The JSE Journal

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THE VIRTUAL PORTFOLIO

Completed transactions	Purchase	Sale	Percentage gain / loss
SANYATI HOLDINGS	22c	27c	23%
WESCOAL HOLDINGS	65c	75c	15%
Current open transactions			
PSV HOLDINGS			
MORVEST BUSINESS GROUP			

UNDERSTANDING THE EURO ZONE CRISIS

I am definitely not an economist, but the Euro Zone Crisis is something everyone is talking about. This topic is pertinent to every investor in the stock market, and hence I felt it necessary to include excerpts of articles I have read about the matter, which help us to understand just what caused this crisis, and more importantly, what the possible implications for investors are in 2012. What is clear is that the euro zone will very likely be in recession soon. What is not clear is whether this recession causes a credit crunch, or whether it would lead to the breakup of the EU. The outcome for financial markets would be much worse if the latter takes place. Whatever the outcome, what is clear is that systemic risk has increased. A more defensive position is therefore definitely warranted at this point.

The following information is sourced from Wikipedia:

So, what is the European Sovereign Debt Crisis?

From late 2009, fears of a sovereign debt crisis developed among investors concerning rising government debt levels across the globe together with a wave of downgrading of government debt of certain European states. Concerns intensified early 2010 and thereafter making it difficult or impossible for Greece, Ireland and Portugal to re-finance their debts. On 9 May 2010, Europe's Finance Ministers approved a rescue package worth €750 billion aimed at ensuring financial stability across Europe by creating the European Financial Stability Facility (EFSF). In October 2011 eurozone leaders agreed on another package of measures designed to prevent the collapse of member economies. This included an agreement with banks to accept a 50% write-off of Greek debt owed to private creditors, increasing the EFSF to about €1 trillion, and requiring European banks to achieve 9% capitalisation. To restore confidence in Europe, EU leaders also suggested to create a common fiscal union across the eurozone with strict and enforceable rules embedded in the EU treaties.

What caused the crisis ?

The **European sovereign debt crisis** has been created by a combination of complex factors such as: the globalization of finance; easy credit conditions during the 2002-2008 period that encouraged high-risk lending and borrowing practices; international trade imbalances; real-estate bubbles that have since burst; slow growth economic conditions 2008 and after; fiscal policy choices related to government revenues and expenses; and approaches used by nations to bailout troubled banking industries and private bondholders, assuming private debt burdens or socializing losses.[

The interconnection in the global financial system means that if one nation defaults on its sovereign debt or enters into recession that places some of the external private debt at risk as well, the banking systems of creditor nations face losses. For example, in October 2011 Italian borrowers owed French banks $366 billion (net). Should Italy be unable to finance itself, the French banking system and economy could come under significant pressure, which in turn would affect France's creditors and so on. This is referred to as financial contagion. Further creating interconnection is the concept of debt protection. Financial institutions enter into contracts called credit default swaps (CDS) that result in payment or receipt of funds should default occur on a particular debt instrument or security, such as a government bond. Since multiple CDS can be purchased on the same security, the value of money changing hands can be many times larger than the amount of debt itself. It is unclear what exposure each country's banking system has to CDS, which creates another type of uncertainty.

Evolution of the crisis

In the first weeks of 2010, there was renewed anxiety about excessive national debt. Frightened investors demanded higher interest rates from several governments with higher debt levels or deficits. This in turn makes it difficult for governments to finance further budget deficits and service existing high debt levels. Elected officials have focused on austerity measures (e.g., higher taxes and lower expenses) contributing to social unrest and significant debate among economists, many of whom advocate greater deficits when economies are struggling. Especially in countries where government budget deficits and sovereign debts have increased sharply, a crisis of confidence has emerged with the widening of bond yield spreads and risk insurance on CDS between these countries and other EU member states, most importantly Germany.[39][40] By the end of 2011, Germany was estimated to have made more than €9 billion out of the crisis as investors flock to safer but near zero interest rate bunds.[41] While Switzerland equally benefited from lower interest rates the crisis also harmed its exporting sector due to a substantial influx of foreign capital and the resulting rise of the Swiss Franc. In September 2011 the Swiss National Bank surprised currency traders by pledging that "it will no longer tolerate a euro-franc exchange rate below the minimum rate of 1.20 francs", effectively weakening the Swiss franc.This is the biggest Swiss intervention since 1978.

Proposed Solutions

European Financial Stability Facility (EFSF)

On 9 May 2010, the 27 EU member states agreed to create the European Financial Stability Facility, a legal instrument[131] aiming at preserving financial stability in Europe by providing financial assistance to eurozone states in difficulty. The EFSF can issue bonds or other debt instruments on the market with the support of the German Debt Management Office to raise the funds needed to provide loans to eurozone countries in financial troubles, recapitalize banks or buy sovereign debt.[132] Emissions of bonds are backed by guarantees given by the euro area member states in proportion to their share in the paid-up capital of the European Central Bank. The €440 billion lending capacity of the Facility is jointly and severally guaranteed by the Eurozone countries' governments and may be combined with loans up to €60 billion from the European Financial Stabilisation Mechanism (reliant on funds raised by the European Commission using the EU budget as collateral) and up to €250 billion from the International Monetary Fund (IMF) to obtain a financial safety net up to €750 billion.[133]

On November 29, 2011 the member state finance ministers agreed to expand the EFSF by creating certificates that could guarantee up to 30% of new issues from troubled euro-area governments and to create investment vehicles that would boost the EFSF’s firepower to intervene in primary and secondary bond markets

The EFSF only raises funds after an aid request is made by a country.[147] As of end of December 2011, it has been activated two times. In November 2010, it financed €17.7 billion of the total €67.5

billion rescue package for Ireland (the rest was loaned from individual European countries, the European Commission and the IMF). In May 2011 it contributed one third of the €78 billion package for Portugal. In the future, it is planned to also shift the loan for Greece to the EFSF, which according to EU diplomats would amount to about €80 billion. This leaves the EFSF with €250 billion or an equivalent of €750 billion in leveraged firepower.[148] According to German newspaper Sueddeutsche, this is more than enough to finance the debt rollovers of all flagging European countries until end of 2012, in case necessary.[148]

The EFSF is set to expire in 2013, running one year parallel to the permanent €500 billion rescue funding program called European Stability Mechanism (ESM), which will start operating as soon as Member States representing 90% of the capital commitments have ratified it. This is expected to be in July 2012.

European Financial Stabilisation Mechanism (EFSM)

On 5 January 2011, the European Union created the European Financial Stabilisation Mechanism (EFSM), an emergency funding programme reliant upon funds raised on the financial markets and guaranteed by the European Commission using the budget of the European Union as collateral.[151] It runs under the supervision of the Commission[152] and aims at preserving financial stability in Europe by providing financial assistance to EU member states in economic difficulty.[153] The Commission fund, backed by all 27 European Union members, has the authority to raise up to €60 billion[154] and is rated AAA by Fitch, Moody's and Standard & Poor's.[155][156]

Under the EFSM, the EU successfully placed in the capital markets a €5 billion issue of bonds as part of the financial support package agreed for Ireland, at a borrowing cost for the EFSM of 2.59%.[157]

Like the EFSF also the EFSM will be replaced by the permanent rescue funding programme ESM, which is due to be launched in July 2012.

European fiscal union and revision of the Lisbon Treaty

On 9 December 2011 at the European Council meeting, all 17 members of the euro zone and six countries that aspire to join agreed on a new intergovernmental treaty to put strict caps on government spending and borrowing, with penalties for those countries who violate the limits.[182] All other non-eurozone countries except Great Britain are also prepared to join in, subject to parliamentary vote.[149] Originally EU leaders planned to change existing EU treaties but this was blocked by British prime minister David Cameron, who demanded that the City of London be excluded from future financial regulations, including the proposed EU financial transaction tax.[183][183] By the end of the day, 26 countries had agreed to the plan, leaving the United Kingdom as the only country not willing to join.

Eurobonds

On 21 November 2011, the European Commission suggested that eurobonds issued jointly by the 17 euro nations would be an effective way to tackle the financial crisis. Using the term "stability bonds", Jose Manuel Barroso insisted that any such plan would have to be matched by tight fiscal surveillance and economic policy coordination as an essential counterpart so as to avoid moral hazard and ensure sustainable public finances.[186][187]

Germany remains opposed to take over the debt and interest risk of states that have run excessive budget deficits and borrowed excessively over the past years. The German government sees no point in making borrowing easier for states who have problems borrowing so much that they go into debt crisis. Germany says that Eurobonds, jointly issued and underwritten by all 17 members of the currency bloc, could substantially raise the country's liabilities in a debt crisis.

However, a growing field of investors and economists say it would be the best way of solving a debt crisis

The introduction of eurobonds matched by tight financial and budgetary coordination may well require changes in EU treaties.

Addressing Current Account imbalances

Regardless of the corrective measures chosen to solve the current predicament, as long as cross border capital flows remain unregulated in the Euro Area,[194] current account imbalances are likely to continue. A country that runs a large current account or trade deficit (i.e., it imports more than it exports) must ultimately be a net importer of capital; this is a mathematical identity called the balance of payments. In other words, a country that imports more than it exports must either decrease its savings reserves or borrow to pay for those imports. Conversely, Germany's large trade surplus (net export position) means that it must either increase its savings reserves or be a net exporter of capital, lending money to other countries to allow them to buy German goods.

A country with a large trade surplus would generally see the value of its currency appreciate relative to other currencies, which would reduce the imbalance as the relative price of its exports increases. This currency appreciation occurs as the importing country sells its currency to buy the exporting country's currency used to purchase the goods. Alternatively, trade imbalances can be reduced if a country encouraged domestic saving by restricting or penalizing the flow of capital across borders, or by raising interest rates, although this benefit is likely offset by slowing down the economy and increasing government interest payments.[200]

Either way, many of the countries involved in the crisis are on the Euro, so devaluation, individual interest rates and capital controls are not available. The only solution left to raise a country's level of saving is to reduce budget deficits and to change consumption and savings habits. For example, if a country's citizens saved more instead of consuming imports, this would reduce its trade deficit

Speculation of the breakup of the Eurozone

Bloomberg suggested in June 2011 that, if the Greek and Irish bailouts should fail, an alternative would be for Germany to leave the eurozone in order to save the currency through depreciation[208] instead of austerity. The likely substantial fall in the Euro against a newly reconstituted Deutsche Mark would give a "huge boost" to its members' competitiveness.[209] Also *The Wall Street Journal* conjectured that Germany could return to the Deutsche Mark,[210] or create another currency union[211] with the Netherlands, Austria, Finland, Luxembourg and other European countries such as Denmark, Norway, Sweden, Switzerland and the Baltics.[212] A monetary union of the mentioned current account surplus countries would create the world's largest creditor bloc that is bigger than China[213] or Japan. The former president of the German Industries, Hans-Olaf Henkel suggested that "southern countries" could retain their competitiveness through a greater tolerance for inflation and corresponding regular devaluations, once they are freed of the "straitjacket of Germanic stability phobia".[214] The Wall Street Journal added that without the German-led bloc a residual euro would have the flexibility to keep interest rates low[215] and engage in quantitative easing or fiscal stimulus in support of a job-targeting economic policy[216] instead of inflation targeting in the current configuration.

German Chancellor Angela Merkel and French President Nicolas Sarkozy have, however, on numerous occasions publicly said that they would not allow the Eurozone to disintegrate and have linked the survival of the Euro with that of the entire European Union

Commentary

Most analysts are not predicting that the Euro zone will break up, stating that the cost of keeping the euro zone together is less than the cost of letting it break apart. I tend to agree with this observation. The break up of the euro zone is unlikely in 2012. It is more likely that Greece would leave the euro zone than the entire euro zone breaking up. With that said, nothing is impossible and there is still

uncertainty as to how this year will actually play out. In short, a break up of the euro zone would be a disaster. The following article published in the Wall Street Journal should give you an idea:

"A break-up of the Euro Area would be rather like the movie 'War of the Roses' version of a divorce: disruptive, destructive and without any winners. A break-up of the 17-member state Euro Area, even a partial one involving the exit of one or more fiscally and competitively weak countries, would be chaotic. A full or comprehensive break-up, with the Euro Area splintering into a Greater DM zone and around 10 national currencies would create financial and economic pandemonium. It would not be a planned, orderly, gradual unwinding of existing political, economic and legal commitments and obligations.

