



THIS WEEK IN GLOBAL MARKETS

South Africa

Name	Level	W%
ALSI	31 124	-2.2
TOP40	27 771	-2.3
FINI 15	7 834	-1.3
RESI 20	50 821	-4.0

International Indices

Name	Level	W%
FTSE 100	5 165	-3.7
DOW	11 232	-4.8
S&P 500	1 159	-4.7
NIKKIE	8 160	-2.6

Commodities

Quote	Level	W%
Gold	1 684	-2.3
Platinum	1 531	-4.1
Copper	7 230	-5.0
Oil(Spot)	107	-1.3

Local Markets - JSE:

The JSE had a very negative day Monday, following weak international markets and weak commodity prices on concerns about debt burdens in the US and Europe. We saw negative trade especially in the resources firms and other stocks sensitive to global growth.

On company news, Telkom SA Ltd reported interim results for the six months ended 30 September 2011. Revenue fell to R16.7 billion and operating profit dropped to R1.2 billion. Headline earnings from continuing operations decreased to 191.7cps. African Bank Investments Ltd reported results for the year ended 30 September 2011. Income from operations was up by 20% to R15.3 billion. HEPS grew by 24% to 291c. ABIL declared a final dividend of 100 cps and a final preference dividend of 310 cps. Tradehold Ltd reported results for the six months ended 31 August 2011. Revenue for rose marginally to GBP3 116 000 but trading profit fell to GBP281 000. An operating loss of GBP2 308 000 was recorded. The headline loss per share amounted to GBP4cps.

The JSE traded in the positive and managed to close almost at the high of the day Tuesday, recovering some of the losses of the previous negative session. International markets also started off more positive, but moved to negative territory. The market came off from its highs after the US showed lower economic growth than forecasted, but we did see a recovery in the last hour of trade.

On company news, Omnia Holdings Ltd reported results for the six months ended 30 September 2011. Revenue grew by 16% to R5 billion and gross profit increased by 19% to R1 billion. Operating profit improved by 20% to R351 million. HEPS strengthened to 346.8cps. The board declared an interim dividend of 100cps. Adcock Ingram Holdings Ltd reported results for the year ended 30 September 2011. The group disposed of its 74% holding in The Scientific Group (Pty) Ltd on 31 January 2011, and therefore only published results from continued operations. Therefore there are no comparable figures for the previous periods. Revenue from continued operations for the year ended 30 September 2011 came in at R4.5 billion. HEPS from continued operations was recorded at 465.1cps. The board declared a distribution of out of share premium. Kelly group reported results for the year ended 30 September 2011. Revenue fell by 3% to R1 998.6 million and gross profit was down by 6% to R436.5 million. Operating profit decreased by 52% to R15.6 million. HEPS weakened by 53% to 13.3cps.

The JSE had a very volatile and negative day on Wednesday, following weaker international markets with a total value traded just short of R 12 billion. The currency was much weaker and the commodity prices were negative. Sasol managed to buck the trend today after a positive trading statement came out.

On company news, Illovo Sugar Ltd reported interim results for the six months ended 30 September 2011. Revenue increased to R4 094.4 million and operating profit improved to R1 080.4 million. HEPS grew to 131.4cps. An interim capital reduction distribution out of share premium of 23.0cps has been declared. Tiger Brands Ltd reported results for the year ended 30 September 2011. Turnover increased by 6% to R20.4 billion. HEPS grew to 1 575c. A final ordinary dividend of 510cps has been declared. Nampak Ltd reported results for the year ended 30 September 2011. Revenue increased by 0.3% to R15 819 million. Headline earnings from continuing operations per share improved significantly to 172.4cps. An ordinary dividend of 30.5cps and a capital reduction of share premium ("cash distribution") of 43.5cps had been declared.



The JSE had a more quiet day Thursday as the US markets were closed and managed to end the day in the positive with a total value traded just over 9 Billion.

