



THIS WEEK IN GLOBAL MARKETS

South Africa

| Name | Level | W% |
|---------|--------|------|
| ALSI | 33 703 | +2.4 |
| TOP40 | 30 116 | +2.7 |
| FINI 15 | 8 953 | +3.6 |
| RESI 20 | 55 667 | +2.9 |

International Indices

| Name | Level | W% |
|----------|--------|------|
| FTSE 100 | 5 729 | +1.6 |
| DOW | 12 720 | +2.4 |
| S&P 500 | 1 315 | +2.0 |
| NIKKIE | 8 766 | +3.1 |

Commodities

| Quote | Level | W% |
|-----------|-------|------|
| Gold | 1 667 | +1.7 |
| Platinum | 1 535 | +3.0 |
| Copper | 8 256 | +3.5 |
| Oil(Spot) | 110 | -1.3 |

Local Markets - JSE:

The JSE managed to end Monday in the positive on the back of some positive corporate news and as investors shrugged off a ratings outlook downgrade last week and bought oversold shares. The market was however a bit more quiet as the US markets were closed with a total value of R 7.4 Billion that traded.

On company news Compagnie Financiere Richemont SA came out with a trading statement for the three month ended 31 December 2011 saying that sales in the quarter increased by 24% at actual and constant exchange rates. Kumba Iron Ore Ltd came out with a trading statement for the twelve months ended 31 December 2011 saying that HEPS and EPS are likely to be between R 51.40 and R 55.80. Shoprite came out with a trading update. For the six months ending December 2011. They grew turnover by 13.2% to some R41.1 billion. The supermarket operation in South Africa increased sales by 12.3% and by 6.8% on a like-for-like basis.

The JSE all share index hit an all time high on Tuesday as market sentiment improved. A system error that briefly halted equity trade took the edge off the record session.

On company news Woolworths Holdings Ltd came out with a trading update and trading statement saying that group sales for the first 26 weeks of the 2012 financial year increased 11.4% over the comparable period in 2011. The company expects that both EPS and HEPS the period will be between 30-35% higher than the corresponding period. Clicks Group Ltd came out with a trading update for 18 weeks to 01 January 2012. Turnover increased 8.1% and retail sales increased by 6.7%. Ellies Holdings Ltd came out with an updated trading statement saying that it expects EPS and HEPS for the six months ended 31 October 2011 to between 35% and 40% higher than corresponding period in 2010.

The JSE All share index hit a fresh record high for the second consecutive day on Wednesday. The market turned positive after an International Monetary Fund announcement of an increase in lending capacity.

On company news Truworths International Ltd came out with a trading statement saying that they expect both basic EPS and HEPS for the first 26 weeks (27 June until 25 December 2011) of the 2012 financial year will be between 11% and 15% higher. The Foshini Group Ltd came out with a sales update saying that Christmas trading was above expectation across all divisions with sales growth for December of 17%. BHP Billiton said that iron ore production for the second quarter rose better than and estimated 22% to a record, driven by mine, rail and port expansions in Western Australia.

The JSE reached its third consecutive high Thursday, edging up 0.11 % as financials were lifted by a global rally in banking shares. The SARB came out with a rates decision and the kept the repo rates unchanged at 5.5%.

On company news SABMiller Plc issued its interim management statement for the group's third quarter ended 31 December 2011. Lager volumes were 3% ahead of the prior year with good growth in all regions with the exception of Europe and North America. Soft drinks volumes grew by 6% for the quarter with growth across all regions. Organic, constant currency group revenue grew 7% for the quarter. Overall financial performance for the quarter was in line with their expectations. Anglo American Platinum Ltd came out with a trading statement for the period ending 31 December 2011 saying that HEPS for the period is expected to decrease by between 24% and 34%. Basic earnings is expected to be between 60% and 70% lower than the basic EPS of 3 909 cents for the comparative period.