It took seven years of careful preparation and planning to launch the then 11-nation Euro Area in 1999. Exchange rates of the 11 candidate national currencies converged smoothly to the irrevocable euro conversion rates agreed among the member states well in advance. Even the fiscally weak and uncompetitive Euro Area candidates had, under pressure to meet the Maastricht criteria for euro area membership, engaged in years of fiscal austerity, inflation convergence and domestic cost control prior to entry. Although we now know that there was extensive fiddling of the national data used to verify fiscal compliance with the Euro Area membership criteria, even the most egregious corner-cutters made serious efforts to comply. The creation of the euro was not accompanied by sharp and unexpected last-minute currency revaluations.

In contrast, exit, partial or full, would likely be precipitated by disorderly sovereign defaults in the fiscally weak and uncompetitive member states, whose currencies would weaken dramatically and whose banks would fail. **If Spain and Italy were to exit, there would be a collapse of systemically important financial institutions throughout the European Union and North America and years of global depression.** Even if the likelihood of an eventual exit or break-up were to be assessed accurately by the markets – something for which there is preciously little evidence – the timing of any exit or break-up is bound to come as an unexpected and deeply disruptive event.

A disorderly sovereign default and EA exit by Greece alone is manageable. Greece accounts for only 2.2 percent of EA GDP and 4 percent of EA public debt. **However, a disorderly sovereign default and EA exit by Italy would bring down much of the European banking sector. Disorderly sovereign defaults and EA exits by all five periphery states – an event to which I attach a probability of no more than 5 percent, would drag down not just the European banking system, but the north Atlantic financial system and the internationally exposed parts of the rest of the global banking system as well. The resulting global financial crisis would trigger a global depression that would last for years, with GDP falling by more than 10 percent and unemployment in the West reaching 20 percent or more.** Emerging markets would be dragged down too. Even the limited financial turmoil emanating from the Euro Area thus far has contributed to the marked slowdown of growth in the world's three most important emerging markets – China, Brazil and India.

Exit by Germany and the other fiscally and competitively strong countries would be possibly even more disruptive. This might occur if there were attempts to introduce a one-sided fiscal union with open-ended and uncapped euro-bonds or other transfers from the strong to the weak without a corresponding surrender of fiscal sovereignty to prevent future crises or if the ECB were to 'go Weimar'. I consider this highly unlikely, with a probability of less than 3 percent. Following the exit, Germany and the other core EA member states (perhaps excluding France) would introduce the new DM. The sovereigns in the periphery would default. The new DM would appreciate sharply. Financial institutions in the new DM area would have to be bailed out because of losses from exposure to the old periphery and the soft core. As nothing holds the remaining EA countries together, the rump-EA splits into perhaps 11 national currencies. The legal meaning and validity of all euro-denominated contracts and instruments is up for grabs. Everyone, except lawyers specialising in the Lex Monetae, becomes much poorer as business is put on hold while the mills of the courts grind slowly.

Even if the break-up of the EA does not destroy the EU completely and does not represent a prelude to a return to the intra-European national and regional hostilities, including civil wars and wars, that

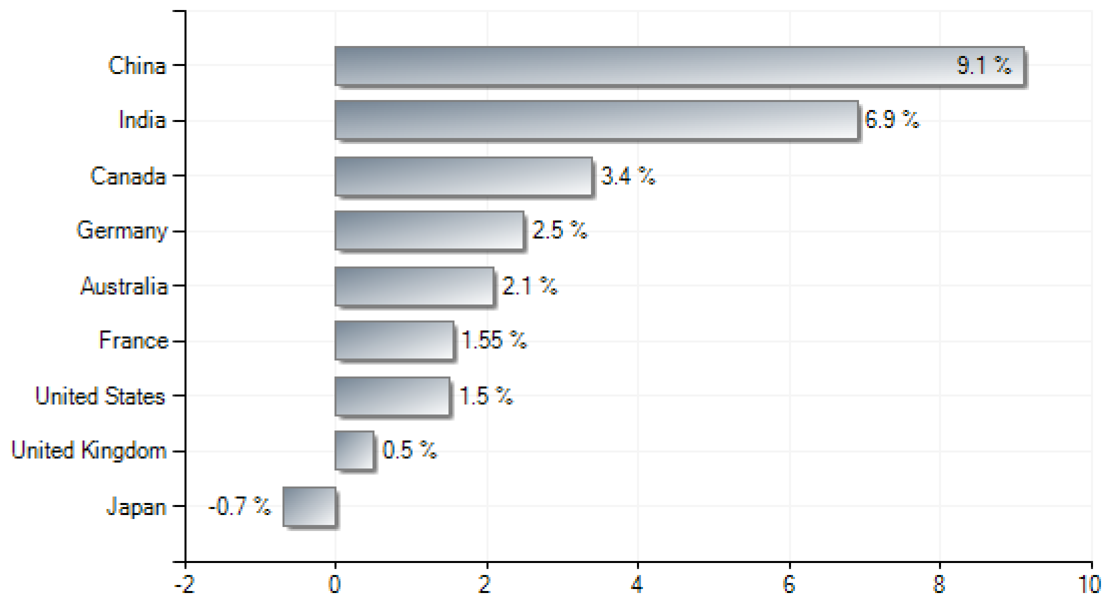
were the bread and butter of European history between the fall of the Roman empire and the gradual emergence of the European Union from the ashes of two made-in-Europe world wars, **the case for keeping the Euro Area show on the road would seem to be a strong one: financially, economically, and politically, including geopolitically.**"

Commentary

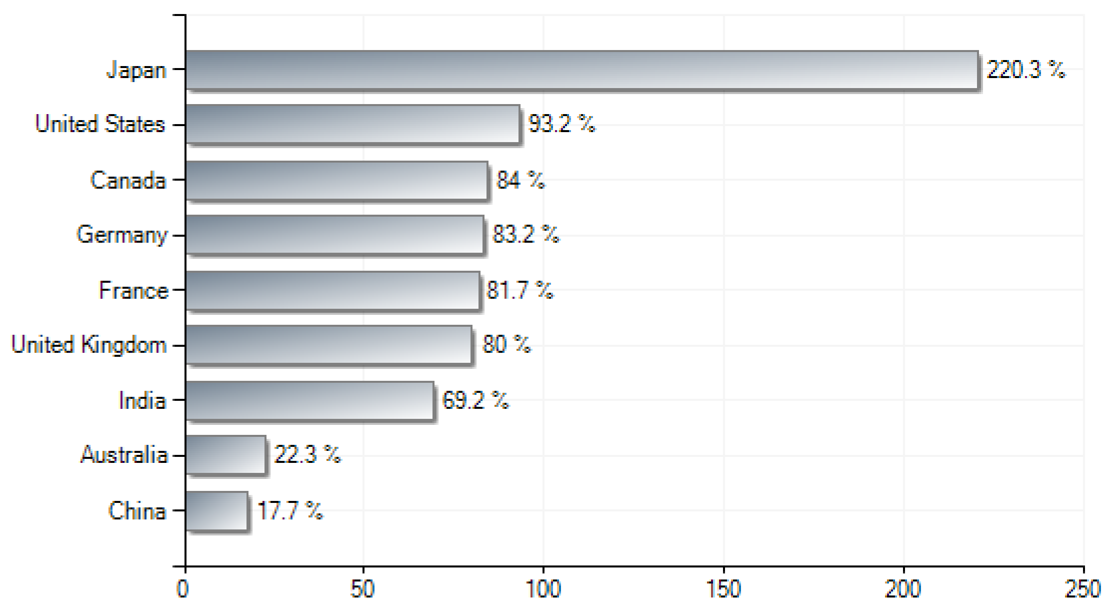
The good news is that the writer doesn't attach much likelihood to the worst-case scenario breakups, which range from the exit of all peripheral countries all the way to the exit of Germany — which would be truly awful indeed: Financial markets right now are priced as if only Greece is going to exit the euro zone, which would be manageable. They're certainly not priced for anything else. The probability of this happening is low, maybe 5%...but be aware...this situation and its development over the year will need to be closely monitored.

ECONOMIC DATA AND TRENDS

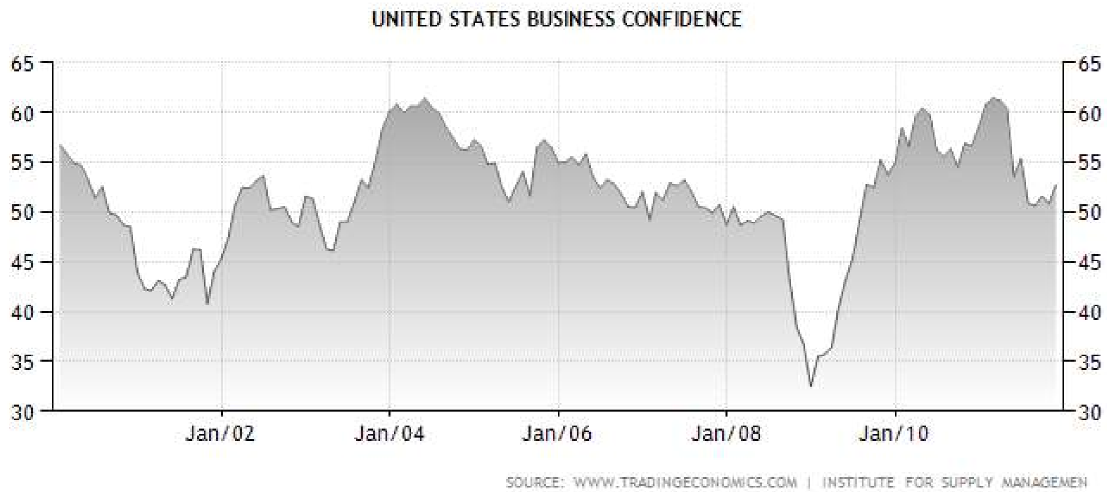
GDP MAJOR ECONOMIES



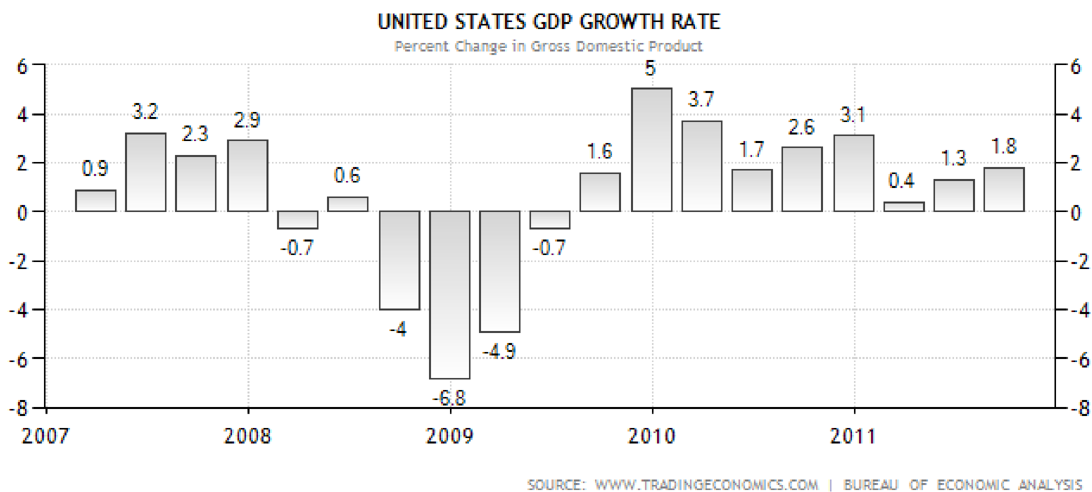
PERCENTAGE DEBT TO GDP



UNITED STATES TRENDS

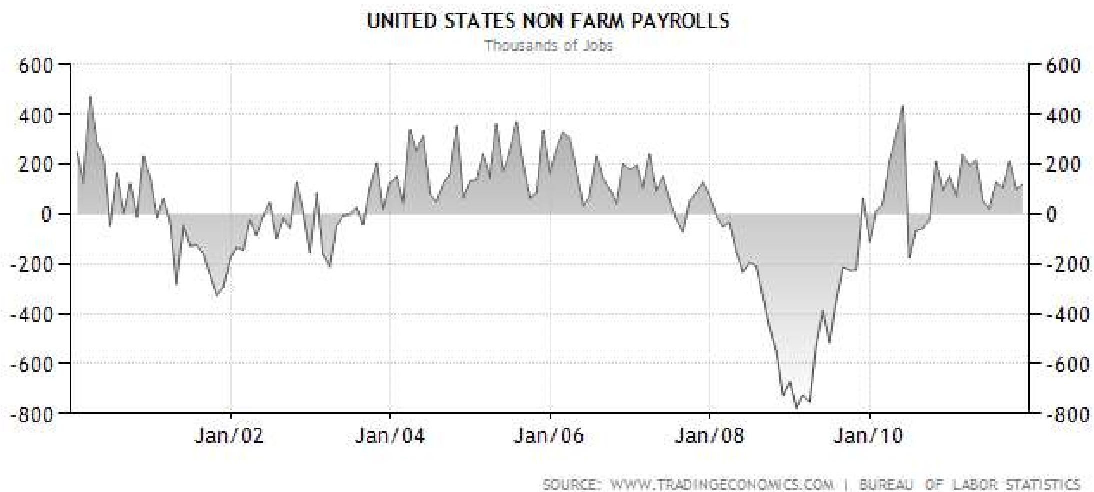


In the United States, business confidence also known as The Purchasing Managers Index (PMI) improved to 52.7% in November of 2011 from 50.8% in October of 2011, according to the Institute of Supply Management (ISM). The PMI is a composite index of five indicators (production level, new orders, supplier deliveries, inventories, employment level), which are extracted through surveys to more than 400 purchasing managers from around the country, chosen for their geographic and industry diversification benefits. in the United States, the business confidence survey measures the level of optimism that people who run companies have about the performance of the economy and how they feel about their organizations' prospects. Business confidence surveys can provide useful signs about the current condition of the economy, because companies often have information about consumer demand sooner than government statisticians do.