On company news Avusa Ltd reported results for the six months ended 30 September 2011. Revenue increased to R2.9 billion. Gross profit rose to R1 billion, but profit from operations declined to R74 million. Net attributable profit more than halved to R31 million. In addition, HEPS plummeted to 6c.

The JSE ended Friday slightly lower as continued uncertainty and nervousness in Europe drove local investors to avoid adopting firm positions.

For the week the ALSI and Top 40 indices were down 2.2% and 2.3% respectively.

US Markets - Wall Street:

US stocks sank Monday, pulling the Dow Jones Industrial average into negative territory for 2011, as the lack of progress by American lawmakers in reaching a deficit-cutting agreement magnified worry that Europe's debt crisis would spur a global downturn. US stocks ended lower Tuesday, with the S&P 500 down for a fifth session, as further turmoil in Italian and Spanish markets heightened investor anxiety about the global economic picture. US stocks indexes lost more than 2% of their value Wednesday, and the S&P 500 index slid for a sixth day, after poorly received German debt sale again pushed up European bond yields. The US where closed on Thursday. US STOCKS FINISHED LOWER Friday, with all three benchmark indexes ending lower for the week as rising euro-zone bonds yields kept traders on edge about Europe's debt crisis during a holiday-shortened trading session.

For the week the Dow Jones and S&P 500 indices were down 4.8% and 4.7% respectively.

Gold Futures:

Gold futures slipped under \$1700 and ounce Monday as wholesale asset selling intensified and investors seemed to think cash was the only place left to hide. Gold futures rose Tuesday, as gloomy economic news added to inflation fears and pushed the metal back above \$1 700 an ounce. Gold futures ended lower Wednesday, engulfed by concerns surrounding Germany's failed bond auction and unable to catch safe-haven bids. US markets were closed on Thursday. Gold futures ended lower Friday, as gains for stocks and oil futures fizzled and a rising US dollar kept the metal under \$1700 an ounce.

For the week Gold were down 2.3%.

US Crude Oil:

Crude oil futures fell Monday, as a fresh warning from Moody's investors service about France's credit rating and an expected announcement from the US super committee that it has failed to reach a deficit-reduction agreement dulled oil's prospects. Crude oil futures climbed back above \$98 a barrel Tuesday, putting an end to a three session decline as tensions in the Middle East fuelled concerns over supplies from the oil rich region. Crude oil futures declined Wednesday a euro zone debt fears shook markets once again, and as data from the US and elsewhere came in mostly negative. US markets were closed on Thursday. Crude oil futures ended a see-saw Friday higher, holding on to modest gains as US equities lost steam and a rising dollar kept pressure on.

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

MARKET PERFORMANCE

TOP 3 PERFORMING SECTORS FOR THE WEEK

- *FTSE/JSE Africa Beverages (+0.93%)*
- *FTSE/JSE Africa Chemical (+0.60%)*
- *FTSE/JSE Africa Food & Drug Retailers (+0.35%)*

