Emerging African Markets > Research

IJG Namibia Quarterly

"An Elephant Bull of a Market"

3Q14

22 July 2014

Google images

Country	Namibia
NSX Local Index	347.18
NSX Overall Index	1,103.43
IJG ALBI	127.55
Money Mkt Index	141.41

% Change over Quarter	
NSX Local Index	2.87
NSX Overall Index	2.93
IJG ALBI	3.03
IJG Money Mkt Index	1.43

End-of-Quarter Rates	
N$/US$	10.46
Prime Lending Rate (%)	9.50

2Q14 Overall Index Trading Stats	
Volume (m)	66.5
Value (N$m)	3,242.8

Year-to-Date % Changes (quarter-end)	
NSX Local Index	7.22
NSX Overall Index	12.56
IJG ALBI	3.08
IJG Money Mkt Index	2.77

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Macroeconomic Backdrop

Following the release of the IJG Economic Outlook in January 2014, we have revised our macro projections, including inflation, private sector credit extension, GDP growth and interest rate forecasts. As always, these forecasts are based on our various models, tempered by the views of the research team with regards to known and expected factors not generally accommodated for within the models.

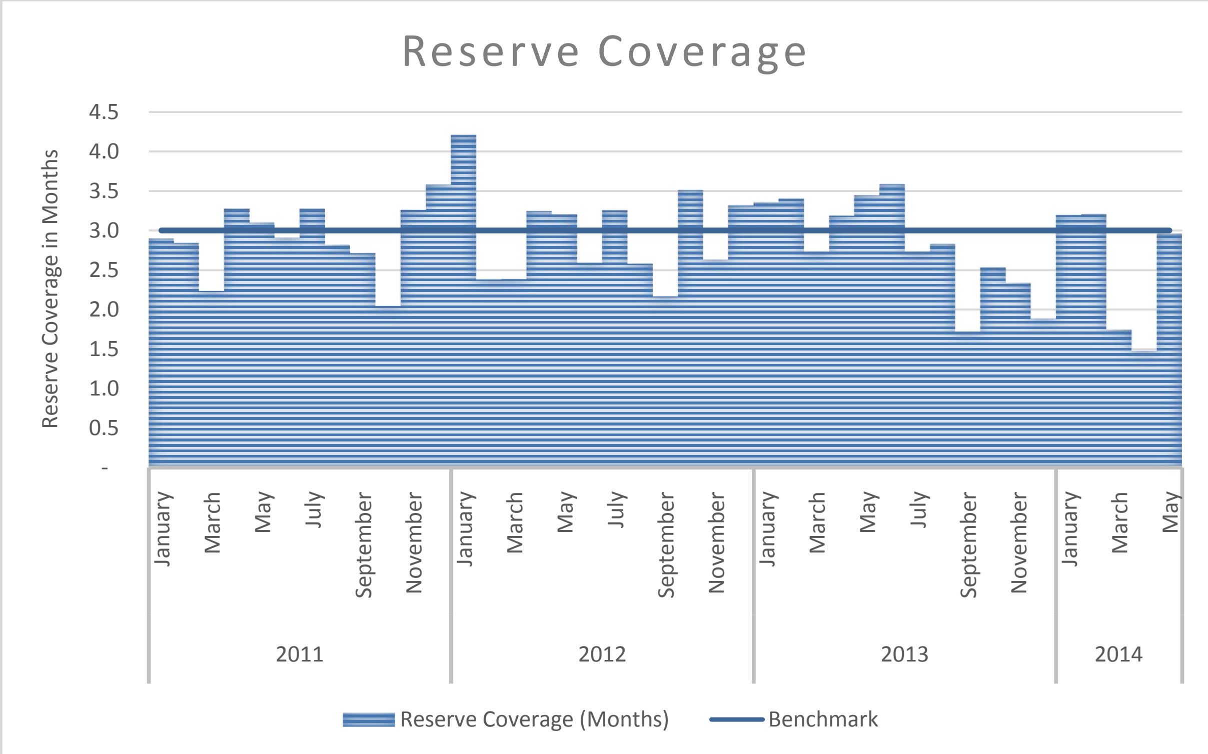
National Accounts - Growth

Our growth forecast revisions come after the release of rebased national accounts (base 2010 from base 2004), which rebasing naturally results in marginally higher growth figures for most categories in the National Accounts. Moreover, since the release of our previous projections, we have witnessed a number of changes within the local economy that have a material impact on growth, as detailed below.

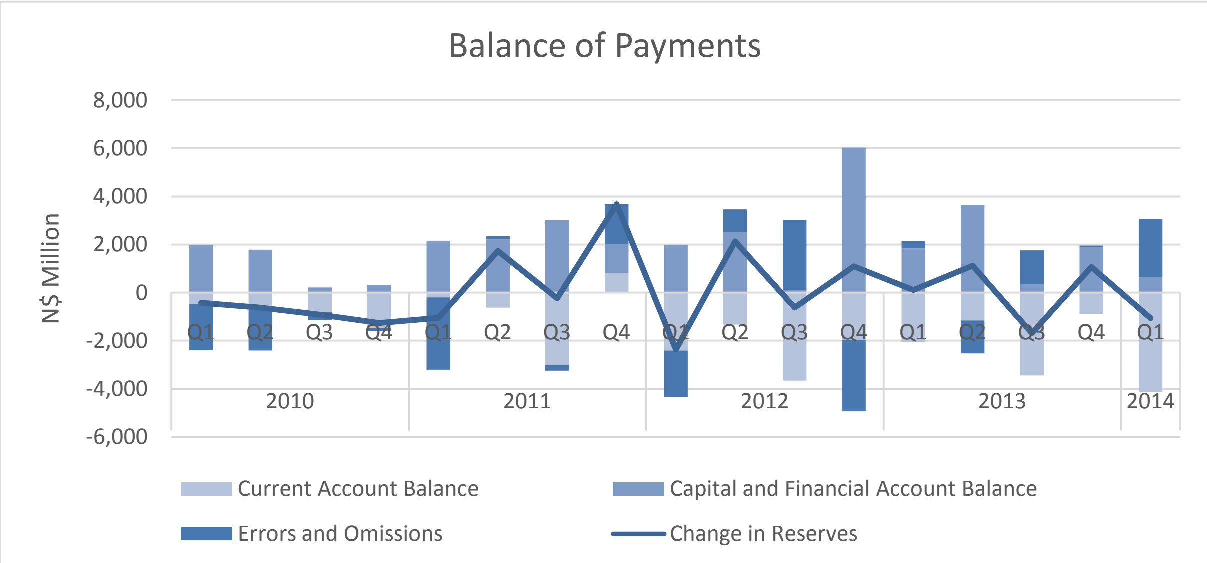
First and foremost, the Government announced a major expansion in the National Budget, increasing planned expenditure for the 2014/15 financial year by 26 percent when compared to the 2013/14 financial year, and up nearly 25 percent when compared to the previous estimated figure announced for the 2014/15 financial year. Much of this expenditure increase is on account of increases in salaries and wages. A low marginal propensity to save in Namibia suggests that much of this increase will thus flow into the pockets of local retailers, or be leveraged upon for the purchase of property, vehicles and other consumer goods. Thus, from a growth perspective, we expect to see a strong expansion in both wholesale and retail trade, as well as public administration – both large weightings in the national accounts.

Secondly, the Bank of Namibia maintained interest rates at historically low levels for the first half of 2014 as expected (then hiking rates by 25 points in June), however, unprecedented increases in private sector credit extension (in absolute terms) witnessed over the period were above expectations. A large component of this credit extension covers mortgage loans, while around 15 percent represents instalment credit increases. This should further contribute to wholesale and retail trade growth.

