 March 2013): 48493c | Target price: 49500c | Rating: Buy

British American Tobacco plc

Warren Goldblum, CFA / Jonathan Fell

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

Drivers: The group operates through four regions:

- Western Europe: In Western Europe profits increased by 3% (on a constant currency basis) in FY12 on a 5% volume decline (tough conditions in southern Europe partially offset by good performances in other European markets).
- Eastern Europe, Middle East and Africa: Strong FY12 profit growth (+15% on a constant currency basis) was reported on price increases and stable volumes.
- Asia Pacific: A good performance across the region drove an increase in FY12 profits of 7%, on a constant currency basis. Volumes declined by 2%, with lower volumes in South Korea, Indonesia and Japan; though adjusting for the one-off in the base in Japan in the prior year, volumes would have been stable.
- Americas: Profits rose by 6% in FY12, on an organic constant currency basis, with strong profit growth (in constant currency terms) in Brazil, driven by improved product mix and higher pricing, with market share rising, but volumes still declining (signalling an excise increase and subsequent increase in illicit trade).

Outlook: BAT is a very high quality business with a strong earnings growth story, driven by both top-line growth and cost-cutting programmes that are allowing substantial reinvestment in the business. BAT generates over half of its income from emerging markets but has very diverse geographical exposure, and so is relatively immune from shocks in individual markets. We think the stock is a solid long-term investment that should be capable of maintaining its long record of high single-figure annual EPS growth. **Buy**.

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.

Model updated:13 February 2013

Running the numbers

Europe

United Kingdom

Tobacco

BAT

Reuters: BTIJ.J | Bloomberg: BTI SJ

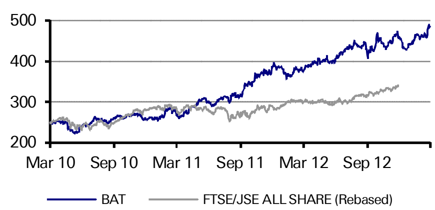
Buy

Price (8 Mar 13)	ZAR 484.93
Target Price	ZAR 495.00
52 Week range	ZAR 377.01 – 490.50
Market Cap (m)	ZARm 940,220
	USDm 103,521

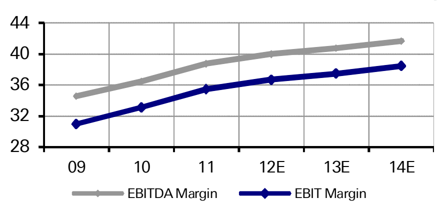
Company Profile

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

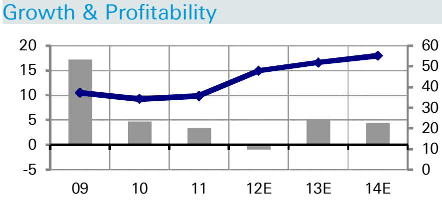
Price Performance



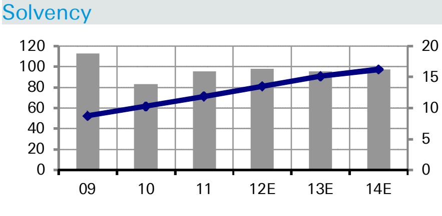
Margin Trends



Growth & Profitability



Solvency



Warren Goldblum, CFA
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Fiscal year end 31-Dec	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (GBP)	175.73	194.60	207.49	234.71	259.05	284.54
Reported EPS (GBP)	144.38	156.16	197.08	228.63	252.84	278.19
DPS (GBP)	114.20	126.50	134.90	152.60	168.40	184.90
BVPS (GBP)	463.8	417.4	389.5	373.7	381.4	388.2
Weighted average shares (m)	1,983	1,970	1,939	1,898	1,858	1,818
Average market cap (GBPm)	44,376	52,840	61,923	66,699	65,289	63,885
Enterprise value (GBPm)	48,216	56,479	65,086	69,471	68,450	67,305
Valuation Metrics						
P/E (DB) (x)	12.7	13.8	15.4	15.0	13.6	12.4
P/E (Reported) (x)	15.5	17.2	16.2	15.4	13.9	12.6
P/BV (x)	5.35	7.32	8.01	9.40	9.22	9.05
FCF Yield (%)	7.1	6.0	5.0	6.2	6.5	7.4
Dividend Yield (%)	5.1	4.7	4.2	4.3	4.8	5.3
EV/Sales (x)	3.2	3.7	4.3	4.2	4.0	3.7
EV/EBITDA (x)	8.9	9.5	10.7	10.5	9.6	8.8
EV/EBIT (x)	9.8	10.3	11.6	11.3	10.3	9.4
Income Statement (GBPm)						
Sales revenue	14,883	15,399	15,190	16,428	17,257	18,057
Gross profit	8,789	9,572	9,588	10,764	11,515	12,231
EBITDA	5,426	5,966	6,067	6,635	7,147	7,662
Depreciation	442	447	386	404	435	464
Amortisation	62	58	63	63	63	63
EBIT	4,922	5,461	5,618	6,168	6,649	7,135
Net interest income(expense)	-480	-460	-456	-450	-482	-505
Associates/affiliates	550	670	692	793	868	937
Exceptionals/extraordinaries	-604	-740	-206	-100	-100	-100
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	3,838	4,261	4,956	5,618	6,067	6,529
Income tax expense	1,248	1,556	1,526	1,735	1,874	2,016
Minorities	261	280	281	312	339	365
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,879	3,095	3,841	4,362	4,723	5,085
DB adjustments (including dilution)	625	762	203	116	116	116
DB Net profit	3,504	3,857	4,044	4,478	4,839	5,201
Cash Flow (GBPm)						
Cash flow from operations	3,661	3,732	3,818	4,891	4,988	5,345
Net Capex	-523	-572	-748	-756	-770	-620
Free cash flow	3,138	3,160	3,070	4,135	4,218	4,724
Equity raised/(bought back)	0	-755	-1,258	-1,500	-1,650	-1,815
Dividends paid	-2,093	-2,358	-2,538	-2,624	-2,957	-3,169
Net inc/(dec) in borrowings	-690	57	718	-12	389	259
Other investing/financing cash flows	-151	-345	-95	0	0	0
Net cash flow	204	-241	-103	0	0	0
Change in working capital	*90*	*-88*	*-244*	*185*	*82*	*68*
Balance Sheet (GBPm)						
Cash and other liquid assets	2,329	2,194	2,081	2,081	2,081	2,081
Tangible fixed assets	3,117	3,047	3,201	3,466	3,716	3,839
Goodwill/intangible assets	12,458	11,992	11,710	11,733	11,755	11,725
Associates/investments	3,061	3,085	2,829	2,803	2,961	3,140
Other assets	6,895	6,801	7,506	7,809	8,054	8,303
Total assets	27,860	27,119	27,327	27,893	28,568	29,088
Interest bearing debt	10,250	10,276	10,719	11,277	11,666	11,925
Other liabilities	8,062	8,369	8,829	9,267	9,544	9,810
Total liabilities	18,312	18,645	19,548	20,545	21,210	21,736
Shareholders' equity	9,206	8,167	7,472	7,020	7,010	6,980
Minorities	342	307	307	328	348	373
Total shareholders' equity	9,548	8,474	7,779	7,348	7,358	7,353
Net debt	*7,921*	*8,082*	*8,638*	*9,196*	*9,585*	*9,844*
Key Company Metrics						
Sales growth (%)	4.8	3.5	-1.4	8.1	5.0	4.6
DB EPS growth (%)	14.9	10.7	6.6	13.1	10.4	9.8
EBITDA Margin (%)	36.5	38.7	39.9	40.4	41.4	42.4
EBIT Margin (%)	33.1	35.5	37.0	37.5	38.5	39.5
Payout ratio (%)	78.7	80.5	68.1	66.4	66.2	66.1
ROE (%)	34.2	35.6	49.1	60.2	67.3	72.7
Capex/sales (%)	3.9	4.0	5.3	5.0	4.8	3.8
Capex/depreciation (x)	1.3	1.4	2.1	2.0	1.9	1.5
Net debt/equity (%)	83.0	95.4	111.0	125.2	130.3	133.9
Net interest cover (x)	10.3	11.9	12.3	13.7	13.8	14.1

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 5900c | Target price: 6705c | Rating: Hold

Clicks Group Ltd

Sean Holmes / Grace Legodi

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

Divisional FY12 EBIT breakdown estimates are as follows: Clicks including pharmacy (80%), UPD (14%), Musica (4%) and The Body Shop (2%). With slowing top line (no regulated drug price increases) and squeezing margins, UPD has shrunk significantly from c.24% of group EBIT in FY09. Clicks was boosted by the aggressive retail pharmacy rollout, consistently strong volume growth and improving gross margins, resulting in a significant increase in contribution to group EBIT (c.65% in FY09 to c.80%).

Clicks has strategically positioned itself as a high convenience specialist health and beauty retailer. The pharmacy market in South Africa is evolving. Corporates who were previously not allowed to hold retail pharmacy licences pre-2003 are now expanding and capturing share from smaller independents whose business model has come under increasing pressure. Clicks currently operates the largest drugstore chain in South Africa with over 280 Clicks stores with integrated in-store dispensaries. Management is accelerating the roll-out of integrated dispensaries into this Clicks store network with a 100-150 additional integrated dispensaries targeted over the next three years. UPD is the pharmaceutical wholesale distribution division with a c.25% market share in the wholesale distribution market. It is currently growing the bulk drug distribution (agency) business to complement its existing wholesale (fine distribution) offering.

Drivers:

- Top-line growth underpinned by continued dispensary roll-out. Management is rolling out retail pharmacies into its existing Clicks store footprint at very little incremental cost, which drives higher front shop sales in addition to foot traffic through the stores. It is rolling out c.40-50 pharmacies per year with approximately five years of strong rollout remaining before all Clicks stores have a retail pharmacy.
- Low selling price inflation slowing top line growth. Given the low SEP drug price increase awarded and limited inflation across health and beauty (driven partly by the sustained rand strength), very low inflation is expected across the business in the near-term.
- Dispensary margin expansion. While we understand that retail pharmacy is still profitable, Clicks is following a price-leadership strategy and running low margins in retail pharmacy well below maximum allowable regulated dispensing margins to maintain a competitive pricing advantage. Given the four-year ramp up in maturity of dispensaries, the aggressive dispensary rollout should underpin dispensary margins into the future as the rollout eventually slows.
- Earnings accretive share buybacks. With strong and consistent normalised free cash flow and moderate capex levels, management has consistently utilised excess cash to buy back shares. Given the low interest rate environment, this has resulted in positive earnings accretion.

Outlook: In our view, Clicks looks well positioned to grow its earnings at 12-15% pa over the next five years. One of its main investment attractions is its high free cash generation – we project Clicks to produce 85-90% of its net earnings in free cash over the next five years. Clicks has a track record of return excess cash to shareholders in the form of reduced dividend cover and share buybacks. We believe Clicks' free cash flows and steady earnings growth could underpin its premium PE rating. We have a **Hold** recommendation on the stock as we see limited upside over the next 12 months given its moderate earnings growth prospects and premium rating.

Valuation: Our 12 month (Nov-13) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple (18x). We calculate our target price PE multiples, using Gordon's dividend discount model where dividend yield = cost of equity less terminal growth. We use a rfr of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5%. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use a PE multiple of c.18x to be more inline with the counter's current 12-month forward PE (19.0x) and to reflect our view that the sector will not see a meaningful de-rating over the next 12 months.

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

Model updated:06 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Clicks Group Ltd

Reuters: CLSJ.J Bloomberg: CLS SJ

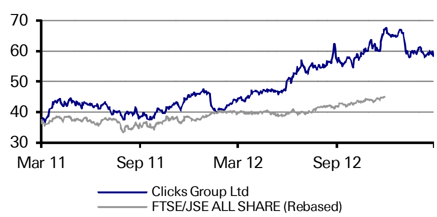
Hold

Price (8 Mar 13)	ZAR 59.00
Target Price	ZAR 67.05
52 Week range	ZAR 43.50 – 67.50
Market Cap (m)	ZARm 14,936
	USDm 1,644

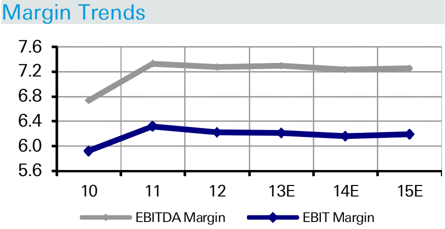
Company Profile

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

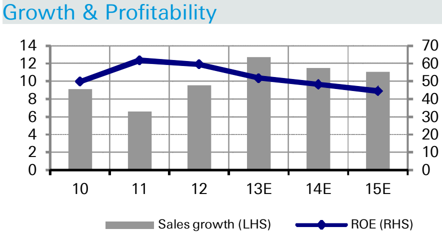
Price Performance



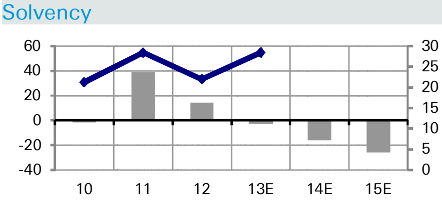
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 31-Aug	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	2.08	2.48	2.72	3.12	3.63	4.12
Reported EPS (ZAR)	2.08	2.48	2.72	3.12	3.63	4.12
DPS (ZAR)	1.07	1.25	1.52	1.73	2.02	2.29
BVPS (ZAR)	4.3	3.6	5.1	6.4	7.9	9.7
Weighted average shares (m)	271	262	253	253	253	253
Average market cap (ZARm)	7,818	10,929	11,640	14,936	14,936	14,936
Enterprise value (ZARm)	7,799	11,305	11,830	14,886	14,594	14,265
Valuation Metrics						
P/E (DB) (x)	13.9	16.8	16.9	18.9	16.2	14.3
P/E (Reported) (x)	13.9	16.8	16.9	18.9	16.2	14.3
P/BV (x)	8.59	11.51	11.35	9.24	7.45	6.10
FCF Yield (%)	nm	1.6	1.5	1.3	1.9	2.3
Dividend Yield (%)	3.7	3.0	3.3	2.9	3.4	3.9
EV/Sales (x)	0.6	0.8	0.7	0.8	0.7	0.6
EV/EBITDA (x)	8.3	10.4	10.0	11.1	9.9	8.7
EV/EBIT (x)	9.5	12.1	11.7	13.1	11.6	10.2
Income Statement (ZARm)						
Sales revenue	13,902	14,824	16,237	18,300	20,406	22,667
Gross profit	3,530	3,945	4,275	4,763	5,290	5,890
EBITDA	937	1,087	1,182	1,335	1,476	1,644
Depreciation	-114	-150	-171	-198	-219	-240
Amortisation	0	0	0	0	0	0
EBIT	823	937	1,011	1,137	1,257	1,404
Net interest income(expense)	-39	-33	-46	-40	20	45
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-14	-6	-7	0	0	0
Profit before tax	770	898	958	1,097	1,277	1,449
Income tax expense	-207	-247	-269	-307	-358	-406
Minorities	-2	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	565	651	689	790	920	1,043
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	565	651	689	790	920	1,043
Cash Flow (ZARm)						
Cash flow from operations	144	381	426	550	628	705
Net Capex	-207	-209	-248	-352	-339	-368
Free cash flow	-63	172	178	198	289	337
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-550	-827	-305	-438	-510	-579
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	66	-306	-171	0	0	0
Net cash flow	-547	-961	-298	-240	-221	-242
Change in working capital	*-260*	*0*	*0*	*41*	*3*	*-7*
Balance Sheet (ZARm)						
Cash and other liquid assets	152	18	25	265	557	886
Tangible fixed assets	888	950	1,011	1,165	1,285	1,412
Goodwill/intangible assets	419	406	410	410	410	410
Associates/investments	0	0	0	0	0	0
Other assets	2,651	2,881	3,330	3,719	4,152	4,611
Total assets	4,110	4,255	4,776	5,558	6,403	7,319
Interest bearing debt	133	394	215	215	215	215
Other liabilities	2,836	2,896	3,212	3,642	4,078	4,530
Total liabilities	2,969	3,290	3,427	3,857	4,293	4,745
Shareholders' equity	1,141	965	1,349	1,701	2,110	2,575
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,141	965	1,349	1,701	2,110	2,575
Net debt	*-19*	*376*	*190*	*-50*	*-342*	*-671*
Key Company Metrics						
Sales growth (%)	9.1	6.6	9.5	12.7	11.5	11.1
DB EPS growth (%)	26.7	19.4	9.7	14.7	16.4	13.4
EBITDA Margin (%)	6.7	7.3	7.3	7.3	7.2	7.3
EBIT Margin (%)	5.9	6.3	6.2	6.2	6.2	6.2
Payout ratio (%)	51.3	50.3	55.8	55.5	55.5	55.5
ROE (%)	49.9	61.8	59.6	51.8	48.3	44.5
Capex/sales (%)	1.5	1.4	1.5	1.9	1.7	1.6
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-1.7	39.0	14.1	-2.9	-16.2	-26.1
Net interest cover (x)	21.2	28.4	22.0	28.4	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 3600c | Target price: 5276c | Rating: Buy

JD Group Ltd

Sean Holmes / Grace Legodi

Business description: JD Group originally started with two Price 'n Pride branded stores. It pursued an aggressive acquisitive growth path – the most significant acquisitions including Rusfurn Group (1993), an attempted merger with Ellerines that was denied by the Competition Commission (2000), Profurn Group (2003), Connection Group (2005: including Hi-Fi Corporation and Incredible Connection cash chains). And more recently, it acquired Absa Group Ltd's shareholding in Maravedi (increased stake from 42.7% to 90.5% in 2008). A recent deal has been announced between Steinhoff, JD Group and KAP (all separately listed in South Africa) that, if approved, would result in Steinhoff assuming control of both JD Group and KAP associate investments in exchange for certain assets. Steinhoff has indicated plans to organically roll out bigger box furniture stores through JD Group.

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

Drivers: Primary earnings drivers in the business include: credit sales recovery, turnaround in Hi-Fi Corporation, reducing store footprint and placing oversized store with smaller and more efficient sites.

- **Credit sales growth showing cracks:** The 2010 recovery in credit sales was short-lived as credit sales growth slowed subsequently with consumer balance sheets remaining stressed. The business remains highly leveraged to credit sales growth due to the associated ancillary insurance and other revenues.
- **Slow turnaround in Hi-Fi Corporation:** Hi-Fi Corporation makes up c.50% of the top line of the consumer electronics division (but marginal contribution to divisional EBIT) and has underperformed significantly to date plagued by issues around quality of merchandise (grey imports), and managing significant volumes in the supply chain. While a change in format, management and product offering was encouraging, the increased competition poses downside risk to the business's sales and margin recovery.
- **Growing scale of financial services** could bolster the group's profitability and earnings growth. Increased economies of scale (through new credit products, such as personal loans and store/credit cards) could help lower the cost-to-revenue ratio in this business, enabling JD Financial Services to lower the revenue yield (increase price competitiveness) and driver stronger volume growth.

The 1H13 results showed weakness in its Retail business, with Furniture sales under pressure. Considering the group's relatively low bad debt base, we think there is risk that bad debts could rise significantly over the next two years – partly driven by aggressive advances growth, but also by consumers' inability to service debt.

Outlook: JD Group is a diversified consumer play. It has undergone a significant restructuring over the last five years. In our view, many of these structural changes will start to bear fruit over the next five years. Most noticeably we think better supply chain management (improved procurement, new inventory management systems, new and consolidated distribution facilities) could help drive better sales densities and higher product margin. We see room for cost efficiencies to improve, levering off a more robust IT platform. The consumer finance business is currently sub-scale. We see profitability and capital returns improving in this business, through scale benefits and better capital management (higher gearing). **Buy** on valuation.

Valuation: Our 12 month (Nov-13) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple. We calculate our target price PE multiples, using Gordon's dividend discount model where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/ dividend yield). Our exit PE of c.8x is in line with the counter's current 12-month forward PE (8.1x) and to reflect our view the sector will not see a meaningful de-rating over the next 12 months.

Risks: Historical evidence shows that JD Group is very sensitive to interest rate changes, given the nature of its customer base. Therefore, we caution that rising interest rates could have an adverse impact of the group's earnings, as bad debts could rise significantly. Our earnings forecasts assume an improvement in cost efficiencies, but we acknowledge that there is some execution risk. A slowdown in credit growth could have a negative impact on our earnings forecast and valuation – JD Group's financial services business makes up 78% of our target price.

Model updated:25 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

JD Group Ltd

Reuters: JDGJ.J | Bloomberg: JDG SJ

Buy

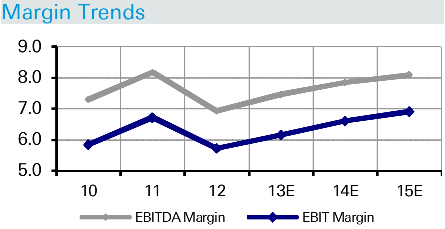
Price (8 Mar 13)	ZAR 36.00
Target Price	ZAR 52.76
52 Week range	ZAR 35.90 – 51.45
Market Cap (m)	ZARm 7,765
	USDm 855

Company Profile

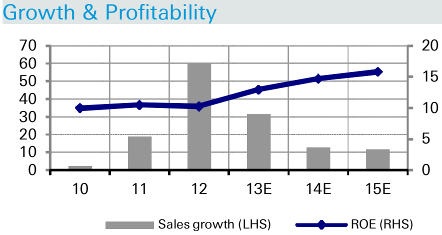
JD Group Limited is a SA furniture retailer that sells furniture, appliances and home entertainment products through nine retail chains. One of the chains, ABRA, operates out of Poland.

Price Performance

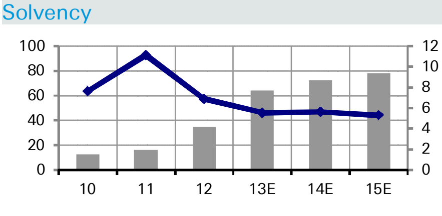
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	3.01	4.02	4.02	5.49	6.66	7.70
Reported EPS (ZAR)	3.01	4.02	4.02	5.49	6.66	7.70
DPS (ZAR)	1.50	2.00	2.32	3.16	3.84	4.43
BVPS (ZAR)	30.4	37.1	40.6	43.3	46.4	49.9
Weighted average shares (m)	164	172	216	216	216	216
Average market cap (ZARm)	7,231	8,320	9,738	7,765	7,765	7,765
Enterprise value (ZARm)	7,876	9,635	12,829	13,899	15,141	16,360
Valuation Metrics						
P/E (DB) (x)	14.6	12.0	11.2	6.6	5.4	4.7
P/E (Reported) (x)	14.6	12.0	11.2	6.6	5.4	4.7
P/BV (x)	1.33	1.14	1.06	0.83	0.78	0.72
FCF Yield (%)	4.1	nm	nm	0.3	3.9	6.1
Dividend Yield (%)	3.4	4.1	5.1	8.8	10.7	12.3
EV/Sales (x)	0.6	0.6	0.5	0.4	0.4	0.4
EV/EBITDA (x)	8.2	7.5	7.3	5.6	5.2	4.8
EV/EBIT (x)	10.2	9.1	8.9	6.8	6.1	5.7
Income Statement (ZARm)						
Sales revenue	13,224	15,741	25,284	33,257	37,463	41,892
Gross profit	6,497	7,191	8,396	11,259	13,076	14,938
EBITDA	965	1,286	1,752	2,480	2,938	3,391
Depreciation	-193	-229	-307	-435	-466	-498
Amortisation	0	0	0	0	0	0
EBIT	772	1,057	1,445	2,045	2,472	2,893
Net interest income(expense)	-101	-95	-210	-370	-440	-545
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	4	7	4	4	5	5
Profit before tax	675	969	1,239	1,680	2,037	2,353
Income tax expense	-167	-264	-350	-470	-570	-659
Minorities	7	5	14	15	17	19
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	501	700	875	1,194	1,450	1,675
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	501	700	875	1,194	1,450	1,675
Cash Flow (ZARm)						
Cash flow from operations	396	-41	67	1,024	1,148	1,268
Net Capex	-99	-622	-1,160	-1,000	-846	-797
Free cash flow	297	-663	-1,093	24	302	471
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	69	1,008	2,046	1,377	1,300	1,100
Net cash flow	366	345	953	1,401	1,602	1,571
Change in working capital	*-334*	*384*	*-778*	*-3,067*	*-1,543*	*-1,691*
Balance Sheet (ZARm)						
Cash and other liquid assets	779	1,376	1,532	-134	-75	-195
Tangible fixed assets	767	1,457	2,373	2,744	2,980	3,247
Goodwill/intangible assets	705	2,982	3,027	3,221	3,364	3,396
Associates/investments	0	0	0	0	0	0
Other assets	7,030	10,919	12,600	15,829	18,137	20,319
Total assets	9,281	16,734	19,532	21,659	24,406	26,767
Interest bearing debt	1,424	2,691	4,623	6,000	7,300	8,400
Other liabilities	2,669	5,878	5,973	6,134	6,900	7,390
Total liabilities	4,093	8,569	10,596	12,134	14,200	15,790
Shareholders' equity	5,188	8,165	8,936	9,525	10,207	10,976
Minorities	0	0	0	0	0	0
Total shareholders' equity	5,188	8,165	8,936	9,525	10,207	10,976
Net debt	*645*	*1,315*	*3,091*	*6,134*	*7,375*	*8,595*
Key Company Metrics						
Sales growth (%)	2.3	19.0	60.6	31.5	12.6	11.8
DB EPS growth (%)	555.5	33.6	-0.1	36.4	21.4	15.6
EBITDA Margin (%)	7.3	8.2	6.9	7.5	7.8	8.1
EBIT Margin (%)	5.8	6.7	5.7	6.1	6.6	6.9
Payout ratio (%)	49.2	49.2	57.2	57.1	57.1	57.1
ROE (%)	10.0	10.5	10.2	12.9	14.7	15.8
Capex/sales (%)	0.7	4.0	4.6	3.0	2.3	1.9
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	12.4	16.1	34.6	64.4	72.3	78.3
Net interest cover (x)	7.6	11.1	6.9	5.5	5.6	5.3

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 6800c | Target price: 7405c | Rating: Hold

Lewis Group Ltd

Sean Holmes / Grace Legodi

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.