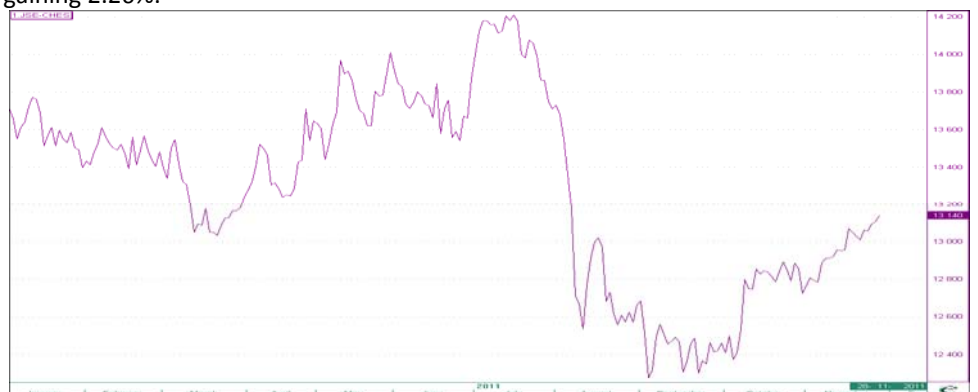
WORST 3 PERFORMING SECTORS FOR THE WEEK

- *FTSE/JSE Africa Forestry & Paper (-4.01%)*
- *FTSE/JSE Africa Mining (-3.89%)*
- *FTSE/JSE Africa Fixed Line Telecommunications (-3.87%)*

The best performance came from the FTSE/JSE Beverages Index with SAB Miller (SAB) gaining 0.93%.



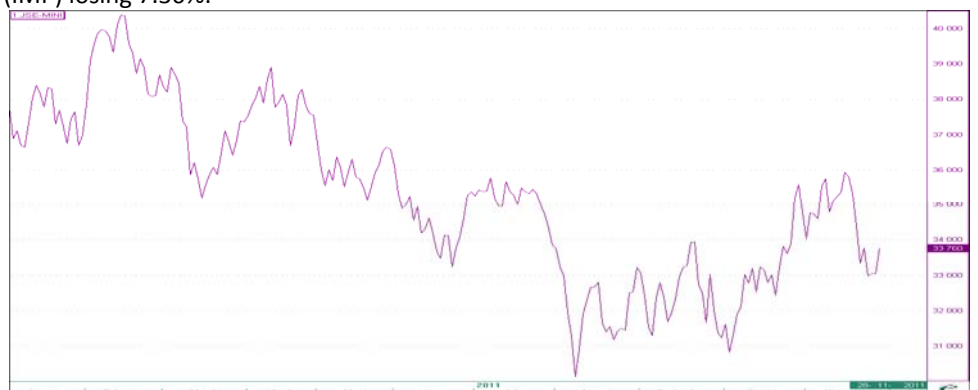
The second best performance came from the FTSE/JSE Chemical Index with Omnia (OMN) gaining 2.26%.



The worst performing sector was the FTSE/JSE Forestry & Paper Index with Mondi (MND) losing 6.06%.



The second worst performing sector was the FTSE/JSE Index Mining Index with Impala (IMP) losing 7.36%.



29 November 2011

COMPANY DISCUSSION

Peter Mushangwe
Equity Analyst

Big 4 Banks: Initiation of coverage, BUY SBK and FSR, HOLD ASA and NED

We initiate coverage on the Big 4 Banks with a cautious view, BUY SBK, BUY/high risk FSR, HOLD ASA and NED.

We employ the Justified Price/book value ratio (PBVR) to estimate our FY12 target prices (TPs). Our FY12 TPs for SBK and FSR are 10574c and 2290c respectively. The TPs provide potential total returns of >15%, hence our BUY recommendations. We caution against FSR's higher valuation risk (indicated by the sensitivity analysis, the premium to peers and history, and the disconnect to the CDS spread). For ASA and NED, our FY12 TPs are 14090c and 14089c respectively.

	ASA	FSR*	NED	SBK
Price	13950	1981	14000	9545
Target price FY12	14090	2290	14089	10574
Potential capital gain	1.0%	15.6%	0.6%	10.8%
2011 EPS	1250	179	1375	840
2012 EPS	1497	221	1642	1073
2011 PER	11.2	11.0	10.2	11.4
2012 PER	9.3	9.0	8.5	8.9
2011 PBVR	1.4	1.6	1.4	1.4
2012 PBVR	1.3	1.5	1.2	1.3
Justified PBVR	1.5	1.9	1.3	1.6
Av. ROE (11-13)	16.5%	18.6%	15.4%	16.8%
2012 Div. Yield	6.2%	5.0%	4.4%	5.6%
Potential total return	7.2%	20.6%	5.1%	16.4%
Recommendation	HOLD	BUY/High risk	HOLD	BUY