Thirdly, the country's external position has continued to weaken on account of unprecedented fiscal and monetary stimulus, a boom in construction and weakening export earnings on account of falling commodity prices for minerals. First quarter figures show the largest current account deficit (in absolute terms) in the history of the country following the receipt of vast levels of imports, largely for the construction of the Husab, Otjikoto and Tschudi mines. This current account weakness was not offset by a positive balance in the capital and financial account, and as such the overall balance of payments, and thus the change in reserves, was negative, with a net outflow of approximately N$1.06 billion. Preliminary data for the 3rd quarter shows a further worsening of the external position, as revised April trade figures showed the largest ever level of imports for the country, at N$11.8 billion, and the lowest level of import to reserve coverage since 2007, at 1.5 months, half of the benchmark level.

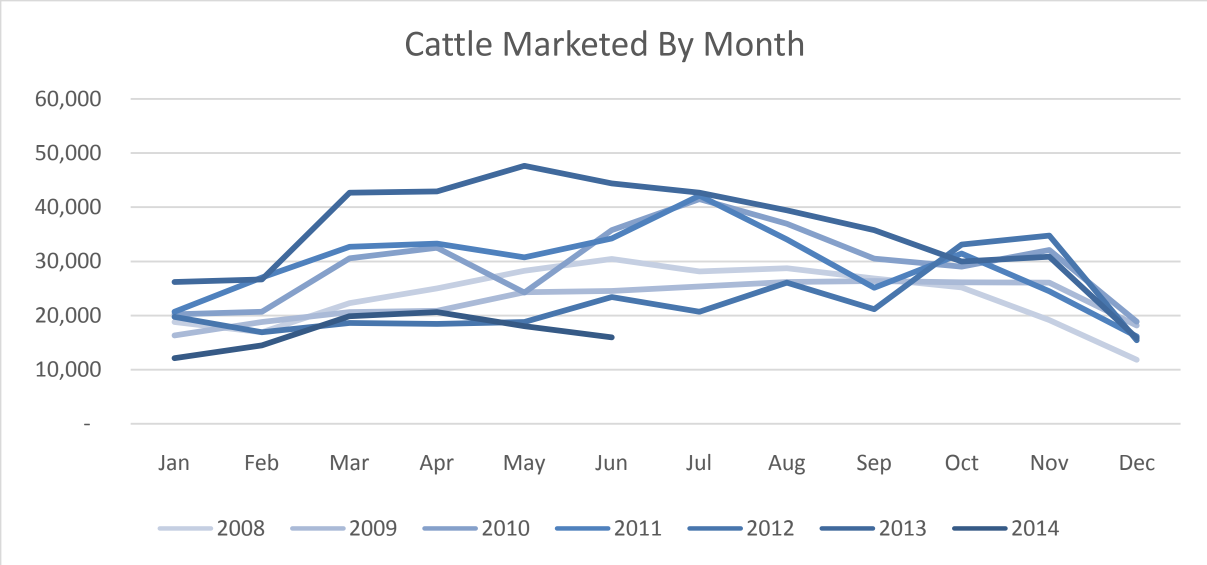


Source: IJG Research

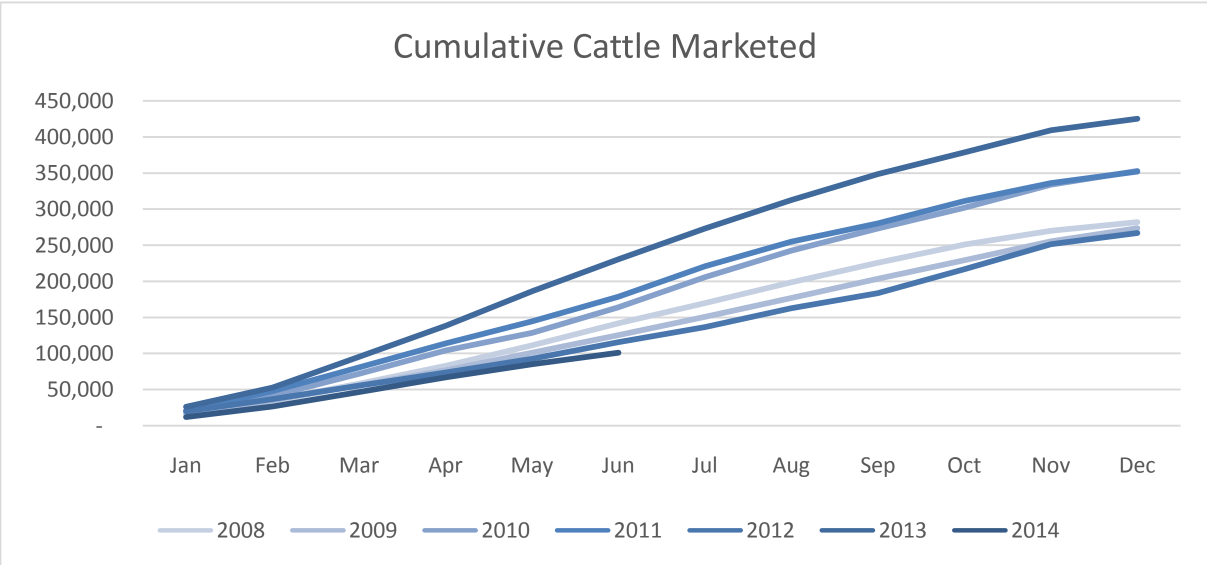


Source: IJG Research

Fourth, a major rebound in agriculture is expected in the National Accounts, on account of base effects. Following a drought in Namibia in 2013, a major sell-off of the national herd was witnessed, and the livestock farming category of the national accounts contracted by a whopping 39.2 percent. In 2014, we have seen the start of the rebuilding of the national herd, and as a result, some of the lowest cattle marketed numbers in over a decade. However, this growth in the national herd should be recorded as a positive in the national accounts, and as such we are expecting a rebound in growth, to 28 percent in real terms. These lower sales figures are expected to impact on meat processing and manufacturing, which is expected to contract by as much as 15 percent in 2014.



Source: IJG Research



Source: IJG Research

Fifth, we have revised up our construction figures for 2014, despite the vast base set by the 35.2 percent growth seen in 2013. This expansion is based on the construction figures that we have seen coming through from the various municipalities to date in 2014, as well as the on-going construction of the three new mines, the major increase in the national budget, and the abnormally large import figures seen for the year to date. As such, we are now looking at growth of 27.3 percent in 2014, after which we believe growth will slow. In late 2016 and 2017 we expect to experience a contraction in construction, as mine construction for two of the three new mines come to completion.

Finally, we have revised down our uranium production expectations on the back of Rossing Uranium radically reducing production in 2014 and 2015, as the uranium spot price fell to U$28/lb, a half decade low. On account of the change in production profile for Rossing, we are looking at a 26.2 percent contraction in the category, which has a notable effect on overall mining production and thus real growth.

On account of these changes, our growth projections for 2014 have seen a major upward revision, from 5.2 percent in January, to 6.9 percent. For 2015, we are looking at growth of 4.5 percent, largely on account of base effects and a slowing of growth in the categories of wholesale and retail trade and construction, as the high base of 2014 dampens new growth levels.

