



THIS WEEK IN GLOBAL MARKETS

South Africa

Name	Level	W%
ALSI	33 893	-1.4
TOP40	30 210	-1.7
FINI 15	9 076	-0.8
RESI 20	54 578	-3.0

International Indices

Name	Level	W%
FTSE 100	5 852	-0.8
DOW	12 801	-0.5
S&P 500	1 343	-0.2
NIKKIE	8 947	+1.3

Commodities

Quote	Level	W%
Gold	1 722	-0.2
Platinum	1 660	+2.2
Copper	8 606	+3.1
Oil(Spot)	119	+3.1

Local Markets - JSE:

Stocks paused in their rally on Monday as concerns that Greece might not accept the terms of its bailout deal prompted investors to cash in recent gainers.

Harmony Gold Mining Company Ltd came out with results for the six month ended 31 December 2011. Revenue increased to R8.7 billion. Gross profit more than tripled to R2.2 billion. Operating profit soared to R1.9 billion. Net attributable profit surged to R1.5 billion. In addition, HEPS jumped to 337c. An ordinary interim dividend of 40cps was declared.

Stocks slid for a second consecutive session on Tuesday, with the resources index leading the downside due to some profit taking. Banking and financial indices managed to buck the trend.

ArcelorMittal South Africa Limited reported results for the year ended 31 December 2011. Revenue increased to R31.5 billion but profit from operations fell to R297 million. Profit for the period plunged to R8 million and headline loss per share amounted to 13cps.

The JSE ended firmer on Wednesday, breaking a two day losing streak on new hopes that Greece was on the verge of striking a deal with its creditors in return for a bailout.

BHP Billiton Plc came out with results for the half year ended 31 December 2011. Revenue increased to USD37.5 billion. Profit from operations rose to USD15.7 billion. Net attributable profit declined to USD9.9 billion. In addition, HEPS fell to USD185.8c. An ordinary interim dividend of USD55cps has been declared.

Shares edged higher for the second consecutive session on Thursday, adding just 0.12% as caution about the euro zone kept investors from pushing prices higher after the recent record run.

Kumba Iron Ore Ltd came out with audited results for the year ended 31 December 2011. Revenue for the year soared to R48.6 billion, while operating profit strengthened to R32 billion. Profit attributable to owners of Kumba rose to R17 billion. HEPS improved to 5313cps. The directors declared a final cash dividend of 2250cps.

Aquarius Platinum Ltd also reported results for the six months ended 31 December 2011. Revenue for the interim period ended 31 December 2011 fell to USD252.4 million. A gross loss of USD20.6 million was recorded, while loss attributable to equity holders of parent was USD113.5 million. Furthermore, loss per share came in at USD24.31cps.

The JSE closed lower on Friday, led by general mining counters amid global risk aversion. This was the first weekly decline since the start of the year, as complications with the long awaited Greek debt deal prompted investors to cash in resources firms.

Absa Group Ltd came out with financial results for the year ended 31 December 2011. Net interest income improved by 5% to R24.4 billion and net insurance premium income went up by 13% to R5.2 billion. Operating profit before operating expenditure grew by 11% to R40.8 billion, while profit attributable to ordinary shareholders rose by 19% to R9.7 billion. Also, HEPS increased to 1355.9cents. A final ordinary dividend of 392cps was declared.

For the week the ALSI and Top 40 indices were down 1.4% and 1.7% respectively.



US Markets - Wall Street:

US stocks closed lower Monday, coming off multi year highs, as talks between Greece and its international lenders, as well as private sector creditors, proved inconclusive. Stocks managed to rise on Tuesday, helped by reports signalling the Greek Government was close to agreeing on Budget measures that would open the path to more international rescue money and testimony from Federal Reserve Chairman Ben Bernanke. The Fed chief reiterated his worries about the US economy, signalling the week before jobs report had not swayed the central bank from its commitment to keeping rates ultra low. Stocks ended with mild gains on Wednesday, capping a day of wavering mostly lower after a news report that Greece had a draft plan that includes a 20% cut in its minimum wage and gained for a third day Thursday, keeping the indexes at multi year highs, after US jobless claims dipped and Greece reached an austerity deal that should lead to a new round of international aid. US stocks had their worst day of the year Friday, breaking a five week winning streak for the S&P 500 and Nasdaq Composite, on concerns that Greece was headed for a messy default.

For the week the Dow Jones and S&P 500 indices were down 0.5% and 0.2% respectively.

Gold Futures:

Gold futures declined Monday as a rising dollar pressured the metal and gold moved alongside lower US stocks. The price ended 1.4% higher Tuesday, buoyed by a lower dollar on news that Greece were closer to reaching an agreement that would pave the way for more financial aid. Gold ended lower Wednesday, as safe haven buying dried up and investors took profits from a 1.4% run up the day before and ended higher Thursday, as investors focused on the lower dollar and continued loose monetary policies from the bank of England and the European Central Bank. Gold futures declined Friday as they tracked other commodities and stock markets lower, and as the US dollar and US bonds caught safe haven flows from jitters about Greece's deal.