- Continued top-line growth through aggressive store expansion. Management has highlighted an aggressive organic growth path given under-penetration of stores in certain targeted areas underpinning top line growth.
- More efficient smaller store format provides margin opportunities. Management has successfully piloted smaller store formats utilising 60% of a regular store's floor space and often producing similar levels of turnover assisted by electronic sales catalogues. This provides EBIT margin opportunities.
- Continued growth in financial services income by extending credit, boosted by NCA-allowable fees and high acceptance rates of ancillary high-margin insurance products driven by low claims rate and high acceptance rates.
- Debtors' costs continuing to roll, but slower: Management has guided for bad debts (as % of the gross debtors' book) to improve over the medium term and support higher EBIT margins. However, trading conditions over the last six months have been challenging, constraining sales growth and keeping bad debts high. We think tough macro conditions could continue to limit growth in this business over the next 18 months.
- Maintaining GP margin in the face of a weaker rand and increased competition: A strong rand and the introduction of new product ranging twice a year resulted in improving gross margins over the last few years. The recent weaker rand (boosting imported product inflation) and increased competition could result in greater pressure on GP margins into the future off a more demanding base.

Lewis's customer focus differentiates it from its peers. While its primary market is still the middle market (LSM4-7), it also has a significantly higher low-end focus (LSM1-4) than competitors. Together with its decentralised collections process, this results in less interest rate sensitivity and different primary drivers for earnings (namely food and transport cost inflation together with a higher gearing to employment levels).

Outlook: Lewis's track record is of delivering relatively stable growth and solid returns despite being exposed to a very cyclical industry. We see room for improvement in its EBIT margins and ROE, aided by better sales densities (roll-out of smaller format stores) and lower bad debts (in relation to revenue). We feel the group's current rating is too low (12-month forward PE of c.8x and 12-month forward DY of c.6%); we see room for a re-rating should some of the "bubble" concerns in the unsecured credit market abate. Hold on balanced risk/reward and valuation.

Valuation: Our 12 month (Nov-13) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple. We calculate our target price PE multiples, using Gordon's dividend discount model where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth we project Lewis to achieve. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/dividend yield). Our c.7x exit PE is in line with Lewis's current 12-month forward PE (6.8x) and reflects our view the sector will not see a meaningful de-rating over the next 12 months.

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

Model updated:06 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Furniture & Appliances

Lewis Group Ltd

Reuters: LEWJ.J | Bloomberg: LEW SJ

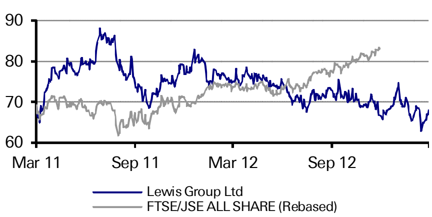
Hold

Price (8 Mar 13)	ZAR 68.00
Target Price	ZAR 74.05
52 Week range	ZAR 62.85 – 78.47
Market Cap (m)	ZARm 6,001
	USDm 661

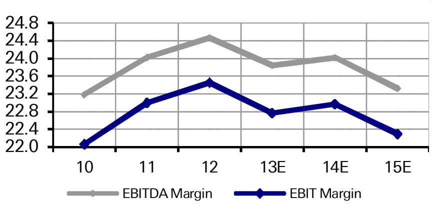
Company Profile

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

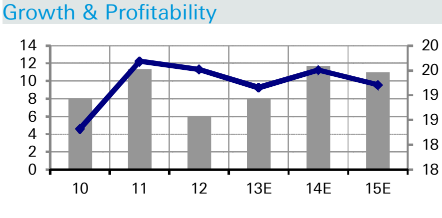
Price Performance



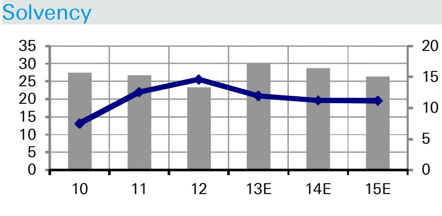
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	6.40	7.72	8.73	9.63	10.78	11.63
Reported EPS (ZAR)	6.40	7.72	8.73	9.63	10.78	11.63
DPS (ZAR)	3.23	3.63	4.42	5.35	5.99	6.46
BVPS (ZAR)	33.4	38.0	43.6	48.0	52.6	57.6
Weighted average shares (m)	88	88	88	88	88	88
Average market cap (ZARm)	4,490	5,948	6,852	6,001	6,001	6,001
Enterprise value (ZARm)	5,389	6,947	7,848	7,409	7,491	7,495
Valuation Metrics						
P/E (DB) (x)	8.0	8.7	8.9	7.1	6.3	5.8
P/E (Reported) (x)	8.0	8.7	8.9	7.1	6.3	5.8
P/BV (x)	1.69	1.96	1.75	1.42	1.29	1.18
FCF Yield (%)	1.6	15.6	0.3	6.7	7.1	7.5
Dividend Yield (%)	6.3	5.4	5.7	7.9	8.8	9.5
EV/Sales (x)	1.3	1.5	1.6	1.4	1.3	1.2
EV/EBITDA (x)	5.7	6.3	6.6	5.9	5.3	4.9
EV/EBIT (x)	5.9	6.6	6.9	6.2	5.6	5.2
Income Statement (ZARm)						
Sales revenue	4,110	4,578	4,857	5,245	5,861	6,506
Gross profit	2,780	3,119	3,411	3,666	4,106	4,542
EBITDA	953	1,100	1,188	1,250	1,407	1,517
Depreciation	-46	-47	-49	-56	-61	-67
Amortisation	0	0	0	0	0	0
EBIT	907	1,053	1,139	1,194	1,346	1,450
Net interest income(expense)	-121	-84	-78	-100	-120	-130
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	78	74	106	100	110	121
Profit before tax	863	1,043	1,167	1,194	1,336	1,441
Income tax expense	-272	-331	-367	-334	-374	-404
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	591	712	800	860	962	1,038
DB adjustments (including dilution)	-25	-23	-19	0	0	0
DB Net profit	566	689	781	860	962	1,038
Cash Flow (ZARm)						
Cash flow from operations	197	1,153	296	484	520	551
Net Capex	-126	-227	-272	-85	-92	-100
Free cash flow	70	926	24	399	428	451
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-286	-303	-356	-432	-503	-553
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-37	-292	-30	326	139	122
Net cash flow	-253	331	-362	293	64	20
Change in working capital	*0*	*0*	*0*	*-811*	*-510*	*-455*
Balance Sheet (ZARm)						
Cash and other liquid assets	62	84	78	-8	49	167
Tangible fixed assets	251	279	312	340	371	404
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	4,545	5,209	5,740	6,387	6,953	7,474
Total assets	4,858	5,572	6,130	6,719	7,373	8,045
Interest bearing debt	961	1,083	1,074	1,400	1,539	1,661
Other liabilities	624	761	781	617	673	738
Total liabilities	1,585	1,844	1,855	2,017	2,212	2,400
Shareholders' equity	3,273	3,728	4,275	4,702	5,161	5,645
Minorities	0	0	0	0	0	0
Total shareholders' equity	3,273	3,728	4,275	4,702	5,161	5,645
Net debt	*899*	*999*	*996*	*1,408*	*1,490*	*1,494*
Key Company Metrics						
Sales growth (%)	8.0	11.4	6.1	8.0	11.7	11.0
DB EPS growth (%)	2.0	20.7	13.0	10.3	11.9	7.9
EBITDA Margin (%)	23.2	24.0	24.5	23.8	24.0	23.3
EBIT Margin (%)	22.1	23.0	23.5	22.8	23.0	22.3
Payout ratio (%)	48.1	45.0	48.9	54.9	54.9	54.9
ROE (%)	18.3	19.7	19.5	19.2	19.5	19.2
Capex/sales (%)	3.1	5.0	5.6	1.6	1.6	1.5
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	27.5	26.8	23.3	29.9	28.9	26.5
Net interest cover (x)	7.5	12.5	14.6	11.9	11.2	11.2

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (8 March 2013): 3499c | Target price: 3800c | Rating: Buy

Life Healthcare Group Holdings Ltd

Ahmed Motara

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

Drivers: The key earnings drivers for the group are:

- Growth in private medical scheme beneficiaries: South Africa continues to experience growth in medical scheme covered lives, which is the key driver of patient volumes for private hospitals. Under near any scenario, it is very difficult to get negative on the continued volume benefit this provides to SA private healthcare providers. In turn, this growth is being partially driven by strong uptake of the Government Employee Medical Scheme (GEMS), which now covers over 1.5m lives. Life Healthcare has been particularly successful at gaining market share with the private medical schemes in South Africa largely due to its strategy of providing hospital services at a guaranteed set tariff (alternative reimbursement model, or ARMs) and taking the risk of managing its input costs effectively.
- Tariff escalations allowing for wage inflation pass-through: A general theme of the private hospital industry in South Africa is that tariff escalations in recent years have generally allowed for recovery of above-CPI cost escalations, principally nursing salaries. Tariffs are negotiated individually with the medical schemes by the private hospital groups. While we don't foresee an imminent change in this model, the greatest risk is that the government introduces unfavourable pricing legislation, or the concentrated nature of the private hospital industry (75% market share between three listed players) attracts a Competition Commission investigation with potentially adverse outcomes.
- Max Healthcare – a toe in the water in India: Life Healthcare's acquisition of a 26% stake in Max Healthcare does not appear a great value deal to us. Even with this business operating at its fully expanded bed capacity (1,900 beds) and the potential for Life Healthcare to bring cost savings expertise to bear on the business, the operations are currently loss-making and expected to remain loss-making in FY13, with a positive contribution to group earnings only emerging in FY14. Comments from management would suggest 16% margin is being targeted for Max Healthcare, significantly above current levels. However, this deal should be placed in context – while the group is likely to seek ultimate joint control of this asset, the initial 26% stake represents less than 10% of the market cap of the group and does not alter what is fundamentally a very moderately geared group. We believe an ideal outcome in the medium term would acquisition of a 50% holding in Max Healthcare, with further bolt acquisitions over time.

Outlook: Life Healthcare has by far the most balance sheet flexibility of the three listed SA hospital groups and generates the strongest free cash flows (the result of superior margins), which has translated into higher dividend payments despite the group's 26% investment in Max Healthcare in India. Our estimates project a forward dividend yield of 4% on the basis of 1.4x cover. We have a **Buy** recommendation on Life Healthcare.

Valuation: LHC trades at a 12-month interpolated forward PE multiple of 17.5x, with a forward dividend yield of 4%. Our 12-month price target per share is derived by applying a PE multiple of 18.0x to our 24-month interpolated forward EPS estimate. The stock is trading on an 11.8x normalised EV/EBITDA forward multiple, with our price target implying an exit EV/EBITDA of 11.8x.

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

Model updated:13 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Life Healthcare

Reuters: LHCJ.J Bloomberg: LHC SJ

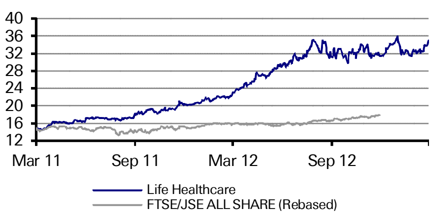
Buy

Price (8 Mar 13)	ZAR 34.99
Target Price	ZAR 38.00
52 Week range	ZAR 23.00 – 35.91
Market Cap (m)	ZARm 36,489
	USDm 4,017

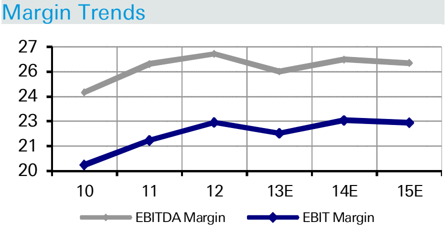
Company Profile

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

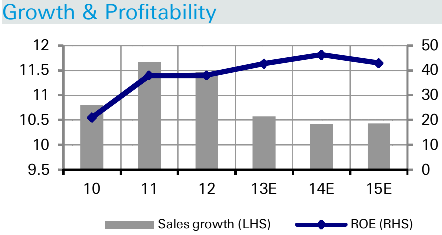
Price Performance



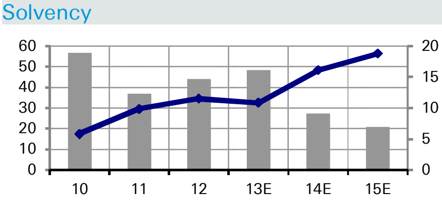
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Sep	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	0.81	1.19	1.47	1.71	2.05	2.21
Reported EPS (ZAR)	0.53	1.16	1.35	1.61	1.94	2.08
DPS (ZAR)	0.52	0.85	1.05	1.22	1.47	1.58
BVPS (ZAR)	2.8	3.4	3.7	3.8	4.6	5.1
Weighted average shares (m)	1,030	1,042	1,043	1,043	1,043	1,043
Average market cap (ZARm)	13,526	16,299	26,610	36,489	36,489	36,489
Enterprise value (ZARm)	15,899	18,503	28,890	38,960	38,337	38,132
Valuation Metrics						
P/E (DB) (x)	16.3	13.1	17.4	20.4	17.0	15.8
P/E (Reported) (x)	25.0	13.5	18.9	21.8	18.1	16.8
P/BV (x)	5.07	5.62	8.51	9.26	7.64	6.88
FCF Yield (%)	7.9	6.7	2.9	4.1	6.7	6.3
Dividend Yield (%)	4.0	5.4	4.1	3.5	4.2	4.5
EV/Sales (x)	1.8	1.9	2.6	3.2	2.9	2.6
EV/EBITDA (x)	7.5	7.3	9.9	12.6	10.9	9.9
EV/EBIT (x)	9.1	8.8	11.8	14.8	12.7	11.5
Income Statement (ZARm)						
Sales revenue	8,786	9,812	10,937	12,094	13,354	14,746
Gross profit	8,786	9,812	2,397	2,622	3,006	3,304
EBITDA	2,131	2,548	2,907	3,085	3,503	3,839
Depreciation	263	375	365	342	370	399
Amortisation	122	79	89	110	121	133
EBIT	1,745	2,094	2,453	2,633	3,013	3,307
Net interest income(expense)	-301	-213	-213	-243	-187	-176
Associates/affiliates	100	115	85	117	179	123
Exceptionals/extraordinaries	0	0	-2	0	0	0
Other pre-tax income/(expense)	-26	14	0	0	0	0
Profit before tax	1,518	2,010	2,323	2,507	3,005	3,254
Income tax expense	805	597	669	669	791	877
Minorities	171	205	247	165	199	214
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	542	1,208	1,407	1,673	2,014	2,164
DB adjustments (including dilution)	290	36	118	110	121	133
DB Net profit	832	1,244	1,525	1,783	2,135	2,297
Cash Flow (ZARm)						
Cash flow from operations	1,567	1,818	2,294	2,246	3,271	3,164
Net Capex	-497	-726	-1,523	-752	-812	-877
Free cash flow	1,070	1,091	771	1,493	2,459	2,287
Equity raised/(bought back)	73	0	0	0	0	0
Dividends paid	-533	-625	-1,092	-1,273	-1,525	-1,640
Net inc/(dec) in borrowings	79	-497	364	752	812	877
Other investing/financing cash flows	-198	-80	-197	-432	-407	-407
Net cash flow	491	-110	-154	540	1,339	1,116
Change in working capital	*0*	*-35*	*485*	*-318*	*412*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	482	400	246	780	2,119	3,235
Tangible fixed assets	3,258	3,753	4,010	4,420	4,862	5,340
Goodwill/intangible assets	2,220	2,296	2,181	2,181	2,060	1,927
Associates/investments	285	287	820	820	902	992
Other assets	1,627	1,731	1,999	1,861	2,089	2,347
Total assets	7,872	8,468	9,256	10,061	12,033	13,842
Interest bearing debt	2,475	2,024	2,387	3,134	3,734	4,611
Other liabilities	1,882	2,059	2,022	2,049	2,386	2,671
Total liabilities	4,357	4,084	4,410	5,183	6,120	7,282
Shareholders' equity	2,849	3,518	3,889	3,941	4,777	5,300
Minorities	666	866	958	937	1,136	1,260
Total shareholders' equity	3,515	4,384	4,846	4,878	5,913	6,560
Net debt	*1,992*	*1,624*	*2,141*	*2,354*	*1,615*	*1,375*
Key Company Metrics						
Sales growth (%)	10.8	11.7	11.5	10.6	10.4	10.4
DB EPS growth (%)	31.7	47.8	22.8	16.9	19.8	7.5
EBITDA Margin (%)	24.2	26.0	26.6	25.5	26.2	26.0
EBIT Margin (%)	19.9	21.3	22.4	21.8	22.6	22.4
Payout ratio (%)	98.8	73.3	77.8	76.3	75.9	76.0
ROE (%)	21.0	38.0	38.0	42.7	46.2	42.9
Capex/sales (%)	5.7	7.4	13.9	6.2	6.1	5.9
Capex/depreciation (x)	1.3	1.6	3.4	1.7	1.7	1.6
Net debt/equity (%)	56.7	37.0	44.2	48.3	27.3	21.0
Net interest cover (x)	5.8	9.8	11.5	10.8	16.1	18.8

Source: Company data, Deutsche Bank estimates

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South Africa – General Retailers | Price (8 March 2013): 19000c | Target price: 17676c | Rating: Hold

Massmart Holdings Ltd

Sean Holmes / Grace Legodi

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

Drivers: Massmart has four operating divisions: 1) Masswarehouse (wholesale and retail food, liquor and general merchandise), 2) Massdiscounters (smaller format general merchandise, white and brown goods stores), 3) Masscash (retail food, wholesale food and the Shield buying organisation), and 4) Massbuild (DIY and building materials) – under 10 different branded formats. While the wholesale food division caters to the low-end LSM 1-4 consumer, the remaining divisions target the middle and upper consumer categories (LSM 5-10). We estimate wholesale food's contribution to EBIT at c.30%, with DIY and building materials constituting c.20%, and the remaining 50% relating to general merchandise through its flagship big-box Makro brand and Game formats. Within the Masscash division, the group also runs a buying organisation called Shield. This involves the agency sale of food to member companies for a small margin to benefit through economies of scale.

Key future profit drivers are:

- Continued organic expansion of Makro warehouses (flagship general merchandise and wholesale food format) domestically. Previously it was felt the national footprint was saturated before new management assisted in enhancing margins in the format and increasing the feasibility of further expansion.
- Cyclical recovery in the domestic DIY market, the division with the highest targeted operating margin (c.7-8%) highlighting substantial potential for improvement from the current c.5.1% levels.
- Aggressive food retail expansion. New food retail format Cambridge to be grown organically and acquisitively. In addition Food Co (c.600m^2 allocated space within a 3,500m^2 Game store) will be rolled out across the Game store footprint and a fresh produce offering will be rolled out to Makro's food offering.
- Potential Wal-Mart procurement and supply-based synergies. Potential benefit through procurement given increased buying power with global suppliers (general merchandise focussed) resulting in market share gains. Further supply-chain based efficiencies through Wal-Mart best practice being implemented in the supply chain roll out.

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

Valuation: Our 12 month (Nov-13) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple. We calculate our target price PE multiples, using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/ dividend yield. Our exit PE is c.22x, which is lower than the counter's current 12-month forward PE of 28x – as we think the stock will de-rate to a more normal PE as the earnings base recovers.

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

Model updated:28 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Massmart

Reuters: MSMJ.J Bloomberg: MSM SJ

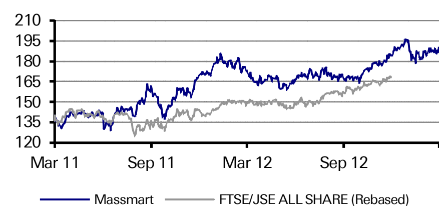
Hold

Price (8 Mar 13)	ZAR 190.00
Target Price	ZAR 176.76
52 Week range	ZAR 158.64 – 196.17
Market Cap (m)	ZARm 40,945
	USDm 4,508

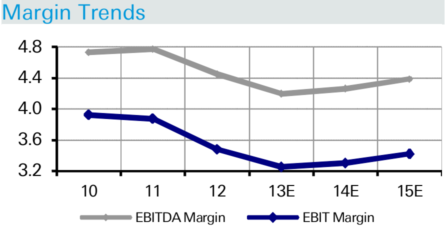
Company Profile

Massmart is an SA-based management company holding a portfolio of wholesale and retail investments in SA, surrounding countries, Uganda, Nigeria and Mauritius. It has four main operating divisions and nine branded store formats that span the wholesale food, general merchandise and DIY markets. Massmart sells primarily branded goods for cash.