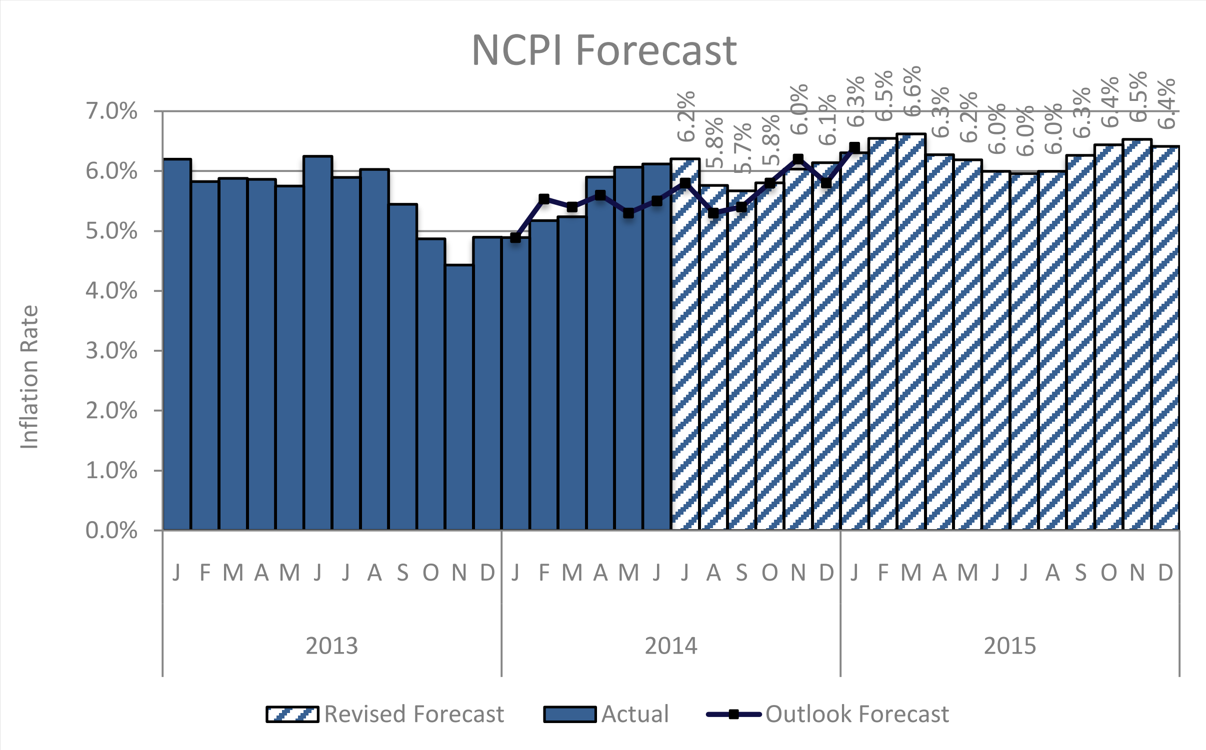
Real GDP (Percent)						Preliminary	Projection	
Industry	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Agriculture and forestry	-25.1	8.3	10.4	-0.8	8.8	-27.0	16.9	5.1
Livestock farming	-38.6	9.0	12.7	6.1	6.4	-39.2	28.0	5.2
Crop farming and forestry	3.6	7.4	7.4	-10.0	12.6	-8.7	6.0	5.0
Fishing and fish processing on board	-1.5	14.4	-8.7	9.9	23.5	-2.6	4.0	2.0
Mining and quarrying	2.3	-38.0	25.4	-9.3	19.3	-1.2	-1.8	-1.6
Diamond mining	-5.3	-57.8	57.0	-8.8	23.8	6.6	6.0	-5.6
Uranium mining	30.1	8.2	5.1	-24.9	27.1	-7.0	-26.2	-0.8
Metal ore mining	7.5	-26.0	2.1	-3.1	23.5	-30.4	2.8	15.0
Other mining and quarrying	17.5	26.0	-12.5	41.4	-38.1	42.4	-2.3	5.0
Primary industries	**-6.6**	**-18.7**	**13.2**	**-3.3**	**16.7**	**-9.3**	**4.1**	**1.1**
Manufacturing	5.8	-3.6	5.8	0.6	1.5	2.2	3.1	4.4
Meat processing	-6.4	4.2	5.7	-2.7	-1.1	15.8	-15.0	5.0
Diamond processing	6.4	-2.1	0.9	72.6	0.5	1.3	6.0	-5.6
Basic non-ferrous metals	14.7	-3.8	-10.0	-0.7	-4.9	3.9	2.8	10.1
Fabricated Metals	0.1	5.9	7.3	12.0	4.2	3.2	3.6	7.2
Beverages	21.8	-32.9	66.2	-13.9	12.1	7.8	2.0	3.4
Grain Mill products	-8.9	-16.4	2.3	3.1	17.8	-0.7	3.5	2.5
Other food products	15.4	-17.1	6.4	15.4	7.2	35.2	6.7	2.0
Textile and wearing apparel	5.5	-7.9	5.5	3.5	4.4	8.7	5.2	5.3
Leather and related products	1.8	1.5	6.0	5.7	4.0	4.3	3.0	-0.2
Publishing and Printing	3.7	5.7	6.5	9.4	10.3	10.6	1.2	1.2
Rubber and Plastics products	10.7	16.0	6.6	4.9	9.5	8.3	6.2	6.1
Non-metallic minerals products	1.9	5.8	0.2	10.0	10.0	13.8	8.0	-5.0
Wood and Wood product	24.1	1.1	5.8	8.4	16.2	-4.9	-0.6	-0.5
Chemical and related products	17.3	38.3	13.7	-1.1	6.1	8.5	6.5	4.6
Other manufacturing	17.5	-4.4	11.3	7.7	9.8	14.1	3.2	8.9
Electricity and water	-8.9	-16.4	2.3	3.1	17.8	-0.7	5.6	8.0
Construction	15.4	-17.1	6.4	15.4	7.2	35.2	27.3	5.7
Secondary industries	**5.5**	**-7.9**	**5.5**	**3.5**	**4.4**	**8.7**	**9.6**	**4.3**
Wholesale and retail trade, repairs	1.8	1.5	6.0	5.7	4.0	4.3	12.3	5.5
Hotels and restaurants	3.7	5.7	6.5	9.4	10.3	10.6	3.0	4.4
Transport, and communication	10.7	16.0	6.6	4.9	9.5	8.3	9.2	10.5
Transport	1.9	5.8	0.2	10.0	10.0	13.8	14.5	12.7
Storage	24.1	1.1	5.8	8.4	16.2	-4.9	6.5	14.1
Post and telecommunications	17.3	38.3	13.7	-1.1	6.1	8.5	4.5	6.4
Financial intermediation	17.5	-4.4	11.3	7.7	9.8	14.1	5.0	5.0
Real estate and business services	5.2	9.4	4.2	7.6	24.2	3.9	4.6	6.1
Real estate activities	4.3	3.6	3.9	2.6	6.7	4.7	4.6	5.3
Other business services	7.4	23.1	4.8	17.7	54.5	2.9	4.6	7.1
Community, social and personal service activities	0.6	-0.6	1.7	-0.1	-3.5	-0.9	1.7	1.7
Public administration and defence	11.8	5.3	2.8	5.3	2.9	8.9	10.0	4.5
Education	10.7	3.0	-0.2	17.4	3.8	3.6	4.0	4.0
Health	-8.0	5.5	9.5	5.6	5.8	8.8	1.0	1.0
Private household with employed persons	9.9	9.8	10.0	10.0	9.9	2.8	2.5	2.5
Tertiary industries	**6.9**	**4.6**	**4.8**	**7.4**	**8.2**	**6.4**	**7.0**	**5.2**
Less: Financial intermediation services indirectly measured	11.8	-6.1	4.7	4.9	18.6	12.1	12.1	12.1
All industries at basic prices	**3.4**	**-2.6**	**6.4**	**4.7**	**8.7**	**3.9**	**6.9**	**4.3**
Taxes less subsidies on products	9.5	13.5	8.7	20.5	-13.5	11.0	7.0	7.0
GDP at market prices	**3.8**	**-1.5**	**6.6**	**6.0**	**6.7**	**4.4**	**6.9**	**4.5**