The All share index added 0.35% on Friday, striking a fourth consecutive record close while the benchmark Top40 index closed the higher in three and a half years.

On company news Delta EMD Ltd came out with a revised trading statement for the year ended 27 December 2011. Shareholders are advised that EPS are forecast to be between 87 cent and 114 cents (2010: 246.9 cents), and HEPS to be between 53 and 69 cents (2010: 140.5 cents). Jasco Electronics holdings Ltd came out with a trading statement and advised that for the six months ended 31 December 2011, the company expects EPS to be between 115% and 135% higher and HEPS to be between 80% and 100% higher than the corresponding period. This implies EPS of between 6.0 cents and 6.5 cents and HEPS of between 6.3 cents and 7.0 cents respectively.

For the week the ALSI and Top 40 indices were up 2.4% and down 2.7% respectively.

US Markets - Wall Street:

The US markets were closed on Monday. US stocks trimmed gains Tuesday as investors turned cautious on financial sector earnings ahead in the wake of mixed results from Citigroup Inc. and Wells Fargo & Co. US stocks closed higher Wednesday, extending their gains to a second straight session, with the S&P Index closing above the key 1 300 level for the first time since late July last year. Stocks rose due to positive earnings, relatively good economic data and the absence of bad news in the Euro zone. US stocks bumped to a higher close Thursday, riding some positive sentiment over quarter results from Bank of America Corp. and Morgan Stanley and a drop in weekly jobless claims. US stocks finished higher Friday near session highs, with the S&P 500 making a late about face to end in the green, lifted by well received results from Microsoft Corporation, international Business Machines Corporation and Intel Corporation.

For the week the Dow Jones and S&P 500 indices were up 2.4% and 2.0% respectively.

Gold Futures:

The US markets were closed on Monday. The metal was fixed at \$1 641 and ounce in the afternoon in London. Gold futures rallied Tuesday, finding support on a weaker dollar, lingering currencies concerns stemming from last week's debt downgrades in the euro zone, and a rally for US stocks and oil futures. Gold futures staged a comeback Wednesday, ending the day at a five week high and extending their gains to a second session. Gold prices ended lower Thursday as positive jobs data in the US dulled their safe have appeal. Gold futures finished higher Friday and silver futures rallied almost 4%, buoyed by uncertainty linked to Greece's debt crisis as traders eyed a pullback in the US dollar.

For the week Gold were up 1.7%.

US Crude Oil:

The US markets were closed on Monday. Brent crude futures traded higher at \$111.22 a barrel in the afternoon in London. Crude returned to \$100 a barrel, prodded higher by bullish remarks by Saudi Arabia's oil minister. Crude oil futures ended lower Wednesday after the White House rejected a Canadian company proposal to build a pipeline from the US – Canada border to the Gulf of Mexico. Crude oil futures ended a tad lower Thursday as one negative aspect of an inventories report – a greater than expected increase in gasoline supplies – overshadowed a surprise drop in crude stockpiles and a lower dollar. Crude futures fell by nearly \$2 a barrel Friday, pressured by concerns over Greece's debt crisis, Chinese manufacturing and weak US gasoline demand.

For the week spot crude oil prices were down 1.3%.