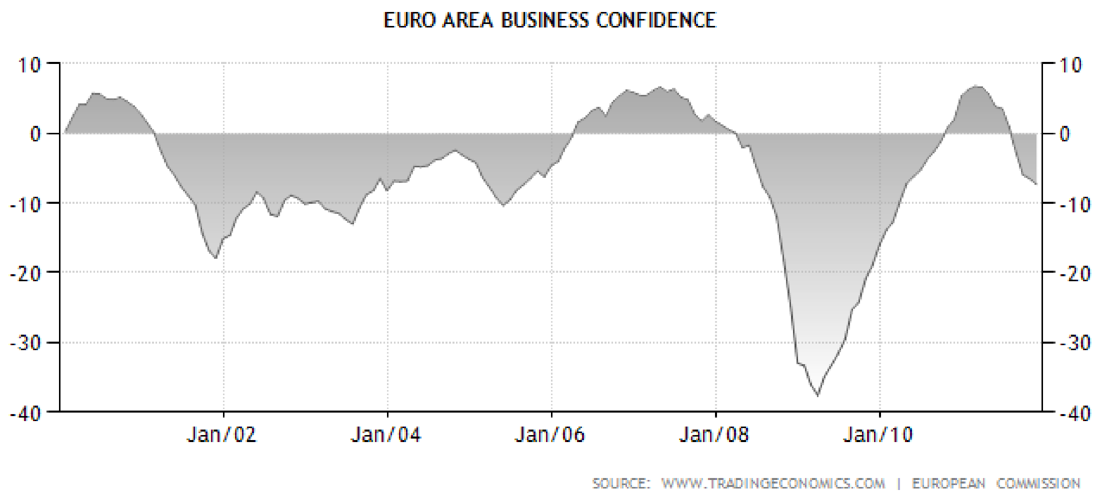
The Gross Domestic Product (GDP) in the United States expanded 1.8 percent in the third quarter of 2011 over the previous quarter. Historically, from 1947 until 2011 the United States' average quarterly GDP Growth was 3.28 percent reaching an historical high of 17.20 percent in March of 1950 and a record low of -10.40 percent in March of 1958. The economy of the United States is the largest in the world. The United States is a market-oriented economy where private individuals and business firms make most of the decisions. The federal and state governments buy needed goods and services predominantly in the private marketplace.

In the United States, consumer confidence improved to 64.5 in December of 2011 from 55.2 in November of 2011. in the United States, The Conference Board Consumer Confidence Index® (CCI) is a barometer of the health of the U.S. economy from the perspective of the consumer. The index is based on approximately 3,000 completed questionnaires reflecting consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. The Conference Board® and Consumer Confidence Index® are registered trademarks of The Conference Board. The Consumer Confidence Index and its related series are among the earliest sets of economic indicators available each month and are closely watched as leading indicators for the U.S. economy.

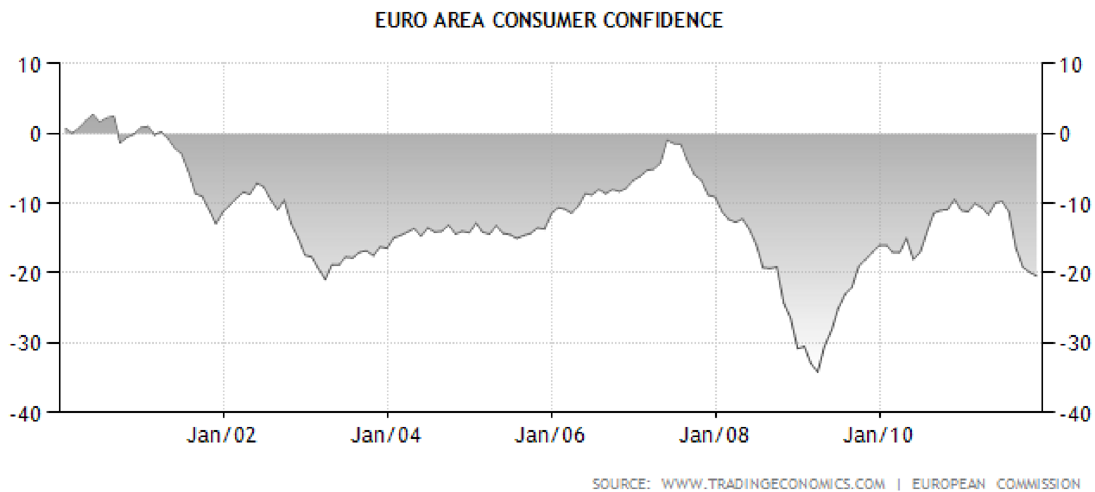


The United States economy added 120,000 jobs in November of 2011, according to the U.S. Bureau of Labor Statistics. Nonfarm payrolls is an employment report released monthly, usually on the first Friday of every month, and heavily affects the US dollar, the bond market and the stock market. Current Employment Statistics (CES) program from the U.S. Department of Labor Bureau of Labor Statistics, surveys about 160,000 businesses and government agencies, representing approximately 400,000 individual work sites, in order to provide detailed industry data on employment, hours, and earnings of workers on nonfarm payrolls.

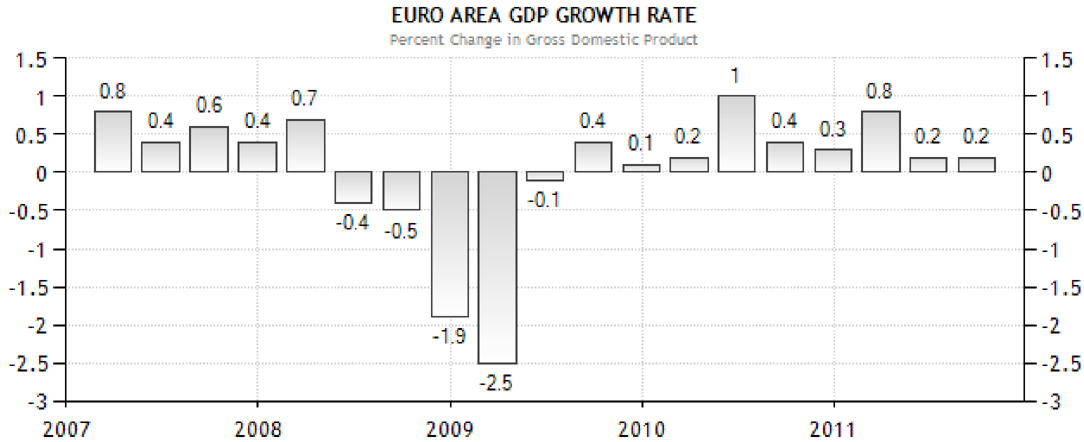
EURO AREA



In the Euro Area, business confidence declined to -7.3 in November of 2011 from -6.6 in October of 2011. in the Euro Area, the industry component of the Economic Sentiment Indicator survey measures the level of optimism that people who run companies have about the performance of the economy and how they feel about their organizations' prospects.



In the Euro Area, consumer confidence declined to -20.4 in November of 2011 from -19.9 in October of 2011. in the Euro Area, the consumer component of the Economic Sentiment Indicator measures the level of optimism that consumers have about the performance of the economy. Generally consumer confidence is high when the unemployment rate is low and GDP growth is high.

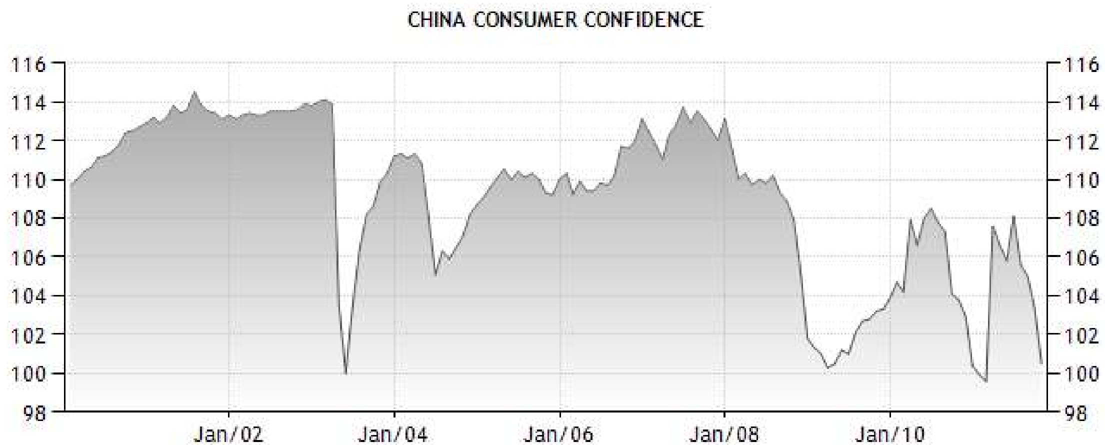


The Gross Domestic Product (GDP) in the Euro Area expanded 0.20 percent in the third quarter of 2011 over the previous quarter. Historically, from 1995 until 2011 the Euro Area's average quarterly GDP Growth was 0.42 percent reaching an historical high of 1.30 percent in June of 1997 and a record low of -2.50 percent in March of 2009. The Euro Area (Eurozone) refers to a monetary union among the European Union member states that have adopted the euro as their sole official currency. It currently consists of Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta the Netherlands, Portugal, Slovakia, Slovenia and Spain.

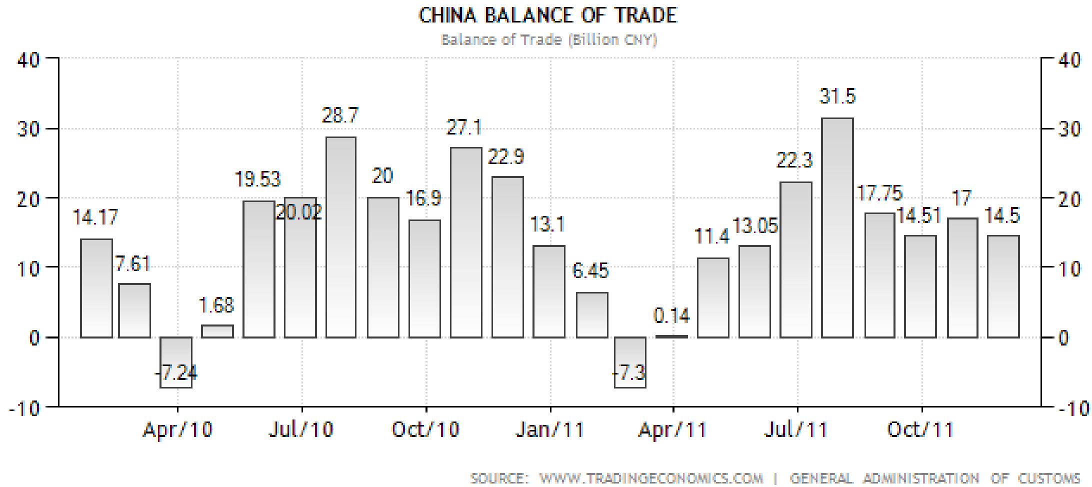
The unemployment rate in the Euro Area was last reported at 10.3 percent in October of 2011. From 1995 until 2010 the Euro Area's Unemployment Rate averaged 9.06 percent reaching an historical high of 10.70 percent in January of 1997 and a record low of 7.20 percent in February of 2008. The labour force is defined as the number of people employed plus the number unemployed but seeking work. The nonlabour force includes those who are not looking for work, those who are institutionalised and those serving in the military.