For the week Gold were down 0.2%.

US Crude Oil:

Crude oil futures settled lower Monday on oil demand concerns as Greek leaders sought an agreement on more austerity measures, the dollar traded higher and rival Brent futures climbed. The futures shook off initial weakness to settle at their best in one week, rising 1.6% on Tuesday, gaining as Greece reportedly neared a deal that could avoid a messy default and drag the world economy down with it. Crude then inched higher Wednesday after a weekly government inventories report showed a smaller than expected increase in supplies, but they trimmed gains throughout the day as the official data contrasted with a trade group's earlier report of a steep decline. Crude oil futures rose on Thursday, extending gains for a third session, as an austerity agreement in Greece and a decline in US Jobless claims fanned hopes of greater demand for oil and again declined Friday after the International Energy Agency cut its outlook for global oil demand, and investors turned jittery yet again on Greece and its debt crisis.

For the week spot crude oil prices were up 3.1%.

MARKET PERFORMANCE

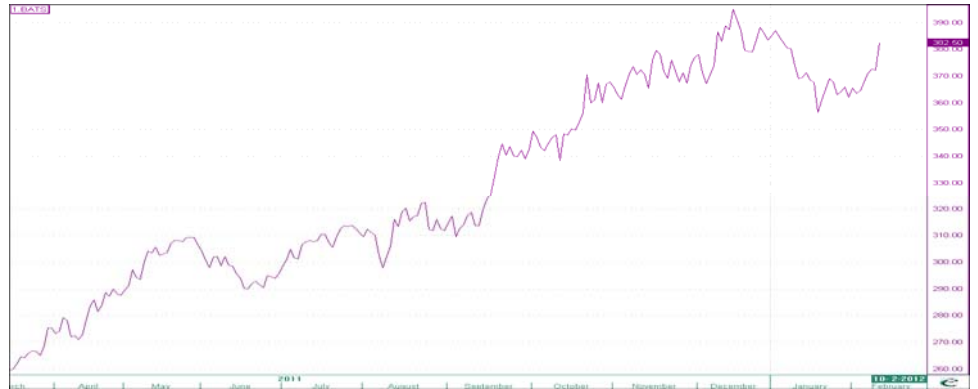
TOP 3 PERFORMING SECTORS FOR THE WEEK

- *FTSE/JSE Africa Tobacco (+4.99%)*
- *FTSE/JSE Africa Construction & Materials (+2.98%)*
- *FTSE/JSE Africa Equity Investments (+1.64%)*

WORST 3 PERFORMING SECTORS FOR THE WEEK

- *FTSE/JSE Africa Personal Goods (-3.69%)*
- *FTSE/JSE Africa Fixed Line Telecommunication (-3.67%)*
- *FTSE/JSE Africa Mining (-3.12%)*

The best performance came from the FTSE/JSE Tobacco Index with British American Tobacco (BTI) gaining 4.99%.



The second best performance came from the FTSE/JSE Construction & Material Index with Raubex Group (RBX) gaining 7.09%.



The worst performing sector was the FTSE/JSE Personal Goods Index with Richemont (CFR) losing 3.69%.



The second worst performing sector was the FTSE/JSE Fixed Line Telecommunication Index with Telkom (TKG) losing 3.67%.



13 February 2012

SECTOR DISCUSSION

Peter Mushangwe
Equity Analyst

**Year to date
performance**
JSE All Share:

+5.96%

Note on Recommendations:

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

Big 4 Banks

We downgrade SBK and FSR to HOLD following share price rallies: Following a strong rally in share prices, we downgrade our initial BUYs, SBK and FSR to HOLD. Our FY12 Target prices (TPs) are 2336c and 10675c respectively.

Post our initiation of coverage in Nov.2011, FSR and SBK are up 16% and 12.8% correspondingly, vs. a 13% return for the Banks Index. We are now neutral on all the Big 4 banks despite our above-consensus FY12 EPS view for FSR and SBK. The forward Price/Book value ratios (PBVRs) are now all equal to our Justified PBVRs.

Review earnings forecasts for ASA and NED pending model changes after investor briefings: Following the trading update by ASA, we are now 1.4% above consensus and 1.7% below for FY12 consensus. We reiterate our concerns around the bank's inferior liquidity profile and a front-loaded debt distribution with ~10bn of bonds maturing this year.

For NED, the trading update indicates HEPS that will be 2% higher than our initial forecast. Our FY12 is 1% below consensus, again influenced by an inferior balance sheet structure i.e. a more front loaded debt distribution and higher loans/total assets ratio which reduces opportunities for an aggressive asset mix.