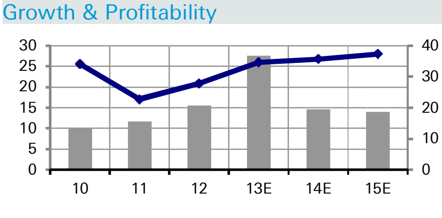
Price Performance



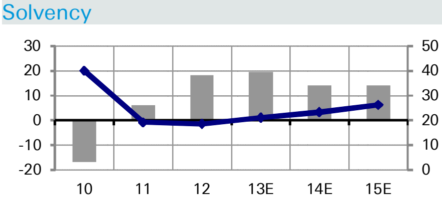
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	5.43	4.08	5.52	7.64	8.95	10.65
Reported EPS (ZAR)	5.43	4.08	5.52	7.64	8.95	10.65
DPS (ZAR)	3.86	3.86	3.98	4.91	5.75	6.85
BVPS (ZAR)	17.8	19.6	21.1	23.9	27.2	31.0
Weighted average shares (m)	201	204	216	216	216	216
Average market cap (ZARm)	24,101	29,954	37,134	40,945	40,945	40,945
Enterprise value (ZARm)	23,499	30,212	37,964	41,952	41,765	41,897
Valuation Metrics						
P/E (DB) (x)	22.1	36.1	31.2	24.9	21.2	17.8
P/E (Reported) (x)	22.1	36.1	31.2	24.9	21.2	17.8
P/BV (x)	8.23	8.64	9.05	7.95	6.99	6.12
FCF Yield (%)	nm	nm	nm	nm	nm	0.2
Dividend Yield (%)	3.2	2.6	2.3	2.6	3.0	3.6
EV/Sales (x)	0.5	0.6	0.6	0.5	0.5	0.4
EV/EBITDA (x)	10.4	11.9	13.9	12.8	10.9	9.3
EV/EBIT (x)	12.6	14.7	17.8	16.5	14.1	12.0
Income Statement (ZARm)						
Sales revenue	47,551	53,089	61,363	78,261	89,655	102,248
Gross profit	8,671	9,807	11,406	14,434	16,468	18,729
EBITDA	2,250	2,534	2,729	3,285	3,822	4,484
Depreciation	-383	-476	-594	-740	-862	-987
Amortisation	0	0	0	0	0	0
EBIT	1,867	2,058	2,135	2,545	2,959	3,497
Net interest income(expense)	-47	-107	-115	-121	-127	-133
Associates/affiliates	0	-448	-185	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	1,820	1,503	1,835	2,425	2,833	3,364
Income tax expense	-608	-585	-618	-703	-821	-976
Minorities	-35	-38	-36	-38	-40	-42
Other post-tax income/(expense)	47	42	6	0	0	0
Net profit	1,130	838	1,175	1,684	1,972	2,347
DB adjustments (including dilution)	9	44	42	0	0	0
DB Net profit	1,139	882	1,217	1,684	1,972	2,347
Cash Flow (ZARm)						
Cash flow from operations	0	1,066	977	1,341	1,566	1,825
Net Capex	-1,131	-1,400	-1,909	-1,633	-1,618	-1,755
Free cash flow	-1,131	-334	-932	-292	-51	70
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	163	1,041	328	107	112	118
Net cash flow	-968	707	-604	-186	61	187
Change in working capital	*0*	*-526*	*360*	*115*	*238*	*-201*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,368	1,549	1,305	1,235	1,534	1,520
Tangible fixed assets	2,055	2,717	3,521	4,386	5,112	5,851
Goodwill/intangible assets	2,096	2,358	2,869	2,898	2,927	2,956
Associates/investments	0	0	0	0	0	0
Other assets	8,770	10,650	11,480	13,090	14,829	16,752
Total assets	14,289	17,274	19,175	21,608	24,401	27,079
Interest bearing debt	766	1,807	2,135	2,242	2,354	2,472
Other liabilities	9,932	11,285	12,475	14,200	16,177	17,899
Total liabilities	10,698	13,092	14,610	16,441	18,531	20,371
Shareholders' equity	3,592	4,182	4,565	5,166	5,870	6,708
Minorities	0	0	0	0	0	0
Total shareholders' equity	3,592	4,182	4,565	5,166	5,870	6,708
Net debt	*-602*	*258*	*830*	*1,007*	*820*	*952*
Key Company Metrics						
Sales growth (%)	10.0	11.6	15.6	27.5	14.6	14.0
DB EPS growth (%)	-8.3	-24.9	35.5	38.4	17.1	19.0
EBITDA Margin (%)	4.7	4.8	4.4	4.2	4.3	4.4
EBIT Margin (%)	3.9	3.9	3.5	3.3	3.3	3.4
Payout ratio (%)	68.6	93.8	73.0	62.9	62.9	62.9
ROE (%)	34.1	22.7	27.8	34.6	35.7	37.3
Capex/sales (%)	2.4	2.6	3.1	2.1	1.8	1.7
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-16.8	6.2	18.2	19.5	14.0	14.2
Net interest cover (x)	40.0	19.2	18.6	21.1	23.3	26.3

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (8 March 2013): 6085c | Target price: 6000c | Rating: Buy

Mediclinic International Ltd

Ahmed Motara

Business description: Mediclinic owns and operates a network of 52 private hospitals in Southern Africa, 14 hospitals in Switzerland and 2 hospitals in the UAE. The group's 100% owned Hirslanden Group is the largest operator of private acute care hospitals in Switzerland.

Drivers:

- The most diversified hospital play: While the drivers of growth for Mediclinic in South Africa remain similar to peers, the group's earnings mix suggests it is the least concentrated "emerging healthcare play" of the three hospital companies. Our estimates suggest that the group's South African operations will account for 55% of core earnings in FY13, with Hirslanden accounting for 28% and the remaining 17 Emirates Healthcare.
- Switzerland safer developed market exposure than UK: Mediclinic has a similar balance sheet profile to Netcare (leveraged acquisition of property-underpinned offshore hospital assets 5-6 years ago), but we believe the group's Swiss hospital assets are operating in a significantly more stable economic environment. Late 2012 renegotiation of the Swiss debt has also led to term extension at a significantly more favourable rate than was initially achieved. While economic conditions could tighten in Switzerland, we do not anticipate a similar fall-off in private medically insured patient volumes as has occurred in the UK. We do however note uncertainty remains on DRG base rates achieved with cantons, but expect margins of 12% to be maintained on Swiss ops. In addition, the group is in the process of expanding capacity in the Swiss operations, which is indicative of tight capacity in many of its hospitals.
- Tax rate in Switzerland and UAE operations provide earnings benefit in future years: Mediclinic offers investors sector-leading EPS growth at 28% CAGR FY13-15E. While part of this growth projection annually is attributable to the group achieving interest tax deductibility on Swiss debt, an increasingly relevant component relates to the 2012 acquisition of the remaining share in EHL, to become the 100% owners. The zero tax rate nature and increasing volume benefit are also key drivers of the above sector average growth we expect for the group.

Outlook: While EPS growth has been patchy following the transformational Hirslanden transaction, we believe MDC is poised to deliver c.28% three year CAGR growth in EPS. The group's poor EPS CAGR since FY05 is principally due to heavily dilutive corporate activity, notably the Hirslanden acquisition, which has been transformational. In our view, similar levels of corporate activity are unlikely in the future, with the result that continued solid underlying operational growth should make the leveraged capital structure work heavily in the group's favour. The recent balance sheet restructuring, reduced debt cost and acquisition of the remaining 49.6% in Emirates Healthcare are all positive factors on the company outlook, underpinning our above sector average EPS growth. We have a **Buy** recommendation on Mediclinic.

Valuation: We reach our 12-month target price using a projected forward PE multiple of 16.2x applied to our 24-month forward EPS estimate. While our EPS CAGR of 28% from FY12-15E is the highest in the sector, our exit forward PE of 16.2x implies a de-rating from the current PE of 17.4x. The stock is trading on a 11.3x EV/EBITDA forward multiple, with our price target implying an exit EV/EBITDA of 11.1x.

Risks: Key downside risks to our view include adverse tariff legislation in South Africa and unfavourable DRG base rates emerging in Switzerland. The group faces above-inflationary escalations in its key input costs and any regulation that seeks to cap hospital tariff increases will have a damaging effect on margins. In addition, the group has substantial financial leverage, which will likely amplify any operational disappointments at the bottom line. In Switzerland, changes to legislation pose some risk of revenue losses associated with the treatment of public patients; currently, public patients comprise 36% of Hirslanden's case load.

Model updated:11 December 2012

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Mediclinic

Reuters: MDCJ.J Bloomberg: MDC SJ

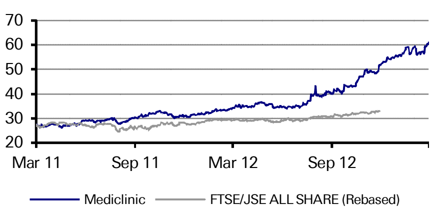
Buy

Price (8 Mar 13)	ZAR 60.85
Target Price	ZAR 60.00
52 Week range	ZAR 33.92 – 60.85
Market Cap (m)	ZARm 44,097
	USDm 4,855

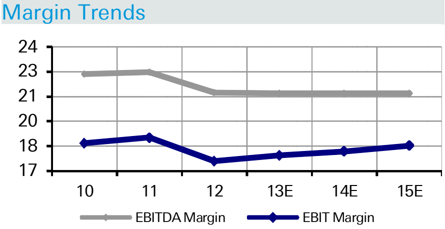
Company Profile

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

Price Performance

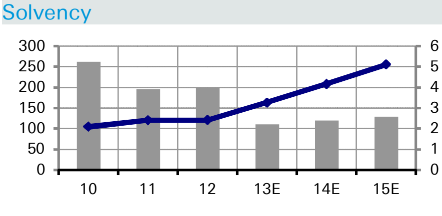


Margin Trends



Growth & Profitability

Solvency



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Fiscal year end 31-Mar	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	1.42	1.72	1.86	2.60	3.13	3.95
Reported EPS (ZAR)	1.77	1.87	1.87	1.50	3.13	3.95
DPS (ZAR)	0.73	0.73	0.78	1.04	1.21	1.37
BVPS (ZAR)	11.2	14.5	15.4	20.0	21.0	22.2
Weighted average shares (m)	593	593	652	725	827	827
Average market cap (ZARm)	12,404	15,179	19,939	44,097	50,320	50,320
Enterprise value (ZARm)	33,289	35,496	42,750	65,059	74,074	77,016
Valuation Metrics						
P/E (DB) (x)	14.7	14.9	16.5	23.4	19.4	15.4
P/E (Reported) (x)	11.8	13.7	16.3	40.4	19.4	15.4
P/BV (x)	2.24	1.85	2.26	3.05	2.89	2.74
FCF Yield (%)	5.5	6.0	3.7	nm	1.6	3.0
Dividend Yield (%)	3.5	2.9	2.6	1.7	2.0	2.3
EV/Sales (x)	1.9	1.9	1.9	2.5	2.4	2.1
EV/EBITDA (x)	8.7	8.5	9.2	11.8	11.4	10.1
EV/EBIT (x)	10.7	10.3	11.4	14.3	13.7	11.9
Income Statement (ZARm)						
Sales revenue	17,141	18,625	21,986	26,017	30,549	35,873
Gross profit	17,141	18,625	21,986	11,108	13,039	15,312
EBITDA	3,833	4,186	4,669	5,512	6,472	7,599
Depreciation	718	738	910	973	1,066	1,126
Amortisation	0	0	0	0	0	0
EBIT	3,115	3,448	3,759	4,539	5,405	6,473
Net interest income(expense)	-1,483	-1,430	-1,557	-1,394	-1,297	-1,268
Associates/affiliates	7	4	0	0	0	0
Exceptionals/extraordinaries	28	13	1	-802	0	0
Other pre-tax income/(expense)	0	0	-26	0	0	0
Profit before tax	1,667	2,035	2,176	3,328	4,108	5,205
Income tax expense	481	654	693	802	830	1,000
Minorities	128	204	263	450	689	939
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,058	1,177	1,221	1,090	2,589	3,267
DB adjustments (including dilution)	-206	-95	-11	797	0	0
DB Net profit	852	1,082	1,210	1,887	2,589	3,267
Cash Flow (ZARm)						
Cash flow from operations	1,960	2,316	2,216	3,181	4,345	5,332
Net Capex	-1,278	-1,399	-1,473	-6,064	-3,545	-3,826
Free cash flow	682	917	743	-2,883	800	1,506
Equity raised/(bought back)	0	1,331	0	6,000	0	0
Dividends paid	-374	-398	-436	-509	-1,165	-1,091
Net inc/(dec) in borrowings	-155	-208	-214	-3,850	2,425	2,608
Other investing/financing cash flows	-127	-1,162	441	0	0	0
Net cash flow	26	480	534	-1,241	2,060	3,023
Change in working capital	*0*	*-3*	*0*	*-355*	*-399*	*-469*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,120	1,567	2,099	2,029	2,383	2,798
Tangible fixed assets	28,046	30,409	34,808	40,032	43,178	46,535
Goodwill/intangible assets	5,243	5,565	6,350	6,614	6,614	6,614
Associates/investments	26	1,435	1,172	15	15	15
Other assets	3,929	4,561	5,766	6,851	7,963	9,270
Total assets	38,364	43,537	50,195	55,541	60,153	65,232
Interest bearing debt	21,065	22,248	24,794	21,694	24,840	28,197
Other liabilities	9,683	10,729	13,997	16,030	16,579	17,460
Total liabilities	30,748	32,977	38,791	37,724	41,419	45,656
Shareholders' equity	6,650	9,489	10,116	16,505	17,388	18,334
Minorities	966	1,071	1,288	1,312	1,312	1,312
Total shareholders' equity	7,616	10,560	11,404	17,817	18,700	19,646
Net debt	*19,945*	*20,681*	*22,695*	*19,665*	*22,457*	*25,399*
Key Company Metrics						
Sales growth (%)	nm	8.7	18.0	18.3	17.4	17.4
DB EPS growth (%)	na	20.8	8.0	40.3	20.2	26.2
EBITDA Margin (%)	22.4	22.5	21.2	21.2	21.2	21.2
EBIT Margin (%)	18.2	18.5	17.1	17.4	17.7	18.0
Payout ratio (%)	40.9	36.8	41.6	69.4	38.7	34.7
ROE (%)	15.4	14.6	12.5	8.2	15.3	18.3
Capex/sales (%)	7.6	7.6	6.7	23.3	11.6	10.7
Capex/depreciation (x)	1.8	1.9	1.6	6.2	3.3	3.4
Net debt/equity (%)	261.9	195.8	199.0	110.4	120.1	129.3
Net interest cover (x)	2.1	2.4	2.4	3.3	4.2	5.1

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications | Price (8 March 2013): 17577c | Target price: 18500c | Rating: Buy

MTN Group Ltd

Mike Gresty, CFA

Business description: MTN is one of the largest MENA mobile operators with more than 183m subscribers across 21 African and the Middle Eastern countries. Among the EM multinational mobile operators, MTN offers has among the best intrinsic growth potential, being a top-two operator in all its markets, with average penetration levels at c.70%.

Nigeria (40%) and South Africa (25%) dominate, accounting for 65% of EBITDA. The Large Opco cluster comprises the next seven markets by size/potential (Iran, Syria, Ghana Côte d'Ivoire, Cameroon, Uganda, Sudan) and contributes 24% of EBITDA. The Small Opco cluster comprises 11 smaller markets that together contribute 7% of EBITDA. MTN has more recently begun focussing on growing its data business across its operations; this has seen the group invest in both fibre networks and internet service providers (ISPs) in a number of countries. We expect this to be an important driver for 2012 as voice traffic growth slows in the medium term.

Drivers:

- **Strong balance sheet; good balance of dividends and growth.** We expect MTN to be in a small net cash position at the end of FY12. It has raised its dividend payout to 72% and has begun buying back shares as circumstances allow. With capex-to-sales at c.17%, we see limited risk from this source to dividends. We see it as a good balance of respectable growth and dividends.

- **Competitive stabilisation in Nigeria.** An intensification in competitive pressure resulted in MTN experiencing a c.500bp compression in EBITDA margin in 2H12 and experience severe congestion on its network (a key focus for the regulator in this market). Competition is expected to have stabilised through 3Q12 and accelerated investment should see capacity headroom restored through FY13. Low double-digit revenue growth resumes into FY14, enabling MTN to hold margin to no more than a gradual decline in this key market is a key expectation.

- **New base established for troubled large Opco markets.** A halving in Iran's exchange rate following intensification of sanctions, currency weakness and severe operational challenges in Syria due to ongoing civil war and economic difficulties in Sudan following secession is putting pressure on results near-term, as well as creating a challenge with respect to its ability to remit cash from these markets. In a worst case scenario, placing zero value on all of them equates to c.1500cps of our valuation. A lower base is expected to be set from a contribution perspective in FY13 off which there is upside optionality if the political environment normalises.

Outlook: We have a **Buy** recommendation on MTN despite what we anticipate to be a year of subdued EBITDA growth in FY13. Competitive margin compression (now stabilised) and capacity constraints in Nigeria and currency weakness, accompanied by a difficult operating environment in a number of its Large Opco cluster businesses (Iran – intensifying sanctions, Syria – civil war, Sudan – economic difficulties following cessation)are likely to hold growth to below potential. Off this base, however, as a top two operator across all its 21 markets, it is well placed to maintain respectable top-line growth and strong EBITDA margins despite the trend of increasing competition. Given its low levels of gearing, the business also remains well positioned to take advantage of appropriate single country acquisitions across its region.

Valuation: Our target price for MTN is based on an exit EV/EBITDA multiple of 6.3x and a 12-month forward PE of 12.5x. This is a premium to the EM multinational mobile telco peer group. Given the superior growth prospects for MTN over the medium term, strong balance sheet and dominant competitive position, we believe a premium to the sector is justified.

Risks: MTN operates in 21 countries across Africa and the Middle East. The political situation in a number of these regions is volatile, and should there be any significant worsening of the current political situation this could negatively impact the business. Another risk to the group's performance is currencies. Again given the diverse regions in which the group operates a significant deterioration of select currencies would place pressure on the group's profitability. Should the group embark upon further material corporate action, this could create uncertainty and impact expectations around free cash flow generation and dividend prospects.

Model updated:06 March 2013

Running the numbers

Sub-Saharan Africa

South Africa

Telecom

MTN Group

Reuters: MTNJ.J Bloomberg: MTN SJ

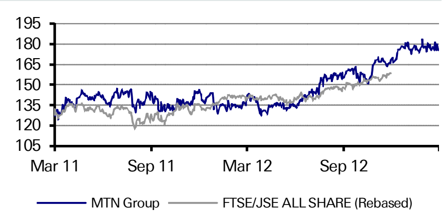
Buy

Price (8 Mar 13)	ZAR 175.77
Target Price	ZAR 185.00
52 Week range	ZAR 127.55 – 183.67
Market Cap (m)	ZARm 323,064
	USDm 35,570

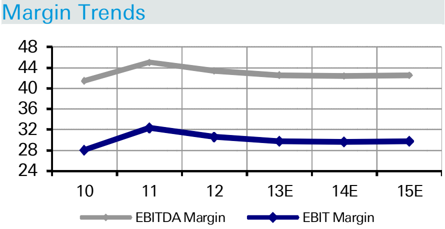
Company Profile

Launched in 1994, MTN Group Ltd is a multinational communications group offering cellular network access nd business solutions. It has mobile licences across 21 countries in Africa and the Middle East and as at the end of December 2011, recorded more than 164.5m subscribers across its operations.

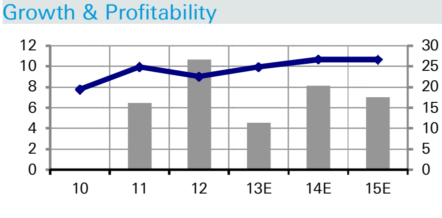
Price Performance



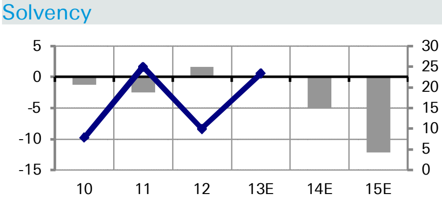
Margin Trends



Growth & Profitability



Solvency



Mike Gresty, CFA
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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	7.47	10.79	10.89	12.51	14.59	15.85
Reported EPS (ZAR)	7.45	10.78	10.89	12.51	14.59	15.85
DPS (ZAR)	5.00	7.49	8.24	9.06	10.42	11.99
BVPS (ZAR)	39.0	48.0	48.4	52.3	57.2	62.0
Weighted average shares (m)	1,842	1,854	1,838	1,838	1,838	1,838
Average market cap (ZARm)	214,391	252,587	270,212	323,064	323,064	323,064
Enterprise value (ZARm)	214,404	251,372	273,883	325,997	321,146	313,198
Valuation Metrics						
P/E (DB) (x)	15.6	12.6	13.5	14.1	12.0	11.1
P/E (Reported) (x)	15.6	12.6	13.5	14.1	12.0	11.1
P/BV (x)	3.45	3.00	3.67	3.36	3.07	2.83
FCF Yield (%)	12.0	10.1	7.5	6.3	8.2	10.0
Dividend Yield (%)	4.3	5.5	5.6	5.2	5.9	6.8
EV/Sales (x)	1.9	2.1	2.0	2.3	2.1	1.9
EV/EBITDA (x)	4.5	4.6	4.7	5.4	5.0	4.5
EV/EBIT (x)	6.7	6.4	6.6	7.8	7.1	6.4
Income Statement (ZARm)						
Sales revenue	114,684	122,081	135,112	141,293	152,780	163,447
Gross profit	47,537	54,947	58,564	60,140	64,781	69,500
EBITDA	47,537	54,947	58,564	60,140	64,781	69,500
Depreciation	13,248	13,296	14,860	15,542	16,806	17,979
Amortisation	2,152	2,194	2,386	2,543	2,750	2,942
EBIT	32,137	39,457	41,318	42,055	45,226	48,579
Net interest income(expense)	-4,094	-1,582	-4,157	-1,800	1,000	1,500
Associates/affiliates	52	-38	-180	-150	-150	-150
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	28,095	37,837	36,981	40,105	46,076	49,929
Income tax expense	11,268	13,853	12,913	13,612	15,515	16,799
Minorities	2,527	3,033	3,364	3,500	3,750	4,000
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	14,300	20,951	20,704	22,993	26,811	29,131
DB adjustments (including dilution)	-539	-943	-686	0	0	0
DB Net profit	13,761	20,008	20,018	22,993	26,811	29,131
Cash Flow (ZARm)						
Cash flow from operations	41,041	39,504	42,860	46,316	50,476	54,406
Net Capex	-15,343	-14,103	-22,572	-26,000	-24,000	-22,000
Free cash flow	25,698	25,401	20,288	20,316	26,476	32,406
Equity raised/(bought back)	-1,539	0	-2,088	0	0	0
Dividends paid	-6,313	-11,630	-14,764	-15,929	-17,725	-20,308
Net inc/(dec) in borrowings	1,430	-1,312	-1,484	-2,000	-4,000	-4,000
Other investing/financing cash flows	-6,015	-13,153	-11,634	-3,000	-3,000	-3,000
Net cash flow	13,261	-694	-9,682	-612	1,751	5,098
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	36,232	36,352	30,977	30,365	32,116	37,214
Tangible fixed assets	63,361	71,610	77,485	87,943	95,137	99,158
Goodwill/intangible assets	30,266	34,540	33,935	31,392	28,642	25,700
Associates/investments	1,302	2,681	1,765	1,615	1,465	1,315
Other assets	23,625	36,225	37,222	36,966	38,129	39,337
Total assets	154,786	181,408	181,384	188,281	195,488	202,724
Interest bearing debt	35,328	34,016	32,532	30,532	26,532	22,532
Other liabilities	45,384	54,693	55,965	57,297	58,669	60,082
Total liabilities	80,712	88,709	88,497	87,829	85,201	82,614
Shareholders' equity	71,855	88,897	89,006	96,071	105,156	113,979
Minorities	2,219	3,802	3,881	4,381	5,131	6,131
Total shareholders' equity	74,074	92,699	92,887	100,452	110,287	120,110
Net debt	*-904*	*-2,336*	*1,555*	*167*	*-5,584*	*-14,682*
Key Company Metrics						
Sales growth (%)	nm	6.4	10.7	4.6	8.1	7.0
DB EPS growth (%)	na	44.5	0.9	14.9	16.6	8.7
EBITDA Margin (%)	41.5	45.0	43.3	42.6	42.4	42.5
EBIT Margin (%)	28.0	32.3	30.6	29.8	29.6	29.7
Payout ratio (%)	64.4	66.3	73.2	72.5	71.5	75.6
ROE (%)	19.4	24.9	22.5	24.8	26.6	26.6
Capex/sales (%)	13.4	11.6	16.7	18.4	15.7	13.5
Capex/depreciation (x)	1.0	0.9	1.3	1.4	1.2	1.1
Net debt/equity (%)	-1.2	-2.5	1.7	0.2	-5.1	-12.2
Net interest cover (x)	7.8	24.9	9.9	23.4	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Healthcare | Price (8 March 2013): 2047c | Target price: 2000c | Rating: Buy

Netcare Ltd

Ahmed Motara

Business description: Netcare is the largest owner and operator of private hospitals in South Africa and the United Kingdom. In South Africa, it also provides primary care facilities under the Medicross and Primecure brands, as well as emergency services through Netcare 911. In the UK, we expect post 2012 NTC has reduced its UK stake to marginally below 50%, in order to deconsolidate the GHG Property Businesses. In the UK, Netcare operates through the General Healthcare Group, operating hospitals under the BMI Healthcare brand.

Drivers:

- Growing medical scheme beneficiaries in South Africa: Despite ever-present regulatory risk, the fundamentals of the South African healthcare industry remain solid with continued growth in medical scheme lives in South Africa providing volume growth for the private hospital industry. Netcare is experiencing below industry-trend growth in patient volumes in South Africa with 2.8% growth in the year ended 30 September 2012 – by comparison, Life Healthcare achieved organic patient volume growth of over 4% during the same period.