CHINA

The Gross Domestic Product (GDP) in China expanded 9.1 percent in the third quarter of 2011 over the same quarter, previous year. Unlike the commonly used quarterly GDP growth rate the annual GDP growth rate takes into account a full year of economic activity, thus avoiding the need to make any type of seasonal adjustment. Historically, from 1989 until 2011, China's average annual GDP Growth was 9.32 percent reaching an historical high of 14.20 percent in December of 1992 and a record low of 3.80 percent in December of 1990.



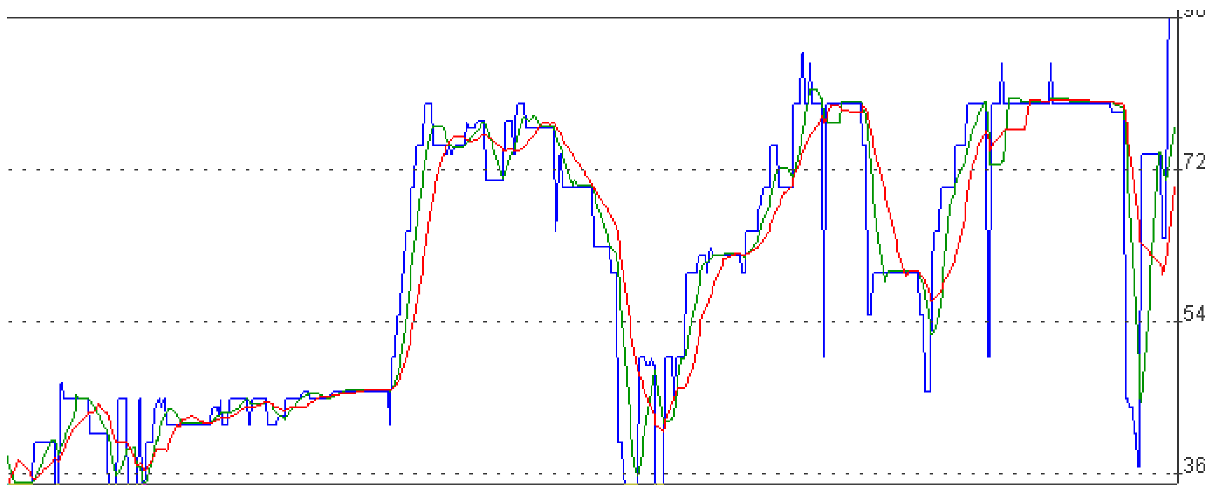
In China, consumer confidence index declined to 100.5 in October of 2011 from 103.4 in September of 2011. In China, the consumer confidence survey measures the level of optimism that consumers have about the performance of the economy. Generally consumer confidence is high when the unemployment rate is low and GDP growth is high. Measures of average consumer confidence can be useful indicators of how much consumers are likely to spend.



China reported a trade surplus equivalent to 14.5 Billion USD in November of 2011. Export growth has continued to be a major component supporting China's rapid economic growth. Exports of goods and services constitute 39.7% of GDP. China major exports are: office machines & data processing equipment, telecommunications equipment, electrical machinery and apparel & clothing. China imports mainly commodities: iron and steel, oil and mineral fuels; machinery and equipment, plastics, optical and medical equipment and organic chemicals. Its main trading partners are: European Union, The United States, Japan, Hong Kong and South Korea.

DECEMBER COMPANY RESULTS

CULLINAN HOLDINGS (SHARE PRICE 90c) – Final results end Sep 11



Revenue fell to R393.7 million (R405.1 million), while operating profit decreased to R27.3 million (R33.3 million). Profit for the year was down to R22.1 million (R27.9 million). Earnings per share fell to 3.07 cps (3.87cps), while headline earnings decreased to R22.1 million (R27 million). No dividend has been declared for the period under review.

Managements comments on prospects:

The prospects for the Cullinan Group in 2012 are positive. While external challenges exist due to

factors such as the weak global economy, we are satisfied that our business units are well managed and prepared for the year ahead. Our well balanced portfolio of inbound and outbound businesses provides diversification of risk against external factor such as the movement in the Rand. The group will also start to see the benefits of the various acquisitions and business opportunities entered into in the latter part of the 2011 Financial year. Lastly, based upon the improvements in the business and the improved financial position of the group and together with our positive view of the year ahead, the Group will continue to actively look for acquisitions.

RACEC GROUP LTD (SHARE PRICE 39c) - final results September 2011

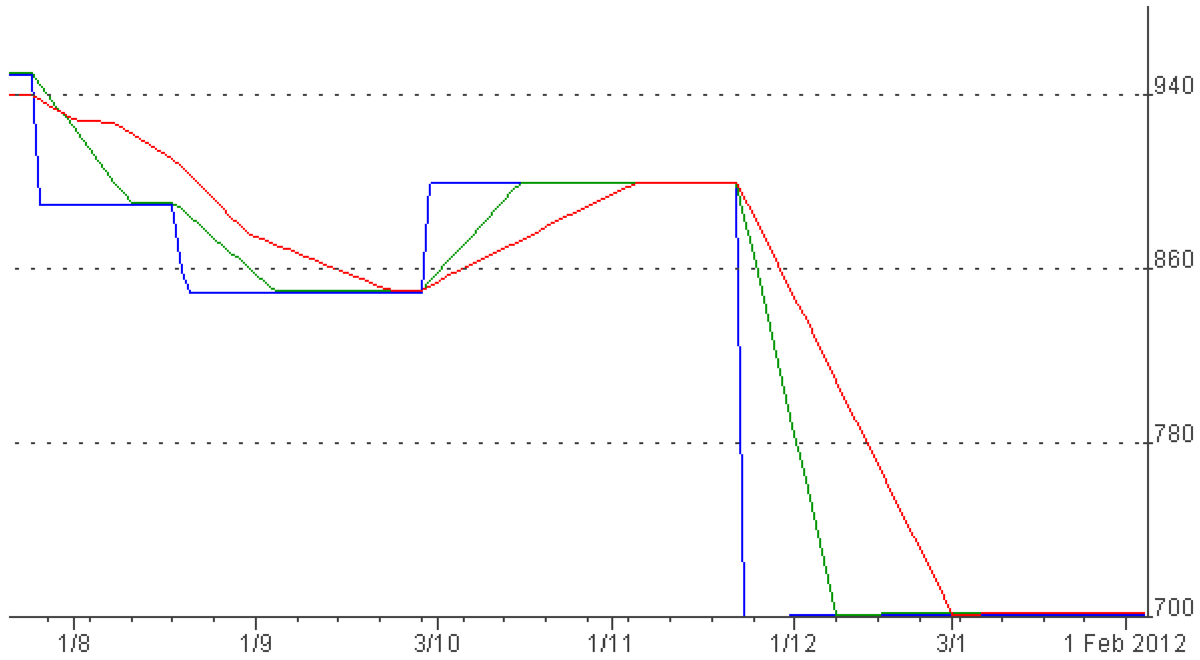
The results include the SIC 12 consolidation of Solethu Civils. Revenue increased to R226 million (R157.4 million) and gross profit rose to R63.1 million (R46.8 million). A net attributable loss of R59.7 million (profit of R13.1 million) was recorded. However, headline earnings per share from continued operations soared to 12.1c (1.4cps).

Outlook

The current split on construction versus annuity contracts is 90/10 and Racec plans to reach a 50/50 split over the next three to five years. In addition to not relying on a single contract, the company does not want to rely on a single country and plans to achieve a local versus regional revenue split of 50/50.

RACEC Rail's order book is looking good. More than 80% of the 2011 revenue is already secured for 2012. While there are further opportunities available for the group, we are in the fortunate position of being able to select which contracts provide the best return.

ZCI Ltd – Stock price R7.01 – interim results 11

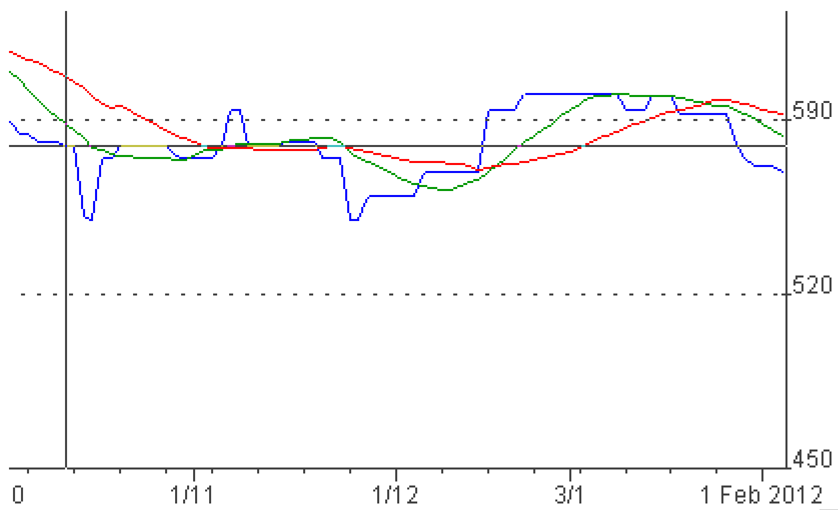


Revenue more almost doubled to USD23.1 million (USD11.6 million). The gross loss from mining activities widened to USD5.2 million (loss of USD4.9 million) and the operating loss grew to USD7.7 million (loss of USD6.7 million). The net attributable loss narrowed to USD4.8 million (loss of USD5 million). In addition, the headline loss per ordinary share was smaller at USD8.71c (loss of USD9.07cps).

Outlook

Continuing plant upgrades are in progress and are expected to be completed by the year-end. Management is confident that the period to 31 March 2012 will be one in which the ongoing investment of ZCI in the mining operations of the group will continue to result in production levels moving closer to achieving the intended level of steady state copper production.

Marshall Monteagle PLC – Stock price R7.01 – final results Sep 11

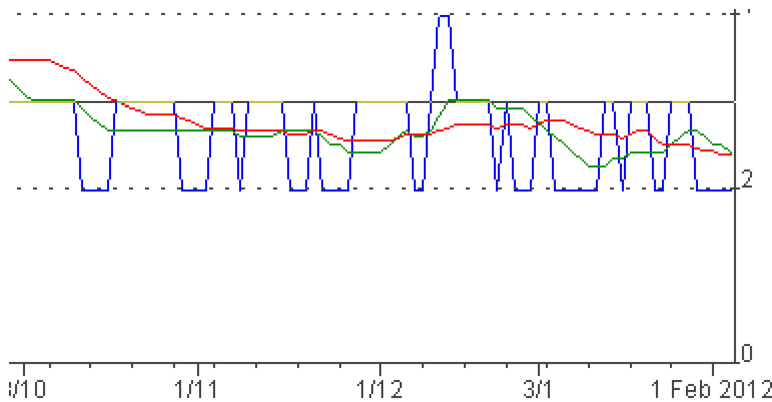


Group revenue increased to USD196.4 million (USD163.9 million). Operating profit rose to USD10.7 million (USD9.8 million). Net attributable profit improved to USD5.5 million (USD2.9 million). In addition, headline earnings per share surged to USD15.5c (USD8.8cps).

Dividend
A final ordinary dividend of USD1.6cps has been proposed.

Outlook
Given that the USA and Europe are both dealing with unprecedented debt problems and the financial markets continue to demonstrate extreme volatility, the board is cautious about the year ahead. However, we believe the diversity within the group and our strong balance sheet will enable us to enhance shareholder value in the long term.

Zaptronix – stock price 2c – final results August 11

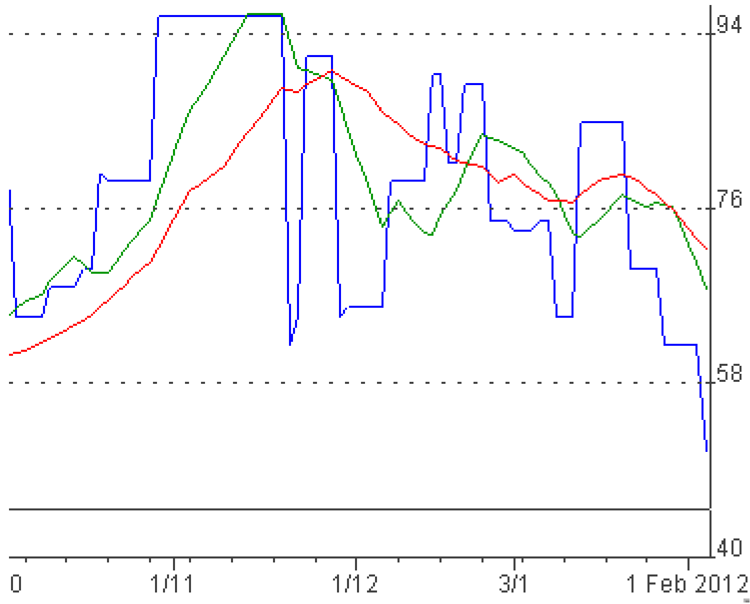


Revenue for the year ended August 2011 dropped to R27.9 million (R33.2 million) and gross profit fell to R21.3 million (R26.7 million). Loss before interest, tax, depreciation and amortisation was recorded at R6.8 million (profit of R4.5). The net attributable loss was at R9.3 million (profit of R2 million). Headline loss per share was 2.31cps (headline earnings of 0.52cps).