MARKET PERFORMANCE

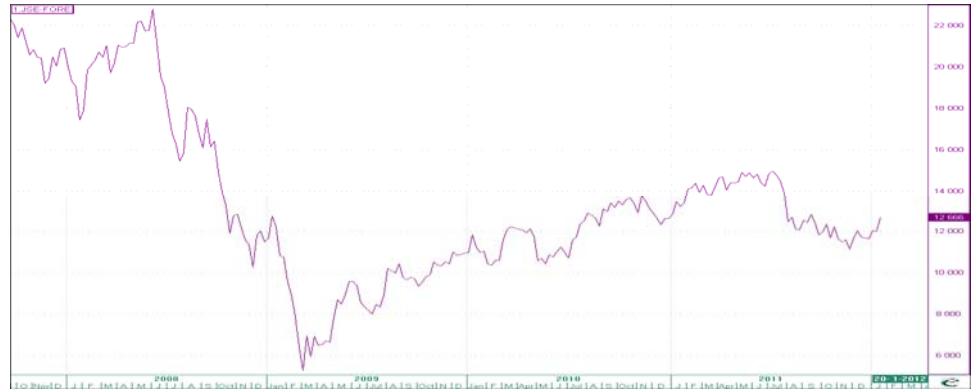
TOP 3 PERFORMING SECTORS FOR THE WEEK

- *FTSE/JSE Africa Forestry & Paper (+6.04%)*
- *FTSE/JSE Africa General Finance (+5.07%)*
- *FTSE/JSE Africa Industrial Transportation (+3.98%)*

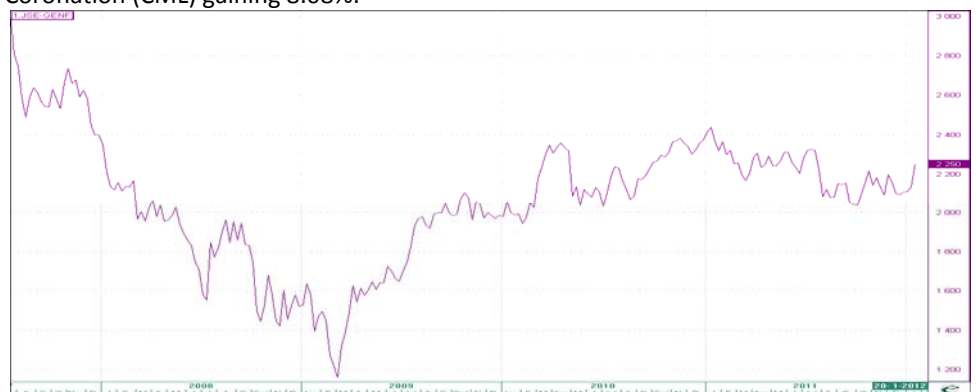
WORST 3 PERFORMING SECTORS FOR THE WEEK

- *FTSE/JSE Africa Food & Drug Retailers (-3.99%)*
- *FTSE/JSE Africa Tobacco (-2.76%)*
- *FTSE/JSE Africa Beverage (-0.87%)*

The best performance came from the FTSE/JSE Forestry & Paper Index with Sappi (SAP) gaining 8.08%.



The second best performance came from the FTSE/JSE General Finance Index with Coronation (CML) gaining 8.08%.



The worst performing sector was the FTSE/JSE Food & Drug Retailers Index with Clicks (CLS) losing 9.27%.



The second worst performing sector was the FTSE/JSE Tobacco Index with British American Tobacco (BTI) losing 2.29%.



23 January 2012

COMPANY DISCUSSION

Mik Hannes
Portfolio Manager

Kumba Iron Ore (KIO)

52 800 cps

Market Cap:

R170 046 mil

Next FY End to be reported on:

December 2011

Year High/ Low:

53 490cps / 41 350cps

Interim Dividend:

2 170cps

Dividend LDT:

12 August 2011

Year to date performance:

+5.57%

Year to date performance JSE All Share:

+5.37%

Note on Recommendations:

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

Kumba Iron Ore (KIO)

Kumba Iron Ore operates the Sishen Iron Ore Mine (SIOC) and Thabazimbi Mine.

Thabazimbi is an old, marginal mine and will cease operations in 2016. All ore is contractually destined for the steelworks of Arcelor Mittal South Africa (AMSA) on a "cost plus 3%" basis and contributes little to the bottom line of Kumba.

