



## THIS WEEK IN GLOBAL MARKETS

### South Africa

| Name    | Level  | W%   |
|---------|--------|------|
| ALSI    | 32 633 | +0.1 |
| TOP40   | 29 170 | -0.1 |
| FINI 15 | 8 286  | +1.2 |
| RESI 20 | 53 833 | -0.5 |

### International Indices

| Name     | Level  | W%   |
|----------|--------|------|
| FTSE 100 | 5 529  | -0.4 |
| DOW      | 12 184 | +1.4 |
| S&P 500  | 1 255  | +0.9 |
| NIKKEI   | 8 536  | -1.2 |

### Commodities

| Quote     | Level | W%   |
|-----------|-------|------|
| Gold      | 1 712 | -2.0 |
| Platinum  | 1 515 | -2.1 |
| Copper    | 7 826 | -1.2 |
| Oil(Spot) | 109   | -1.6 |

### Local Markets - JSE:

The JSE started the week on a positive note Monday, following more positive international markets. With the US markets opening also much more positive the JSE moved even higher in the last hour of trade. Bucking the trend was the gold mining sector that lost 1.70% on the back of a stronger currency and also a weaker gold price.

On company news we had Cafca Ltd that reported results for the nine months ended 30 September 2011. Cafca had a change of year end to 30 September. Revenue for the nine months to September 2011 amounted to USD18.6 million, while operating profit was recorded at USD2 million. Profit for the year was at USD1.3 million. Headline earnings per share amounted to US4cps. Comair Ltd came out with a trading statement saying that it is expected that the Company's HEPS and EPS will show a loss for the reporting period. This is due primarily to significant cost increases including a 70% increase in the fees of Airports Company SA, high oil prices and a weakening currency. Hospitality Property Fund Ltd came out with a trading statement saying distributable earnings per combined A and B unit for the six months ending 31 December 2011 are expected to be at least 28% lower than the corresponding period in the previous financial year.

The JSE had a weaker day Tuesday, following weaker international markets after rating agency Standard & Poor's threatened to downgrade 15 euro nations. We had a very volatile session and commodity prices were mixed. Leading the down side were the Platinum and Gold mining companies.

On company news we had Indequity Group Ltd that reported results for the year ended 30 September 2011. Gross written premium increased to R32.2 million (R28.6 million). Net attributable profit rose by more than 50% to R3.7 million (R2.2 million). In addition, headline earnings grew to 31.33c (18.10cps).

The JSE had a more quite day Wednesday with a total value traded just short of R10 Billion. We traded in the positive for most of the day and moved into negative territory later in the afternoon as the US futures pointed to a negative opening as pessimism re-entered Europe.

Stocks ended flat on Thursday after bouncing off a technical resistance level and amid investor jitters ahead of a European leaders' summit aimed at limiting a further deterioration of the euro zone's crisis.

Stocks ended slightly lower on Friday after a fairly volatile session as investors fretting over the outcome of a key meeting in Europe to quell the region's debt crisis sold off stocks across the board. Bucking the trend was the oil and chemical producers. The JSE underperformed main global equity markets, as the recovery of the rand to the US dollar weighed on resources shares. Most European leaders agreed to build a closer financial union to address the region's debt problems, but Britain said it could not accept the proposed euro treaty amendments. The outcome left financial markets uncertain whether and when more decisive action would be taken to stem the debt crisis.

For the week the ALSI and Top 40 indices were up 0.1% and down 0.1% respectively.



### **US Markets - Wall Street:**

US stocks on Monday ended higher as Wall Street held out hope for a European summit later in the week after nerves were again shaken by headlines related to Europe's debt crisis. US stocks on Tuesday mostly extended the prior day's gains with Wall Street on standby ahead of what is viewed as a crucial European Union summit at the end of the week. Stocks declined by midday Wednesday following a two day advance for the S&P 500 index, amid pessimism that European leaders will reach agreement on measures to ease the debt crisis this week. US stocks lost sizeable ground Thursday as public sparring among European Union members jolted the market late in the session. US stocks closed higher Friday, with the three benchmark indexes scoring gains for the week, as European leaders to closer fiscal ties and US consumer confidence hit a six month high.

For the week the Dow Jones and S&P 500 indices were up 1.4% and 0.9% respectively.

### **Gold Futures:**

Gold futures fell Monday on optimism that European Union leaders will be able to come up with a resolution to the euro-zone sovereign debt crisis. Gold futures ended marginally lower Tuesday as concerns over Europe and a potential downgrade for the euro-zone debt took front centre, although the metal trimmed losses as the dollar lost ground compared to other major currencies. Gold ended higher Wednesday, driven by a pickup in the euro and by a rise in exchange traded fund holdings to record highs. Gold futures on Thursday ended at their lowest in more than a week as European Central Bank leaders dashed investor's hopes of an expanded bond-buying program. Gold futures ended modestly higher Friday, supported by a lower dollar and rising US stocks in the wake of an agreement among European countries on new, tighter fiscal rules.