- Negative mix changes in UK operations: Netcare's stake in the GHG group in the UK continues to experience substantial mix changes, with a continuing decline in private medically insured (PMI) volumes being offset by continued volume gains of state patient business through the NHS. We expect the case mix is currently 71% private, 29% public This trend was reflected in the UK division's FY12 volume growth of 2.1% and what we impute as -1.6% price growth, implying negative mix effects. We do not expect a recovery of PMI volumes in FY13, resulting in continued modest revenue and EBITDA growth for the UK operations for the year ahead. GHG accounts for 40% of our projected FY13 EBITDA for the group.

- Uncertainty remains on forthcoming debt expiries: Netcare is the most highly leveraged hospital stock of the listed operators in South Africa, with the group's September 2012 net debt of c.R25bn dwarfing equity of -R1.0bn. Post deconsolidation of the GHG Property Businesses, on a pro-forma basis the net debt declines to R3.3bn, while equity increases to R8.4bn. The leverage arising in NTC is predominantly in the UK operations that are ring-fenced from the South African balance sheet. While deconsolidating the businesses changes the accounting treatment and flatters the balance sheet, in essence the debt still remains an issue that needs to be addressed, with material UK debt facilities of £1.5bn maturing in October 2013.

Outlook: Netcare presents investors with a conundrum – the group's South African operations are in good shape and with sound operating fundamentals and moderate gearing. However, the group's overleveraged UK operations are struggling, faced with the difficulty of a sharp reduction in margins due to declining demand for private healthcare and the uncertainty around material 2013 debt refinancing. Because of these risks, Netcare looks the cheapest stock of the three hospital groups under our coverage. Our target price exit rating implies a 20% discount to Life Healthcare and Mediclinic. With 23% three year EPS CAGR expectations and the stock at a significant sector discount, we believe the negative news is fully priced in, with upside potential to emerge. We rate the stock a **Buy**.

Valuation: Netcare trades at a 12-month forward interpolated PE multiple of 12.7x, with a dividend yield of 4%. Our 12-month target price is derived by applying a forward PE multiple of 13x to our estimated 24-month interpolated forward EPS. We think the group's UK refinancing in October 2013 and associated risks of a capital-raising will remain an overhang on the group's rating until further clarity is gained. The stock is trading on a 10.2x EV/EBITDA forward multiple, with our price target implying an exit EV/EBITDA of 10.1x.

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

Model updated:11 December 2012

Running the numbers

Sub-Saharan Africa

South Africa

Healthcare

Netcare Limited

Reuters: NTCJ.J Bloomberg: NTC SJ

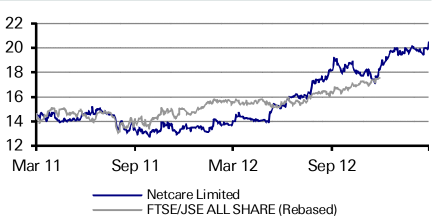
Buy

Price (8 Mar 13)	ZAR 20.47
Target Price	ZAR 20.00
52 Week range	ZAR 13.92 – 20.47
Market Cap (m)	ZARm 26,775
	USDm 2,948

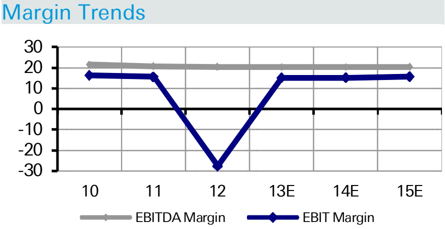
Company Profile

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

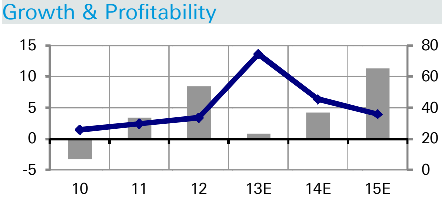
Price Performance



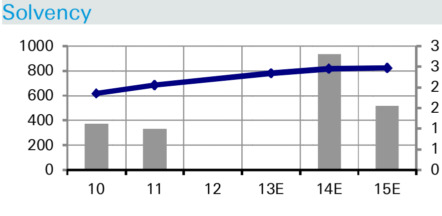
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Sep	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	0.94	1.14	1.11	1.43	1.51	1.73
Reported EPS (ZAR)	0.95	1.19	0.94	1.43	1.51	1.73
DPS (ZAR)	0.47	0.53	0.56	0.71	0.75	0.86
BVPS (ZAR)	3.8	4.5	1.3	2.6	4.1	5.7
Weighted average shares (m)	1,271	1,286	1,308	1,308	1,308	1,308
Average market cap (ZARm)	16,174	18,610	19,372	26,775	26,775	26,775
Enterprise value (ZARm)	41,874	45,691	42,058	48,958	48,397	47,818
Valuation Metrics						
P/E (DB) (x)	13.5	12.7	13.3	14.3	13.6	11.9
P/E (Reported) (x)	13.4	12.1	15.8	14.3	13.6	11.9
P/BV (x)	3.67	2.89	14.22	7.73	4.97	3.58
FCF Yield (%)	6.4	10.3	1.4	1.9	2.1	2.2
Dividend Yield (%)	3.7	3.7	3.8	3.5	3.7	4.2
EV/Sales (x)	1.9	2.0	1.7	1.9	1.8	1.6
EV/EBITDA (x)	8.7	9.5	8.2	9.5	9.0	8.0
EV/EBIT (x)	11.4	12.7	nm	12.7	12.1	10.4
Income Statement (ZARm)						
Sales revenue	22,474	23,221	25,174	25,395	26,477	29,464
Gross profit	22,474	23,221	10,607	10,700	11,156	12,415
EBITDA	4,820	4,817	5,134	5,168	5,383	6,001
Depreciation	1,157	1,213	1,324	1,324	1,383	1,390
Amortisation	0	0	10,773	0	0	0
EBIT	3,663	3,604	-6,963	3,845	4,001	4,611
Net interest income(expense)	-1,978	-1,755	-1,993	-1,642	-1,634	-1,867
Associates/affiliates	24	23	27	28	28	29
Exceptionals/extraordinaries	45	97	2	0	0	0
Other pre-tax income/(expense)	0	0	-2,802	233	247	262
Profit before tax	1,754	1,969	-11,729	2,463	2,642	3,035
Income tax expense	294	114	-2,016	706	768	841
Minorities	174	238	-5,111	-191	-181	-152
Other post-tax income/(expense)	-53	-47	5,849	-47	-47	-47
Net profit	1,233	1,570	1,247	1,902	2,008	2,298
DB adjustments (including dilution)	-7	-66	235	0	0	0
DB Net profit	1,226	1,504	1,482	1,902	2,008	2,298
Cash Flow (ZARm)						
Cash flow from operations	2,388	3,062	1,690	1,817	1,929	2,103
Net Capex	-1,351	-1,139	-1,426	-1,315	-1,371	-1,525
Free cash flow	1,037	1,923	264	503	558	577
Equity raised/(bought back)	80	187	234	0	0	0
Dividends paid	-521	-686	0	0	0	0
Net inc/(dec) in borrowings	58	-1,067	62	1,315	1,371	1,525
Other investing/financing cash flows	-82	-47	0	0	0	0
Net cash flow	572	310	560	1,817	1,929	2,103
Change in working capital	*0*	*658*	*-17*	*1*	*5*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,378	2,355	2,469	4,286	6,215	8,318
Tangible fixed assets	23,852	26,416	27,678	27,669	27,657	27,793
Goodwill/intangible assets	13,484	15,034	5,099	5,099	5,099	5,099
Associates/investments	225	494	1,132	1,132	1,132	1,132
Other assets	5,433	6,365	7,407	8,768	10,333	12,225
Total assets	44,372	50,664	43,785	46,954	50,436	54,566
Interest bearing debt	25,575	28,044	28,953	30,268	31,635	33,159
Other liabilities	12,268	14,935	15,852	15,890	16,077	16,592
Total liabilities	37,843	42,979	44,805	46,158	47,712	49,751
Shareholders' equity	4,801	5,799	1,646	3,462	5,390	7,481
Minorities	1,728	1,886	-2,666	-2,666	-2,666	-2,666
Total shareholders' equity	6,529	7,685	-1,020	796	2,724	4,815
Net debt	*24,197*	*25,689*	*26,484*	*25,981*	*25,420*	*24,841*
Key Company Metrics						
Sales growth (%)	-3.3	3.3	8.4	0.9	4.3	11.3
DB EPS growth (%)	27.4	21.4	-2.6	28.3	5.6	14.5
EBITDA Margin (%)	21.4	20.7	20.4	20.4	20.3	20.4
EBIT Margin (%)	16.3	15.5	-27.7	15.1	15.1	15.6
Payout ratio (%)	47.9	43.4	58.7	49.1	49.1	49.1
ROE (%)	25.7	29.6	33.5	74.4	45.4	35.7
Capex/sales (%)	6.1	4.9	5.7	5.2	5.2	5.2
Capex/depreciation (x)	1.2	0.9	1.1	1.0	1.0	1.1
Net debt/equity (%)	370.6	334.3	nm	nm	933.2	515.9
Net interest cover (x)	1.9	2.1	nm	2.3	2.4	2.5

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 4556c | Target price: 4222c | Rating: Hold

Pick n Pay Stores Ltd

Sean Holmes / Grace Legodi

Business description: Pick n Pay is a holding company with subsidiaries in South Africa, Australia and Zimbabwe. The founding members' family trust holds c.53% of the holding company shares. It is predominantly engaged in the mass retailing of food (second largest player domestically with c.30% market share), also retailing clothing, liquor and general merchandise. The group's core retail division houses all retail operations, including food, clothing, general merchandise, pharmaceuticals and liquor under the Pick n Pay and Boxer brands throughout southern Africa. Pick n Pay discontinued its Score brand in 2010 and successfully exited the unprofitable Australian business (Franklins) in 2011. The group consists of more than 470 corporate-owned and more than 370 franchise stores. The 20 hypermarkets generate a substantial portion of group turnover (>20%).

Drivers: The retail division concentrates on the group's core business of hypermarkets, supermarkets, family and mini market franchise stores and home shopping. Group enterprises manage Score supermarkets, Boxer superstores, TM supermarkets (investment in Zimbabwean associate), and financial services. It is currently in the middle of large restructuring process that includes the continued rollout of centralised distribution, buying and administration functions across the group and improving poor legacy employee cost efficiency.

The primary expansion plans/growth prospects are:

- **Recovering from market share losses in recent times:** In recent years management has attempted to curb market share losses by revisiting price perceptions through aggressive competitive pricing. Unfortunately, this strategy has been to no avail, as Pick n Pay struggled to grow sales in line with the market, hamstrung by: i) weak consumer growth in middle mass-mark, ii) low stock availability, iii) slow space growth, iv) struggling general merchandise sales.
- **Significant margin expansion opportunity through wage containment.** The group has significant room to bolster EBIT margins through better labour efficiencies. We estimate that Pick n Pay's corporate store's staff cost-to-sales ratio is c.3-4% higher that its peers.
- **A more aggressive approach to African (ex-SA) expansion:** The initial corporate store opening in Zambia in July 2010 has proceeded well with management guiding to breakeven within c.6 months and has already confirmed multiple further stores in Zambia.
- **Recovery from high 'restructuring-related' cost base:** The substantial investments in centralised distribution and IT systems resulted in significant additional costs being incurred (consulting fees etc). Off a high base, the y-o-y growth in operating costs should start to abate assisting margins improving boosted by a more favourable top line environment.

Outlook: Pick n Pay has one of the biggest and strongest retail footprints in South Africa. It has room to improve its profitability and bolster shareholder returns through a combination of: i) lifting sales densities (mainly in the Hypermarket division), ii) improving GP margin (through better supply chain efficiencies) iii) better cost management (mainly through reducing staff costs). In our view, the group has the potential to increase its EBIT margin from 2.3% FY12 to 3.8%-4.5% over the next 5-7 years. Notwithstanding our view that the stock offers value longer term, we feel that there is too much earnings risk in the near term (given the restructuring challenges and execution risk on the new strategy). Hold.

Valuation: Our 12 month (Jan-14) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple (18x). We calculate our target price PE multiples, using Gordon's dividend discount model where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/ dividend yield).

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

Model updated:06 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Pick'n Pay Stores

Reuters: PIKJ.J Bloomberg: PIK SJ

Hold

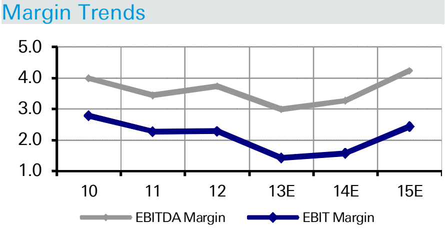
Price (8 Mar 13)	ZAR 45.56
Target Price	ZAR 42.22
52 Week range	ZAR 40.22 – 49.00
Market Cap (m)	ZARm 21,732
	USDm 2,393

Company Profile

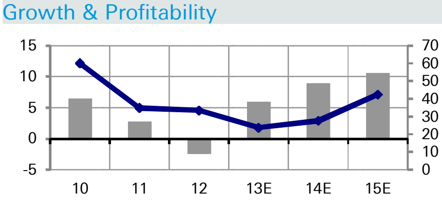
Pick'n Pay is a holding company with subsidiaries in South Africa and Australia. The group is predominantly engaged in the mass retailing of food, but also retails clothing and general merchandise.

Price Performance

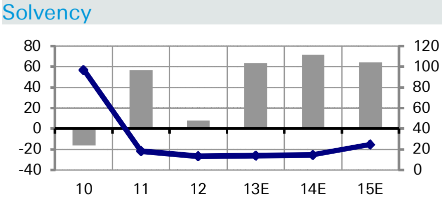
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 28-Feb	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	2.41	1.55	1.58	1.18	1.43	2.50
Reported EPS (ZAR)	2.41	1.55	1.58	1.18	1.43	2.50
DPS (ZAR)	1.75	1.43	1.31	0.96	1.16	2.03
BVPS (ZAR)	4.5	4.5	5.0	5.0	5.4	6.4
Weighted average shares (m)	473	475	477	477	477	477
Average market cap (ZARm)	17,298	21,265	20,106	21,732	21,732	21,732
Enterprise value (ZARm)	16,952	22,489	20,298	23,261	23,589	23,726
Valuation Metrics						
P/E (DB) (x)	15.2	28.9	26.7	38.6	31.9	18.2
P/E (Reported) (x)	15.2	28.9	26.7	38.6	31.9	18.2
P/BV (x)	9.04	10.32	8.51	9.11	8.43	7.07
FCF Yield (%)	7.0	3.5	4.6	nm	nm	nm
Dividend Yield (%)	4.8	3.2	3.1	2.1	2.5	4.5
EV/Sales (x)	0.3	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	7.7	11.5	9.8	13.2	11.3	7.9
EV/EBIT (x)	11.0	17.4	16.0	27.9	23.4	13.7
Income Statement (ZARm)						
Sales revenue	55,502	57,029	55,595	58,896	64,188	71,037
Gross profit	10,275	10,440	10,245	10,772	11,818	13,155
EBITDA	2,214	1,960	2,076	1,759	2,095	3,007
Depreciation	-669	-665	-808	-925	-1,087	-1,281
Amortisation	0	0	0	0	0	0
EBIT	1,545	1,295	1,268	835	1,008	1,726
Net interest income(expense)	-16	-71	-95	-60	-70	-70
Associates/affiliates	0	0	-3	20	22	24
Exceptionals/extraordinaries	-34	-34	0	0	0	0
Other pre-tax income/(expense)	191	8	0	0	0	0
Profit before tax	1,720	1,232	1,170	795	960	1,680
Income tax expense	-532	-448	-408	-225	-272	-475
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,155	751	762	570	688	1,204
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,155	751	762	570	688	1,204
Cash Flow (ZARm)						
Cash flow from operations	2,140	679	2,527	922	1,279	1,779
Net Capex	-923	71	-1,611	-1,841	-1,835	-2,140
Free cash flow	1,217	750	916	-919	-556	-361
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-819	-788	-671	-572	-497	-706
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-44	867	788	0	0	0
Net cash flow	354	829	1,033	-1,491	-1,052	-1,067
Change in working capital	*0*	*-2,320*	*0*	*-418*	*228*	*224*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,055	352	1,272	-65	-393	-530
Tangible fixed assets	3,704	3,806	4,663	5,579	6,327	7,186
Goodwill/intangible assets	838	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	5,602	6,942	5,883	6,470	6,980	7,694
Total assets	11,199	11,100	11,818	11,984	12,914	14,350
Interest bearing debt	709	1,576	1,464	1,464	1,464	1,464
Other liabilities	8,345	7,365	7,950	8,118	8,857	9,795
Total liabilities	9,054	8,941	9,414	9,582	10,321	11,259
Shareholders' equity	2,145	2,159	2,404	2,401	2,593	3,091
Minorities	0	0	0	0	0	0
Total shareholders' equity	2,145	2,159	2,404	2,401	2,593	3,091
Net debt	*-346*	*1,224*	*192*	*1,529*	*1,857*	*1,994*
Key Company Metrics						
Sales growth (%)	6.5	2.8	-2.5	5.9	9.0	10.7
DB EPS growth (%)	12.3	-35.6	1.9	-25.2	20.8	75.0
EBITDA Margin (%)	4.0	3.4	3.7	3.0	3.3	4.2
EBIT Margin (%)	2.8	2.3	2.3	1.4	1.6	2.4
Payout ratio (%)	71.7	90.5	81.9	80.4	80.4	80.4
ROE (%)	60.1	34.9	33.4	23.7	27.6	42.4
Capex/sales (%)	1.7	-0.1	2.9	3.1	2.9	3.0
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-16.1	56.7	8.0	63.7	71.6	64.5
Net interest cover (x)	96.6	18.2	13.3	13.9	14.4	24.7

Source: Company data, Deutsche Bank estimates

South Africa – Investment Trusts | Price (8 March 2013): 1775c | Target price: 1930c | Rating: Buy

Reinet Investments SCA

Warren Goldblum, CFA

Business description: Reinet is an investment holding company; its investment objective is to achieve long-term capital growth. The company's shares are listed on the Luxembourg Stock Exchange, and Reinet South African Depository Receipts are listed in Johannesburg; the DRs trade at a ratio of 10 DRs to each company share.

Drivers:

- **British American Tobacco (c.80% of NAV):** Originally, Reinet's investment guidelines required it to diversify its portfolio over four years, such that the resultant portfolio would not hold more than 30% of assets in any one investment. Reinet obtained approval from shareholders to amend its investment guidelines to allow it to gradually diversify its portfolio over time (as opposed to four years), taking market condition into account. Currently, BAT comprises close to 80% of group NAV, and provides the group with a relatively defensive investment in an environment characterised by a high level of uncertainty. In light of this, and the increased flexibility provided to management by this investment guideline change, it is likely BAT will remain a significant investment in the near to medium term.

- **New investments (c.20% of NAV):** The group's investment activity since formation has resulted in the group's non-BAT investments now comprising close to 20% of group NAV. While assessing the quality of these investments is complicated by the relatively short period over which they have been made, our analysis indicates that Reinet's largest and most long-standing investment, Trilantic Capital Partners, has performed exceptionally well (c.50% IRR >EUR50m uplift), with other more recent investments on aggregate affecting NAV positively, though to a lesser degree. This gives some level of credibility to management as custodians of shareholder wealth and drivers of value creation.

Outlook: We acknowledge the fee structure is one of the key investor concerns – we echo this sentiment (ie fees erode investor return) – but we also believe it would be remiss to dismiss this stock outright solely for this reason. Of greater importance is the degree to which the traded discount to NAV compensates the investor for this and other concerns. BAT, a high-quality consumer staple company, is Reinet's cornerstone investment. The group has enjoyed initial investment success (Trilantic) and continues to increase the pace of new investments. In light of this, we believe the discount (currently c.26%) is more likely to narrow than widen. Our total return expectation is modest, but the group's assets are of high quality. **Buy**.

Valuation: We value Reinet on a sum-of-the-parts basis. We include BAT at our price target and value cash and other investments at face value and directors' valuations, respectively. However, we apply a 20% discount to NAV (middle of our fair value range of 20-30%) to reflect, among other issues, the conglomerate status, corporate governance issues and fee structure.

Risks: Given the current portfolio, investors are exposed to the downside potential of a significant decline in value of the key underlying investments (BAT, and other investments and cash) as well as significant moves in the group's key currencies. Investors also face the risk that the group deploys funds – sourced from group cash, the selling-down of current investments or increased leverage/borrowings – for value-destructive investments. The group has a number of corporate governance shortcomings, primarily related to the control exercised by the Rupert family. Finally, the group could lose its tax status in Luxembourg. Reinet Investments is a Passive Foreign Investment Company that is subject to unfavourable tax treatment for investors resident in the US. Investors are advised to seek their own tax advice on investing in the shares.

Model updated:29 January 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Industrial

Reinet

Reuters: REIJ.J | Bloomberg: REI SJ

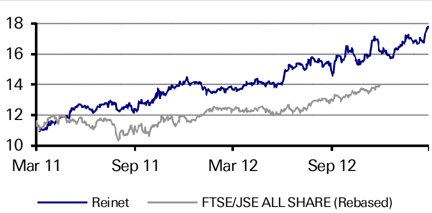
Buy

Price (8 Mar 13)	ZAR 17.75
Target Price	ZAR 19.30
52 Week range	ZAR 13.55 – 17.80
Market Cap (m)	ZARm 34,780
	USDm 3,829

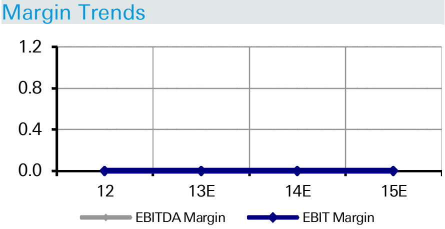
Company Profile

Reinet is an investment holding company; its investment objective is to achieve long-term capital growth. The company's shares are listed on the Luxembourg Stock Exchange, and Reinet South African Depository Receipts are listed in Johannesburg; the DRs trade at a ratio of ten DRs to each company share.

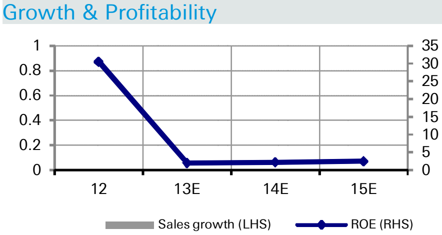
Price Performance



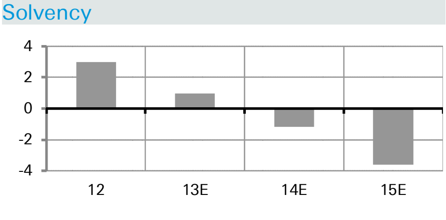
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Mar	2012	2013E	2014E	2015E
Financial Summary				
DB EPS (EUR)	0.44	0.04	0.04	0.05
Reported EPS (EUR)	0.44	0.04	0.04	0.05
DPS (EUR)	0.00	0.00	0.00	0.00
BVPS (EUR)	1.9	1.9	1.9	2.0
Weighted average shares (m)	1,959	1,959	1,959	1,959
Average market cap (EURm)	2,497	2,995	2,995	2,995
Enterprise value (EURm)	-1,192	-767	-849	-945
Valuation Metrics				
P/E (DB) (x)	2.9	41.2	36.6	31.2
P/E (Reported) (x)	2.9	41.2	36.6	31.2
P/BV (x)	0.73	0.80	0.79	0.77
FCF Yield (%)	nm	2.4	2.7	3.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	nm	nm	nm
EV/EBITDA (x)	nm	nm	nm	nm
EV/EBIT (x)	nm	nm	nm	nm
Income Statement (EURm)				
Sales revenue	0	0	0	0
Gross profit	0	0	0	0
EBITDA	0	0	0	0
Depreciation	0	0	0	0
Amortisation	0	0	0	0
EBIT	0	0	0	0
Net interest income(expense)	7	-6	-4	-4
Associates/affiliates	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0
Other pre-tax income/(expense)	884	78	86	99
Profit before tax	891	72	81	96
Income tax expense	19	0	0	0
Minorities	7	0	0	0
Other post-tax income/(expense)	0	0	0	0
Net profit	865	73	82	96
DB adjustments (including dilution)	0	0	0	0
DB Net profit	865	73	82	96
Cash Flow (EURm)				
Cash flow from operations	-3	73	82	96
Net Capex	0	0	0	0
Free cash flow	-3	73	82	96
Equity raised/(bought back)	0	0	0	0
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	358	0	0	0
Other investing/financing cash flows	-159	0	0	0
Net cash flow	196	73	82	96
Change in working capital	*0*	*0*	*0*	*0*
Balance Sheet (EURm)				
Cash and other liquid assets	368	441	523	619
Tangible fixed assets	0	0	0	0
Goodwill/intangible assets	0	0	0	0
Associates/investments	3,810	3,810	3,810	3,810
Other assets	30	30	30	30
Total assets	4,208	4,281	4,363	4,459
Interest bearing debt	477	477	477	477
Other liabilities	70	70	70	70
Total liabilities	547	547	547	547
Shareholders' equity	3,649	3,722	3,804	3,900
Minorities	12	12	12	12
Total shareholders' equity	3,661	3,734	3,816	3,912
Net debt	*109*	*36*	*-46*	*-142*
Key Company Metrics				
Sales growth (%)	nm	nm	nm	nm
DB EPS growth (%)	na	-91.6	12.6	17.2
EBITDA Margin (%)	nm	nm	nm	nm
EBIT Margin (%)	nm	nm	nm	nm
Payout ratio (%)	0.0	0.0	0.0	0.0
ROE (%)	30.5	2.0	2.2	2.5
Capex/sales (%)	nm	nm	nm	nm
Capex/depreciation (x)	nm	nm	nm	nm
Net debt/equity (%)	3.0	1.0	-1.2	-3.6
Net interest cover (x)	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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Switzerland – Luxury Goods | Price (20/01/2012): CHF77.15 | Target price: CHF86.00 | Rating: Buy

Richemont

Francesca Di Pasquantonio / Warwick Okines

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

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

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

Outlook: We continue to regard Richemont as a quality growth story with one of the best new markets focus ("money changes pockets and we chase the money wherever it is") and an investment approach that privileges organic growth (creating goodwill for the group brands rather than buying it). Richemont boasts one of the most compelling brand portfolios in the industry, with unique heritage and pricing power, and despite a higher operating leverage, it has displayed a very high quality of earnings (in fact earnings stability as opposed to earnings volatility), returns and cash conversion. Ironically, despite the strength of the watch brands, the contribution of Cartier to group profits has been rising (still again c.60 to 70%). Cartier dominates the watches and jewellery segments, but on top of this we see VCA and Piaget as hidden gems with significant opportunities in the branded jewellery globally. We now argue that with so much volatility and negativity shrugged off in 2012, and with a proven ability to execute thanks to a balanced mix of businesses and to the ability to continue to invest with incremental positive returns, this gives us greater confidence that Richemont's multiples should realign to the sector average effectively discounting a similar risk profile. Buy.