Expectations snapshots

ASA SJ, FY12 TP 14404c, HOLD

The forecasts: We are forecasting interest income to increase on a y/y basis to R64.7bn (+19.3%) vs. a 14.5% decrease on interest expense to R35.4bn. The impact to net interest income is a positive (+25%) to R29.3bn. Note that the interest income/interest earnings assets ratio has reduced (7.75% vs. 8.9% for FY10) and so has the interest expense/interest bearing liabilities ratio (4.75% vs. 4.90% for FY10). We expect the bank's NIM to compress slightly (lower loan demand yet the inferior liquidity profile limit the bank's benefit from liability pricing). We modelled rather strong growth in fees and commission income, as we expect the bank to benefit from an increase in consumer transactions and improvements in investment banking. We have grown fee and commission income by >20% vs. a 5-year growth rate of 13.1%. We have also modelled a strong growth rate in operating costs (>20% vs. 15.1% av. for the past 5-years). Our impairment expectation is R7.4bn as we anticipate some flow effect from loan growth. However, we have reduced the impairment/loans ratio to 1% from 1.1% in CY10. Our EPS of 1339c is slightly above consensus and +7.1% above our pre-trading update forecast.

Primary concerns: The high LDR (applying the customer loans/customer deposits i.e. excluding interbank deposits) and the front loaded debt distribution puts pressure on deposit pricing despite the attractive re-pricing opportunities in the wholesale market given the low interest rates. The recent management shake-up is also a concern as well for FY12.

Valuation comment: Our Justified PBVR is 1.5x. This is slightly below the $\mu-1\sigma$ level of 1.6x, indicating low valuation risk by historical standards. We believe our assumptions are fairly aggressive; hence an expansion in the PBVR can mainly be influenced by capital management (i.e. higher dividend payout ratio). Our CoE of 13.75% could also improve should the economy improve.

FSR SJ, FY12 TP 2336c, HOLD

The forecasts: We expect interest and similar income of R40.1bn (+4.9%) and a decrease of 0.5% to interest expense to R20.7bn. As a result the net interest income increases to 19.3bn (+11.3%). We reduce the interest income/interest earnings assets ratio to 7.25% vs. 7.7% in CY10 and maintain our interest expense/interest bearing liabilities at 3.75%. Our net interest margin remains flat at 3.5% but should improve to 3.7% in FY13 on focus



on higher yielding loans and the strong market share in an improving auto-loans space. Return on capital (endowment effect) could improve but we do not expect a material impact in FY12. Our fee and commission income growth is also strong at 24.2% to R22.8bn, reflecting our conviction on the strong retail franchise the bank is building, and some impetus from the capital markets related fee income for RMB. We have modelled a decline in impairments in rand-terms to R3.7bn (-1.5%) despite maintaining our impairments/loans ratio flat at 0.8% (vs. 1.2% for the past 5years). We have increased the operating expenses by 15% in order to be consistent with our growth outlook. Our EPS is 213c which is 5.4% above consensus.

What could catalyse an underperformance: Our rather flat impairments assumption could be too optimistic given the strong growth in the unsecured loan book. We take comfort in its small size relative to the total book and the age. A possible stronger growth in impairments and lower growth in fee and commission income could lead to underperformance.

Primary concerns: The growing unsecured exposure albeit a small portion of the total loans book, could lead to asset quality issues, particularly should the economy weaken. A deteriorating global economy could also negatively affect non-interest income revenue from RMB, particularly the advisory/project finance and private equity related income.

Valuation comment: Our Justified PBVR is 2x, a premium to the industry on a superior ROE. The PBVR is also 25% above its $\mu-1\sigma$ level. The higher PBVR is likely to remain a concern to some investors, despite the superior ROE, and especially as other banks have ample room to engage in capital management as well, and enhance their ROEs.

NED SJ, FY12 TP 15854c, HOLD

The forecasts: We forecast interest and similar income of R44.8bn (+1%, y/y) and interest expense of R26.4bn (-4.8%; y/y). Our net interest income is R18.4bn (+10.5; y/y) and net interest margin improve slightly to 2.9%. Our interest income/interest earning assets is 7.75% vs. 8.2% in FY10 and the interest expense/interest bearing liabilities is 4.75% vs. a 5.2% in FY10. We have grown the non-interest revenue to R15.99bn (+24.3%) as we expect the bank to benefit from its transactional banking platform. We have increased the operating expenses by 16% to R19.2bn. Our impairment charge reduces to R5bn (-19.7% y/y in rand-terms) as we reduce the impairments/loan ratio to 1% (vs. 1.3% in CY10 and an average of 0.9% since CY05). This reflects our expectations of improvements in credit quality. Our EPS is 1348c which is 1.2% above the consensus.