Source: IJG Research

Real GDP (NAD)						Prelim.	Projection	
Industry	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Agriculture and forestry	3 637	3 938	4 347	4 312	4 693	3 428	4 009	4 214
Livestock farming	2 023	2 205	2 485	2 637	2 807	1 706	2 184	2 297
Crop farming and forestry	1 614	1 733	1 862	1 675	1 886	1 722	1 825	1 917
Fishing and fish processing on board	2 271	2 598	2 371	2 605	3 216	3 132	3 257	3 322
Mining and quarrying	8 964	5 554	6 967	6 316	7 532	7 444	7 313	7 196
Diamond mining	5 641	2 383	3 741	3 410	4 223	4 503	4 771	4 503
Uranium mining	1 563	1 691	1 778	1 335	1 697	1 579	1 165	1 156
Metal ore mining	1 418	1 049	1 071	1 038	1 282	892	917	1 055
Other mining and quarrying	342	431	377	533	330	470	459	482
Primary industries	**14 872**	**12 090**	**13 685**	**13 233**	**15 441**	**14 004**	**14 579**	**14 732**
Manufacturing	10 145	9 775	10 339	10 398	10 549	10 783	11 117	11 611
Meat processing	334	348	368	358	354	410	349	366
Diamond processing	421	265	360	370	342	299	317	299
Basic non-ferrous metals	1 327	1 400	1 490	1 452	1 418	1 265	1 301	1 432
Fabricated Metals	475	423	462	429	459	509	527	565
Beverages	2 885	2 966	2 713	2 500	2 609	2 709	2 763	2 857
Grain Mill products	452	526	570	607	598	632	654	670
Other food products	845	869	817	987	916	975	1 040	1 061
Textile and wearing apparel	441	436	452	473	502	526	553	583
Leather and related products	114	73	81	92	102	87	90	89
Publishing and Printing	190	176	163	180	158	166	168	170
Rubber and Plastics products	255	254	274	287	265	235	250	265
Non-metallic minerals products	233	228	230	397	399	404	436	415
Wood and Wood product	312	300	270	268	255	265	263	262
Chemical and related products	676	716	768	860	896	925	985	1 030
Other manufacturing	1 185	795	1 321	1 138	1 276	1 376	1 420	1 546
Electricity and water	1 798	1 503	1 538	1 586	1 869	1 856	1 960	2 117
Construction	2 975	2 466	2 624	3 027	3 246	4 389	5 587	5 730
Secondary industries	**14 918**	**13 744**	**14 501**	**15 011**	**15 664**	**17 028**	**18 663**	**19 458**
Wholesale and retail trade, repairs	8 631	8 762	9 284	9 814	10 207	10 648	11 958	12 615
Hotels and restaurants	1 258	1 330	1 416	1 549	1 709	1 891	1 948	2 033
Transport, and communication	3 424	3 973	4 237	4 445	4 866	5 268	5 754	6 359
Transport	1 590	1 682	1 685	1 854	2 039	2 320	2 656	2 994
Storage	660	667	706	765	889	845	900	1 027
Post and telecommunications	1 174	1 624	1 846	1 826	1 938	2 103	2 198	2 338
Financial intermediation	4 053	3 873	4 312	4 645	5 099	5 817	6 108	6 413
Real estate and business services	7 065	7 731	8 056	8 672	10 773	11 195	11 713	12 432
Real estate activities	4 968	5 149	5 350	5 487	5 852	6 129	6 414	6 757
Other business services	2 097	2 582	2 706	3 185	4 921	5 066	5 299	5 675
Community, social and personal service activities	2 212	2 198	2 236	2 233	2 155	2 135	2 171	2 208
Public administration and defence	8 408	8 850	9 100	9 578	9 854	10 731	11 804	12 335
Education	5 712	5 882	5 872	6 894	7 153	7 408	7 704	8 012
Health	2 191	2 311	2 531	2 674	2 828	3 077	3 108	3 139
Private household with employed persons	732	804	884	972	1 068	1 098	1 126	1 154
Tertiary industries	**43 686**	**45 714**	**47 928**	**51 474**	**55 712**	**59 269**	**63 393**	**66 701**
Less: Financial intermediation services indirectly measured	1 205	1 132	1 185	1 243	1 474	1 652	1 851	2 075
All industries at basic prices	**72 272**	**70 416**	**74 932**	**78 476**	**85 342**	**88 649**	**94 784**	**98 817**
Taxes less subsidies on products	5 382	6 106	6 637	7 996	6 916	7 674	8 211	8 786
GDP at market prices	**77 655**	**76 522**	**81 569**	**86 473**	**92 258**	**96 323**	**102 996**	**107 603**

Source: IJG Research

Inflation

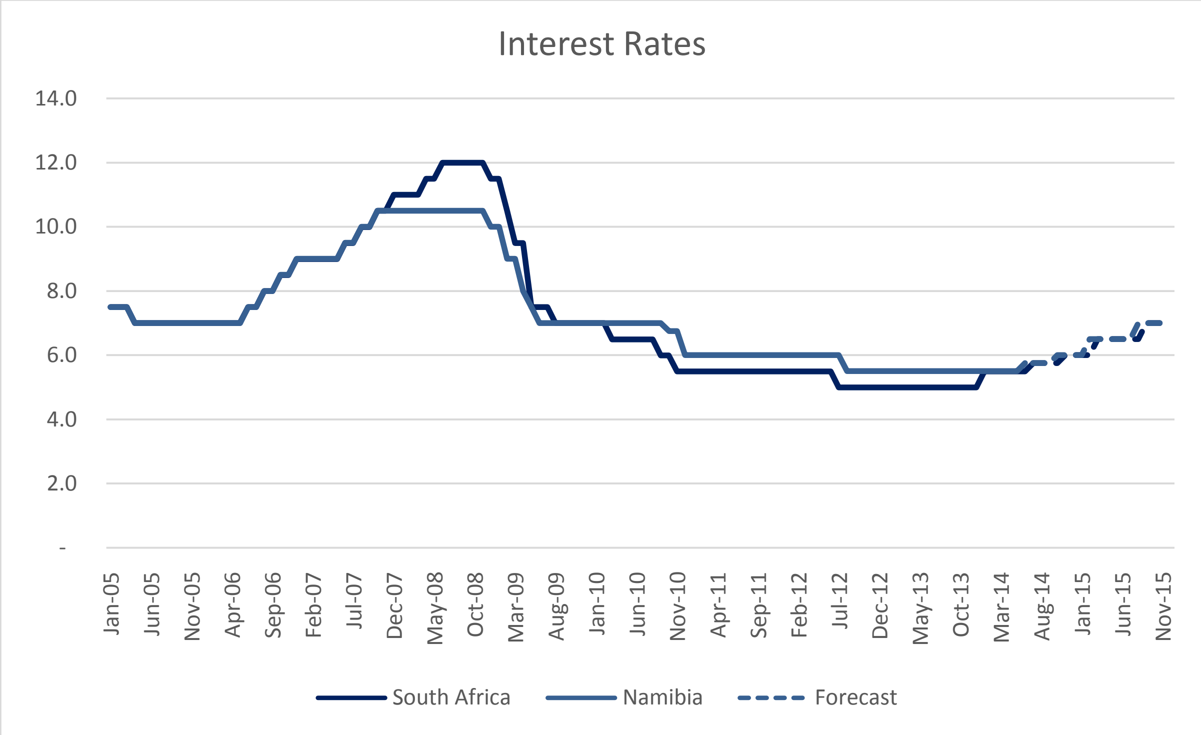


Source: IJG Research

Inflation for 2014 has broadly surprised to the upside, driven by increasing food and fuel prices in Namibia Dollar terms, both on the back of a weakening/weaker currency and global US dollar prices for these commodities. Moreover, the strong growth seen and expected in the country appears to be instigating some demand-side inflation. This is particularly apparent where administered and housing prices are concerned. Large increases in the cost of utilities, school fees, rental prices and transport prices have been seen and/or are expected going forwards.