Valuation: We value Richemont using a DCF valuation (WACC: 9.5%, risk free rate: 4.5%, equity risk premium: 4.5%, sustainable margin: 21%, perpetuity growth: 2.5%). The WACC reflects the cost of equity of the business as it is currently debt free and uses a beta of 1.1x to reflect the high-beta nature of the luxury industry. We use a perpetuity growth rate of 2.5% to reflect the above-average growth prospects in the sector.

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

Model updated:15 January 2013

Running the numbers

Europe
Switzerland
Luxury Goods

Richemont

Reuters: CFR.VX Bloomberg: CFR VX

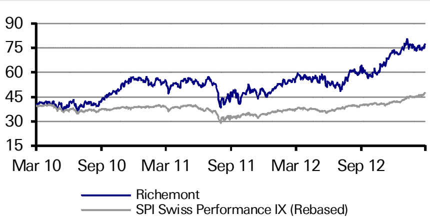
Buy

Price (8 Mar 13)	CHF 77.15
Target Price	CHF 86.00
52 Week range	CHF 48.41 – 80.50
Market Cap (m)	CHFm 42,216
	USDm 44,378

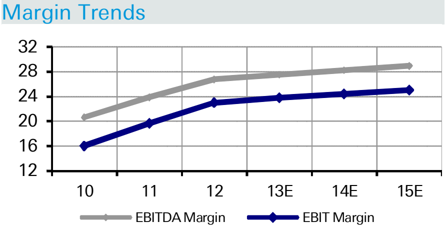
Company Profile

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

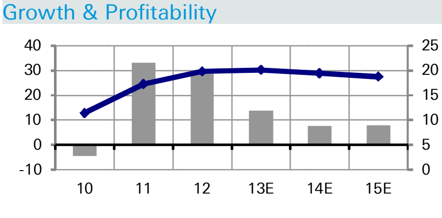
Price Performance



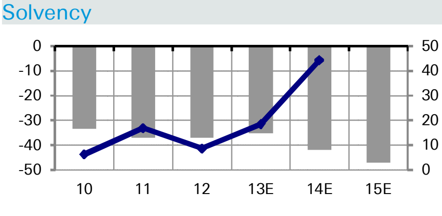
Margin Trends



Growth & Profitability



Solvency



Francesca Di Pasquantonio
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Fiscal year end 31-Mar	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (EUR)	1.08	1.96	2.76	3.40	3.88	4.41
Reported EPS (EUR)	1.07	1.96	2.76	3.40	3.88	4.41
DPS (EUR)	0.23	0.34	0.45	0.68	0.78	0.88
BVPS (EUR)	10.2	12.7	15.7	18.8	22.1	25.8
Weighted average shares (m)	553	551	548	547	546	545
Average market cap (EURm)	10,897	19,325	22,904	34,130	34,062	33,994
Enterprise value (EURm)	9,548	17,116	20,038	30,761	29,757	28,167
Valuation Metrics						
P/E (DB) (x)	18.1	17.7	14.8	18.0	15.7	13.9
P/E (Reported) (x)	18.4	17.9	15.2	18.4	16.1	14.2
P/BV (x)	2.81	3.23	2.99	3.33	2.83	2.41
FCF Yield (%)	9.1	3.6	3.7	1.8	5.2	5.8
Dividend Yield (%)	1.2	1.0	1.1	1.1	1.2	1.4
EV/Sales (x)	1.8	2.5	2.3	3.0	2.7	2.4
EV/EBITDA (x)	8.9	10.4	8.4	11.1	9.7	8.3
EV/EBIT (x)	11.5	12.6	9.8	12.8	11.2	9.6
Income Statement (EURm)						
Sales revenue	5,176	6,892	8,867	10,100	10,871	11,725
Gross profit	3,191	4,394	5,651	6,499	6,990	7,563
EBITDA	1,069	1,646	2,374	2,781	3,069	3,393
Depreciation	239	291	334	376	413	455
Amortisation	0	0	0	0	0	0
EBIT	830	1,355	2,040	2,406	2,656	2,939
Net interest income(expense)	-133	-80	-236	-130	-60	0
Associates/affiliates	-3	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	697	1,275	1,804	2,276	2,596	2,939
Income tax expense	94	196	264	375	428	485
Minorities	1	-11	-4	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	600	1,090	1,544	1,900	2,168	2,454
DB adjustments (including dilution)	3	0	0	0	0	0
DB Net profit	603	1,090	1,544	1,900	2,168	2,454
Cash Flow (EURm)						
Cash flow from operations	1,163	1,011	1,319	1,614	2,381	2,624
Net Capex	-175	-323	-482	-1,000	-598	-645
Free cash flow	988	688	837	614	1,783	1,979
Equity raised/(bought back)	-99	0	0	0	0	0
Dividends paid	-110	-141	-204	-248	-372	-424
Net inc/(dec) in borrowings	-495	77	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	284	624	633	366	1,411	1,555
Change in working capital	*323*	*-359*	*-555*	*-662*	*-200*	*-284*
Balance Sheet (EURm)						
Cash and other liquid assets	2,597	3,381	4,036	4,456	5,902	7,494
Tangible fixed assets	1,160	1,267	1,529	2,153	2,338	2,528
Goodwill/intangible assets	389	755	795	795	795	795
Associates/investments	614	637	834	834	834	834
Other assets	2,983	3,653	4,559	5,465	5,850	6,310
Total assets	7,743	9,693	11,753	13,704	15,718	17,961
Interest bearing debt	715	792	852	852	852	852
Other liabilities	1,367	1,909	2,283	2,582	2,801	3,014
Total liabilities	2,082	2,701	3,135	3,434	3,653	3,866
Shareholders' equity	5,657	6,980	8,609	10,261	12,056	14,086
Minorities	2	12	9	9	9	9
Total shareholders' equity	5,659	6,992	8,618	10,270	12,065	14,095
Net debt	*-1,882*	*-2,589*	*-3,184*	*-3,604*	*-5,050*	*-6,642*
Key Company Metrics						
Sales growth (%)	-4.5	33.2	28.7	13.9	7.6	7.9
DB EPS growth (%)	-17.6	82.0	40.6	23.3	14.3	13.4
EBITDA Margin (%)	20.7	23.9	26.8	27.5	28.2	28.9
EBIT Margin (%)	16.0	19.7	23.0	23.8	24.4	25.1
Payout ratio (%)	21.5	17.0	16.1	19.6	19.6	19.6
ROE (%)	11.4	17.3	19.8	20.1	19.4	18.8
Capex/sales (%)	3.4	4.7	5.4	9.9	5.5	5.5
Capex/depreciation (x)	0.7	1.1	1.4	2.7	1.4	1.4
Net debt/equity (%)	-33.3	-37.0	-36.9	-35.1	-41.9	-47.1
Net interest cover (x)	6.2	16.9	8.6	18.5	44.3	nm

Source: Company data, Deutsche Bank estimates

South Africa – Beverage | Price (8 March 2013): 46554c | Target price: 40000c | Rating: Hold

SABMiller plc

Warren Goldblum, CFA / Jonathan Fell

Business description: After an aggressive acquisition trail, SABMiller has become a truly global brewing company, as well as one of the largest Coca-Cola bottlers in the world. The group is primarily involved in the manufacture, distribution and sale of beverages with the help of its wide portfolio of brands. The first transformational deal for the group was when SA Breweries plc acquired Miller Brewing Co for US$5.6bn in July 2002. The tie-up with MolsonCoors, SABMiller has 58% stake in the MillerCoors JV, has delivered strong earnings growth as the group has successfully executed on its target to deliver US$500m of synergies by year three (an 'extra' US$250m synergy target was recently announced for 2011/12). The acquisition of Colombian listed Bavaria in late October 2005 was followed up with the acquisition of the iconic Dutch brand, Grolsch early in 2008 and the recent acquisition of Foster's in December 2011.

Drivers: While group growth has understandably been tilted towards emerging markets, the group's more mature regions, namely Europe and North America, have held their own – contributing close to one-third of EBITA growth (a figure in proportion to the percentage of group profits they represent). We do not expect this to continue – Europe faces a tough consumer environment and MillerCoors has run out of road in terms of its cost savings programme. With static levels of profit likely for these two regions, we expect most of the group's organic EBITA growth to come from Latin America and Africa.

Outlook: SABMiller remains an emerging market play with around 80% (70% with the inclusion of Foster's) of its operating profit coming from these regions. That exposure should help the company to generate longer-term volume – and profit – growth 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:22 January 2013

Running the numbers

Europe

United Kingdom

Beverage

SABMiller

Reuters: SABJ.J Bloomberg: SAB SJ

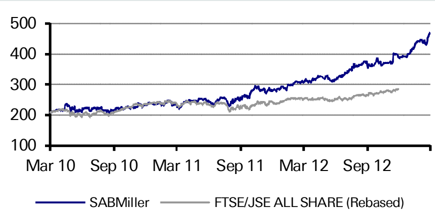
Hold

Price (8 Mar 13)	ZAR 465.54
Target Price	ZAR 400.00
52 Week range	ZAR 306.97 – 469.20
Market Cap (m)	ZARm 739,114
	USDm 81,378

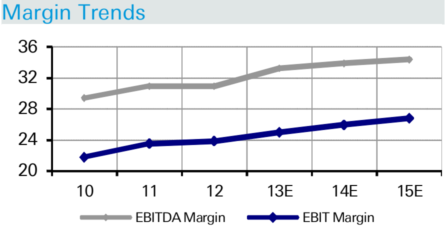
Company Profile

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

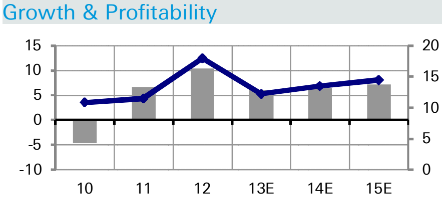
Price Performance



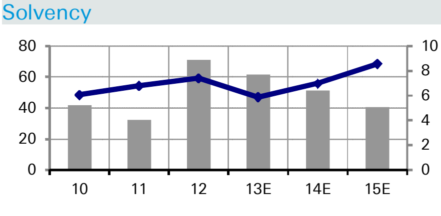
Margin Trends



Growth & Profitability



Solvency



Warren Goldblum, CFA
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Fiscal year end 31-Mar	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (USD)	1.60	1.90	2.13	2.40	2.69	3.02
Reported EPS (USD)	1.22	1.52	2.64	1.98	2.35	2.74
DPS (USD)	0.68	0.81	0.91	1.03	1.15	1.29
BVPS (USD)	12.6	13.9	15.8	16.9	18.3	19.9
Weighted average shares (m)	1,558	1,576	1,583	1,588	1,590	1,592
Average market cap (USDm)	37,450	49,589	57,461	81,378	81,481	81,583
Enterprise value (USDm)	35,726	42,720	60,793	76,659	75,065	73,082
Valuation Metrics						
P/E (DB) (x)	15.0	16.5	17.1	21.4	19.1	17.0
P/E (Reported) (x)	19.7	20.7	13.8	25.9	21.8	18.7
P/BV (x)	2.31	2.58	2.53	3.03	2.80	2.57
FCF Yield (%)	6.5	5.3	5.8	3.7	4.5	5.2
Dividend Yield (%)	2.8	2.6	2.5	2.0	2.2	2.5
EV/Sales (x)	2.5	2.8	3.6	4.3	4.0	3.6
EV/EBITDA (x)	8.6	9.1	11.8	13.0	11.7	10.5
EV/EBIT (x)	11.6	12.0	15.2	17.3	15.3	13.5
Income Statement (USDm)						
Sales revenue	14,195	15,145	16,713	17,726	18,874	20,234
Gross profit	8,343	9,070	10,088	10,005	10,875	11,849
EBITDA	4,175	4,687	5,169	5,894	6,394	6,956
Depreciation	881	904	909	1,006	1,036	1,068
Amortisation	203	220	273	458	461	464
EBIT	3,091	3,563	3,987	4,430	4,897	5,425
Net interest income(expense)	-512	-525	-540	-754	-703	-635
Associates/affiliates	873	1,024	1,152	1,360	1,510	1,668
Exceptionals/extraordinaries	-523	-436	1,004	-340	-150	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,056	2,602	4,451	3,336	4,044	4,790
Income tax expense	848	1,069	1,126	1,285	1,520	1,765
Minorities	171	149	256	239	264	292
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,910	2,408	4,221	3,172	3,770	4,401
DB adjustments (including dilution)	599	610	-821	679	549	450
DB Net profit	2,509	3,018	3,400	3,851	4,319	4,851
Cash Flow (USDm)						
Cash flow from operations	3,930	3,851	4,844	4,651	5,282	5,956
Net Capex	-1,491	-1,242	-1,523	-1,630	-1,637	-1,718
Free cash flow	2,439	2,609	3,321	3,021	3,646	4,238
Equity raised/(bought back)	106	95	124	0	0	0
Dividends paid	-924	-1,113	-1,324	-1,500	-1,699	-1,902
Net inc/(dec) in borrowings	-604	-1,159	8,861	-1,271	-1,696	-2,086
Other investing/financing cash flows	-550	-208	-11,189	-250	-250	-250
Net cash flow	467	224	-207	0	0	0
Change in working capital	*542*	*40*	*304*	*45*	*44*	*50*
Balance Sheet (USDm)						
Cash and other liquid assets	779	1,067	745	745	745	745
Tangible fixed assets	8,915	9,330	9,299	9,718	10,104	10,531
Goodwill/intangible assets	15,938	16,313	30,029	29,701	29,377	29,057
Associates/investments	8,087	8,649	10,600	11,054	11,530	12,031
Other assets	3,785	3,749	4,978	5,218	5,450	5,714
Total assets	37,504	39,108	55,651	56,436	57,206	58,078
Interest bearing debt	9,414	8,460	19,226	17,964	16,268	14,182
Other liabilities	7,491	7,889	10,412	10,558	10,695	10,870
Total liabilities	16,905	16,349	29,638	28,523	26,962	25,052
Shareholders' equity	19,910	22,008	25,073	26,878	29,102	31,768
Minorities	689	751	940	1,035	1,141	1,258
Total shareholders' equity	20,599	22,759	26,013	27,913	30,243	33,026
Net debt	*8,635*	*7,393*	*18,481*	*17,219*	*15,523*	*13,437*
Key Company Metrics						
Sales growth (%)	-4.6	6.7	10.4	6.1	6.5	7.2
DB EPS growth (%)	17.2	18.6	11.7	12.9	12.0	12.2
EBITDA Margin (%)	29.4	30.9	30.9	33.3	33.9	34.4
EBIT Margin (%)	21.8	23.5	23.9	25.0	25.9	26.8
Payout ratio (%)	55.5	53.0	34.1	51.6	48.5	46.7
ROE (%)	10.8	11.5	17.9	12.2	13.5	14.5
Capex/sales (%)	10.8	8.7	9.8	9.2	8.7	8.5
Capex/depreciation (x)	1.6	1.4	1.7	1.5	1.5	1.5
Net debt/equity (%)	41.9	32.5	71.0	61.7	51.3	40.7
Net interest cover (x)	6.0	6.8	7.4	5.9	7.0	8.5

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 17650c | Target price: 22102c | Rating: Buy

Shoprite Holdings Ltd

Sean Holmes / Grace Legodi

Business description: Shoprite is involved in supermarket chains, property, fresh produce and furniture. The group is the largest FMCG retailer in Africa, operating in South Africa and 16 other African countries. Supermarkets RSA and non-RSA, furniture and other operating segments contribute 83%, 10%, 3% and 4% of EBIT respectively at FY12. The chairman of the company indirectly owns c.18% of the company, but together with voting rights through a deferred share scheme, controls c.46% of the total voting rights.

Shoprite has subsidiaries in supermarket, produce distribution and property businesses, operating 1,236 supermarkets, hypermarkets and furniture stores. The retail supermarkets include more than 400 Shoprite stores and more than 160 Checkers stores. The target markets for Shoprite is middle to lower income and Checkers middle to upper income consumers. The 29 hypermarkets target middle to upper income groups, providing customers with a wide selection of food and general merchandise. Usave (287 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 (51 stores) and OK Furniture (276 stores), cater for the middle and middle to lower income groups respectively.

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

- Further EBIT margin upside. Shoprite is growing its retail footprint by c.7% per year, well ahead of the peer group's c.3-4%. We think further market share gains could enable Shoprite to lower its cost-to-revenue ratio through better economies of scale. Increased buying power and a favourable shift in product mix (growing consumer wealth amongst lower end consumers) could potentially lift GP margins by c.1% over the medium to longer term.
- Strategic repositioning of the Checkers brand, increasing the group's competitiveness in the high-end consumer segment.
- Continued organic store expansion domestically, particularly the Usave brand in rural areas.
- Further expansion into commodity-rich African countries. Shoprite has been adding 15-20 stores pa in Africa over the last 2-3 years – growing at c.10% pa.
- Improved capital returns. Current ROE of 35% is well below that of the peer group. We see room for ROEs to improve to 40-50% as the capex cycle slows, stock turn in Africa improves and profitability increases further.

Outlook: We believe Shoprite looks well positioned to grow its earnings at a CAGR of over 20% over the next five years, supported by a combination of robust sales growth and EBIT margin expansion. We think Shoprite's aggressive roll-out of new stores could enable it take to take further market share from both the formal as well as informal market. Over the medium to longer term, we see same store sales growth benefitting from strong basket size growth as lower end consumers trade up. Notwithstanding the group's impressive EBIT margin trend over the last 10 years, we think there is scope for EBIT margins to expand a further 80-100bp over the next five years, supported by: i) higher GP margin (improved supply chain efficiencies, favourable change in product mix), ii) lower cost-to-revenue ratio (improved sales densities and greater scale benefits). In our view, Shoprite's current ROE of 35% is suboptimal – we see this improving to 40-50% over the next 5-7 years as profitability rises and asset turn improves (as capital investment slows). Buy on valuation.

Valuation: Our 12 month (Nov-13) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple. We calculate our target price PE multiples, using Gordon's dividend discount model where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/ dividend yield). Our exit PE is c.23x, inline with the counter's current 12-month forward PE (22.4x) and reflecting our view that the sector will not see a meaningful de-rating over the next 12 months.

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

Model updated:19 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Shoprite

Reuters: SHPJ.J | Bloomberg: SHP SJ

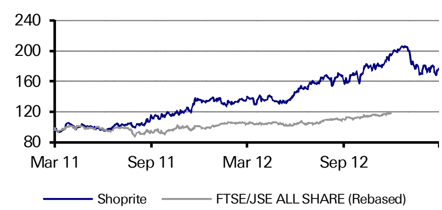
Buy

Price (8 Mar 13)	ZAR 176.50
Target Price	ZAR 221.02
52 Week range	ZAR 129.50 – 206.37
Market Cap (m)	ZARm 94,428
	USDm 10,397

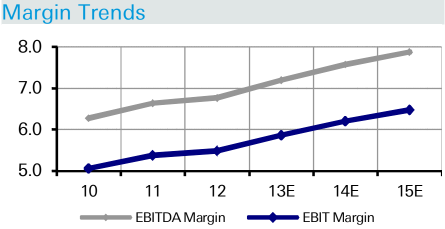
Company Profile

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

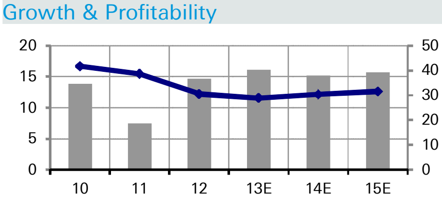
Price Performance



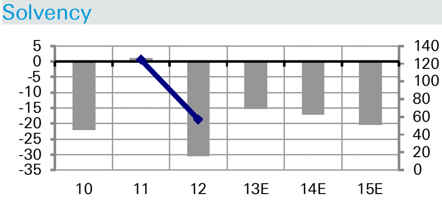
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	4.51	5.11	6.08	7.63	9.26	11.22
Reported EPS (ZAR)	4.46	4.96	5.90	7.44	9.05	10.99
DPS (ZAR)	2.27	2.53	3.03	3.71	4.52	5.49
BVPS (ZAR)	11.7	14.0	23.8	27.5	32.1	37.6
Weighted average shares (m)	504	506	513	535	535	535
Average market cap (ZARm)	34,347	48,727	64,660	94,428	94,428	94,428
Enterprise value (ZARm)	33,091	48,866	60,813	92,232	91,539	90,368
Valuation Metrics						
P/E (DB) (x)	15.1	18.8	20.7	23.1	19.1	15.7
P/E (Reported) (x)	15.3	19.4	21.4	23.7	19.5	16.1
P/BV (x)	7.10	7.27	6.32	6.41	5.50	4.70
FCF Yield (%)	nm	nm	9.3	nm	0.1	0.5
Dividend Yield (%)	3.3	2.6	2.4	2.1	2.6	3.1
EV/Sales (x)	0.5	0.7	0.7	0.9	0.8	0.7
EV/EBITDA (x)	7.6	9.9	10.6	13.0	10.6	8.7
EV/EBIT (x)	9.5	12.3	13.0	15.9	13.0	10.6
Income Statement (ZARm)						
Sales revenue	68,979	74,153	85,056	98,780	113,761	131,642
Gross profit	14,831	16,529	19,303	22,633	26,361	30,726
EBITDA	4,329	4,921	5,755	7,107	8,616	10,368
Depreciation	-839	-934	-1,090	-1,314	-1,559	-1,844
Amortisation	0	0	0	0	0	0
EBIT	3,490	3,987	4,665	5,792	7,057	8,524
Net interest income(expense)	12	-32	-82	100	100	150
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-78	-1	-8	0	0	0
Other pre-tax income/(expense)	-26	-79	-93	-102	-113	-124
Profit before tax	3,399	3,876	4,482	5,790	7,044	8,550
Income tax expense	-1,112	-1,347	-1,439	-1,795	-2,184	-2,651
Minorities	-21	-20	-16	-17	-19	-21
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,267	2,509	3,027	3,978	4,842	5,879
DB adjustments (including dilution)	26	79	93	102	113	124
DB Net profit	2,292	2,587	3,120	4,080	4,954	6,002
Cash Flow (ZARm)						
Cash flow from operations	2,592	2,106	9,131	3,313	3,990	4,796
Net Capex	-2,680	-2,937	-3,111	-3,491	-3,859	-4,339
Free cash flow	-88	-831	6,020	-178	132	457
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,153	-1,281	-1,554	-1,986	-2,417	-2,935
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-238	1,146	1,988	0	0	0
Net cash flow	-1,479	-966	6,454	-2,164	-2,285	-2,477
Change in working capital	*0*	*-858*	*-16*	*-1,468*	*569*	*720*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,219	1,962	7,939	6,294	6,994	8,172
Tangible fixed assets	6,926	8,535	10,017	12,739	15,039	17,534
Goodwill/intangible assets	263	371	546	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	8,584	9,837	12,404	13,842	15,393	17,226
Total assets	17,992	20,704	30,906	32,875	37,426	42,932
Interest bearing debt	896	2,042	4,030	4,030	4,030	4,030
Other liabilities	11,124	11,518	14,069	14,040	16,159	18,713
Total liabilities	12,020	13,560	18,099	18,070	20,189	22,743
Shareholders' equity	5,905	7,085	12,745	14,737	17,162	20,106
Minorities	67	59	62	68	75	83
Total shareholders' equity	5,972	7,144	12,807	14,805	17,237	20,189
Net debt	*-1,323*	*80*	*-3,909*	*-2,264*	*-2,964*	*-4,142*
Key Company Metrics						
Sales growth (%)	13.9	7.5	14.7	16.1	15.2	15.7
DB EPS growth (%)	15.0	13.2	19.0	25.4	21.4	21.2
EBITDA Margin (%)	6.3	6.6	6.8	7.2	7.6	7.9
EBIT Margin (%)	5.1	5.4	5.5	5.9	6.2	6.5
Payout ratio (%)	50.4	51.0	51.4	49.9	49.9	49.9
ROE (%)	41.7	38.6	30.5	28.9	30.4	31.5
Capex/sales (%)	3.9	4.0	3.7	3.5	3.4	3.3
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-22.2	1.1	-30.5	-15.3	-17.2	-20.5
Net interest cover (x)	nm	124.6	56.9	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 11345c | Target price: 13935c | Rating: Buy

Spar Group Ltd

Sean Holmes / Grace Legodi

Business description: Spar operates seven distribution centres (DCs) that service a network of 846 Spar-branded grocery stores countrywide (the third-largest food retailer in South Africa with an estimated EBIT contribution of c.5% in surrounding African countries). The distribution business is owned by Spar while the stores are independently owned. The company and the franchisees are members of the Spar guild, a non-profit organisation that promotes co-operation and develops the business. Spar was unbundled from Tiger Brands in late 2004. The stock has c.100% free float.