Dividend
No dividend is proposed.

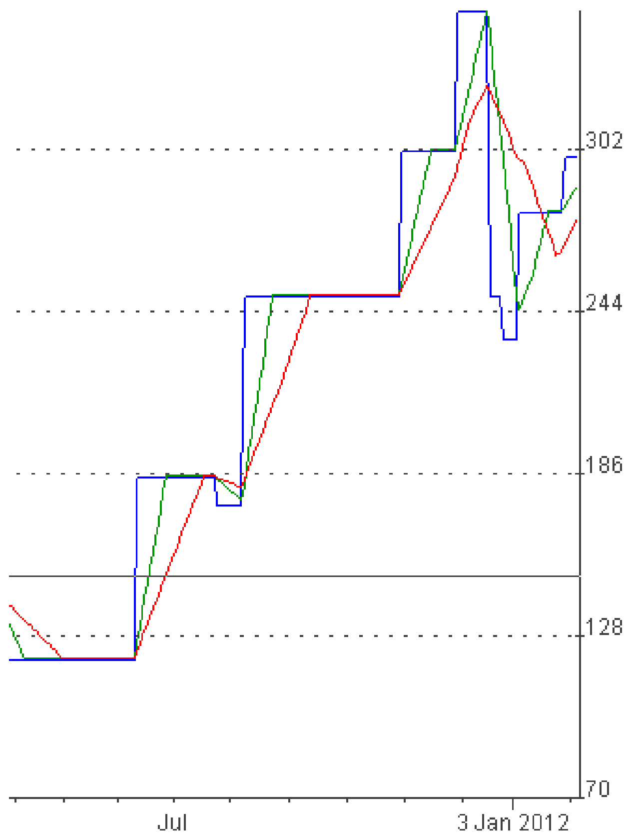
Prospects
Although the group has experienced some improvements the conditions remain unpredictable. The group will pursue the available business opportunities and at the same time cut costs to remain competitive with the service offerings to current and future customers. The improved DuoIV system addresses customer needs and maintains its position as the reliable innovative solution to fleet management. The Electricity Regulation Act is set to be implemented from 1 January 2012. The act empowers Utilities to apply different rates to users whilst the current meters in use will not be able to provide the correct readings to users. Zaptronix Metering division stand to gain from this prospective demand for smart meters which will provide users with different rate readings. Zaptronix needs to strengthen its BBBEE rating to fully utilise the opportunities presented by the implementation of the Act. The Site Risk business, created out of the assets bought form I to I, will remain competitive as the high crime rate will continue to drive the demand for access, surveillance and fire detection systems. In recent months an increase in inquiries for these systems was identified, some of which were awarded to the business unit. The business unit have also been down sized to remain competitive.

IPSA Group PLC – stock price 51c – interim results



Revenue for the interim period increased to GBP1.884 million (2010: GBP675 000). Gross loss narrowed to GBP244 000 (2010: loss of GBP481 000), operating loss improved to GBP787 000 (2010: loss of GBP1.031 million), but loss after tax rocketed to GBP2.613 million (2010: loss of GBP378 000). Furthermore, headline loss per ordinary share weakened to GBP2.43pps (2010: loss of GBP0.40pps).

Indequity Group Ltd – stock price R3.00 – final results Sep 11



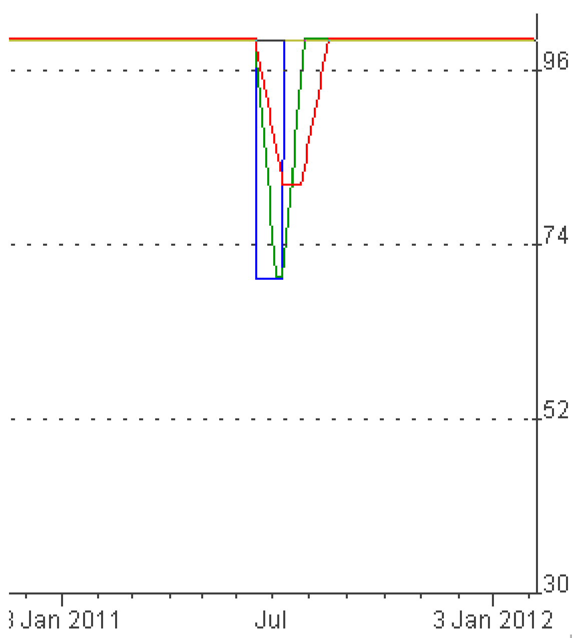
Gross written premium increased to R32.2 million (R28.6 million). Net attributable profit rose by more than 50% to R3.7 million (R2.2 million). In addition, headline earnings grew to 31.33c (18.10cps).

Notice of AGM
Notice was given that the annual general meeting of members of Indequity will be held at the registered office, First Floor, Cascade House, corner 14th Avenue and Hendrik Potgieter Road, Constantia Kloof, at 10:00 on 6 February 2012.

Outlook
As far as the general personal lines and business insurance operations are concerned, the group anticipates that the business environment will remain highly competitive. Therefore, growth will remain under pressure and the same business considerations as outlined above will continue to be pertinent. Indequity again commit to place emphasis on building a quality long-term sustainable business and as a result we will continue to follow the same disciplined approach in these operations, than we had in the past. In order to continue to deliver superior growth and the corresponding financial results for our stakeholders, management have spent considerable time over the past year in developing novel, innovative products to compliment the group's existing product offerings. The first of these was launched early November 2011.

Although it is still in its infant phase, the market response to what management believes is a truly revolutionary product, has been quite phenomenal. Although Indequity realises that converting this optimism into tangible results will require huge input, Indequity is nevertheless very excited about the longer term potential of this new product offering for our stakeholders. In conclusion, now that group operations have been simplified and with the solid foundation that has to date been established, management are optimistic about the group's future prospects and intend to build on the successes of the past.

CAFCA Ltd – Stock price R1.00 – nine months end Sep 11

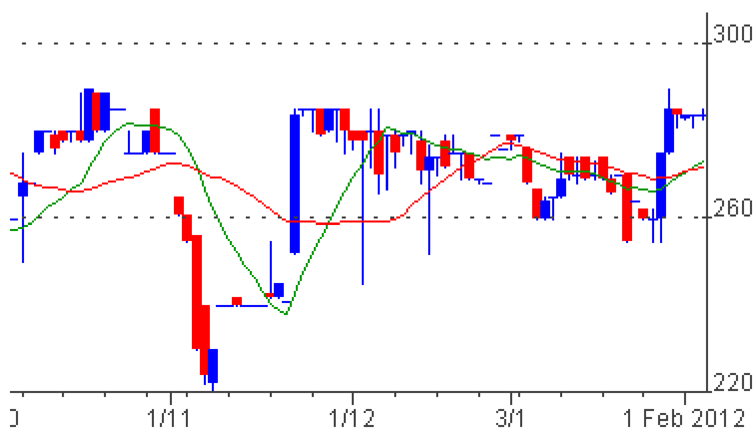


Cafca had a change of year end to 30 September to make the reporting period coterminous with that of the parent company. Revenue for the nine months to September 2011 amounted to USD18.6 million, while operating profit was recorded at USD2 million. Profit for the year was at USD1.3 million. Headline earnings per share amounted to US4cps.

Dividend
The directors have again waived the declaration of a dividend as our cash flow priorities are to first eliminate all borrowings and then to invest in upgrading plant.

Outlook
Cafca intend to maintain borrowings below the current usage until such time as the current uncertainty in the economy improves. Due to uncertainty in the environment, the company are forecasting to at least maintain current throughput for the next twelve months with any downturn in demand being replaced with recycling copper barter deals.

Keaton Energy Holdings – stock price R2.84 – interim results

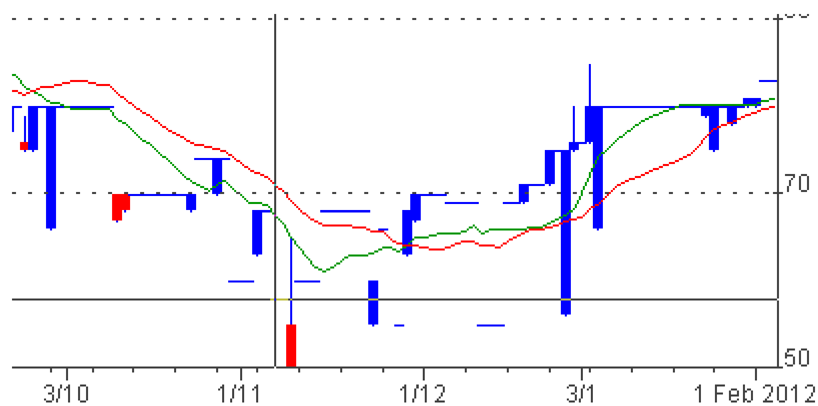


Operating profit rose to R10.9 million (September 2010: loss of R12.9 million), while profit attributable to owners of the company increased to R14.5 million (September 2010: R2.5 million).Headline earnings per share grew to 8.4cps (September 2010: 1.7cps).

Dividend
No dividends have been declared nor are any proposed for the period under review.

Prospects
Keaton Energy continues to make solid strides toward mid-tier producer status. This status will be confirmed with the Vanggatfontein Mine becoming a major earnings contributor. Management`s focus on the Vanggatfontein Mine will remain ramping up 4- and 2- Seam production to meet Eskom obligations while maintaining the 5-Seam production profile and market acceptance. Regulatory approval for the acquisition of a controlling stake in LME is expected in the next period, and consolidating LME into the group will also be a priority. Finally, the Sterkfontein and LME`s Braakfontein projects will move further up the value curve - Sterkfontein through advancing of the feasibility study and Braakfontein through review of the existing feasibility study.

Huge Group Ltd – stock price 83c – interim results



Revenue decreased to R212.3 million (R275.4 million). EBITDA declined by almost half to R11.8 million (R21.4 million). Gross profit decreased to R46.4 million (R52.6 million). An operating profit from operations of R8.6 million (loss of R4.2 million). Net attributable sunk to R2.7 million (R9.6 million). In addition, headline earnings per share plummeted to 1.09c (9.42cps).

Prospects
Huge Telecom continues to focus on ensuring that the company has the required flexibility to navigate any short term telecommunications industry changes. Investor interest in the Eyeballs technology is growing and is indicative of the underlying value of this investment.

Investment holding activities
The group will continue to consider the purchase of shares in the company that trade at a discount to its fair value by making use of its general authority to repurchase shares. This general authority is limited to a maximum of 5% of the issued ordinary share capital and will be used by Huge to unlock long-term value for shareholders.

Telecommunication Activities
Huge Telecom remains committed to its strategy of providing a complete spectrum of managed telecommunication services to South African businesses. During the period under review, it continued to improve its positioning to benefit directly from the increased demand for managed services including Communications Expense Management. Huge Telecom continues to monitor developments in the telecommunications industry to ensure that its business model is appropriate, optimal and sustainable.

Huge Telecom, a significant wholesale client of the MNOs, supplies mobile voice services to 5 287 clients across South Africa, totalling some 350 million outbound mobile airtime minutes per annum. Because of this significant client base Huge Telecom has the bargaining power to negotiate favourable terms of trade. Huge Telecom will continue focusing on introducing alternative revenue streams that complement its business. It will also pursue opportunities to increase its client base to enhance capacity utilisation and further improve gross and operating profit margins.

Media activities
Having established the commercial viability of its product set in South Africa, Eyeballs is exploring partnerships to deploy its offering in the international market. It is the view of the board of directors of Eyeballs that the technology represents an international rather than local opportunity - notwithstanding its success to date in the South African market.

The "Goodyz" white-label belongs to one of Eyeball's local distributors. Goodyz has acquired more than 130 800 unique installed users since its commercial launch in late January 2010. To date Goodyz has served just under 97 million user impressions, of which 55.5 million were available to be sold for advertising. At an expected retail rate, based on similar retail rates of other types of media, of 15 cents per advertising impression the revenue generating capability of Goodyz is substantial.

General share repurchase
From 1 March 2011 to 31 August 2011 financial year Huge repurchased 601 000 shares. The cost of the shares acquired was R464 730 and the average price was 77.3 cents per share.