Kumba has a 74% shareholding in the Sishen Iron Ore Company (SIOC). Exxaro (EXX) is the largest minority shareholder with a 20% shareholding. With regards to Sishen Mine, AMSA had a 21.4% undivided share in the mineral (mining) rights. In return, AMSA received up to 6.25 Mtpa of ore from the Sishen mine on a "cost plus 3%" basis. However, in 2010 AMSA neglected to convert its rights and as a result the rights reverted back to the state. Other parties (including Kumba) are applied for them. Kumba insisted that the contract to supply AMSA with ore on a cost plus basis was no longer valid since AMSA no longer owns any mineral rights in Sishen. The dispute with regards to the contract will be resolved by arbitration. Until then, AMSA is obliged to pay a substantially higher price for its Sishen ore.

Sishen has increased its life-of-mine (LOM) to more than 20 years due to higher iron ore prices. In addition, the new jig plant, which allows the mine to beneficiate lower grade ore, further extended the LOM. However, the stripping ratio will increase substantially from the current 2.0x to an average of 3.5x over the LOM of a substantially enlarged pit.

Sishen is also building a new mine. The Kolomela mine will start production in financial year 2012. Full capacity of 9Mtpa will be reached in 2013. Some R8.5bn will have been spent on the new mine.

Further down the line, Kumba has projects lined up, which could add a further 17Mtpa, increasing iron ore sales to 70Mtpa in 2019.

Discussion

On 16 January 2012, Kumba released a trading update in which it advised that headline earnings per share (heps) for the financial year ending 31 December 2011 were likely to be between 5140cps and 5580cps (comparative period 4467cps). Not much of a surprise, considering the company achieved heps of 2823cps at the interim stage. The financial results will be published on 9 February.

In our base case scenario, we take the view that the average export iron ore price received peaked at \$168/t in the first half of 2011. It then dropped to \$155/t in the second half, resulting in an average price of \$161/t realized in financial year 2011. Thereafter the price drops by 10% pa in two consecutive years, after which it increases by 5% pa until the mining operations close.

The Rand continues to weaken against the \$, giving some protection to operating margins. In this base case scenario, we value the KIO share at R551, which represents a slight premium to the current share price of R528.

Production Statistics (Base Case)

| | | Dec 09 | Dec 10 | Dec 11 | Dec 12 | Dec 13 | Dec 14 |
|------------------------|------|--------|--------|--------|--------|--------|--------|
| | | | | Foreca | Foreca | Foreca | Foreca |
| Stripping ratio Sishen | x | 1.8 | 2.0 | 2.3 | 2.5 | 2.7 | 3.0 |
| Saleable product | mt | 40.0 | 43.1 | 43.6 | 46.5 | 52.5 | 52.5 |
| Exports | mt | 34.2 | 36.1 | 36.7 | 38.5 | 44.5 | 44.5 |
| Sishen | mt | 34.2 | 36.1 | 36.0 | 35.5 | 35.5 | 35.5 |
| Kolomela | mt | | | | 3.0 | 9.0 | 9.0 |
| Domestic sales Sishen | mt | 4.0 | 5.0 | 5.2 | 6.0 | 6.0 | 6.0 |
| Domestic sales | mt | 1.8 | 2.0 | 1.8 | 2.0 | 2.0 | 2.0 |
| Benchmark price (62% | \$/t | 80 | 147 | | | | |



| | | | | | | | |
|-------------------------|------|------|------|------|---------|---------|---------|
| Export price received | R/t | 546 | 913 | 1169 | 1142 | 1061 | 1148 |
| | \$/t | 65 | 125 | 161 | 145 | 131 | 137 |
| Domestic price Sishen | R/t | 204 | 442 | 530 | 208 (*) | 239 (*) | 263 (*) |
| Domestic price | R/t | 302 | 333 | 356 | 381 | 408 | 436 |
| Exchange rate (average) | R/\$ | 8.39 | 7.30 | 7.25 | 7.87 | 8.12 | 8.37 |

Thabazimbi is a very small contributor to profits since sales are based on a "cost + 3%" basis