Primary concerns: Like ASA, we are averse to the front-loaded debt distribution (75% of bonds mature by CY15). The credit ratios have also taken longer to revert to the average, and with the higher NIM, this could mean relatively higher credit risks for the bank. The high loans/total assets ratio provides the bank with little room for changes to asset mix in pursuit of higher yields.

Valuation comment: Our Justified PBVR for NED is 1.4x, the lowest in our universe but a higher than the 1.3x at a $\mu-1\sigma$ level, albeit insignificantly indicating low valuation risks. From a PER perspective, NED carries the lowest valuation risk relative to history although we do not believe the average and median of ~11x, which would be a premium to peers would be warranted.

SBK SJ, FY12 TP 10675c, HOLD

The forecasts: We expect the interest income to decline by 8.3% to R57.5bn. However, improvements in interest cost which we anticipate to shrink by 15.2% to R28.7bn should lead to flat growth in net interest income. We use an interest income/interest earning assets ratio of 5% vs. 5.6% in FY10 and an interest expense/interest bearing liabilities of 2.5% vs. a 2.7% in FY10. Our NIM declines slightly to 2.5% from 2.6% in CY10. We have modelled a 10.3% growth in fee and commission income to R20.6bn. Our assumptions on impairments improve to 0.8% as a ratio to loans (from 1.1% in CY10 and an average of



1.1% since CY06) but in rand-terms the impairment value decline by 26% to R5.6bn. We have reduced our banking operating costs by 9.9% to R33.1bn. Our EPS of 840c is 1% below the 847c consensus.

What could catalyse an outperformance: Our revenue assumptions are fairly muted (especially relative to peers). We also did not model strong growth in non-interest income (higher base, inferior investment banking franchise etc) while we believe our cost assumptions (operating costs and impairment costs) are fair. A stronger growth in revenue than we have modelled is therefore likely to be the source of outperformance.

Primary concerns: The expansion costs (into SSA), especially should the contribution continue to disappoint, would be a significant drag to earnings. The rand also creates noise. The continued problems in the mortgage sector should also create headwinds given the bank's market share.

Valuation comment: Our Justified PBVR is 1.6x equals the lower range PBVR ratio and is a little higher than the forward PBVR of 1.5x. We note that SBK's historical trading range in PBVR-terms is wide with a cycle peak of 3.5x (and a $\mu+1\sigma$ of 3x). Again, given our strong earnings recovery (+15.2% for FY11; +28% for FY12), we do not see valuation arguments related to ROE.

	ASA	FSR	NED	SBK
Price	14 750	2 275	15 715	10 802
Target price (FY12)	14 404	2 336	15 854	10 675
Upside/Downside	-2.3%	2.7%	0.9%	-1.2%
Recommendation	HOLD	HOLD	HOLD	HOLD
Justified PBVR	1.5	1.9	1.4	1.6
EPS - Legae Est.				
2011	1338.7	212.9	1347.9	839.7
2012	1504.7	235.7	1552.4	1072.8
Consensus - Bloomberg				
2011	1320.0	202.0	1331.9	847.1
2012	1530.7	227.0	1567.9	980.5
Variance				
2011	1.4%	5.4%	1.2%	-0.9%
2012	-1.7%	3.9%	-1.0%	9.4%



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
Anglogold	15/02	N/A	2655.3
Italtile	15/02	N/A	N/A
Assore	16/02	N/A	3256.5
Impala	16/02	N/A	1081.7
Metrofile	16/02	N/A	N/A
Woolworths	16/02	N/A	253.2
Aglo American	17/02	N/A	3479.4
Gold Fields	17/02	N/A	1157.3
JD Group	18/02	N/A	491.0
WBHO	18/02	N/A	1357.0
AECI	21/02	N/A	656.10
Shoprite	21/02	N/A	615.60
Super Group	21/02	N/A	N/A
Blue Label	22/02	N/A	N/A
Imperial	22/02	N/A	1344.0
Massmart	22/02	N/A	718.1
Afrox	23/02	N/A	92.7
BATS	23/02	N/A	2260.0
Capshop	23/02	N/A	187.6
Discovery	23/02	N/A	422.6
Exxaro	23/02	N/A	2229.5
Growthpoint	23/02	N/A	136.9
Mondi	23/02	N/A	693.8
Truworths	23/02	N/A	512.1
Northam	24/02	N/A	102.7

DIVIDEND REGISTER

The table below summarize the list of companies whose last day to trade for the dividend is this Friday 17 February 2012. These shares will be trading without the right to participate on the dividends on Monday 20 February 2012.

Company Name	Amount (cps)	LDT	EX-Dividend
Capital	0.07	17/02	20/02

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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