Additionally, cost push factors are expected to have a further negative effect on inflation, particularly should the Namibia Dollar/Rand remain weak or weaken versus major currencies. Local meat prices are expected to continue rising on account of lower livestock sales volumes at the beginning of the year. This is a result of abnormally high sales volumes in 2013, which were a result of the drought last year. Additionally, we are expecting to see an up-tick in bread and cereal inflation, on account of a rise in global food prices in Namibian Dollar terms. Ukraine, the world's sixth-largest wheat exporter, is a strong contributor to rising wheat prices due to uncertainty about future production in the country as a result of the on-going political turmoil. Finally, we expect to see a pickup in transport inflation driven mainly by the rise in the cost of operating personal vehicles. This rise is largely attributed to fuel prices increasing around the world, with forecasts predicting that they will continue rising.

Interest Rates

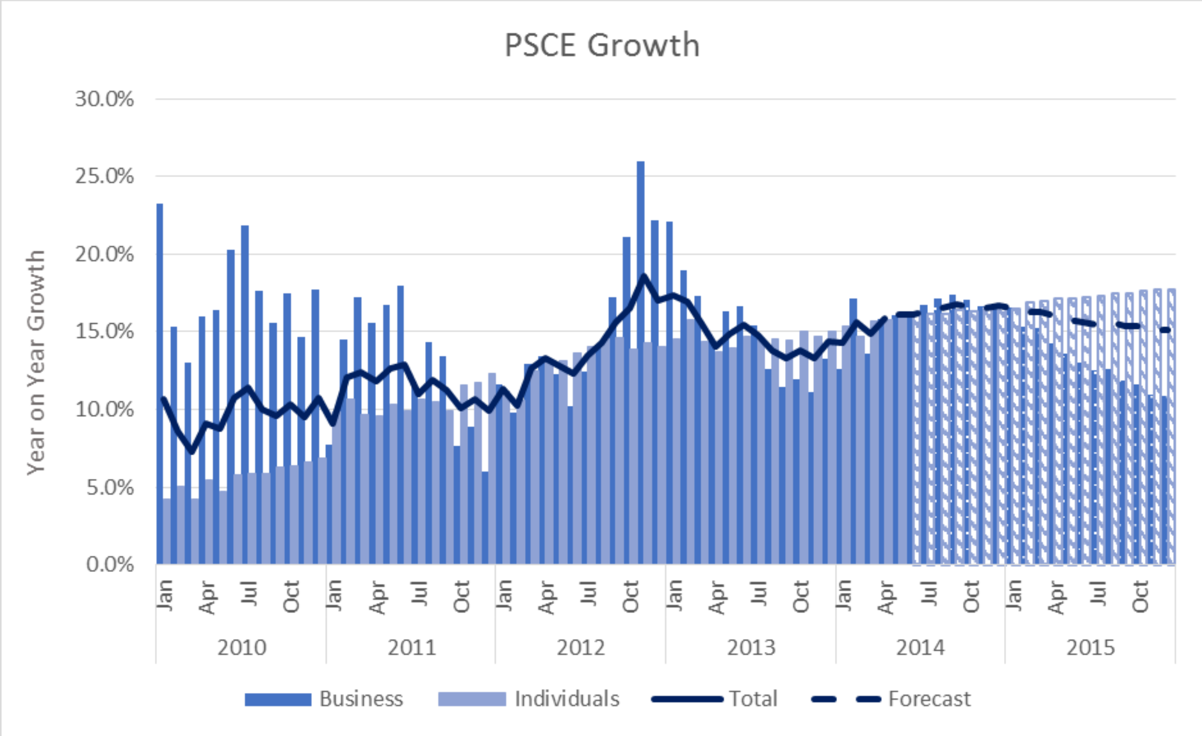


Source: IJG Research

In our January Outlook, we called interest rate hikes in the third quarter of 2014, and like most analysts were taken by surprise when the SARB hiked rates in January. The Bank of Namibia then further surprised us by failing to follow the SARB hike in February, deciding only to hike in June. Nevertheless, as the interest rate differential between Namibia and South Africa has now been closed, we expect to see Namibia and South Africa to continue to hike rates in unison.

We maintain, however, that given the strong positive state of the Namibian economy, the growth in private sector credit extension, and the weakening external position, that higher rates are warranted in Namibia than in South Africa, but recognise the Bank of Namibia's concern with regards to rapidly increasing interest rates on account of high household debt.

Private Sector Credit Extension



Source: IJG Research

Despite increasing interest rates in Namibia and South Africa, we continue to forecast strong growth in demand for private sector credit extension for the next 18 months. This is partly due to the relatively slow transmission of monetary policy changes to the market, but also due to the relatively large increases in domestic disposable income (wealth effects) on the back of strong domestic growth. On the back of these wealth effects of growth, we expect to see a fair amount of household leverage, for the purpose of property and vehicle up-grading, particularly. Additionally, increasing property prices due to undersupply in the domestic market, and increasing vehicle and consumer electronics prices on the back of a weakened and weakening Namibia Dollar, are further expected to increase credit demand by households.

Following a spike in credit demand by corporates in mid-2014, we expect to see a slowing of growth to around 10 percent by end 2015, from current levels of over 16 percent. This is largely on account of our broad expectation of lower growth in 2015 than 2014, as an unprecedented construction boom starts to slow. The multipliers of this boom and subsequent slowing, are thought to have driven major increases in demand for credit by corporates over the past 18 months, however this demand should dampen with construction growth going forward.

As such, we are forecasting growth in total private sector credit extension of N$15.8 billion over the next 18 months, broken down into N$11.0 billion to households, and N$4.8 billion to corporates.

Macroeconomists market view

Over recent months, those involved in regional and international equity markets have had to endure an ever increasing online propaganda battle between bulls and bears, and with the tempo now reaching fever pitch, I have decided to weigh in with my views, from the perspective of a macroeconomist.

As a macroeconomist, obviously, I am looking at fundamentals rather than technicals, however it must be said that am coming round to both. I believe however, that while technical signals are handy in the short term when it comes to timing trades, in the long term they are overpowered by fundamentals. And it must be said that barring a few uncertainties, the fundamental outlook is positive.

From an equities perspective, what matters, ultimately, is earnings. As one is in effect buying a share in a company, in simple terms, if the company is making money, you are making money. So in this light, one must treat macro news with the view of whether it will increase earnings, or not.

The Global Perspective

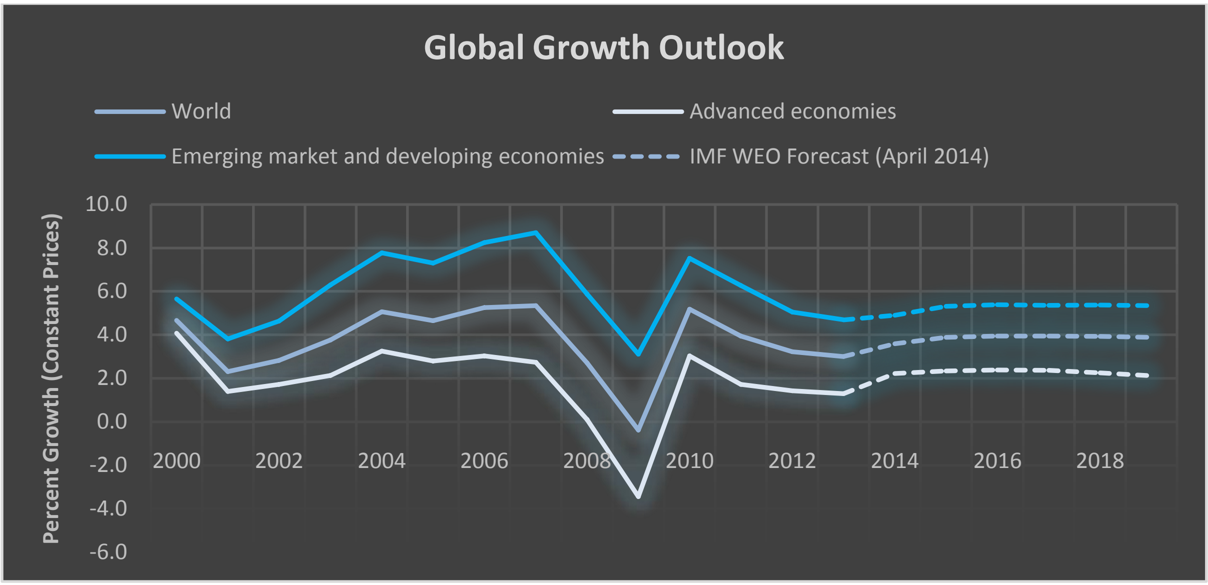
From a global perspective, the IMF World Economic Outlook (April 2014)highlights an improved growth prospectus for the coming two years, driven by both emerging and advanced economies. This growth should be positive for markets on a number of fronts, including:

- Increasing economic activity, by nature, implies increased gross output in an economy. Increased gross output implies increased value added (i.e. companies that are not profitable will not continue to operate in the long term). Increased value added generally implies increased company earnings.
- Increased economic activity should result in increases in total wages, as employment picks up from current lows. Increases in total wages can be expected to result in increased consumer expenditure, which in-turn can be expected to drive increases in company earnings, through first or second round demand for goods and/or services.
- Increased growth usually accompanies increases in inflation, as various direct or indirect stimuli increase aggregate demand above long trend levels, driving demand side inflation. Inflation, however, should disincentivise saving, as the real value of savings declines more rapidly the higher the level of inflation. This too should increase company earnings, as the marginal propensity to consume increases over the propensity to save[1].

This increase in aggregate demand will of course come with the downside risk of increased interest rates. As aggregate demand increases through increased economic activity and value added, global central banks can be expected to start to wind in monetary policy. This tightening will look to normalise aggregate demand without overshooting long term trend levels and causing inflation. However, should central banks either over or undershoot, economic growth and company earnings, or earning quality, could be adversely affected.

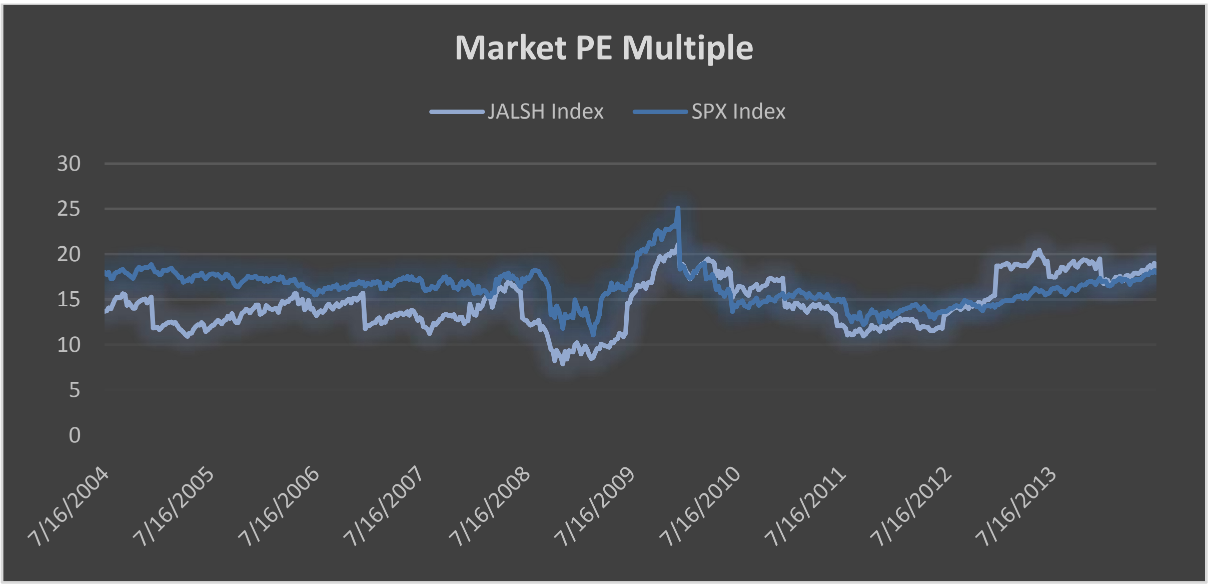
Additionally, it should be noted that irrespective of whether increased wages are saved or consumed, it should be beneficial to equity markets, as in absolute terms, either: people save (invest), increasing demand for and the price of equities and other instruments, or they spend, in which case earnings multiples will decline as earning rise over price. In reality, a combination of these factors is likely, so both spending and saving will drive up equity markets, and multiples should remain manageable.

[1] Of course, from a market perspective increased inflation could erode the quality of earnings, reducing the “acceptable” level of P/E, however as we are not expecting exorbitantly high inflation, merely higher than inflation of recent years, we do not see this as a major concern.



The point, however, is that the global outlook for fundamentals remains strong and coming off a low base after the macroeconomic capitulation seen over recent years.

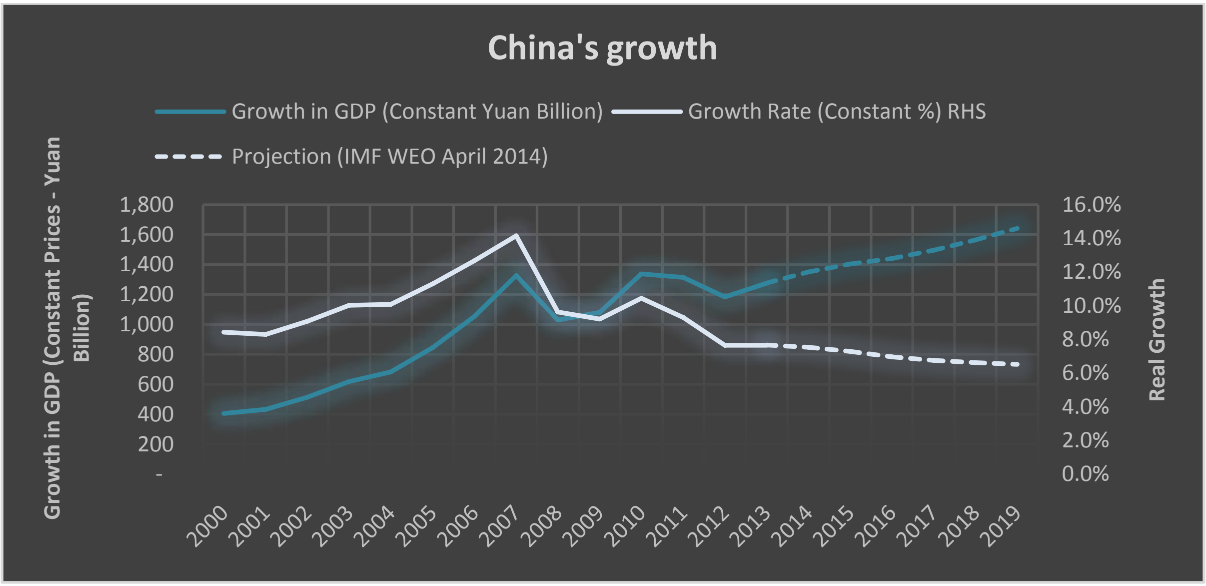
This said, trailing valuations appear expensive, however, going forward we expect to see strong earnings growth in both the US and South African markets. Talk of divergence between the markets and the high street is clearly overdone, as illustrated by the results of the current earnings season in the US, where we have seen a number of surprises on the upside with regards to positive earnings growth. Should this trend continue, market valuations in the world's largest economy can be expected to come down dramatically. As such, in little over a months' time, we could be looking at a very different valuation picture. Moreover, as the outlook continues to improve for coming years, forward earnings multiples can be expected to sustain reasonable increases in market prices.