Why we are agnostic on ASA and NED: For ASA, the high loan/deposit ratio (LDR) in this environment where balance sheet liquidity is vital, could constrain loan growth. NED's poorer deposit profile is also a put-off while both ASA and NED show inferior debt distribution vs. FSR and SBK, with a much more front-loaded maturity profile. The higher loans/asset ratios (~80%) for both banks also limit the extent to which changes to asset mix can be employed to enhance assets yields. NED's higher exposure to corporate loans could prove problematic should interest rates decline as corporate clients have more pricing power relative to retail. ASA's inferior interest spread, yet NIM is competitive, points to higher credit risks relative to peers.

Structural risks are meaningful, in our view: The elevated risks emanate from the high household debt level, poorer population growth (lower fertility rate) and the high penetration level. Basel 3 is a structural change too, in our opinion. However, the high industry concentration (soft competition), should protect profitability although we admit that natural growth should be lower than history;

Cyclical pressures are waning but slower than we expected: While we concede to the structural weaknesses, we expect some recovery in the credit multiplier, hence some growth in loans. We anticipate that impairments are going to continue to reduce although at close to normalisation, the impact to earnings is limited.

The longer-term margin trend remains uncertain given a number of conflicting variables, but margins should widen moderately due to some slight pricing power banks acquired during the tighter lending environment.

Deposit rate should remain suppressed but there could be pressure as the system prepares for Basel 3 liquidity requirements. Having said that, we note that the recovery of these cyclical variables is more sluggish than we anticipated, primarily due to a slower-than-expected GDP recovery path;

CAMEL analysis: The banks boast stronger Capital Adequacy Ratios (CARs) and we do not see material impact from Basel 3. We believe the conservative buffer and the countercyclical buffer have limited effects to the banks' dividend policies, given the high Core Tier 1 CARs and relatively better asset quality predictability (vs. recent past).

Note on Recommendations:

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



Asset quality-wise, NED's credit loss ratio remains elevated. NPLs in general remain sticky due to high household debt, longer lag time in debt counselling etc, but we expect a general improvement in credit quality metrics. However, we do not see the improvements as a major tailwind to earnings, particularly in our forecasting period as most ratios are normalising. The banks' lower coverage ratio (skewed by higher mortgage loans, hence higher level and quality of security and lower coverage) could be a source of concern. Not to imply that there are risk management concerns/issues in the system – *au contraire* – lower NPL coverage ratios place significant confidence on the quality of the security (and recovery rates) which at this point could be questionable.

On efficiency and profitability, we note emphasis on optimising cost/income ratios through improvements in the burden ratios. Opportunities to grow non-interest income are liberal, in our view, but margins in that space are under pressure as banks clients migrate to cheaper electronic channels.

Banks' net interest margins (NIM) remain respectable, supported by stable interest spreads. Lastly, liquidity has vastly improved, (in preparation for Basel 3 and also as a result of cowed loan demand), hence lower LDRs. ASA still has the highest LDR at 124% (applying customer loans/customer deposits) and analysing this in light of the heavy debt maturity of ~9bn in CY12, we see an inferior liquidity profile (and loan growth) and/or higher refinancing risk for FY12.

Return on Equity (ROE) drivers: We expect asset yields to remain under pressure due to lower interest rates and restrained loan demand. The recent upward inflation trend could provide banks with some pricing advantages. However, while banks tightened lending criteria during the crisis and gained some pricing power, they are generally loosening the lending criteria as demand is not picking up at the expected rate. Nonetheless, FSR and SBK look better placed to change their asset mix/compositions as their loans/assets ratios are lower at <60%. For all the four banks, we expect an improvement in the non-interest income ratio, thus supporting asset rotation.

On the expense ratio, we expect tighter cost control and falling impairment ratios to boost expense ratios. We also expect a general reduction in the cost of liabilities due to the low interest rates. As a result, we expect Returns on Assets (ROAs) to recover.