(*) the price charged to AMSA reverts back to a "cost plus" formula

Recently, some commentators have been speculating that the iron ore price could drop to \$100/t from its present levels. The idea is not that farfetched, since the iron ore price has more than doubled from 2007 onwards (see graph below). Reasons advanced for a substantial drop are:

- Slowing Chinese economy: China remains the largest importer of iron ore at some 600 million tpa.
- Huge operating margins realized by all major operators (Vale, Rio Tinto, BHP Billiton, Anglo), which continues to attract new entrants. In the case of Kumba, the margin peaked at 70% in H1 2011.
- Existing and new operators are adding substantial new capacity, in the believe that global demand for iron ore will continue to grow at a rate of almost 100 million tpa. Global iron ore production reached 1,8 billion tpa in 2010, of which 1bn tpa comprised seaborne trade. It is estimated that current iron ore projects under construction will add 30% to existing capacity!

KIO Share Price, Iron Ore Price (fines, R/t), Shipping Cost (R/t, Baltic Dry Index) Exchange Rate R/\$



It is maybe worth pointing out that shipping costs (bulk carriers) are included in the export price and amount to some \$15/t. However present dry bulk shipping costs, as depicted by the Baltic Dry Index, are extremely low.

Group Financials (Base Case)

| | | Dec 09 | Dec 10 | Dec 11 | Dec 12 | Dec 13 | Dec 14 |
|-------------------|----|--------|--------|--------|--------|--------|--------|
| | | | | Foreca | Foreca | Foreca | Foreca |
| Revenue | Rm | 23408 | 38704 | 46286 | 45990 | 49454 | 53541 |
| Costs | Rm | -10528 | -13573 | -15825 | 17208 | -19204 | -21065 |
| Operating profit | Rm | 12880 | 25131 | 30462 | 28782 | 30250 | 32475 |
| Margin | | 55% | 65% | 66% | 63% | 61% | 61% |
| Net finance costs | Rm | -127 | -29 | -254 | -582 | -554 | -290 |
| Profit before tax | Rm | 12753 | 25102 | 30207 | 28200 | 29697 | 32180 |
| Tax | Rm | -3949 | -6813 | -8458 | -7896 | -8315 | -9012 |
| Profit after tax | Rm | 8804 | 18289 | 21749 | 20304 | 21382 | 23174 |



| | | | | | | | |
|----------------------|---------|-------|-------|-------|-------|-------|-------|
| Minorities | Rm | -1812 | 3966 | 4785 | 4467 | 4704 | 5096 |
| Headline earnings | Rm | 6992 | 14323 | 16965 | 15837 | 16678 | 18076 |
| | | | | | | | |
| Average no of shares | million | 320 | 322 | 322 | 322 | 322 | 322 |
| | | | | | | | |
| Diluted Heps | cps | 2176 | 4454 | 5267 | 4917 | 5178 | 5612 |
| Dividend ordinary | cps | 1460 | 3450 | 4052 | 3642 | 3836 | 4157 |
| | | | | | | | |
| Capex | Rm | 3996 | 4723 | 5800 | 5200 | 3200 | 3360 |
| | | | | | | | |
| P/E | x | | | 10.0 | 10.7 | 10.2 | 9.4 |
| Dividend yield | % | | | 7.7 | 6.9 | 7.3 | 7.9 |

Using an iron ore price of \$100/t in our model, as depicted in the table below, we conclude the following:

- Operating margins remain high (in 2013, the margin drops from 61% to 50%), Iron ore mining is still a very attractive business and will continue to attract new entrants.
- Earnings drop by almost 40%.
- Valuation of the share declines to R349. The Kumba share price is now very expensive, The forward P/E of 15.9x in 2013 also points towards a very expensive share should the iron ore price drop to \$100/t.