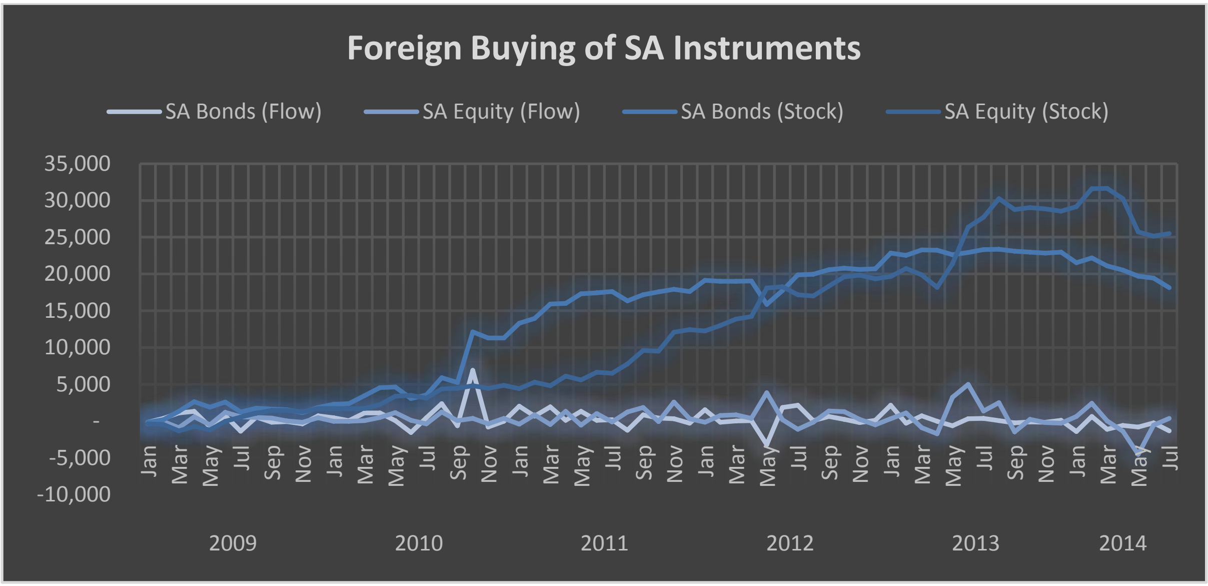
The South African Picture

While the global picture is fairly rosy in my view, some uncertainty exists for South Africa. This uncertainty features in four major areas, as follows:

Firstly, and most obviously, China. Over recent years the outlook for China has deteriorated from a growth perspective, on the back of the bursting of areal estate bubble in 2011 and more recently an apparent looming debt crisis. However, these corrections are coming off an abnormally high base by global standards, and while lower growth is forecast, it is growth nonetheless. While slowing in percent change terms, in absolute terms china's real GDP is forecast to increase by 1.35 trillion Yuan (US$220 billion) in 2014, compared to 1.28 trillion in 2013 (US$210 billion). In nominal terms, this increase in GDP is comparable to two and a half new South Africa's, or 69 new Namibia's based on these country's GDPs in 2013. Recent growth figures further suggest that the extent of the soft landing expected has been overplayed, and it looks like while slowing, China's growth may in fact, surprise on the upside.



Secondly, QE unwinding in the US could have a negative impact on South African bonds and equities. Following the introduction of QE1 in the US in 2008/2009, South Africa saw a notable increase in the stock of foreign funds in SA bonds and equities, in late 2010, this was further exacerbated by the announcement of QE2, and again by the QE3 announcement in late 2012. The simple mention of an unwinding of QE expansion, as well as the actual slowing of the monetary injection into the US and thus global economies, has seen a reversal in this flow of funds, with net selling by foreigners in South Africa in both bonds and equity. With this reduced demand for South African instruments in favour of offshore, prices too can be expected to decline as per a simple demand-price dynamic. However, should South African listed companies see strong earnings (much of which are actually earned offshore), these flows are unlikely to be excessively dramatic, and price-earnings multiples should remain or become, favourable.



Thirdly, and in close relation to point two, downside earnings surprises present a risk to the market outlook. Should we see earnings surprising on the downside on account of failing macroeconomic fundamentals, current valuations will be shown up to be excessive, and a market correction can be expected. Globally, this looks unlikely, and as earnings are revealed in the US, the country's market outlook remains positive. However, the macro picture in South Africa may not be quite so positive. Waves of social unrest, major production declines in key industries and wage settlements above productivity gains, are likely to dampen the earnings of South African companies, and should these earning declines have been underestimated, down-side surprises on earnings could shake the market. This divergence between the South African and US markets could further exacerbate the outflow of funds mentioned in point two, however, as much of the South African market earnings are derived in jurisdictions with fewer social issues, the markets should generally remain supported to some extent in this eventuality.

The final concern relates extensively and directly to the previous three, being the broad macro outlook for South Africa. Weak and weakening growth outlooks, coupled with increasing inflation signal a possibility of stagflation, an undoubted negative for the local market. However, as mentioned previously, much of the local market earnings are derived elsewhere, and a better than expected out-turn in China and recovery in Europe and the US can be expected to both bolster global aggregate demand, and demand for South African manufactured and mineral products. Thus, while the outlook for 2014 remains poor, the year may prove to be an inflection point, with output recovery coming in 2015 and beyond, bringing with it jobs and increased consumer activity.

Conclusion

In short, the macro picture remains relatively positive from a global perspective, while local developments may suggest that the worst is over for South Africa. As such, macro fundamentals should win out, and while technical traders shout about corrections and recessions, fundamentals will continue to drive the market higher over the medium to long term. In the short term, however, we could see some retracement, but fundamentals would suggest that this is nothing but a good buying opportunity. However, a close eye should be kept on earnings, both in the US and South Africa, and downside surprise should excite caution.

Economic Data Snap Shot

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Inflation (y/y)	5.8%	6.0%	5.4%	4.9%	4.4%	4.9%	4.9%	5.2%	5.2%	5.9%	6.1%	6.1%
Repo Rate	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.75
Prime Rate	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.50
N$/US$	9.80	10.36	10.09	9.95	10.20	10.42	11.21	10.70	10.58	10.56	10.42	10.59
N$/AUD	8.88	9.25	9.39	9.43	9.29	9.28	9.86	9.59	9.78	9.78	9.69	9.98
N$/CAD	9.51	9.84	9.78	9.49	9.64	9.79	10.05	9.62	9.56	9.65	9.61	9.93
Vehicle Sales (y/y)	16.7	3.9	31.6	41.2	49.3	34.2	58.1	65.7	65.2	45.5	28.6	44.9
Passenger	21.7	-5.1	56.5	45.3	51.6	35.3	67.9	37.5	77.1	60.4	26.5	42.5
Commercial	12.7	11.0	14.6	37.5	47.4	38.9	50.0	94.7	54.8	33.8	30.5	46.9
M2 Money Supply (y/y)	12.8	12.4	10.5	14.7	13.3	12.8	8.8	11.0	10.5	7.8	8.8	*
PSCE (y/y)	14.8	13.8	13.4	13.9	13.3	14.4	14.4	15.7	14.8	15.8	16.0	*
Business	15.4	12.6	11.4	11.9	11.1	13.2	12.6	17.1	13.6	15.9	18.0	*
Individuals	14.4	14.5	14.5	15.0	14.7	15.0	15.4	14.7	15.6	15.8	14.7	*

Source: NSA, BoN, Bloomberg, NAAMSA, IJG

Capital Market Review: BondsCashEquities

Bonds

YTD	Beg. Of Year	End of Q2	Change
GC15	12	12	-
GC17	59	50	(9)
GC18	57	48	(9)
GC21	82	87	5
GC24	69	65	(4)
GC25	80	69	(11)
GC27	104	98	(6)
GC30	122	108	(14)
GC32	124	109	(15)
GC35	132	114	(19)

Spreads continued to compress over the second quarter. We attribute this to two factors:

1) Supply and demand constraints.
2) Better economic picture in Namibia compared to South Africa.