For the week Gold were down 2.0%.

### **US Crude Oil:**

Crude futures posted only a modest gain Monday, retreating from a high above \$102 a barrel after the Financial times reported that Standard & Poor's has warned six European nations that they risk having their triple-A ratings downgraded. Crude oil futures spent most of Tuesday wavering between small gains and losses, but at the home stretch tracked stocks higher and advanced for the day as the dollar came off its highs. Oil fell Wednesday, pressured by a surprise increase in US inventories and doubts that a credible deal to resolve Europe's debt crisis would be reached. US crude oil futures slipped under \$100 a barrel Thursday to end at their worst in more than a week, after hopes the European Central Bank would step it up to help struggling euro zone nations were squashed. Crude oil futures ended 1.1% higher on Friday, after spending most of the session wavering between small gains and losses as traders shied away from the markets ahead of the weekend and the uncertainties it brings.

For the week spot crude oil prices were down 1.6%.

**MARKET PERFORMANCE**

**TOP 3 PERFORMING SECTORS FOR THE WEEK**

- *FTSE/JSE Africa Automobiles (+9.89%)*
- *FTSE/JSE Africa Travel & Leisure (+3.88%)*
- *FTSE/JSE Africa Chemical (+3.25%)*

**WORST 3 PERFORMING SECTORS FOR THE WEEK**

- *FTSE/JSE Africa Electrical Equipment (-3.27%)*
- *FTSE/JSE Africa Media (-2.72%)*
- *FTSE/JSE Africa General Finance (-1.58%)*

The best performance came from the FTSE/JSE Automobiles Index with Metair (MTA) gaining 9.89%.



The second best performance came from the FTSE/JSE Travel & Leisure Index with City Lodge (CLH) gaining 7.20%.



The worst performing sector was the FTSE/JSE Electrical Equipment Index with Reunert (RLO) losing 4.69%.



The second worst performing sector was the FTSE/JSE Media Index with Naspers (NPN) losing 2.80%.



12 December 2011

## COMPANY DISCUSSION

Mik Hannes  
Portfolio Manager

**Pretoria Portland  
Cement (PPC)**  
2 740 cps

**Market Cap:**  
R16 061 mil

**Next FY End:**  
September 2012

**Year High/ Low:**  
3 510cps / 2 249cps

**Interim Dividend:**  
95cps

**Dividend LDT:**  
06 January 2012

**Year to date  
performance  
JSE All Share:**  
+1.60%

**Note on  
Recommendations:**  
All recommendations are made relative to the broad market segment to which the underlying share belongs, namely Industrials, Financials and Resources.

## Pretoria Portland Cement Company (PPC)

PPC is South Africa's largest cement manufacturer, with an estimated 40% market share of the domestic market. The company has a major presence in the North-West and the Western Cape. The company is also active in Botswana, where it owns a grinding depot, and Zimbabwe, where it operates a complete, but underutilized, cement plant with an annual capacity of 0.85 Mtpa.

In addition, the company produces lime (quarry, kilns in Lime Acres) and aggregates (quarries in Gauteng and Botswana). Both Lime and Aggregates are relative small operations and their combined operating profit tends to account for less than 15% of group profits.

### Final results

For a third year in a row, cement volumes sold declined. In addition, selling price increases did not allow for a full recovery of input costs increases.

Group revenue was basically flat at R6.8bn, with higher selling prices (+4%) compensating for lower sales volumes (-4%). Despite the lower sales volumes, costs of sales increased by 11% to R4.5bn, largely due to higher electricity, diesel, logistics and depreciation charges. Administration and Other costs were well controlled and declined from 635m to R627m, despite higher marketing activity (R30m) and Head Office restructuring costs (R18m). Attributable earnings dropped by 22% to R785m.

Headline earnings declined by 24% to 164cps. A final dividend of 95cps, amounting to a 130cps dividend for the full year, was declared. The policy of 1.2x to 1.5x dividend cover remained unchanged.

As usual, cash generation remained strong. In line with the depressed trading conditions, the capital investment program was scaled back. Gearing was largely unchanged, with net debt at R3.3bn.