We also believe there will be more emphasis on ROA than ROE as leverage is now viewed more as a risk than an opportunity. We forecast an average of 1.4% for ASA and FSR; and 1.2% for NED and SBK. We anticipate the on-balance sheet leverage to shrink materially relative to history. While Basel 3's proposed upper limit for leverage is 33.3x, it includes off-balance sheet items. We expect local regulators to remain prudent and we do not believe on-balance sheet leverage will exceed 17x. As a result we forecast up-to FY13 average ROEs of 16.9%, 18.6%; 15.4% and 14.6% for ASA, FSR, NED and SBK respectively.

Banks share prices vs. Credit Default Swap (CDS) spreads: The CDS spread is increasingly becoming a useful proxy for banks/system risks. Banks' cost of funding and credit risks are intricately linked to the CDS spreads. For e.g. 1) banks carry higher level of government paper; 2) banks carry more debt as a form of capital; and 3) banks have implicit government protection; which are all exposed to CDS spread changes. The current CDS spread implies ~10% downside risk to current banks share prices. SBK shows the lowest downside risk as it looks fairly valued at the current price.

FSR carries the greatest risk, with a possible downside risk of 17%. Of course, the other interpretation one can make is that the CDS spread should contract to ~120bps. However, we are not attempting to value the CDS spread.

Sub Sahara Africa (SSA) exposure and strategies: We view the SSA story as a bull-structural story. It is therefore a long-term theme in, our opinion. However, we prefer systems that are enjoying 1) strong GDP and per capita income growth (wealth level); 2) higher population and population growth (bankable population and size of economy); and 3) lower penetration (opportunities for intermediation).



Undercapitalised and liquidity deficient systems could also mean that incumbents would not be well placed to retain market shares. Soft issues, particularly regulation and politics are also important. In our analysis, we note Ghana, Kenya, Mozambique and Tanzania as the most attractive systems. The least attractive are Botswana and Zimbabwe. Nigeria's attractiveness is diluted by the high penetration (relative to other SSA systems) and a drag on per capita income. Nevertheless, we believe Nigerian remains a key demographic play and the size of the economy (2nd to South Africa in SSA) warrants attention.

JSE banks outperform Emerging Markets (EMs) peers: While our analysis is mainly from a local perspective i.e. without comparing fundamentals vs. EM systems, we note that the JSE banks stocks have outperformed the MSCI EM index year-to-date (YTD). The MSCI EM banks index has lost >15% vs. JSE banks' respectable -3.3%. In our opinion, this decoupling by the JSE banks in spite of deteriorating fundamentals (Governor Marcus referred to the dreaded s-word - stagflation - recently), could put pressure on the JSE banks, particularly from an international investors' perspective. That said, it is important to that that the domestic investor's banks universe is limited.



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
Pioneer Foods	28/11	N/A	412.0
Naspers	29/11	N/A	1932.5
Austro Group	30/11	N/A	N/A
Platfields	30/11	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 02 December 2011. These shares will be trading without the right to participate on the dividends on Monday 05 December 2011.

Company Name	Amount (cps)	LDT	EX-Dividend
Argent	4.00	02/12	05/12
Biege	0.07	02/12	05/12
Conduit	10.00	02/12	05/12
Grand Parade	10.00	02/12	05/12
Investec	103.00	02/12	05/12
Investec Plc	103.00	02/12	05/12
JD Group	100.00	02/12	05/12
Life Healthcare	54.00	02/12	05/12
Mediclinic	23.00	02/12	05/12
Nu-World	29.50	02/12	05/12
Pick n Pay	22.50	02/12	05/12
Pinnacle	23.00	02/12	05/12
Pikwik	10.91	02/12	05/12
Stefstock	12.00	02/12	05/12
Tsogo	20.00	02/12	05/12

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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