Group Financials (\$100/t scenario)

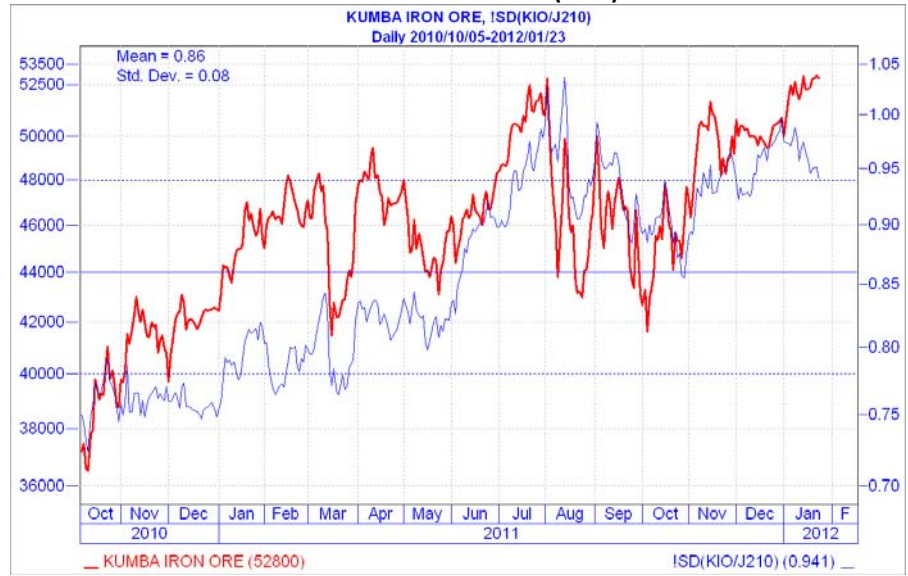
| | | Dec 09 | Dec 10 | Dec 11 | Dec 12 | Dec 13 | Dec 14 |
|----------------------|---------|--------|--------|--------|--------|--------|--------|
| | | | | Foreca | Foreca | Foreca | Foreca |
| Export price | R/t | 546 | 913 | 1169 | 1142 | 812 | 879 |
| | \$/t | 65 | 125 | 161 | 145 | 100 | 105 |
| | | | | | | | |
| Operating profit | Rm | 12880 | 25131 | 30462 | 28782 | 19568 | 20913 |
| Margin | | 55% | 65% | 66% | 63% | 51% | 50% |
| Headline earnings | Rm | 6992 | 14323 | 16965 | 15837 | 10678 | 11495 |
| | | | | | | | |
| Average no of shares | million | 320 | 322 | 322 | 322 | 322 | 322 |
| | | | | | | | |
| Diluted Heps | cps | 2176 | 4454 | 5267 | 4917 | 3316 | 3569 |
| Dividend ordinary | cps | 1460 | 3450 | 4052 | 3642 | 2456 | 2644 |
| | | | | | | | |
| P/E | x | | | 10.0 | 10.7 | 15.9 | 14.8 |
| Dividend yield | % | | | 7.7 | 6.9 | 4.7 | 5.0 |

Considering the fact that iron ore contributed some 41% of Billiton's profit and 37% in the case of Anglo and both companies have started significant iron ore expansions, a \$100/t iron ore price will also have significant effects, Similar conclusions can be drawn for Exxaro (iron ore, coal), Assore (iron ore, manganese) and African Rainbow (iron ore, manganese, coal, nickel, platinum).

Should a substantially lower iron ore price scenario playing out, both the resource sector index and the ALSI index will be negatively affected, especially if one believes that most mining commodity prices have more or less peaked in \$ terms.



KIO Share Price – KIO relative to Resources Index (J210)



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 |
|--------------|-------|------|-----|
| Hudaco | 27/01 | N/A | N/A |

DIVIDEND REGISTER

The table below summarize the list of companies whose last day to trade for the dividend is this Friday 27 January 2012. These shares will be trading without the right to participate on the dividends on Monday 30 January 2012.

| Company Name | Amount (cps) | LDT | EX-Dividend |
|---------------|--------------|-------|-------------|
| Pioneer Foods | 40.00 | 27/01 | 30/01 |

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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