### Group Financials

|                      |     | Sep 08 | Sep 09 | Sep 10 | Sep 11 | Sep 12   |
|----------------------|-----|--------|--------|--------|--------|----------|
|                      |     |        |        |        |        | Forecast |
| Cement volumes       | %   | +0%    | -10%   | -7%    | -3%    | +4%      |
| Turnover             | Rm  | 6 248  | 6 783  | 6 807  | 6 826  | 7 596    |
| Operating profit     | Rm  | 2 356  | 2 418  | 2 105  | 1 699  | 1 994    |
| Operating margin     | %   | 37.7   | 35.7   | 30.9   | 24.9   | 26.3     |
| Net Finance income   | Rm  | -69    | -298   | -347   | -325   | -394     |
| PBT                  | Rm  | 2 299  | 2 127  | 1 734  | 1 385  | 1 600    |
| Tax                  | Rm  | -767   | -722   | -622   | -520   | -562     |
| Profit after tax     | Rm  | 1 532  | 1 405  | 1 112  | 865    | 1 038    |
| Headline earnings    | Rm  | 1 495  | 1 251  | 1 037  | 788    | 950      |
| Shares in issue      | m   | 517    | 538    | 538    | 538    | 538      |
| Weighted average     | m   | 529    | 490    | 481    | 481    | 481      |
| Heps                 | cps | 283    | 257    | 216    | 164    | 197      |
| Adjusted heps        | cps | 296(*) | 257    | 216    | 164    | 197      |
| Dividend total       | cps | 225    | 200    | 175    | 130    | 146      |
| Adjusted heps growth | %   | +11.4  | -13.7  | -15.7  | -24.0  | +20.6    |
| P/E                  | x   |        |        |        | 16.7   | 13.9     |
| DY                   | %   |        |        |        | 4.7    | 5.3      |

(\*)heps adjusted for once-off special administration cost items, some of it related to the BEE transaction.



## Cement

Total cement volumes sold in SA were largely flat for the 12 month period ended September 2011. However, due to its large exposure to weak markets in the Western and Eastern Cape regions, PPC's domestic sales declined by 4%. SA cement prices showed an average increase of 4% for the financial year, insufficient to recover input cost increases. A shortage of rail transport necessitated the increased use of more expensive road transport.

Ongoing product development saw the launch of an enhanced product range offering greater value for money to customers.

The modernization of the Western Cape plants is on schedule: the upgraded plant at De Hoek will be re-commissioned in mid-2012 whilst construction at the Van Riebeeck plant expansion, a R1.3b project, is scheduled to start in the second half of 2012.

PPC Zimbabwe increased sales by more than 50% on the back of growing domestic demand and competitors' operational problems. The mothballed Bulawayo grinding plant was re-commissioned to meet demand, whilst the Colleen Bawn cement plant showed further improvements in operational performance. Input cost inflation remains an area of concern.

Demand in Botswana weakened as a result of reduced infrastructural spend by government.

Exports from SA in to neighbouring countries declined by 35% due to the strong Rand, whilst exports from Zimbabwe were hampered by strong domestic demand.

## Lime and Aggregates

Operational problems and extended shutdowns experienced by customers in the steel (Arcelor Mittal) and alloys industries saw sales volumes of lime decline by 4%. Higher energy and maintenance costs led to a 23% reduction in profit.

Aggregates showed a 5% decline in sales volumes in a depressed construction market, Increased competition led to a further erosion of margins.