Drivers: The food store network consists of SuperSpar stores (sized 1,500-3,000m^2), Spar stores (700-1,500m^2) and KwikSpar stores (250-750m^2). In addition, Spar has exposure to the DIY market through its fast-growing network of Build-it stores. Build-it comprises c.10% of group turnover. Spar's TOPS format consists of small departments within existing Spar stores selling liquor comprising c.7% of group turnover. The TOPS format is expanding rapidly and management expects the contribution to turnover to grow in the medium term.

Spar's retail sales constitute c.28% of the formal food retail market in South Africa. Notwithstanding that stores are under no obligation to purchase from the DCs, the loyalty factor (c.75% of merchandise sourced from the group) is high. While management believes it is possible to increase the loyalty ratio, it is a gradual task. Loyalty levels in the TOPS brand are significantly lower at c.45% due to the competitive environment driven by the large number of independent vendors.

The primary drivers of profitability are:

- Expansion of the Build-it and TOPS store formats servicing the DIY and liquor market respectively. These formats have been growing faster than the rest of the group and a move to drop-shipment basis could improve margins.
- Continued organic expansion of domestic franchisees continues with c.3% additional estimated space growth per year, albeit at a slower rate than major peers.
- Significant capex already spent: Expansion plans undertaken from FY08-10 have created sufficient capacity until well into 2014. Management has highlighted share buybacks will be undertaken to return excess cash to shareholders.
- Retail store portfolio stabilising: During the last few years' tough environment, Spar had to step in and take ownership of certain franchise stores. The loss of c.R30m in the retail stores division suggests badly under-performing stores and presents management with an opportunity to contain losses in these stores into future years. Management was clear that there are not a significant further number of stores that will be required to be taken over and that this did not constitute a departure from its core franchise business mode.

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

Outlook: In our view Spar is a defensive yield play, supported by a stable growth outlook and robust free cash flows. We see Spar growing its earnings at CAGR of 13-18% over the next five years, mainly driven by steady topline growth (10-12% pa). We do not foresee any significant capital investment over the next five years presenting Spar with the opportunity to return excess capital to shareholders. Buy on valuation.

Valuation: Our 12 month (Nov-13) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple. We calculate our target price PE multiples, using Gordon's dividend discount model where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/ dividend yield). We value the corporate store division (1% of group value) on a PE of 7x, assuming that this business can achieve a normalised EBIT margin of 3%. Our exit PE is c.18x, set as such to be in line with its current 12-month forward PE (18.0x) and to reflect our view that the sector will not see a meaningful de-rating over the next 12 months.

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

Model updated:06 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Spar Group Limited

Reuters: SPPJ.J — Bloomberg: SPP SJ

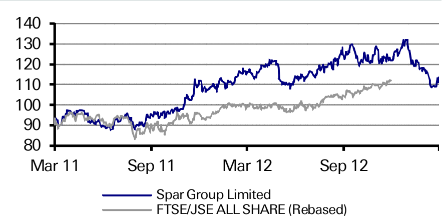
Buy

Price (8 Mar 13)	ZAR 113.45
Target Price	ZAR 139.35
52 Week range	ZAR 108.00 – 132.00
Market Cap (m)	ZARm 19,513
	USDm 2,148

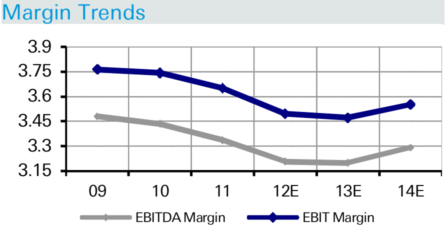
Company Profile

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

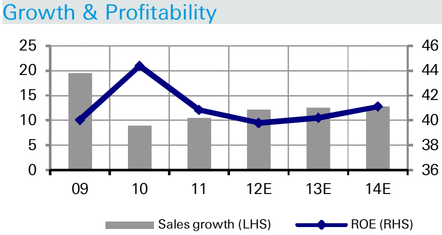
Price Performance



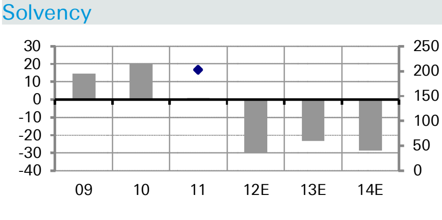
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 30-Sep	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (ZAR)	4.34	5.14	5.25	5.76	6.57	7.60
Reported EPS (ZAR)	3.92	5.06	5.23	5.71	6.55	7.57
DPS (ZAR)	3.22	3.62	3.77	4.30	4.57	5.28
BVPS (ZAR)	11.4	12.8	14.6	16.5	18.6	21.1
Weighted average shares (m)	170	171	171	172	172	172
Average market cap (ZARm)	9,408	12,856	16,093	19,513	19,513	19,513
Enterprise value (ZARm)	9,691	13,302	16,112	18,672	18,776	18,481
Valuation Metrics						
P/E (DB) (x)	12.8	14.6	17.9	19.7	17.3	14.9
P/E (Reported) (x)	14.1	14.9	18.0	19.9	17.3	15.0
P/BV (x)	5.69	7.25	6.60	6.88	6.09	5.38
FCF Yield (%)	0.9	1.7	1.5	1.9	1.3	1.5
Dividend Yield (%)	5.8	4.8	4.0	3.8	4.0	4.7
EV/Sales (x)	0.3	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	8.6	11.0	12.4	13.4	12.0	10.2
EV/EBIT (x)	8.0	10.1	11.4	12.3	11.0	9.4
Income Statement (ZARm)						
Sales revenue	32,256	35,159	38,819	43,560	49,000	55,282
Gross profit	2,863	3,075	74,156	3,839	4,316	4,875
EBITDA	1,123	1,208	1,295	1,397	1,568	1,820
Depreciation	92	108	122	126	133	144
Amortisation	0	0	0	0	0	0
EBIT	1,215	1,316	1,417	1,523	1,701	1,964
Net interest income(expense)	5	4	-7	5	15	20
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-59	1	2	0	0	0
Other pre-tax income/(expense)	-73	-13	-5	-9	-5	-5
Profit before tax	1,147	1,307	1,405	1,519	1,711	1,978
Income tax expense	-402	-392	-452	-459	-496	-574
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	686	916	955	1,060	1,215	1,404
DB adjustments (including dilution)	73	13	5	9	5	5
DB Net profit	759	929	960	1,069	1,220	1,409
Cash Flow (ZARm)						
Cash flow from operations	356	499	503	593	500	568
Net Capex	-269	-281	-254	-222	-237	-279
Free cash flow	87	218	249	371	262	289
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	-738	-820	-908
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	23	-121	-56	-71	0	0
Net cash flow	110	97	193	-438	-558	-619
Change in working capital	*-140*	*-261*	*234*	*560*	*-366*	*6*
Balance Sheet (ZARm)						
Cash and other liquid assets	69	85	96	841	738	1,032
Tangible fixed assets	1,426	1,521	1,550	1,588	1,692	1,828
Goodwill/intangible assets	246	300	381	391	391	391
Associates/investments	0	0	0	0	0	0
Other assets	4,800	5,623	6,275	7,075	7,748	8,799
Total assets	6,540	7,529	8,302	9,895	10,569	12,050
Interest bearing debt	351	531	115	0	0	0
Other liabilities	4,249	4,811	5,697	7,057	7,364	8,421
Total liabilities	4,600	5,342	5,812	7,057	7,364	8,421
Shareholders' equity	1,940	2,187	2,490	2,838	3,205	3,629
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,940	2,187	2,490	2,838	3,205	3,629
Net debt	*283*	*446*	*19*	*-841*	*-738*	*-1,032*
Key Company Metrics						
Sales growth (%)	19.5	9.0	10.4	12.2	12.5	12.8
DB EPS growth (%)	11.1	18.3	2.3	9.6	14.1	15.6
EBITDA Margin (%)	3.5	3.4	3.3	3.2	3.2	3.3
EBIT Margin (%)	3.8	3.7	3.7	3.5	3.5	3.6
Payout ratio (%)	79.6	67.5	67.7	69.8	64.7	64.7
ROE (%)	40.0	44.4	40.8	39.8	40.2	41.1
Capex/sales (%)	0.8	0.8	0.7	0.5	0.5	0.5
Capex/depreciation (x)	2.9	2.6	2.1	1.8	1.8	1.9
Net debt/equity (%)	14.6	20.4	0.8	-29.6	-23.0	-28.4
Net interest cover (x)	nm	nm	202.4	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 2527c | Target price: 3200c | Rating: Buy

Steinhoff International Holdings Ltd

Grace Legodi

Business description: Steinhoff International is an integrated retailer that manufactures, sources, and retails furniture and household goods in Europe, Africa and the Pacific Rim. In addition, the group owns diversified industrial businesses in southern Africa, consisting of timber products and other raw materials, and provides specialist supply chain and logistics services across diverse industries. Its retail segment includes household goods, with exposure to automotive through its 54% subsidiary, JSE-listed, JD Group. The manufacturing/sourcing segment is engaged in timber operations, furniture manufacture and raw material supply. Logistics (through its 62% KAP JSE listed subsidiary) provide specialised distribution and warehousing services to the mining, manufacturing and industrial sectors.

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

Drivers: The key drivers of future profit growth include:

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

Outlook: In the midst of a bleak outlook for developed market durables growth, we believe the growth catalysts for this stock are market share and margin growth driven on the back of 1) continued consolidation of smaller competitors in the UK and European market that will result in above market turnover growth for Steinhoff; 2) a diversified SA based geographical sales mix (KAP and JDG) that will help offset a weak UK and European market; 3) increased exposure to higher margin kitchen and home décor goods; and 4) margin growth benefits from Steinhoff International Sourcing and Logistics (SISL). We rate the stock a Buy.

Valuation: We have utilised a two-year normalised forward PE to value Steinhoff. We believe this provides a more stable normalised PE on recovered two year forward earnings post-recession. Applying an 8x two-year normalised forward PE to obtain estimated fair value and rolling this forward at COE of 13% less the 12 month forward dividend yield, we obtain our price target. The slight reduction in target price takes into account DB's stronger rand forecasts and the weak economic environment that persists in the UK and Europe (c.62% contribution to group EBIT). On balance, our expectations of a three year 10% CAGR in HEPS, 3% dividend yield, and 22% total return support our Buy recommendation.

Risks: Key downside risks to our recommendation include: 1) A stronger rand profile 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 the UK and Europe from significant consolidation of smaller competitors; 3) continued weakness in the European economy; and 4) over-reliance on internal group supply chain causing potential supply disruptions.

Model updated:04 December 2012

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Steinhoff

Reuters: SHFJ.J Bloomberg: SHF SJ

Buy

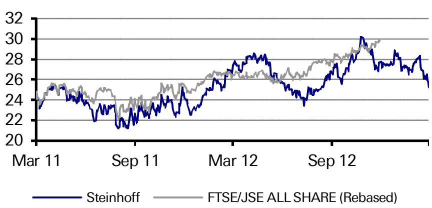
Price (8 Mar 13)	ZAR 25.27
Target Price	ZAR 32.00
52 Week range	ZAR 23.45 – 30.23
Market Cap (m)	ZARm 45,065
	USDm 4,962

Company Profile

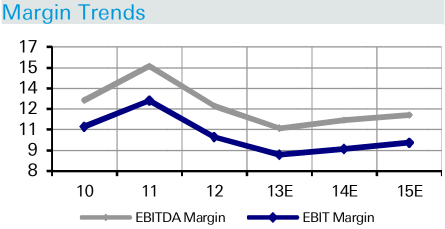
Steinhoff International is an integrated retailer that manufactures, sources and retails furniture and household goods in Europe, Africa and the Pacific Rim.

In addition, the group owns diversified industrial businesses in southern Africa, consisting of timber products and other raw materials, and provides specialist supply chain and logistics services across diverse industries.

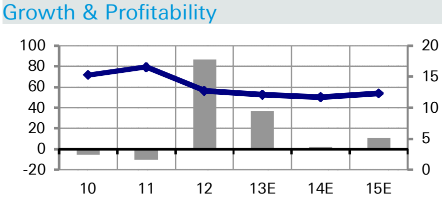
Price Performance



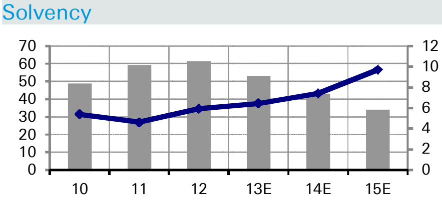
Margin Trends



Growth & Profitability



Solvency



Grace Legodi
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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	2.44	2.36	3.17	3.36	3.60	4.19
Reported EPS (ZAR)	2.47	2.90	3.17	3.36	3.60	4.19
DPS (ZAR)	0.63	0.65	0.80	0.85	0.91	1.06
BVPS (ZAR)	17.3	25.7	26.8	29.7	32.7	36.4
Weighted average shares (m)	1,376	1,454	1,703	1,783	1,783	1,783
Average market cap (ZARm)	25,495	32,599	41,922	45,065	45,065	45,065
Enterprise value (ZARm)	36,900	51,099	76,558	79,156	76,870	74,537
Valuation Metrics						
P/E (DB) (x)	7.6	9.5	7.8	7.5	7.0	6.0
P/E (Reported) (x)	7.5	7.7	7.8	7.5	7.0	6.0
P/BV (x)	1.03	0.89	0.92	0.85	0.77	0.69
FCF Yield (%)	15.0	nm	nm	6.1	10.5	11.1
Dividend Yield (%)	3.4	2.9	3.2	3.4	3.6	4.2
EV/Sales (x)	0.8	1.2	1.0	0.7	0.7	0.6
EV/EBITDA (x)	6.1	7.9	7.8	6.8	6.1	5.2
EV/EBIT (x)	7.2	9.4	9.6	8.3	7.6	6.3
Income Statement (ZARm)						
Sales revenue	48,040	43,040	80,434	109,984	111,838	123,888
Gross profit	16,814	16,181	28,634	39,154	39,813	44,103
EBITDA	6,064	6,497	9,812	11,668	12,501	14,325
Depreciation	920	1,073	1,801	2,128	2,320	2,499
Amortisation	0	0	0	0	0	0
EBIT	5,144	5,424	8,011	9,540	10,181	11,826
Net interest income(expense)	-953	-1,175	-1,354	-1,482	-1,374	-1,219
Associates/affiliates	36	-9	345	141	169	203
Exceptionals/extraordinaries	0	1,526	0	0	0	0
Other pre-tax income/(expense)	7	13	-96	0	0	0
Profit before tax	4,234	4,253	6,906	8,199	8,977	10,809
Income tax expense	481	435	863	1,025	1,167	1,729
Minorities	212	208	388	1,184	1,388	1,609
Other post-tax income/(expense)	0	0	-257	0	0	0
Net profit	3,541	5,136	5,398	5,990	6,422	7,471
DB adjustments (including dilution)	-37	-960	0	0	0	0
DB Net profit	3,504	4,175	5,398	5,990	6,422	7,471
Cash Flow (ZARm)						
Cash flow from operations	4,584	5,769	8,168	8,491	10,003	10,710
Net Capex	-747	-6,230	-10,626	-5,744	-5,293	-5,704
Free cash flow	3,837	-461	-2,458	2,747	4,710	5,006
Equity raised/(bought back)	2,294	6,293	0	0	0	0
Dividends paid	-112	-93	-225	-1,405	-1,489	-1,596
Net inc/(dec) in borrowings	-1,332	5,429	5,379	4,140	900	700
Other investing/financing cash flows	-4,302	-9,968	-667	0	0	0
Net cash flow	385	1,200	2,029	5,483	4,122	4,110
Change in working capital	*-194*	*-4,344*	*620*	*-811*	*-126*	*-869*
Balance Sheet (ZARm)						
Cash and other liquid assets	5,121	6,321	8,011	13,494	17,615	21,725
Tangible fixed assets	14,853	29,696	35,350	38,965	41,938	45,143
Goodwill/intangible assets	17,675	35,930	49,406	49,406	49,406	49,406
Associates/investments	4,518	8,703	4,947	5,088	5,257	5,460
Other assets	15,014	20,269	35,348	39,059	39,635	43,609
Total assets	57,181	100,919	133,062	146,011	153,851	165,344
Interest bearing debt	18,348	30,499	41,086	45,226	46,126	46,826
Other liabilities	11,772	29,590	38,339	41,238	41,689	44,794
Total liabilities	30,120	60,089	79,425	86,464	87,815	91,620
Shareholders' equity	24,365	37,805	47,129	52,100	57,486	63,893
Minorities	2,696	3,025	6,508	7,446	8,551	9,831
Total shareholders' equity	27,061	40,830	53,637	59,547	66,037	73,724
Net debt	*13,227*	*24,178*	*33,075*	*31,732*	*28,511*	*25,101*
Key Company Metrics						
Sales growth (%)	-5.6	-10.4	86.9	36.7	1.7	10.8
DB EPS growth (%)	-3.4	-3.4	34.4	6.0	7.2	16.3
EBITDA Margin (%)	12.6	15.1	12.2	10.6	11.2	11.6
EBIT Margin (%)	10.7	12.6	10.0	8.7	9.1	9.5
Payout ratio (%)	24.5	18.4	25.2	25.2	25.2	25.2
ROE (%)	15.3	16.5	12.7	12.1	11.7	12.3
Capex/sales (%)	1.6	14.5	13.6	5.2	4.7	4.6
Capex/depreciation (x)	0.8	5.8	6.1	2.7	2.3	2.3
Net debt/equity (%)	48.9	59.2	61.7	53.3	43.2	34.0
Net interest cover (x)	5.4	4.6	5.9	6.4	7.4	9.7

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 11149c | Target price: 13072c | Rating: Buy

The Foschini Group Ltd

Sean Holmes / Grace Legodi

Business description: The Foschini Group owns a range of outlets retailing clothing, footwear, jewellery and home accessories on credit mainly to the mass-middle consumer market. Foschini's core apparel division consists of the primary Foschini division (including a number of growing in-house launched brands), Markhams (specialist menswear) and Exact (broad accessible affordable range). The jewellery division consists of the American Swiss, Matrix and previously acquired Sterns brands. The sports apparel division trades under the Totalsports, Sportscene and Duesouth brands. The @home brand launched in 2001, formed Foschini's beachhead into the domestic home accessories market. 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 more than 1,700 stores and produces annual sales of over R11bn.

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

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

Foschini reported slowing sales growth over the last six months (dragged down by weak cellphone sales) and management seems a bit more concerned about the health of the middle mass-market consumer and their ability to take on more debt and service current debt. As a result, management sees bad debts remaining relatively high over the next 6-12 months.

Outlook: We see a value unlock opportunity in Foschini, through more efficient capital management. The group's 25% FY12 ROE is substantially lower than its peers' 40-60% ROE. A high proportion of the group's equity is tied up in TFG Financial services, which currently generates a ROE of less than 10%. In our view, Foschini could improve its free cash flow generation and ROE, through higher gearing in TFG Financial services, which we think could help support a higher PE rating. Buy on valuation.

Valuation: Our 12 month (March-14) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple. We calculate our target price PE multiples, using Gordon's dividend discount model where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/ dividend yield. Our exit PE of 12x, is slightly higher than the current 12-month forward PE (11x) and reflect our view that Foschini's relative and absolute rating is too low at this juncture.