JSE JOURNAL UPDATE FOR PREVIOUSLY REVIEWED STOCKS – WESCOAL

Wescoal was purchased at a cost of 65c. The stock was reviewed in a previous newsletter. As predicted, the company won the court case against Sutha and BSM Mining. The outcome of the case was as follows :

“HIGH COURT JUDGMENT IN FAVOUR OF WESCOAL WITH PUNITIVE COST ORDERS
Shareholders are referred to the various announcements from 6 July 2011 to 17 November 2011 regarding legal disputes with and liquidation applications brought by Sutha Civils (Pty) Limited and BSM Mining (Pty) Limited ("the respondents") against Wescoal and Wescoal Mining (Pty) Limited ("Wescoal Mining"). On 14 December 2011 Acting Judge Hiemstra delivered judgment in the North-Gauteng High Court that "the respondents have in concert embarked on a relentless campaign, not only by means of frivolous and unfounded liquidation applications, but also through the financial press and criminal charges, to coerce the applicants (Wescoal and Wescoal Mining) to pay the debts that are not due by them. This is a gross abuse of the processes of the Court and the provisions of the Companies Act. The abuse is so outrageous that it calls for punitive cost orders."

The respondents were interdicted from proceeding with the two winding-up applications and both cases were set aside with costs on the scale as between an attorney and own client.

Secondly, the respondents were ordered to pay the costs of both applications at a scale as between an attorney and own client, including the costs of two counsel.”

Commentary

The original purchase of this stock was done based on a clear viewpoint that it was undervalued, based on the fact that the case brought against it was unfounded, as well as the fact that the company itself was profitable. In the interim report the company advised the following:

“Shareholders are advised that the company expects that the earnings for the six months to 30 September 2011 will be between 9.2 and 11.2 cents per share, compared to prior period earnings per share of 8.1 cents. Headline earnings are expected to be between 7.0 and 7.7 cents per share, compared to prior period headline earnings per share of 7.9 cents.

The company is pleased with the interim results in comparison to the losses for the year ended 31 March 2011. Operational performance has been strong for the six months with production at Khanyisa Colliery at full capacity, producing 702 000 tons.”

What great news on all fronts. The stock recovered from 65c to 80c in a very short period of time. If we look at the chart, we can see a recovery and trend reversal.

However, just shortly after this, the company released another statement that it made an offer to acquire 51% of the share capital of another company. The Sens announcement follows:

ANNOUNCEMENT OF OFFER BY WESCOAL TO ACQUIRE 51% OF THE SHARE CAPITAL OF EZIMBOKODWENI MINING PROPRIETARY LIMITED ("EZIM"), THE OWNER OF THE PEGASUS PROJECT, AND CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

Shareholders are advised that on 25 November 2011, Wescoal made an offer to acquire from HSTI 17 Proprietary Limited ("HSTI"), 51% of the issued ordinary share capital of EZIM and 51% of EZIM's liabilities ("the transaction"), on terms and conditions set out below. The offer has been accepted by HSTI.

3. RATIONALE FOR THE TRANSACTION

The acquisition is in line with Wescoal's stated goals of securing high quality coal resources that can be mined by the opencast method to increase production and sustainability.

It is anticipated that the Pegasus project will come on stream during 2014 and will continue for 8 to 10 years thereafter. The main product of the project will be a low-phosphorus coal to be sold into the metallurgical industry thereby commanding a price premium. The coal not meeting the required specifications will be sold into the export market. The ultra low stripping ratio will result in low cost opencast mining and will ensure the project is at the low end of the cost curve.

There was intense competition from local and international coal mining companies to secure the Pegasus project, as the reserve is known industry wide, as the last great coal resource available in the Witbank and Middelburg coalfields. An independent high-level valuation of the Pegasus project commissioned by Wescoal and conducted by Mineral Corporation Consultancy Proprietary Limited, based on the Monte Carlo simulation indicates a current value range of between R593 million and R946 million. The valuation further indicates that, with additional capital investment to bring the project into full production, the valuation as an operating concern could be significantly increased.

Jointly Wescoal and HTSI are engaging local and international companies who have expressed interest in acquiring the balance of 49% of the Pegasus

project and who will bring the necessary financial support to develop the project.

4. DETAILS OF THE OFFER
4.1 Offer
4.1.1 **Wescoal offers to purchase 51% of the issued share capital of EZIM from HSTI for an amount of R102,2 million by the issue of 140 000 000 Wescoal ordinary shares at an issue price of 73 cents per share to HSTI;**
4.1.2 **Wescoal will loan EZIM R4 million on signing the main agreement between Wescoal and HSTI. The loan will bear interest at the prime interest rate; and**
4.1.3 Wescoal will settle the R54 million payment to Bisischi Mining PLC referred to in 4.1.5 below.
EZIM will have the following liabilities and obligations:
4.1.4 Liabilities arising from its BECSA sale agreement of R294 million of which R 44 million is payable on section 11 approval;
4.1.5 R54 million owing to Bisischi Mining PLC payable on obtaining the section 11 approval."

The Pegasus project was previously owned by BHP Billiton Energy Coal South Africa ("BECSA"). The project is an undeveloped export quality thermal coal deposit with a measured resource of approximately 15 million tons and is situated 10 km from Witbank contiguous to the Exxaro Inyanda colliery. Pegasus is a shallow coal deposit with an average strip ratio of 1,46, comprising the number 2 upper, number 2 lower and number 1 coal seams of the Witbank coalfields.

Further Commentary

Now, the fact that the company has made the offer for a quality coal deposit I can understand. What bothers me about this is the timeline to come into full production and way the purchase will be financed. The project will only come into operation in 2014. The financing of this transaction will be part financed by the issue of an additional 140000 shares in Wescoal.

This is clearly initially dilutionary for the existing shareholders of the company. While the rationale for making the offer is understandable, and it may be immensely beneficial in the long term, I am not prepared to wait for production to commence when capital can be deployed elsewhere in the stock market. It is my opinion that the dilutionary nature of the transaction is not offset by the acquisition of the prospecting rights and this will take a long time to start benefiting the company. Wescoal is also increasing its liabilities to fund this initiative. I therefore liquidated the position while the stock was trading at 75c..

Enterprising investors with a long investment timeframe and appetite for risk can still hold this counter, as it most likely will do well over the long term. However, the additional risks of mining and the dilutionary nature of the financing are enough to lead me to sell out of this position. I would have much preferred the company to focus on improving production and in bringing its resources to bear on increasing revenue streams before looking to finance such a transaction.

THE JSE JOURNAL COMPANY REVIEW

Currently I am not finding a whole lot of undervalued companies out there. Caution is the name of the game at the moment, and with a choppy year most likely to play out in 2012 I think it would be prudent to look at defensive industries with companies that have a competitive edge. Aspen Pharmacare is one such company.

ASPEN PHARMACARE

Aspen is a supplier of branded and generic pharmaceuticals in approximately 100 countries across the globe and of consumer and nutritional products in selected territories. The Aspen Group has a presence in South Africa, Mexico, Venezuela, Brazil, Ireland, Germany, Kenya, Uganda, Tanzania, United Arab Emirates, Mauritius, Hong Kong and Australia. The Group has 12 manufacturing facilities at nine sites on four continents. The company has been around for 160 years.

Aspen has 12 manufacturing facilities at nine pharmaceutical manufacturing sites on four continents. Four of the sites are located in South Africa, and one in each of Kenya, Tanzania, Brazil, Mexico and Germany. Take a look at the EPS from continuing operations over the last 10 years:

GROUP OVERVIEW – taken from 2010 financials

South African business

DESCRIPTION OF BUSINESS

Sales, marketing and distribution

The South African business provides a diverse basket of high quality, affordable products which are supplied to pharmacies, retail pharmacy chains, hospitals, clinics, prescribing specialists, dispensing general practitioners, managed healthcare funders and retail stores across the private and public sectors. APIs are sold into South Africa and to export territories globally. Aspen's range of branded, generic, OTC, consumer and nutritional products offer the convenience of a "one-stop-shop" service to its broad base of customers.

Manufacturing operations

Aspen is Africa's largest manufacturer of generic pharmaceuticals and one of the world's top 20 generic manufacturers. Significant investments have been made in the expansion, diversification and upgrade of manufacturing capability and capacity to supply high quality, affordable products for the Group's growing local and international markets.

3 209 employees*

Sub-Saharan Africa

Aspen's strategic intent to extend its presence further into SSA has gained traction where it extended its foothold into East Africa, French West Africa, Nigeria and parts of Central Africa with a portfolio of high quality, relevant products and strong distribution networks.

Aspen's international operations extend Aspen's footprint to more than 100 countries across six continents.

Asia Pacific

Distributes niche, branded pharmaceutical and consumer products into its primary markets of Australia and New Zealand and has recently extended its distribution into South-East Asia with the portfolio of Global Brands.

Latin America

Aspen's Latin American operations in Brazil, Mexico and Venezuela have historically supplied generic pharmaceuticals to the hospitals and public sector. Focused attention has been given to pursuing growth opportunities for branded pharmaceutical and OTC products in the private sectors across Latin America. The Group has manufacturing facilities in Brazil and Mexico.

Evolution of the Group and History

1850 • The commencement of the business in Port Elizabeth, South Africa,which later became Lennon Ltd, the originator company to the Group today.

1997 Aspen Healthcare (Pty) Ltd began trading with Stephen Saad and Gus Attridge as two of the four founder members

1998 Aspen was listed on the JSE Ltd ("JSE") through the reverse take-over of Medhold Ltd.

1999 Aspen acquired the pharmaceutical business of South African Druggists for R2,4 billion in a hostile take-over

2000 Construction commenced on a new oral contraceptive manufacturing facility at the East London site in South Africa

2001 Aspen Australia commenced trade as a start-up operation. Nelson Mandela officiated the opening of a clinic constructed for the disadvantaged citizens of Engobo, South Africa, the first of the community clinics established under Aspen's Corporate Social Investment ("CSI") programme

2002 Aspen concluded a Broad-Based Black Economic Empowerment ("BBBEE") deal with CEPPWAWU Investments (Pty) Ltd, the investment arm of the trade union representing the majority of Aspen's labour force in South Africa. Aspen's new corporate identity was launched symbolising energy, innovation and nurturing

2003 Aspen entered into a fostering arrangement with GlaxoSmithKline ("GSK") for the marketing and distribution of 40 branded products into the South African private sector. Aspen Stavudine was launched – Africa's first generic antiretroviral ("ARV").

2004 Aspen acquired FCC, the only South African manufacturer of APIs. Aspen acquired Infacare, the infant nutritional brand, from Dutch-based Royal Numico. Aspen's multi-million Rand Port Elizabeth-based Unit 1 facility became operational

2005 Aspen extended its BBBEE ownership through the conclusion of an empowerment transaction with the Imithi Consortium. Aspen's unit 1 facility in Port Elizabeth became the world's first manufacturer to receive tentative US FDA approval for the production of certain generic ARVs

2007 • Prestige Brands Inc entered into an agreement with Aspen for the supply of eye drops from Aspen's Sterile facility in Port Elizabeth for the United States market.

2008 Aspen entered the Latin American market through an investment with Strides Arcolab Ltd in businesses established in Brazil, Mexico and Venezuela. Aspen acquired 60% of the share capital of Shelys with businesses in Kenya, Tanzania and Uganda. Aspen Global acquired the intellectual property rights to four GSK branded products for R2,7 billion, enabling Aspen to distribute these global brands, namely Eltroxin, Imuran, Lanoxin and Zyloric, to more than 100 countries.

2009 • Aspen concluded a series of strategic transactions with GSK worth R4,6 billion comprising the acquisition of the rights to distribute GSK's pharmaceutical products in South Africa, the formation of the Collaboration to market and sell pharmaceuticals in SSA, the acquisition of eight specialist branded products for worldwide distribution and the acquisition of a manufacturing site in Bad Oldesloe, Germany.