### Segmental Report

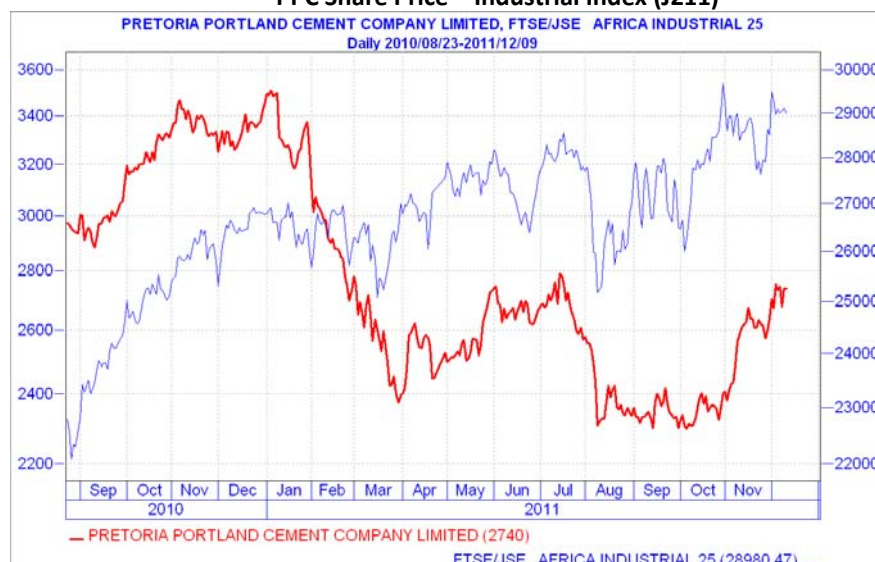
|                 |           | Sep 09       | Sep 10       | Sep 11       | % change      | %             |
|-----------------|-----------|--------------|--------------|--------------|---------------|---------------|
|                 |           | 12           | 12           | 12           | 2011/2010     | 2011          |
| <b>External</b> | <b>Rm</b> | <b>6 788</b> | <b>6 813</b> | <b>5 857</b> | <b>-0.7%</b>  | <b>100.0%</b> |
| Cement          | Rm        | 5 948        | 5 806        | 5 814        | +0.1%         | 85.4%         |
| Lime            | Rm        | 544          | 711          | 722          | +1.5%         | 10.6%         |
| Aggregates      | Rm        | 296          | 296          | 271          | -8.4%         | 4.0%          |
| <b>PBIT</b>     | <b>Rm</b> | <b>2 418</b> | <b>2 105</b> | <b>1 699</b> | <b>-19.3%</b> | <b>100.0%</b> |
| Cement          | Rm        | 2 263        | 1 893        | 1 541        | -18.6%        | 90.7%         |
| Lime            | Rm        | 91           | 158          | 121          | -23.4%        | 7.1%          |
| Aggregates      | Rm        | 72           | 61           | 43           | -29.5%        | 2.5%          |
| <b>Margin</b>   | <b>%</b>  | <b>35.7%</b> | <b>30.7%</b> | <b>25.0%</b> |               |               |
| Cement          | %         | 38.0%        | 32.6%        | 26.5%        |               |               |
| Lime            | %         | 16.7%        | 22.2%        | 16.8%        |               |               |
| Aggregates      | %         | 24.3%        | 20.6%        | 15.9%        |               |               |

## Events after Year End

- PPC acquired a further three quarries (aggregates) in Botswana for R52m.
- PPC agreed to purchase an initial 25% in Pronto Holdings, a Gauteng based readymix and fly ash supplier. The balance will be purchased over 2 years, The total transaction is valued at R280m and remains subject to Competition Commission approval.
- PPC made a conditional offer of \$44m for a 58% stake in Cimenterie Nationale, a state owned cement producer in the DRC.



### PPC Share Price – Industrial Index (J211)



#### Prospects

There are some tentative signs (monthly cement statistics, building plans passed) that the decline in domestic cement sales volumes has come to an end. In our financial model, we have assumed cement volumes sold by PPC to increase by 4% in FY 2012. With regard to competition from new entrants in the SA cement market, the thinking is that no effect will be felt until FY 2014, when some of the new plants will come on stream.

The recent weakening of the Rand will reduce cement imports into SA, which at present amount to some 3% of total sales. Simultaneously, exports into neighbouring countries should benefit.

Recent (voluntary) retrenchments at Head Office and the PE cement plant, combined with other restructuring initiatives, should lead to some R80m in cost savings.

Despite the implementation of a 7% price increase for cement in the reporting period, the average price increase amounted to only 4% due to timing differences. The full benefit will be realized in the new financial year.

Overall, PPC is forecast to show a solid improvement in earnings in both 2012 and 2013.

The share trades on a 12 month forward P/E of 13.0x and a 12 month forward dividend yield of 5.7%. The growth profile of the company over the next 2 years together with an attractive and growing dividend yield make for a reasonable attractively share. Over the past 19 years, PPC has traded on an average trailing PE ratio of 15x, so even the current PE multiple of 15.8x seems not excessive. **Hold**

Compared to cash and bonds, the tax free forward dividend yield of 5.7% appears rewarding, especially since it is expected to show continuing growth. Investors looking for income could buy the share. However, we do not expect much share price appreciation in the medium-term.



## EARNINGS DIARY

## RESULTS DIARY

This section summarizes the biggest companies that are reporting their results in the next week are: (The following HEPS and EPS are based on consensus).

| Company Name           | Date | HEPS | EPS |
|------------------------|------|------|-----|
| No results in the week |      |      |     |

## DIVIDEND REGISTER

The table below summarize the list of companies whose last day to trade for the dividend is this Thursday 15 December 2011. These shares will be trading without the right to participate on the dividends on Monday 19 December 2011.

| Company Name | Amount (cps) | LDT   | EX-Dividend |
|--------------|--------------|-------|-------------|
| Converge     | 1.50         | 15/12 | 19/12       |
| Orion        | 0.11         | 15/12 | 19/12       |

*Please note that we are always looking for positive feedback on ways that we can improve this product to add value to our clients.*



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