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

Model updated:04 March 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

The Foschini Group Ltd

Reuters: TFGJ.J Bloomberg: TFG SJ

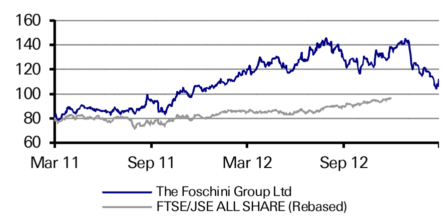
Buy

Price (8 Mar 13)	ZAR 111.49
Target Price	ZAR 130.72
52 Week range	ZAR 104.20 – 145.50
Market Cap (m)	ZARm 22,878
	USDm 2,519

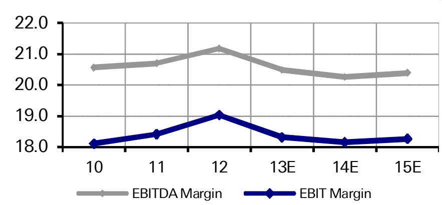
Company Profile

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

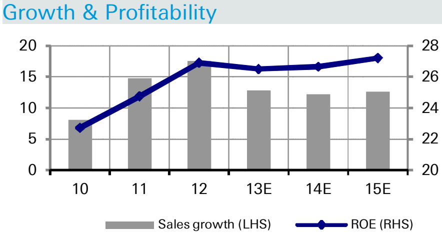
Price Performance



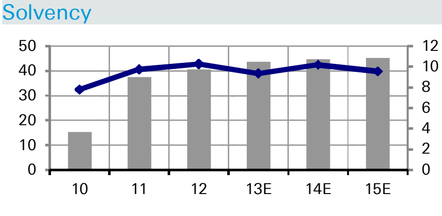
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 31-Mar	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	5.18	6.20	7.66	8.60	9.66	10.93
Reported EPS (ZAR)	5.18	6.20	7.66	8.60	9.66	10.93
DPS (ZAR)	2.88	3.50	4.55	5.31	5.96	6.75
BVPS (ZAR)	21.0	22.7	26.2	29.5	32.7	36.3
Weighted average shares (m)	208	207	205	205	205	205
Average market cap (ZARm)	11,719	15,783	19,946	22,878	22,878	22,878
Enterprise value (ZARm)	12,981	18,491	23,301	26,980	27,609	28,264
Valuation Metrics						
P/E (DB) (x)	10.9	12.3	12.7	13.0	11.5	10.2
P/E (Reported) (x)	10.9	12.3	12.7	13.0	11.5	10.2
P/BV (x)	3.19	3.73	4.73	3.78	3.41	3.07
FCF Yield (%)	16.8	2.4	3.5	3.2	3.6	4.1
Dividend Yield (%)	5.1	4.6	4.7	4.8	5.3	6.1
EV/Sales (x)	1.2	1.5	1.6	1.6	1.5	1.4
EV/EBITDA (x)	5.9	7.2	7.6	8.1	7.4	6.7
EV/EBIT (x)	6.7	8.1	8.4	9.0	8.3	7.5
Income Statement (ZARm)						
Sales revenue	10,755	12,342	14,505	16,356	18,361	20,671
Gross profit	5,749	6,574	7,755	8,791	9,963	11,260
EBITDA	2,211	2,555	3,072	3,351	3,719	4,215
Depreciation	-264	-283	-311	-356	-386	-440
Amortisation	0	0	0	0	0	0
EBIT	1,947	2,272	2,761	2,995	3,333	3,775
Net interest income(expense)	-250	-233	-269	-321	-327	-396
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	14	12	10	11	12	13
Profit before tax	1,711	2,051	2,502	2,685	3,018	3,393
Income tax expense	-549	-662	-810	-779	-875	-984
Minorities	-77	-87	-110	-132	-149	-152
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,086	1,302	1,582	1,775	1,993	2,257
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,086	1,302	1,582	1,775	1,993	2,257
Cash Flow (ZARm)						
Cash flow from operations	2,238	746	1,227	1,289	1,295	1,453
Net Capex	-270	-374	-537	-557	-479	-526
Free cash flow	1,967	372	689	732	815	927
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-666	-676	-847	-1,025	-1,170	-1,320
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-106	1,443	933	868	583	659
Net cash flow	1,195	1,139	775	575	228	267
Change in working capital	*0*	*-1,760*	*-1,251*	*-1,350*	*-1,299*	*-1,432*
Balance Sheet (ZARm)						
Cash and other liquid assets	284	339	711	960	1,059	1,214
Tangible fixed assets	996	1,087	1,313	1,514	1,608	1,693
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0
Other assets	7,957	9,277	10,832	12,380	13,933	15,669
Total assets	9,237	10,703	12,856	14,855	16,600	18,576
Interest bearing debt	1,119	2,562	3,495	4,363	4,945	5,605
Other liabilities	2,633	2,192	2,497	2,694	2,949	3,252
Total liabilities	3,752	4,754	5,992	7,057	7,894	8,857
Shareholders' equity	5,058	5,463	6,293	7,098	7,861	8,724
Minorities	427	486	571	700	846	995
Total shareholders' equity	5,485	5,949	6,864	7,798	8,706	9,719
Net debt	*835*	*2,223*	*2,784*	*3,402*	*3,886*	*4,391*
Key Company Metrics						
Sales growth (%)	8.1	14.8	17.5	12.8	12.3	12.6
DB EPS growth (%)	-6.3	19.6	23.6	12.2	12.3	13.2
EBITDA Margin (%)	20.6	20.7	21.2	20.5	20.3	20.4
EBIT Margin (%)	18.1	18.4	19.0	18.3	18.2	18.3
Payout ratio (%)	55.2	55.5	59.0	61.3	61.3	61.3
ROE (%)	22.7	24.7	26.9	26.5	26.7	27.2
Capex/sales (%)	2.5	3.0	3.7	3.4	2.6	2.5
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	15.2	37.4	40.6	43.6	44.6	45.2
Net interest cover (x)	7.8	9.7	10.3	9.3	10.2	9.5

Source: Company data, Deutsche Bank estimates

South Africa – Food Producers | Price (8 March 2013): 31935c | Target price: 28000c | Rating: Hold

Tiger Brands Ltd

Warren Goldblum, CFA

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

Drivers:

- **Domestic food division:** This division is the biggest contributor to profitability, contributing c.75% of FY12 group EBIT. Consumer spending and food inflation, as well as international agricultural commodity prices, are the key drivers for this division.
- **Home and personal care (HPC):** The HPC division contributes c.12% to FY12 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:** Acquisitions concluded in the FY11 period have resulted in the division's contribution to group profits doubling in FY12; with this division now contributing in excess of 10% of group EBIT (c.12% of FY12 group EBIT). The group recently announced the acquisition of a controlling stake in Dangote Flour Mills plc, and whilst this will increase the group's exposure to African markets outside of South Africa, in the near term this transaction is dilutive to earnings.
- **Fishing division:** The group derives its fishing earnings from an equity accounted 45% stake in JSE-listed Oceana after divesting its interest in Sea Harvest in 2009.

Outlook: Tiger Brands is our preferred pick in the sector; this focused-FMCG company has strong brands, a diverse EBIT make-up and low gearing levels. We believe Tiger Brands' strong brands and highly diverse earnings stream position the company well, notwithstanding a challenging environment. While the stock remains our preferred entry into the sector, at current valuation levels, given muted total return expectations, we rate the stock a Hold.

Valuation: We value TBS on a DCF basis. Inputs into our five-year DCF include WACC of 12.8% (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: Downside risks: Continued weakness in the consumer environment, greater-than-anticipated margin pressure in the face of upward pressure on key soft commodity input costs, as well as the risk that the company's African expansion strategy does not generate adequate returns. Upside risks: Stronger-than-anticipated consumer expenditure in South Africa and a stronger-than-expected performance from the group's recently concluded acquisitions.

Deutsche Securities (Pty) Ltd

Model updated:18 December 2012

Running the numbers

Sub-Saharan Africa

South Africa

Food Producers

Tiger Brands

Reuters: TBSJ.J | Bloomberg: TBS SJ

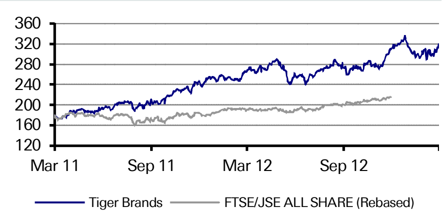
Hold

Price (8 Mar 13)	ZAR 319.35
Target Price	ZAR 280.00
52 Week range	ZAR 240.16 – 334.99
Market Cap (m)	ZARm 50,786
	USDm 5,592

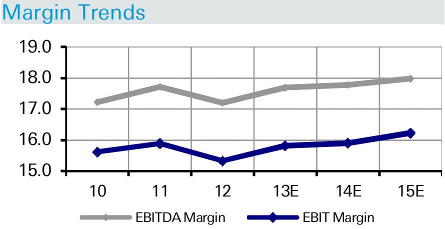
Company Profile

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

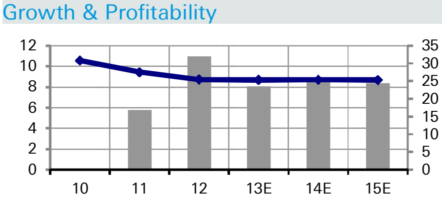
Price Performance



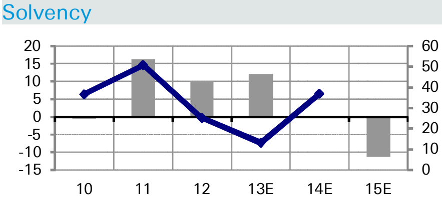
Margin Trends



Growth & Profitability



Solvency



Warren Goldblum, CFA
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Fiscal year end 30-Sep	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	14.65	15.45	16.54	18.91	21.80	25.00
Reported EPS (ZAR)	14.65	15.45	16.54	18.91	21.80	25.00
DPS (ZAR)	7.46	7.91	8.50	9.67	11.15	12.78
BVPS (ZAR)	52.6	62.2	71.1	81.6	93.9	108.0
Weighted average shares (m)	158	159	159	159	159	159
Average market cap (ZARm)	27,450	30,283	40,716	50,786	50,786	50,786
Enterprise value (ZARm)	25,976	29,980	39,636	48,695	47,067	45,139
Valuation Metrics						
P/E (DB) (x)	11.8	12.4	15.5	16.9	14.6	12.8
P/E (Reported) (x)	11.8	12.4	15.5	16.9	14.6	12.8
P/BV (x)	3.61	3.38	3.84	3.91	3.40	2.96
FCF Yield (%)	5.5	5.0	5.3	4.8	6.4	7.5
Dividend Yield (%)	4.3	4.1	3.3	3.0	3.5	4.0
EV/Sales (x)	1.3	1.5	1.7	2.0	1.8	1.6
EV/EBITDA (x)	7.8	8.3	10.2	11.2	10.0	8.7
EV/EBIT (x)	8.6	9.2	11.4	12.6	11.1	9.7
Income Statement (ZARm)						
Sales revenue	19,316	20,430	22,677	24,500	26,595	28,822
Gross profit	19,316	20,430	22,677	24,500	26,595	28,822
EBITDA	3,325	3,618	3,900	4,333	4,727	5,181
Depreciation	310	373	426	459	499	506
Amortisation	0	0	0	0	0	0
EBIT	3,015	3,245	3,474	3,874	4,228	4,675
Net interest income(expense)	-82	-64	-138	-297	-115	19
Associates/affiliates	252	265	416	525	613	720
Exceptionals/extraordinaries	164	-86	-28	0	0	0
Other pre-tax income/(expense)	-169	146	25	21	22	24
Profit before tax	3,016	3,592	3,777	4,123	4,749	5,437
Income tax expense	840	1,014	1,029	1,007	1,158	1,321
Minorities	-17	-6	30	40	46	51
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,356	2,498	2,690	3,076	3,545	4,066
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,356	2,498	2,690	3,076	3,545	4,066
Cash Flow (ZARm)						
Cash flow from operations	2,615	2,607	2,621	3,418	3,881	4,301
Net Capex	-1,100	-1,104	-468	-971	-617	-494
Free cash flow	1,514	1,503	2,153	2,448	3,264	3,807
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,180	-1,230	-1,318	-1,397	-1,589	-1,829
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	0	-2,531	-377	-1,500	0	0
Net cash flow	335	-2,258	459	-449	1,674	1,978
Change in working capital	*-113*	*-433*	*-528*	*-156*	*-209*	*-321*
Balance Sheet (ZARm)						
Cash and other liquid assets	921	506	371	104	1,028	2,257
Tangible fixed assets	2,586	3,317	3,359	3,871	3,989	3,977
Goodwill/intangible assets	1,986	3,826	4,012	4,012	4,012	4,012
Associates/investments	1,717	2,360	2,655	4,155	4,155	4,155
Other assets	5,774	6,187	7,456	7,786	8,182	8,863
Total assets	12,984	16,196	17,853	19,928	21,366	23,264
Interest bearing debt	880	2,177	1,553	1,735	985	235
Other liabilities	3,503	3,773	4,605	4,779	4,965	5,326
Total liabilities	4,383	5,950	6,158	6,514	5,950	5,561
Shareholders' equity	8,316	9,860	11,303	12,982	14,937	17,174
Minorities	286	386	393	433	479	529
Total shareholders' equity	8,601	10,246	11,696	13,414	15,416	17,703
Net debt	*-42*	*1,671*	*1,182*	*1,631*	*-43*	*-2,022*
Key Company Metrics						
Sales growth (%)	nm	5.8	11.0	8.0	8.5	8.4
DB EPS growth (%)	na	5.4	7.1	14.3	15.3	14.7
EBITDA Margin (%)	17.2	17.7	17.2	17.7	17.8	18.0
EBIT Margin (%)	15.6	15.9	15.3	15.8	15.9	16.2
Payout ratio (%)	50.1	50.2	50.3	50.0	50.0	50.0
ROE (%)	30.8	27.5	25.4	25.3	25.4	25.3
Capex/sales (%)	5.7	5.4	2.1	4.0	2.3	1.7
Capex/depreciation (x)	3.6	3.0	1.1	2.1	1.2	1.0
Net debt/equity (%)	-0.5	16.3	10.1	12.2	-0.3	-11.4
Net interest cover (x)	36.7	50.7	25.1	13.0	36.9	nm

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 9599c | Target price: 10832c | Rating: Hold

Truworths International Ltd

Sean Holmes / Grace Legodi

Business description: Truworths International Ltd is an investment holding company with two main trading subsidiaries: Truworths (retailing niche high-end mens-, womens- and childrenswear through multiple brands) and Young Designers Emporium (agency sales of upcoming independent new designers' apparel and accessories with contribution reported on a commission basis). The group's exposure ex-South Africa is small at c.3% of total group merchandise sales. The credit offered to consumers is considered an integrated offering enabling sales of core product as opposed to being a separate profit centre.

Truworths commands a significant share of both the womenswear and menswear CFT (clothing, footwear and textile) market in South Africa (c.22%). Its target market is predominantly LSM7-10 consumers with the core age group being 24-30 years old. Various brands appeal to specific niche consumer segments eg Uzzi and Identity appealing to a younger 18-24 year-old demographic. Truworths has consistently positioned itself as a high fashion retailer. The group has more than 540 stores.

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

- **Continued organic expansion and resilient volumes** to maintain market share gains. While Truworths' top line has been defensive relative to peers throughout the last few years of recession, the offset to continued store expansion is the dilution of trading densities and hence returns and margin pressure from already high levels. Increased competition in the space will make it difficult to maintain market share longer term.
- **Selective acquisitions:** A free cash file of c.R1.7bn (4% of current market cap) provides the group with opportunities to assess potential acquisitions that compliment the core fashion business or alternatively reduce the dividend cover or do further share buybacks.
- **Further African expansion:** Management has highlighted plans to accelerate African expansion through a mix of franchise and corporate stores. With only 30-40 stores currently ex-South Africa and <3% of group sales outside South Africa, this will be a much longer-term growth avenue for the business.

Management is cautiously optimistic about the group's growth prospects over the next 12-18 months, citing SA consumers' high debt levels and a key constraining factor. However, the group plans to continue growing its retail space by c.6% pa over the short/medium term.

Outlook: We see Truworths growing its diluted HEPS at a CAGR of 14% over the next four years, compared with the sector's 17%. In the near term, we are somewhat cautious the company could face some EBIT margin pressure, mainly as we think its GP margins are at risk of contraction. However, we think that some of the GP margin pressure could potentially be absorbed through a combination of better cost management and improved scale benefits. We see Truworths' strong free cash flow generation and R1.5bn FY12 cash pile as key investment attractions. We rate the stock a Hold based on balanced risk/reward and valuation.

Valuation: Our 12 month (Nov-13) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple. We calculate our target price PE multiples, using Gordon's dividend discount model where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/ dividend yield. Our exit PE is c.15x, inline with the counter's current 12-month forward PE (15.4x) and reflecting our view that the sector will not see a meaningful de-rating over the next 12 months.

Risks: Upside risks: Our target price does not reflect the potential value uplift that could result from a value accretive investment with the excess cash on hand. Our earnings forecasts include a marginal contraction in GP margin. There is obviously upside risk to earnings estimates, should be company be able to sustain or improve its GP margin. Downside risks: A faster than expected contraction in GP margin, poses to biggest risk to our earnings forecast and valuation. The group is susceptible to rising bad debts, should the macro environment deteriorates. In our view, Truworths might be at more risk than some of its peers, should competition from international retailers increase, considering their higher price points and target market.

Model updated:20 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Truworths

Reuters: TRUJ.J Bloomberg: TRU SJ

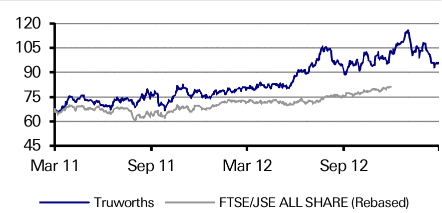
Hold

Price (8 Mar 13)	ZAR 95.99
Target Price	ZAR 108.32
52 Week range	ZAR 79.03 – 116.00
Market Cap (m)	ZARm 40,585
	USDm 4,468

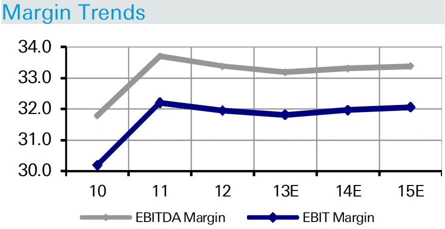
Company Profile

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

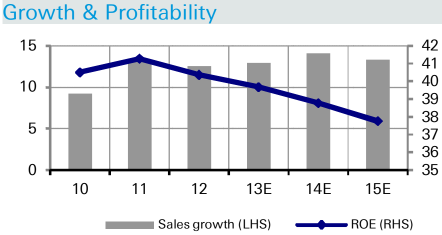
Price Performance



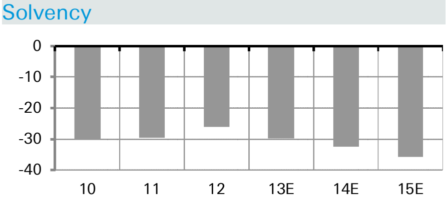
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	3.70	4.47	5.17	6.01	6.92	7.90
Reported EPS (ZAR)	3.70	4.47	5.17	6.01	6.92	7.90
DPS (ZAR)	2.00	2.62	3.26	3.79	4.36	4.97
BVPS (ZAR)	9.7	11.2	13.3	15.7	18.4	21.5
Weighted average shares (m)	425	426	423	423	423	423
Average market cap (ZARm)	19,443	28,602	33,083	40,585	40,585	40,585
Enterprise value (ZARm)	18,125	27,113	31,523	38,478	37,877	37,120
Valuation Metrics						
P/E (DB) (x)	12.4	15.0	15.1	16.0	13.9	12.2
P/E (Reported) (x)	12.4	15.0	15.1	16.0	13.9	12.2
P/BV (x)	5.53	6.55	6.75	6.13	5.21	4.46
FCF Yield (%)	7.0	2.2	2.6	2.4	2.8	3.2
Dividend Yield (%)	4.4	3.9	4.2	3.9	4.5	5.2
EV/Sales (x)	2.4	3.2	3.3	3.5	3.0	2.6
EV/EBITDA (x)	7.5	9.4	9.8	10.6	9.1	7.9
EV/EBIT (x)	7.9	9.8	10.2	11.1	9.5	8.2
Income Statement (ZARm)						
Sales revenue	7,590	8,590	9,668	10,915	12,450	14,112
Gross profit	4,492	5,187	5,848	6,575	7,478	8,484
EBITDA	2,412	2,895	3,227	3,622	4,146	4,711
Depreciation	-121	-129	-138	-149	-167	-187
Amortisation	0	0	0	0	0	0
EBIT	2,291	2,766	3,089	3,472	3,979	4,524
Net interest income(expense)	69	94	101	121	158	197
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,360	2,860	3,190	3,594	4,137	4,721
Income tax expense	-756	-917	-965	-1,006	-1,158	-1,322
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,604	1,943	2,225	2,587	2,979	3,399
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,604	1,943	2,225	2,587	2,979	3,399
Cash Flow (ZARm)						
Cash flow from operations	1,567	804	1,073	1,232	1,406	1,592
Net Capex	-211	-171	-206	-264	-275	-287
Free cash flow	1,356	633	867	968	1,130	1,304
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-797	-989	-1,258	-1,505	-1,740	-1,995
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-20	0	0	0	0	0
Net cash flow	539	-356	-391	-537	-610	-690
Change in working capital	*0*	*-462*	*-796*	*-421*	*-530*	*-547*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,318	1,489	1,560	2,107	2,707	3,465
Tangible fixed assets	694	724	775	887	994	1,092
Goodwill/intangible assets	155	167	184	186	188	190
Associates/investments	0	0	0	0	0	0
Other assets	3,242	3,844	4,398	4,918	5,564	6,232
Total assets	5,409	6,224	6,917	8,098	9,453	10,979
Interest bearing debt	0	0	0	0	0	0
Other liabilities	1,038	1,178	936	1,034	1,151	1,272
Total liabilities	1,038	1,178	936	1,034	1,151	1,272
Shareholders' equity	4,371	5,046	5,981	7,064	8,302	9,707
Minorities	0	0	0	0	0	0
Total shareholders' equity	4,371	5,046	5,981	7,064	8,302	9,707
Net debt	*-1,318*	*-1,489*	*-1,560*	*-2,107*	*-2,707*	*-3,465*
Key Company Metrics						
Sales growth (%)	9.2	13.2	12.5	12.9	14.1	13.3
DB EPS growth (%)	11.6	20.8	15.7	16.3	15.1	14.1
EBITDA Margin (%)	31.8	33.7	33.4	33.2	33.3	33.4
EBIT Margin (%)	30.2	32.2	32.0	31.8	32.0	32.1
Payout ratio (%)	53.0	57.5	61.9	61.9	61.9	61.9
ROE (%)	40.5	41.3	40.4	39.7	38.8	37.7
Capex/sales (%)	2.8	2.0	2.1	2.4	2.2	2.0
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-30.2	-29.5	-26.1	-29.8	-32.6	-35.7
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

South Africa – Telecommunications | Price (8 March 2013): 11904c | Target price: 11000c | Rating: Hold

Vodacom Group Ltd

Mike Gresty, CFA

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

Importantly with mobile penetration in South Africa in excess of 100% and new competition from Telkom's mobile business 8.ta, growth in this key region has started to slow. We are starting to see some encouraging trends from the international operations. In line with global trends, Vodacom is investing in more traditional fixed line areas like fibre to support the acceleration in data traffic that the group has seen across its network in recent months, as well as intensifying its efforts to develop its enterprise business.

Drivers:

- Growing the data revenue; margin expansion in SA. While core voice revenues in South Africa remain under pressure, Vodacom has invested significantly in its domestic data network; we expect to see continued growth in data revenue (increasingly from higher margin smart phone data rather than dongles). We also expect to see Vodacom compete head on with the fixed-line players in traditional fixed line data services where it has already made some progress. Decline in low margin decretive interconnect, and cost benefits from its investment in infrastructure – reduced reliance in Telkom as a result of investment in its own fibre backhaul, as well as renegotiating maintenance contracts should ensure margin expansion to augment relatively pedestrian top line growth in South Africa.
- Some changes in Africa. The group's African operations after a tough two years have finally started to show clear signs of a turnaround in 2012. In addition, the group sold its loss-making Gateway operation in 2012. We expect to see a continuation of this positive momentum from the African mobile business which should offer some support to earnings growth for the business. While these changes in the African operations are small in the context of the group, we believe the market will be encouraged by an end to the negative trend.

Outlook: From a broad operational perspective we believe Vodacom remains a defensive holding with the stable South African business contributing the majority of profits for the group. Competition is intensifying as SA appears increasingly saturated, moderating consumer tailwinds. Signs of regulatory pressure to bring down the cost of communication suggest slowing top line growth in prospect from SA. Cost efficiency, driving modest EBITDA margin gains should support mid-single digit operating profit growth from SA, but it is increasingly the International division on which Vodacom will rely for growth at the margin. The defensive nature of the domestic business, together with strong dividends, should remain appealing to investors. However, we think the risk dynamics alter as the group becomes more reliant on its non-SA business (possibly augmented by acquisitions) where the track record is mixed. Accordingly, we rate the share **Hold**.

Valuation: While revenue growth is likely to remain muted, given the cuts in mobile termination rates, the group should nevertheless see margin expansion over the next few years. We value Vodacom on a 12-month forward PE of 12x and EV/EBITDA of 6.5x, which implies a de-rating from current levels, but is still a premium vs its EM multinational peers. Our valuation for the group is underpinned by the group's better-than-sector dividend yield (approximately 7.5%) and a business that, in our view, is defensive in nature in the current volatile markets.

Risks: South Africa remains a key contributor to group profitability. Possible risks facing it in this market include unanticipated moves by competitors seeking to gain a meaningful foothold (more aggressive data tariff reductions, for example), significant deterioration in the consumer environment and further regulatory interference. Given the group's strategy to expand further across the continent, investors will continue to monitor acquisitions as the potential exists that the group makes an acquisition that is negatively perceived by the market. Key upside risk would be a faster turnaround in the African operations.