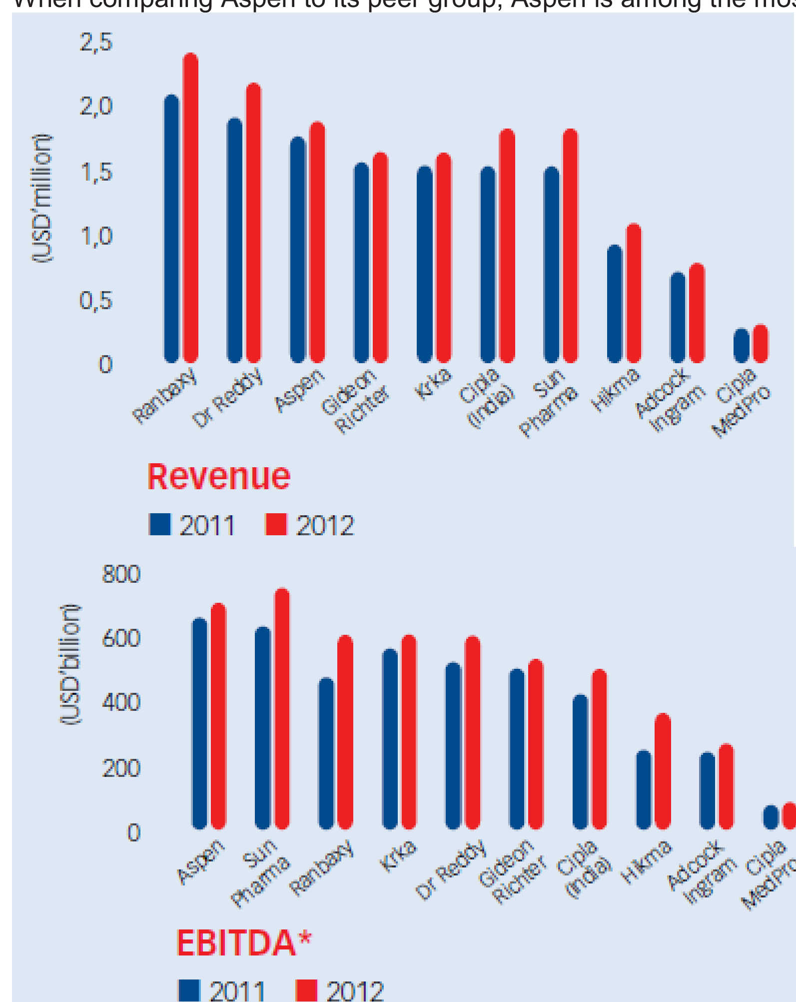
2010 Aspen acquired full control of the Latin American businesses acquired in 2008.

2011 Aspen acquired the Sigma pharmaceutical business in Australia for R6,1 billion.

Group Competitiveness

Based upon the Group's results to 30 June 2011 compared to most recent available results for other generic-focused manufacturers worldwide, Aspen is ranked the ninth largest company by revenue.

When comparing Aspen to its peer group, Aspen is among the most profitable.



Review of business operations for the year – From Group Chief Executive

The South African business delivered an impressive performance, particularly given the well-documented headwinds in the second half, with operating profit increasing 17% to R1,9 billion. These headwinds were caused by the South African businesses' two biggest brands, Seretide and Truvada, coming under generic competition for the first time, reduced pricing in the new ARV tender which commenced in January 2011 and the loss of the Pfizer infant milk formula licence in the last quarter. ARV volumes under the new tender have also been well below expected levels as Government has used a substitute donor-funded product.

Aspen has been particularly successful in its strategy to defend the Seretide molecule by launching its own generic, Foxair, which has more than compensated for volume declines in Seretide. Despite these challenges, the Pharmaceutical division is fundamentally in good shape with a strong underlying growth rate. In particular, the generic products continue to perform well, fuelled by the industry's strongest organic pipeline.

The Asia Pacific region is set to be the leading growth driver for the Group in the year ahead. Revenue, which was AUD444 million in 2011, should exceed AUD700 million based upon full-year ownership of the Sigma pharmaceutical business, the organic growth achieved from the consolidated Australian business and advances in South East Asia. The detailed integration plan to incorporate the Sigma pharmaceutical business into Aspen Australia is well progressed and tracking ahead of initial expectations. Integration has been completed for the sales function and for regulatory affairs with the enlarged teams working seamlessly in both of these areas.

The management team in Australia is doing an outstanding job in leading the integration process. They have also been working on expanding the Group's presence in South East Asia. A subsidiary has been established in the Philippines, a Chief Executive Officer has been appointed and the task of recruiting a sales team is underway. It is planned to have between 80 and 100 sales representatives promoting Aspen products in this country before the end of the financial year.

The Group has enjoyed the benefits of a strong pipeline of new products to support organic growth for many years. As Aspen has increased its global footprint, so efforts have been intensified to enlarge the range of the pipeline and to source products with particular relevance to new territories in which the Group is trading. Considerable success has been attained in building the product pipeline to the extent that the IMS value of the originator molecules representing products which Aspen hopes to launch in the next five years amounts to USD8,9 billion. The value in Aspen's hands will be diluted by prices discounted from the originator molecule as well as inmarket competition. Nonetheless, this is an extremely valuable asset and a critical aspect of the Group's sustainability.

Prospects are positive

Real growth is anticipated to be sustained in the year ahead with the Asia Pacific region, fuelled by the acquisition of the Sigma pharmaceutical business, being the leading driver. It is anticipated that revenue and profit contributions from the Group's businesses outside South Africa will exceed that of the South African business for the first time.

The South African Consumer business has been reshaped to focus on medicated products and infant nutritionals. The loss of the Pfizer licence for infant milks will create some pressure in the first half of the next year, but it is expected that this will be largely overcome by the additional infant nutritional products launched by Aspen as well as the three-year government tender secured for these products. The SSA business is well placed to extend its position as the leading supplier of quality pharmaceuticals in that region with a raft of product registrations anticipated in the next year.

The Asia Pacific region is set for impressive growth in the forthcoming year, as the acquired Sigma pharmaceutical business contributes for a full year and the profitability of this business is improved. The integration of the Sigma pharmaceutical business has proceeded well and the combined businesses are an influential participant in this market. The Group's pipeline for Australia has been further augmented by the conclusion of an agreement with Cipla, the leading Indian generic company, to work together for Aspen to launch Cipladeveloped products in Australia.

The plan to expand the Group's representation in the region has taken a further step forward with the commencement of the process to incorporate a subsidiary in the Philippines.

Structures have been improved in Latin America. Increased focus has been achieved in Brazil with the disposal of non-core products. Aspen continues to regard this region as having significant potential. Opportunities are being sought to improve the critical mass of the product offering in this region.

9 Year Operational Review

	2011	2010	2009	2008	2007	2006	2005	2004	2003
	(R mil)	(R mil)	(R mil)	(R mil)	(R mil)	(R mil)	(R mil)	(R mil)	(R mil)
PROFITABILITY									
Revenue	12383	9 619.20	8 441.40	4 682.50	4 025.90	3 449.30	2 814.60	2 201.70	1 890.20
Gross Profit	5614	4 476.50	3 877.30	2 171.30	1 941.70	1 660.30	1 390.60	1 058.10	860.8
EBITA	3489	2 734.60	2 294.50	1 260.00	1 194.30	1 009.80	837.4	631.8	501.3
Profit after tax	2155	1 698.90	1 337.50	844.8	717.7	637.5	468.8	355.6	274.8
Gross Profit %	**45%**	**47%**	**46%**	**46%**	**48%**	**48%**	**49%**	**48%**	**46%**
EBITA Margin	**28%**	**28%**	**27%**	**27%**	**30%**	**29%**	**30%**	**29%**	**27%**
ROE	**18.40**	**23.00**	**39.00**	**33.00**	**38.00**	**51.00**	**46.40**	**38.30**	**39.00**
Weighted shares in issue	432.9	402	357.9	351.8	348.9	344.1	340.6	356.2	353.1
NAV per share	3011	2473	1072	825	633	446	281	297	222

Recommendation and Commentary

The company has performed brilliantly over the last decade or so, and its growth rate has been impressive. The gross margin is resilient and large, as is the EBITA margin. Looking back on the Return on Equity, it is clear this company has not been a bad place to park long term capital. The interest cover is an impressive 8.5 times...rock solid. The question when buying into such a company is what are the growth prospects going forward, and whether the premium in price is justified to acquire such a quality company.

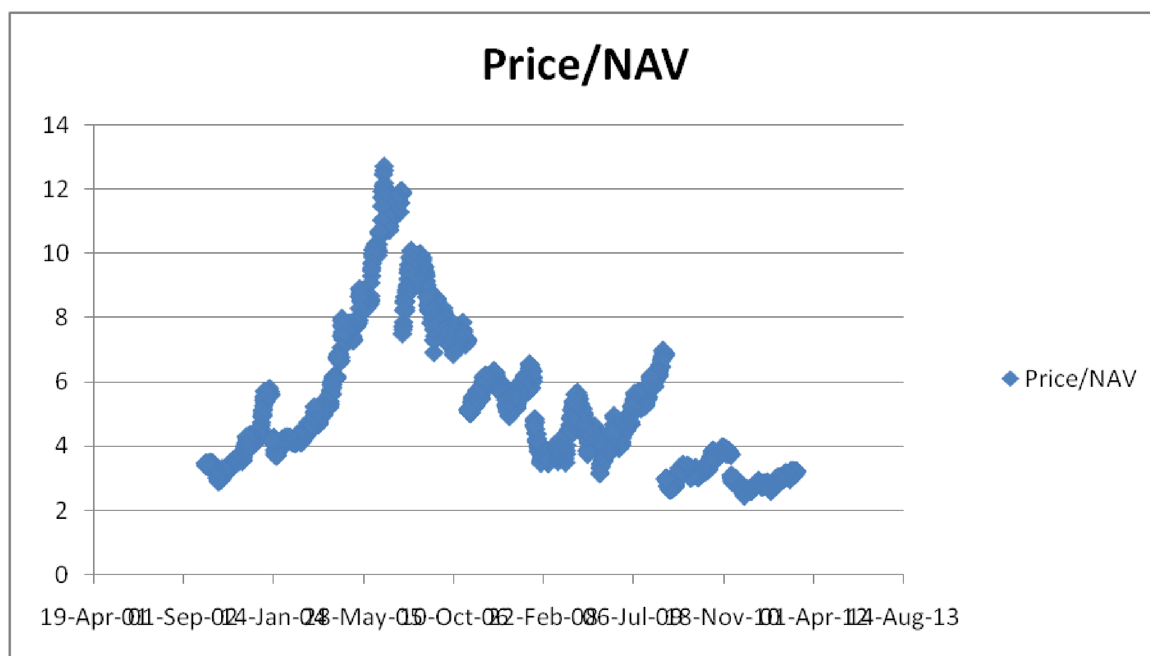
Reading through the group CEO commentary and the annual financial statements, it seems that there are still markets which largely remain untapped, and should translate into growth going forward. While Euro risks remain, this company should be less impacted by such events than other less established and less well capitalised businesses. That is not to say the performance may disappoint, but the likelihood of disappointment should be less than average. The main segment at risk is the South African Consumer division as it is suffering from the loss of the Pfizer infant milk licence. There have been recent developments which could cause a dip in the South African EBITA margin. Lower production volumes have been experienced as expected ARV tender orders have not materialised due to Government using donor funds which procure from alternative suppliers. Lower volumes give rise to higher per unit costs. The commentary in the AFS states that the ARV tender should resume normal ordering patterns during 2012.

Something that is a bit of a concern is that the ROE has fallen over the last 2 years, from an average of above 30% to just under 20%. The company has however issued additional shares, which diluted ROE and goodwill from acquisitions is on the balance sheet. Also the gearing has increased slightly.

The company is however in a position to decide to use cash to acquire businesses to generate acquisitive growth, or pay down debt to reduce gearing. This is a cash generative company.

Valuation

So, for a company with good growth prospects and such a sound financial position, what price should someone pay?   Well, lets take a look at various measures of value, starting with NAV in relation to price over time.



Using a scatterplot, undervaluation occurred when price/nav was under 4.   Above 8 tends towards overvaluation.   Currently the stock is trading at a price to nav of under 4. One thing to note however though is that NAV drastically increased over recent years from 10.72 to over R30, which would explain the lower multiple.

The current stock price is certainly pricing in forward growth, and is currently sitting on a PE of over 20. That would usually make me run away, but if this forward growth materialises, it may be trading at fair value.   I have a preference for acquiring businesses at a discount to fair value, but this business is a quality business, and investors seeking a defensive play, with every rational reason to believe that the company can deliver growth going forward would not be making a bad decision to acquire stock now in my opinion. If growth comes through, the PE could unwind to a more rational PE of 16. The company rarely trades at a PE less than 15 over time.

Applying various growth rates over time (depending on the discount factor used and forward estimated growth) a price range between 90 and 110 equates to about fair value range, when using fairly conservative growth numbers.   I applied a 15% required return and 7% annual growth rate going forward for the terminal value, and used 20% growth over the next 3 years to arrive at these estimates. The discount rate used was 7%.

I would expect those figures to be fairly conservative in terms of valuation.   Under R100 the stock starts to look attractive **if the required rate of return is not too high.**   Investors with large stable portfolios should do well including this stock in their long term holdings.   Acquiring the stock at a price below R80 would imply very conservative growth going forward, while paying above R110 prices in higher growth rates over time.

Of course, should the euro zone crisis deteriorate or if the company experiences problems in its markets, growth could be negatively affected, but herein lies the difficulty with any valuation,

estimating growth into the future! A good strategy would be to start accumulating some stock under R100 per share, with the view to adding more aggressively under the R80 – R70 range should any external shocks occur in the market (assuming there are no fundamental changes in the company that would result in a different valuation).

Overall, I value the stock at fair value around R100 per share on a fairly conservative basis, but the quality of the company and the potential growth inherent in the market in which this company operates, as well as the defensive nature of the industry makes for a compelling investment case.

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APPENDIX

PE Ranking Table

Company Name	P/E
MPACT	916.25
COAL	263.29
GB GOLD	167.63
LONRHO	115.04
COLLIERS	104.65
ANSYS	97.83
CAPCO	93.72
WILDRNESS	87.38
PURPLE	80
URONE	71.58
LONFIN	58.61
ROCKWELL	56.2
TREMATON	53.23
AQUARIUS	49.51
MASSMART	41.08
SACOIL	39.06
HARMONY	37.65
CARGO	35.82
DAWN	35.58
SKINWELL	35.56
NORTHAM	34.64
MAZOR	34
BCX	31.39
AUSTRO	30.63
INGENUITY	30.56
NASPERS-N	30.41
PICKNPAY	30.28
CULLINAN	29.22
SABLE	28.34
NEPI	27.93
RBPLAT	27.68
KELLY	26.69
SHOPRIT	26.4
CITYLDG	26.03
GFIELDS	25.65
GOODERSON	25.32
AMPLATS	25.29
EFFICIENT	25.1
HULAMIN	25

SABMILLER	24.79
AFROX	24.1
YORK	22.56
VPIF	21.77
PIKWIK	20.66
ILLOVO	20.62
RICHEMONT	20.33
ARCMITTAL	20.06
CADIZ	19.84
BATS	19.78
ASPEN	19.64
SPAR	19.61
CLIENTELE	19.38
CAPITEC	18.88
WOOLIES	18.59
CLICKS	18.55
GROWPNT	18.52
SUNINT	18.41
MRPRICE	18.16
FAMBRANDS	18.11
MEDCLIN	17.92
ANGGOLD	17.9
OPTIMUM	17.67
NUWORLD	17.61
RGT SMART	17.33
DATATEC	17.33
BARWORLD	17.33
PSG	17.33
HCI	17.22
LIFEHC	17.22
CASHBIL	17.2
TRUWTHS	17.04
PPC	16.99
MTN GROUP	16.98
GRANPRADE	16.74
RA-HOLD	16.71
CAPSHOP	16.68
TSOGO SUN	16.59
PBT	16.14
NUTRITION	16.13
TIGBRANDS	16.13
METROFILE	15.97
ADVTECH	15.9
GOLDONE	15.88
COMPCLEAR	15.87

SPURCORP	15.86
TASTE	15.81
IMPLATS	15.66
DISTELL	15.63
RAINBOW	15.56
A-V-I	15.56
MASONITE	15.54
KEATON	15.29
MAS	15.2
AVUSA	15.17
HYPROP	15.12
TFG	15.03
MICROMEGA	14.88
SYCOM	14.82
DISCOVERY	14.66
JSE	14.64
PNR FOODS	14.62
ACUCAP	14.54
PETMIN	14.46
ITLTILE	14.45
ZEDER	14.4
EOH	14.35
AECI	14.24
BIDVEST	14.08
OCEANA	13.93
REMGRO	13.84
PAN-AF	13.8
SILVERB	13.75
AME	13.73
LITHA	13.66
BELL	13.66
CAXTON	13.65
TONGAAT	13.63
MMI HLDGS	13.62
INVPROP	13.58
VODACOM	13.54
OASIS	13.44
PREMIUM	13.44
NAMPAK	13.43
CERAMIC	13.38
HOLDSPORT	13.37
EMIRA	13.36
ADCOCK	13.32
LONMIN	13.31
RMIH	13.17

OCTODEC	13.15
CAPEVIN	13.14
DIGICORE	13.06
STANBANK	13.01
MERAFE	12.78
INSIMBI	12.61
VIVIDEND	12.52
HOSP-A	12.43
CALGRO	12.42
JDGROUP	12.31
MERCANTILE	12.31
FIRSTRAND	12.25
SENTULA	12.11
SA CORP	12.1
MIXTEL	12.1
BLUETEL	12.01
ALTECH	11.99
FPT	11.98
ADCORP	11.97
CORONAT	11.95
NEDBANK	11.93
ABSA	11.84
ZURICH SA	11.7
ABIL	11.69
KGMEDIA	11.56
NETCARE	11.5
SASOL	11.44
PHUMELELA	11.42
OMNIA	11.39
GRINDROD	11.38
UBUBELE	11.37
ASTRAL	11.36
OLDMUTUAL	11.32
DRDGOLD	11.29
JOHNDAN	11.25
ARM	11.21
ARB	11.1
CROOKES	11.09
AVENG	11.06
FAIRVEST	11.03
CAPITAL	10.98
VUKILE	10.91
INVLTD	10.87
REUNERT	10.85
FORTRESSA	10.85

DCENTRIX	10.84
METMAR	10.77
HARDWARE	10.76
ALTRON	10.75
ISA	10.71
BUILDMX	10.71
HOWDEN	10.69
REDEFINE	10.64
INVPLC	10.5
SANLAM	10.46
CIPLAMED	10.4
CLOVER	10.33
ALTRON PP	10.3
HUDACO	10.29
ROLFES	10.26
EXXARO	10.22
MONDIPLC	10.1
ARGENT	10.1
AFGRI	10.09
COMAIR	10.06
SUPRGRP	10.05
ASTRAPAK	10.03
KUMBA	10.01
CIL	9.95
SASFIN	9.93
PUTPROP	9.91
SANTAM	9.82
SOVFOOD	9.8
PINNACLE	9.73
RMBH	9.67
STEINHOFF	9.66
LEWIS	9.63
MVELAGRP	9.58
SEKUNJALO	9.56
BRIMSTON	9.53
AFOVR-N	9.49
EQSTRA	9.49
KAP	9.48
POYNTING	9.45
REX TRUE	9.26
IMPERIAL	9.23
BOWCALF	9.11
NET1UEPS	9.1
INVICTA	9
TRENCOR	8.99

METAIR	8.99
INDEQTY	8.94
AF & OVR	8.9
SPANJAARD	8.88
NICTUS	8.82
TELKOM	8.73
RESILIENT	8.58
ACCENT	8.41
TRNPACO	8.41
CONDUIT	8.33
CMH	8.3
MONDILTD	8.25
REX TRUE -N-	8.17
BHPBILL	8.1
WINHOLD	8.02
ANGLO	8.01
KAYDAV	8
ASSORE	8
ELBGROUP	7.97
BSI STEEL	7.96
BEIGE	7.95
PERGRIN	7.92
AFRIMAT	7.87
REDEFINTL	7.85
BRIMST-N	7.82
LIB-HOLD	7.79
ONELOGIX	7.79
CONVERGE	7.78
BASREAD	7.72
BEE-SASOL	7.68
AMAPS	7.59
WBHO	7.56
RAUBEX	7.47
ADAPTIT	7.33
JASCO	7.14
PROTECH	7.11
ELLIES	7.1
CBH	6.99
AMECOR	6.96
GROUP 5	6.93
IQUAD	6.83
SEARDEL	6.69
TRUSTCO	6.67
FONEWORX	6.6
STEFSTOCK	6.46

PALAMIN	6.43
VALUE	6.38
REINET	6.37
MVELASV	6.36
SEARDEL-N	6.36
MUSTEK	6.29
TELEMASTR	6.09
EXCELL	6.06
SANYATI	5.87
O-LINE	5.74
TOP FIX	5.74
MARSHALL	5.56
S.OCEAN	5.3
SABVEST	5.3
SABVEST-N	5.26
BRAIT	5.14
CAPEMR	5.13
INFRASORS	5.08
SANTOVA	5.07
WORKFORCE	4.94
PRIMESERV	4.9
HOSP-B	4.89
AFRO-C	4.79
FORTRESSB	4.67
VERIMARK	4.56
TRNSHEX	3.99
BCX - A SHARES	3.99
FOORDCMPS	3.95
MORVEST	3.82
RACEC	3.72
1TIME	3.38
PALLINGHT	3.07
CAFCA	2.9
AFDAWN	2.25
INVESTEC-P	1.39
CENRAND	0.79
KAIROS	-0.03
SIMMERS	-0.09
ACTOWERS	-0.13
ALERT	-0.2
RARE	-0.36
WEARNE	-0.38
TCS	-0.53
QUANTUM	-0.85
DORBYL	-0.87

DIPULA B	-0.88
ZAPTRONX	-0.94
SEAKAY	-1.02
SA FRENCH	-1.27
DON	-1.37
DIPULA A	-1.42
IPSA	-1.56
IFA	-1.62
BRIKOR	-1.71
MIRANDA	-2.19
IFCATECH	-2.24
PLATFIELD	-2.26
BIOSCI	-2.33
FERRUM	-2.41
AWETHU	-2.46
ERBACON	-2.58
GIJIMA	-2.9
FIRESTONE OPT	-3.03
RANGOLD	-3.1
CONTROL	-3.35
HUGE	-3.38
TRADEH	-3.49
WESIZWE	-3.51
ANOORAQ	-3.71
JUBILEE	-3.87
CHEMSPEC	-3.99
PSV	-4.38
REBOSIS	-4.51
CHROMETCO	-4.59
TAWANA	-4.67
STELLA	-5.49
BAUBA	-5.81
DELRAND	-6.21
ESORFRANK	-6.7
M&R-HLD	-6.74
FIRESTONE	-6.82
VUNANI	-7
SEPHAKU	-7.32
WILLTELL	-7.46
SALLIES-C	-7.62
B&W	-7.79
WESCOAL	-8.62
FINBOND	-8.75
MONEYWB	-8.76
IDECO	-9.89

BLACKSTAR	-10.51
EHSV	-11.51
STRATCORP	-11.59
ZCI	-12.93
NEW CPA	-13.33
KIBO	-14.88
FORBES	-15.06
RBA	-16.3
AH-VEST	-16.67
BLUE	-20.4
SAPPI	-21.74
LABAT	-23.08
SACMH	-30.59
EASTPLATS	-31.43
AFEAGLE	-32.63
INTEWASTE	-32.86
SECDATA	-34.71
DELTA	-37.86
FIURANIUM	-40.44
DIAMONDCP	-55.34
ILIAD	-61.82
CURRO	-67.71
WITS GOLD	-83.25
ORION	-86.21
SELCO	-111.11
OANDO	-326.09
AND	-480
GOLIATH	-561.64
HWANGE	-5,571.43

SATRIX DIVI COMPOSITION – HIGH DIVIDEND PAYING STOCKS

BASKET CONSTITUENTS* As at 30 September 2011			
Code	**Share**	**No of Shares**	**% Weighting**
ABL	African Bank Investments	1,876	3.81%
ALT	Allied Technologies	1,161	4.20%
ASA	Absa Group Limited	316	2.59%
ASR	ASSORE LTD	156	1.99%
AVI	Avi Ltd	1,520	3.04%
BAT	Brait S.a.	5,977	6.39%
CML	Coronation Fund Mngrs Ld	5,046	6.17%
GND	Grindrod Ltd	2,880	2.67%
INL	Investec Ltd	970	2.64%
INP	Investec Plc	976	2.65%
JDG	Jd Group Ltd	1,268	2.98%
KIO	KUMBA IRON ORE LTD	70	1.86%
LBH	LIBERTY HOLDINGS LTD ORD	1,046	5.23%
LEW	Lewis Group Ltd	758	3.29%
MMI	MMI HOLDINGS LTD	4,388	4.44%
MPC	Mr Price Group Ltd	740	3.09%
MTN	Mtn Group Ltd	367	2.95%
NED	Nedbank Group Ltd	313	2.55%
NPK	Nampak Ltd Ord	2,561	3.22%
PIK	Pik N Pay Stores Ltd	1,121	2.53%
PPC	PRETORIA PORT CEMNT	2,979	4.20%
RLO	Reunert Ord	925	3.33%
RMH	Rmb Holdings Ltd	2,111	3.28%
SLM	Sanlam Ltd	1,860	3.04%
SPP	The Spar Group Ltd	515	3.00%
TBS	Tiger Brands Ltd Ord	214	2.74%
TFG	THE FOSCHINI GROUP LTD	510	2.75%
TKG	Telkom Sa Ltd	1,058	2.04%
VOD	VODACOM GROUP LIMITED	702	3.87%
WHL	Woolworths Holdings Ltd	1,597	3.47%