Model updated:25 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

Telecom

Vodacom

Reuters: VODJ.J Bloomberg: VOD SJ

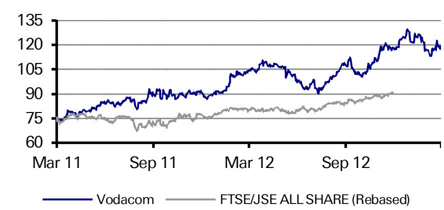
Hold

Price (8 Mar 13)	ZAR 119.04
Target Price	ZAR 110.00
52 Week range	ZAR 90.05 – 129.60
Market Cap (m)	ZARm 174,870
	USDm 19,254

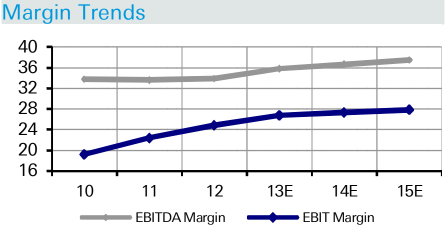
Company Profile

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

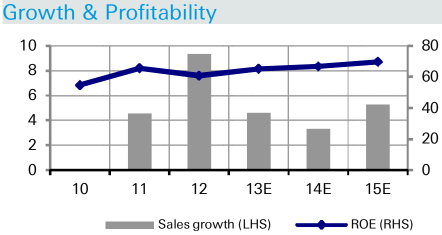
Price Performance



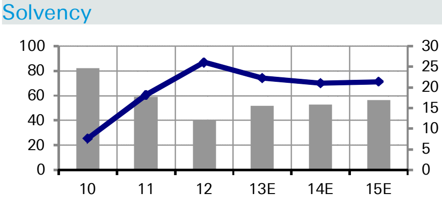
Margin Trends



Growth & Profitability



Solvency



Mike Gresty, CFA
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Fiscal year end 31-Mar	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	5.09	6.54	7.06	8.32	8.78	9.43
Reported EPS (ZAR)	5.09	6.54	7.06	8.32	8.78	9.43
DPS (ZAR)	2.85	4.60	7.10	7.60	8.02	8.62
BVPS (ZAR)	9.2	10.6	12.6	12.9	13.4	13.7
Weighted average shares (m)	1,488	1,471	1,469	1,469	1,469	1,469
Average market cap (ZARm)	82,441	97,527	131,347	174,870	174,870	174,870
Enterprise value (ZARm)	95,079	107,147	138,495	184,701	185,960	187,663
Valuation Metrics						
P/E (DB) (x)	10.9	10.1	12.7	14.3	13.6	12.6
P/E (Reported) (x)	10.9	10.1	12.7	14.3	13.6	12.6
P/BV (x)	6.02	7.48	8.58	9.24	8.87	8.71
FCF Yield (%)	10.6	10.1	8.9	5.8	6.9	7.4
Dividend Yield (%)	5.1	6.9	7.9	6.4	6.7	7.2
EV/Sales (x)	1.6	1.8	2.1	2.6	2.6	2.5
EV/EBITDA (x)	4.8	5.2	6.1	7.4	7.0	6.6
EV/EBIT (x)	8.5	7.8	8.3	9.9	9.4	8.8
Income Statement (ZARm)						
Sales revenue	58,535	61,197	66,929	70,026	72,365	76,178
Gross profit	19,765	20,559	22,698	25,052	26,546	28,533
EBITDA	19,765	20,559	22,698	25,052	26,546	28,533
Depreciation	5,157	5,355	5,882	6,308	6,793	7,321
Amortisation	3,370	1,508	199	0	0	0
EBIT	11,238	13,696	16,617	18,744	19,753	21,212
Net interest income(expense)	-1,478	-755	-639	-842	-940	-993
Associates/affiliates	-21	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	224	0	0
Other pre-tax income/(expense)	-794	-303	-45	110	0	0
Profit before tax	8,945	12,638	15,933	18,236	18,813	20,219
Income tax expense	4,745	4,659	5,730	5,562	5,644	6,066
Minorities	4	-266	47	282	316	347
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,196	8,245	10,156	12,392	12,853	13,806
DB adjustments (including dilution)	3,382	1,381	218	-174	50	50
DB Net profit	7,578	9,626	10,374	12,218	12,903	13,856
Cash Flow (ZARm)						
Cash flow from operations	14,947	16,403	19,310	17,930	20,290	21,931
Net Capex	-6,222	-6,548	-7,569	-7,853	-8,300	-8,932
Free cash flow	8,725	9,855	11,741	10,076	11,990	12,998
Equity raised/(bought back)	-385	-984	-148	-200	-200	-200
Dividends paid	-3,820	-5,211	-7,897	-11,978	-11,872	-13,251
Net inc/(dec) in borrowings	-2,634	-2,838	320	528	-1,172	-1,646
Other investing/financing cash flows	-2,009	-1,234	-1,184	-942	-1,090	-1,193
Net cash flow	-123	-412	2,832	-2,517	-2,343	-3,292
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	1,061	870	3,781	1,600	1,600	1,600
Tangible fixed assets	21,383	21,577	24,367	26,002	27,600	29,301
Goodwill/intangible assets	6,673	5,215	5,123	5,379	5,379	5,379
Associates/investments	334	462	896	1,184	1,243	1,305
Other assets	12,240	13,311	14,063	15,434	16,835	18,203
Total assets	41,691	41,435	48,230	49,600	52,657	55,789
Interest bearing debt	13,135	10,394	11,425	11,834	12,686	13,903
Other liabilities	13,920	14,861	17,875	18,049	19,008	20,020
Total liabilities	27,055	25,255	29,300	29,883	31,693	33,923
Shareholders' equity	13,738	15,622	18,530	18,935	19,716	20,070
Minorities	898	558	400	782	1,248	1,795
Total shareholders' equity	14,636	16,180	18,930	19,717	20,964	21,866
Net debt	*12,074*	*9,524*	*7,644*	*10,234*	*11,086*	*12,303*
Key Company Metrics						
Sales growth (%)	nm	4.5	9.4	4.6	3.3	5.3
DB EPS growth (%)	na	28.5	7.9	17.8	5.6	7.4
EBITDA Margin (%)	33.8	33.6	33.9	35.8	36.7	37.5
EBIT Margin (%)	19.2	22.4	24.8	26.8	27.3	27.8
Payout ratio (%)	101.1	82.1	102.7	90.1	91.7	91.7
ROE (%)	54.6	65.6	60.8	65.2	66.8	69.7
Capex/sales (%)	10.8	10.9	11.4	11.3	11.6	11.8
Capex/depreciation (x)	0.7	1.0	1.3	1.3	1.2	1.2
Net debt/equity (%)	82.5	58.9	40.4	51.9	52.9	56.3
Net interest cover (x)	7.6	18.1	26.0	22.3	21.0	21.4

Source: Company data, Deutsche Bank estimates

South Africa – General Retailers | Price (8 March 2013): 7154c | Target price: 8018c | Rating: Buy

Woolworths Holdings Ltd

Sean Holmes / Grace Legodi

Business description: Woolworths operates food, clothing and homeware outlets (both full-line stores containing all three product categories and food-only stores) predominantly in South Africa. It also owns a majority stake in Country Road, retailing clothing and homeware through retail outlets and concessions in large department stores in Australia and New Zealand. At an EBIT level, clothing and home contributes c.52%, food 27%, Country Road contributes c.16%.

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

- **Increasing food inflation underpinning top line.** Upward pressure on food inflation should underpin the food businesses' top line.
- **Focus on driving better cost efficiency.** We see scope for Clothing GP margins to improve further over the medium term, helped by better procurement/supply chain efficiencies. Overhead costs are still too high in our view, presenting an opportunity to improve cost efficiency and drive higher EBIT margin (in both Food and Clothing).
- **Repositioning the clothing business and inflation underpin.** Repositioned as a more accessible fashionable retailer growing market shares and potentially enhancing trading margins further in the format post a successful turnaround in the division over 2010-11. Rand weakness and cotton price increases are resulting in high single digit product inflation rates.
- **Margin upside in Country Road:** The Australian business now contributes c.16% to Group EBIT, following the Witchery acquisition. We see room for this business to lift its EBIT margin to 13-15% over the medium term (from 5% FY12), helped a more conducive trading environment and better economies of scale.
- **Launch of loyalty card.** Management highlighted the big opportunity that exists in launching a loyalty card programme for customers and mining the data from card sales to better learn the behaviour of its core customers (similar to successful Clicks group programme).

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

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

Valuation: Our 12 month (Nov-13) target prices are calculated using our diluted HEPS forecasts and a 12 month forward PE multiple. We calculate our target price PE multiples, using Gordon's dividend discount model, where dividend yield = cost of equity less terminal growth. We use a risk free rate of 8.5% (based on the 10 year SA bond yield) and an equity risk premium of 4.5% to calculate each retailer's cost of equity. Our terminal growth assumption is based on the relative growth that we project the retailer to achieve in the sector. We use our forecast dividend payout ratio to calculate the appropriate PE rating, based on the calculated dividend yield (where PE = dividend payout ratio/dividend yield). Our exit PE is c.19x, inline with the counter's current 12-month forward PE (19.3x) and reflects our view that the sector will not see a meaningful de-rating over the next 12 months.

Risks: Historical evidence shows Woolies is very sensitive to interest rate changes given the nature of its customer base. Therefore, we caution that rising interest rates could have an adverse impact of the group's earnings. Key to our investment thesis is Woolies' EBIT margin expansion potential – this is partly driven by improved cost efficiencies (that has some execution risk attached).

Model updated:14 February 2013

Running the numbers

Sub-Saharan Africa

South Africa

General Retailers

Woolworths Holdings Ltd

Reuters: WHLJ.J   Bloomberg: WHL SJ

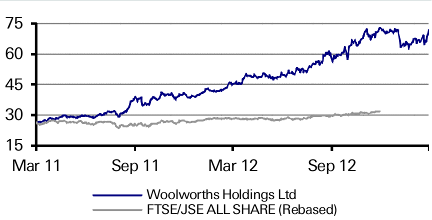
Buy

Price (8 Mar 13)	ZAR 71.54
Target Price	ZAR 80.18
52 Week range	ZAR 45.30 – 72.80
Market Cap (m)	ZARm 53,145
	USDm 5,851

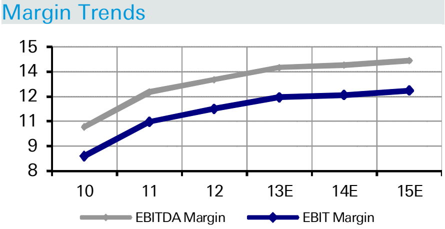
Company Profile

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

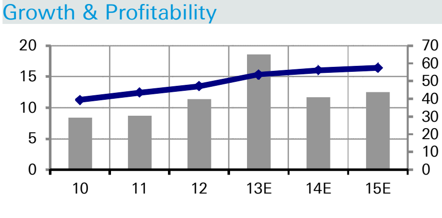
Price Performance



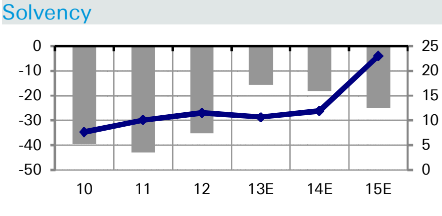
Margin Trends



Growth & Profitability



Solvency



Sean Holmes
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Fiscal year end 30-Jun	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (ZAR)	1.50	2.10	2.61	3.31	3.72	4.57
Reported EPS (ZAR)	1.59	2.10	2.61	3.32	3.91	4.57
DPS (ZAR)	1.05	1.44	1.98	2.52	2.97	3.48
BVPS (ZAR)	4.5	5.3	6.0	6.7	7.6	8.7
Weighted average shares (m)	768	760	747	743	743	743
Average market cap (ZARm)	14,461	20,214	30,714	53,145	53,145	53,145
Enterprise value (ZARm)	13,156	18,536	29,211	52,576	52,318	51,730
Valuation Metrics						
P/E (DB) (x)	12.5	12.7	15.8	21.6	19.2	15.7
P/E (Reported) (x)	11.8	12.7	15.8	21.6	18.3	15.7
P/BV (x)	5.36	5.61	8.39	10.73	9.40	8.21
FCF Yield (%)	4.2	1.4	nm	nm	0.4	0.5
Dividend Yield (%)	5.6	5.4	4.8	3.5	4.2	4.9
EV/Sales (x)	0.5	0.7	1.0	1.5	1.3	1.1
EV/EBITDA (x)	5.2	5.6	7.4	10.6	9.4	8.1
EV/EBIT (x)	6.3	6.5	8.6	12.2	10.8	9.3
Income Statement (ZARm)						
Sales revenue	25,036	27,227	30,340	35,969	40,176	45,187
Gross profit	9,252	10,544	11,921	14,124	15,816	17,796
EBITDA	2,544	3,339	3,949	4,947	5,588	6,406
Depreciation	-442	-489	-533	-648	-728	-818
Amortisation	0	0	0	0	0	0
EBIT	2,102	2,850	3,416	4,299	4,860	5,588
Net interest income(expense)	-276	-283	-297	-404	-409	-243
Associates/affiliates	-140	-263	-251	-284	-325	-370
Exceptionals/extraordinaries	17	0	0	0	0	0
Other pre-tax income/(expense)	73	2	2	8	142	0
Profit before tax	1,759	2,306	2,870	3,619	4,268	4,975
Income tax expense	-491	-659	-811	-1,013	-1,195	-1,393
Minorities	-10	-17	-23	-41	-57	-60
Other post-tax income/(expense)	11	19	38	40	40	40
Net profit	1,264	1,611	1,998	2,525	2,976	3,481
DB adjustments (including dilution)	-73	-2	-2	-8	-142	0
DB Net profit	1,191	1,609	1,996	2,518	2,834	3,481
Cash Flow (ZARm)						
Cash flow from operations	1,147	1,129	1,012	1,253	1,441	1,653
Net Capex	-538	-845	-1,223	-1,326	-1,249	-1,367
Free cash flow	609	284	-211	-73	192	285
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-779	-1,102	-1,516	-1,920	-2,263	-2,647
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	626	-1,025	5	109	-344	-200
Net cash flow	456	-1,843	-1,722	-1,884	-2,415	-2,562
Change in working capital	*0*	*117*	*58*	*-738*	*79*	*318*
Balance Sheet (ZARm)						
Cash and other liquid assets	2,917	2,293	2,145	1,444	1,370	1,774
Tangible fixed assets	2,504	2,562	2,726	3,404	3,925	4,474
Goodwill/intangible assets	0	298	824	824	824	824
Associates/investments	0	0	0	0	0	0
Other assets	3,589	3,912	4,350	5,866	6,291	6,719
Total assets	9,010	9,065	10,045	11,538	12,411	13,791
Interest bearing debt	1,555	530	535	644	300	100
Other liabilities	4,002	4,442	4,938	5,716	6,220	6,966
Total liabilities	5,557	4,972	5,473	6,360	6,520	7,066
Shareholders' equity	3,396	4,008	4,465	4,946	5,647	6,465
Minorities	57	85	107	231	243	259
Total shareholders' equity	3,453	4,093	4,572	5,177	5,890	6,725
Net debt	*-1,362*	*-1,763*	*-1,610*	*-800*	*-1,070*	*-1,674*
Key Company Metrics						
Sales growth (%)	8.4	8.8	11.4	18.6	11.7	12.5
DB EPS growth (%)	121.4	39.6	24.4	26.8	12.6	22.8
EBITDA Margin (%)	10.2	12.3	13.0	13.8	13.9	14.2
EBIT Margin (%)	8.4	10.5	11.3	12.0	12.1	12.4
Payout ratio (%)	63.8	67.7	74.0	74.2	74.2	74.2
ROE (%)	39.4	43.5	47.2	53.7	56.2	57.5
Capex/sales (%)	2.1	3.1	4.0	3.7	3.1	3.0
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-39.4	-43.1	-35.2	-15.4	-18.2	-24.9
Net interest cover (x)	7.6	10.1	11.5	10.7	11.9	23.0

Source: Company data, Deutsche Bank estimates

Stocks by market capitalisation

Rank	Stock	Sector	Market cap (Rm)	Annual value traded (Rm)	Market cap (US$m)	Annual value traded (US$m)
1	BAT	Personal Goods	918,995.5	73,731.1	101,297	8,127
2	SABMiller	Beverages	722,046.8	114,535.4	79,588	12,625
3	Billiton	General Mining	595,814.8	186,366.7	65,674	20,542
4	Richemont	Luxury Goods	377,144.4	95,530.6	41,571	10,530
5	Anglo American	General Mining	359,313.3	241,561.9	39,606	26,626
6	MTN Group	Mobile Telecommunications	341,381.6	125,413.9	37,629	13,824
7	Sasol	Oil & Gas	254,858.5	145,375.8	28,092	16,024
8	Standard Bank	Banks	189,702.6	82,092.9	20,910	9,049
9	Kumba Ion Ore	General Mining	182,929.1	48,513.9	20,163	5,347
10	Vodacom	Mobile Telecommunications	182,720.8	45,532.6	20,141	5,019
11	FirstRand	Banks	177,031.2	73,584.6	19,513	8,111
12	Old Mutual	Insurance	138,431.1	45,329.1	15,259	4,996
13	ABSA	Banks	116,852.7	50,196.9	12,880	5,533
14	Amplats	Platinum & Precious Metals	115,280.9	29,794.0	12,707	3,284
15	Nedbank	Banks	98,735.9	28,517.8	10,883	3,143
16	Sanlam	Life Insurance	97,649.9	37,926.3	10,764	4,180
17	Shoprite	Food & Drug Retailers	97,540.4	62,206.4	10,751	6,857
18	Impala	Platinum & Precious Metals	87,877.8	68,217.0	9,686	7,519
19	AngloGold Ashanti	Gold Mining	83,483.8	74,420.2	9,202	8,203
20	Exxaro Resources	General Mining	61,693.3	38,669.7	6,800	4,262
21	Tiger Brands	Food Producers	59,165.5	34,422.8	6,522	3,794
22	RMB Holdings	Banks	58,416.2	13,860.0	6,439	1,528
23	Woolies	General Retailers	55,973.8	42,013.6	6,170	4,631
24	Gold Fields	Gold Mining	54,507.8	54,115.0	6,008	5,965
25	Mediclinic	Healthcare	49,203.9	10,145.2	5,424	1,118
26	Steinhoff	Household Goods	48,474.4	31,522.0	5,343	3,475
27	Growthpoint	Real Estate	47,371.7	17,612.5	5,222	1,941
28	Discovery	Life Insurance	45,876.0	13,319.0	5,057	1,468
29	Truworths	General Retailers	44,205.9	25,875.4	4,873	2,852
30	African Rainbow Minerals	General Mining	41,438.3	17,162.9	4,568	1,892
31	Massmart	General Retailers	41,097.8	9,998.2	4,530	1,102
32	MMI Holdings	Life Insurance	35,634.5	13,819.4	3,928	1,523
33	Life Healthcare	Healthcare	35,341.3	24,015.6	3,896	2,647
34	Liberty	Life Insurance	33,986.5	6,933.1	3,746	764
35	Reinet	Investment Company	33,858.7	7,584.6	3,732	836
36	Netcare	Healthcare	29,344.4	13,012.4	3,235	1,434
37	Lonmin	Platinum & Precious Metals	27,387.3	18,066.7	3,019	1,991
38	Redefine	Real Estate	27,082.8	7,530.9	2,985	830
39	The Foschini Group	General Retailers	25,685.2	25,849.1	2,831	2,849
40	Harmony	Gold Mining	24,635.6	25,346.6	2,715	2,794
41	ABIL	General Financials	23,415.7	35,395.5	2,581	3,901
42	Pick n Pay	Food & Drug Retailers	21,829.2	10,647.0	2,406	1,174
43	Capitec	Banks	21,743.9	5,672.2	2,397	625
44	AVI	Food Producers	19,846.1	13,648.6	2,188	1,504
45	Spar	Food & Drug Retailers	18,832.8	12,346.0	2,076	1,361
46	Clicks	Food & Drug Retailers	16,099.4	12,935.3	1,775	1,426
47	Northam Platinum	Platinum & Precious Metals	14,538.3	5,921.8	1,602	653
48	Mondi	Paper	13,606.0	6,821.3	1,500	752
49	ArcelorMittal SA	Industrial Metals	13,372.6	4,985.8	1,474	550
50	RBPlats	Platinum & Precious Metals	8,918.1	1,333.5	983	147
51	JD Group	General Retailers	8,714.9	4,994.1	961	550
52	Lewis	General Retailers	6,401.2	5,056.6	706	557
53	Transaction Capital	General Financials	4,359.3	439.2	481	48
54	Aquarius Platinum	Platinum & Precious Metals	3,812.0	1,229.8	420	136

Source: Deutsche Bank

Appendix A: Equity valuations

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

Executive summary

Introduction

The note serves four main purposes:

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

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

Standard valuation inputs

We have standardised the following inputs:

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

Revised return expectations

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

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

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

Top-down and bottom-up reconciled

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

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

Appendix: Valuation and price target methodologies

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

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

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

Glossary

Abbrev	Explanation
1H	First half
2H	Second half
A$	Australian dollar
ABIL	African Bank Investments Ltd
ALSI	FTSE/JSE Africa All Share Index
Amplats	Anglo American Platinum Ltd
AMSA	ArcelorMittal SA Ltd
Anglo	Anglo American plc
ARM	African Rainbow Minerals Ltd
ARMgold	African Rainbow Minerals Gold
ARMI	African Rainbow Minerals Investments
ARMs	Alternative reimbursement model
BAT	British American Tobacco plc
BEE	Black Economic Empowerment
BHP	BHP Billiton
bn	billion
bnt	billion tonnes
bp	basis points
c	South African cents
c.	circa
Capex	Capital expenditure
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officer
CF	Cash flow
CHP	Chilean Peso
CIB	Corporate & Investment Banking
cps	South African cents per share
CSG	Consumer Sector Group
CTL	Coal-to-Liquids
CTRP	Chromite tailings retreatment plant
DB	Deutsche Bank
DC	Distribution Centre
DCF	Discounted Cash Flow
DIY	Do-it-yourself
DRC	Democratic Republic of the Congo
DRC	Depository Receipts
E	Euro
EBIT	Earnings Before Interest & Taxation
EBITDA	Earnings before Interest, Taxation, Dividends and Amortisation
ECB	European Central Bank
EM	Emerging Markets
EMEA	Europe, the Middle East and Africa
eop	Effect on payroll
est	estimated
EUR	Euro
EV	Enterprise Value
FCF	Free cash flow
Fed	US Federal Reserve
FMCG	Fast Moving Consumer Goods
FPT	Fountainhead
FX	Foreign exchange
FY	Financial Year
GBP	British pound
GDP	Gross Domestic Product
GFC	Global financial crisis

Abbrev	Explanation
Gov't	Government
GOZ	Growthpoint Australia
GTL	Gas-to-Liquids
HPC	Home & Personal Care
IMF	International Monetary Fund
IRR	Internal Rate of Return
IRS	Impala Refining Services
ISP	Internet Service Provider
IT	Information Technology
Jibar	Johannesburg Interbank Agreed Rate
JSE	JSE Stock Exchange South Africa
JV	Joint Venture
Kumba	Kumba Iron Ore
LHS	Left hand scale
m	Million
m^2	Square metres
moz	million ounces
mtpa	million tonnes per annum
NAV	Net Asset Value
NCA	National Credit Act
NTRLI	Non-traditional retail lending institutions
p	British pence
pa	per annum
PB	Price/Book
Pd	Palladium
PE	Price/Earnings
PGM	Platinum Group Metals
PMI	Purchasing Managers Index
PNG	Papua New Guinea
Pref	Preference
ps	Per share
PT	Price target
Pt	Platinum
RBCT	Richards Bay Coal Terminal
RBPlat	Royal Bafokeng Platinum Ltd
RCS	Retail Credit Solutions
Rh	Rhodium
RHS	Right hand scale
ROE	Return on Equity
RoTE	Return on Tangible Equity
RSA	Republic of South Africa
SA	South Africa
SARB	South African Reserve Bank
SIOC	Sishen Iron Ore Company
TC	Transaction Capital
TFG	The Foschini Group
ToT	Terms of Trade
TR	Total return
UFP	Uncoated Fine Paper
US$	US dollar
USD	US dollar
WACC	Weighted Average Cost of Capital
x	Times
yr	Year
ZAR	South African rand
ZARm	South African rand millions

Appendix 1

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
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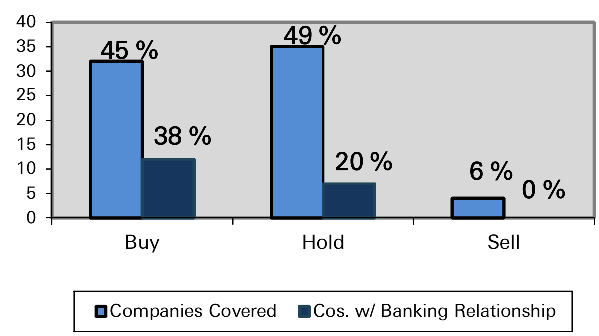
Equity rating dispersion and banking relationships



GEMs South African Universe

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