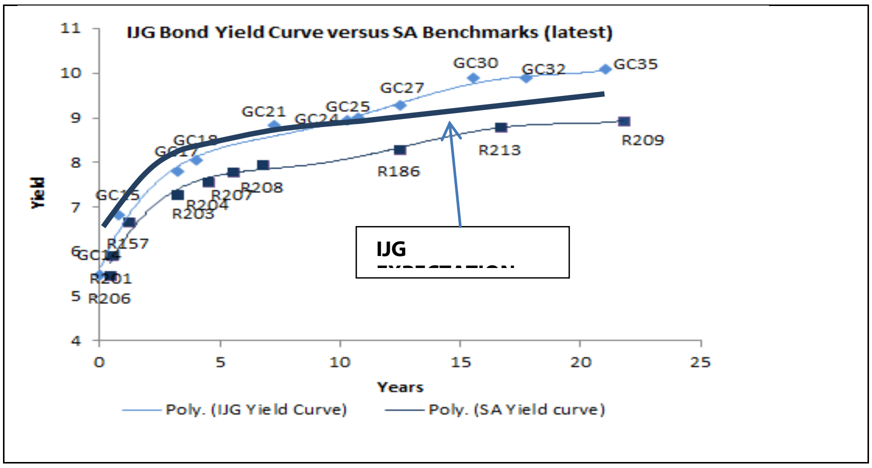
Q1	Beg. Of Quarter	End of Quarter	Change	Available at Auction
GC15	12	12	-	No
GC17	59	53	(6)	Yes
GC18	57	56	(1)	Yes
GC21	82	79	(4)	Yes
GC24	69	71	2	Yes
GC25	80	75	(5)	Yes
GC27	104	106	2	Yes
GC30	122	120	(2)	Yes
GC32	124	121	(3)	Yes
GC35	132	130	(3)	Yes

Over Q1 we saw spreads compression focused more on the short end of the curve.

Q2	Beg. Of Quarter	End of Quarter	Change	Available at Auction
GC15	12	12	-	No
GC17	53	50	(3)	Yes
GC18	56	48	(8)	Yes
GC21	79	87	8	No
GC24	71	65	(6)	Yes
GC25	75	69	(6)	Yes
GC27	106	98	(8)	Yes
GC30	120	108	(12)	Yes
GC32	121	109	(12)	Yes
GC35	130	114	(16)	Yes

However over Q2 we saw spread compression at long end of the curve, this is in line with the changing interest rate environment. We expect to see this continue in Q3.

	On Offer	Total Bids	Total Allocated	% of total bids
GC17	80,000,000	370,300,000	80,000,000	30%
GC18	60,000,000	231,150,000	60,000,000	19%
GC24	40,000,000	141,000,000	40,000,000	11%
GC25	80,000,000	152,000,000	80,000,000	12%
GC27	40,000,000	100,000,000	40,000,000	8%
GC30	40,000,000	80,500,000	40,000,000	7%
GC32	20,000,000	80,000,000	20,000,000	6%
GC35	20,000,000	76,720,000	20,000,000	6%
Total	380,000,000	1,231,670,000	380,000,000	



IJG Expectations

The change in the interest rate cycle and the level of issuance on the long end, we expect to see spreads widen slightly on the short end and compression further on the long end.

Equities

Timing Tool

Our timing tool considers the market's sentiment and valuation in order to estimate a probability that the market will be up over the next three months.

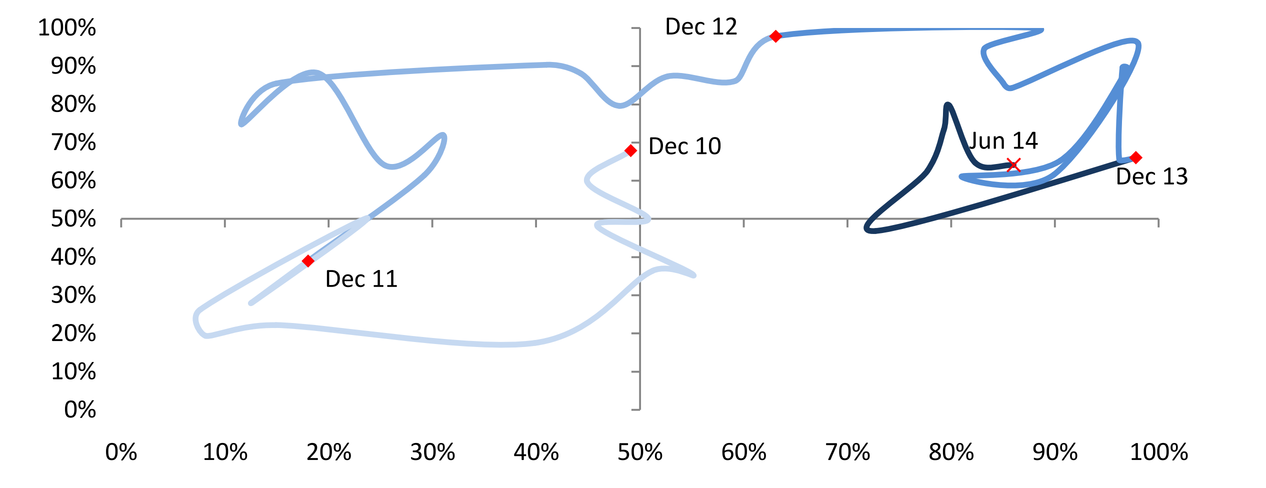
What we witnessed since early 2012 is that market sentiment was fairly upbeat, with more stocks trending higher than the long termaverage. At the same time we saw valuations moving into expensive territory and remaining expensive for most of 2013. Despite seemingly stretched valuations we have shared our view that we are not unduly concerned over market levels as long as earnings are up to expectations as expectations reflect a fair degree of growth.

The strong JSE earnings reports for December 2014 saw the PE multiples declining into the 7thdecile relative to historic averages. The valuation rating relative to the positive sentiment saw us issuing a very bullish view in April 2014.

Since the previous Elephant Book we saw the Top40 Index increasing 7.7%, coincidently taking the PE multiple back up to the seemingly expensive levels seen for the most part of 2013. The PE levels together with the continuing strong market breadth continue to predict positive market returns, with probability of 52.2% for positive returns going forward. However, the market is increasingly reliant on the upcoming earnings reports to justify the current levels. The Top40 is trading at 15.4x and 13.9x CY14 and CY15 earnings.

As a result, we are cautiously optimistic heading into the new quarter, awaiting JSE earnings report and should it meet expectations or beat, we will happily change gears with eyes on an end of year rally.

Timing Tool: Sentiment versus Valuation



Average Returns		PE Valuations: 12x and less	12x to 13x	13x to 14x	14x to 16x	16x and higher
Sentiment	80% to 100%	5.2%	5.5%	6.4%	4.3%	-1.0%
	60% to 80%	8.7%	5.6%	5.6%	5.5%	0.1%
	40% to 60%	10.0%	3.4%	4.2%	7.3%	3.4%
	20% to 40%	7.0%	2.9%	7.2%	4.5%	-3.7%
	0% to 20%	4.2%	-9.2%	-4.1%	-9.3%	-15.9%

Probability for up market		PE Valuations: 12x and less	12x to 13x	13x to 14x	14x to 16x	16x and higher
Sentiment	80% to 100%	86.7%	89.3%	84.2%	80.8%	43.8%
	60% to 80%	94.1%	75.9%	75.0%	85.7%	52.2%
	40% to 60%	100.0%	66.7%	73.7%	91.3%	75.0%
	20% to 40%	88.0%	57.1%	73.1%	75.0%	50.0%
	0% to 20%	65.8%	41.2%	38.5%	0.0%	0.0%

Source: IJG

Recommendation

With our view that the global business cycle has entered the late expansion phase, we foresee that growth and inflation forecasts will start to see some upward revisions coming through (as opposed to a long streak of downward revisions) as global economic momentum starts gaining traction. Based on this we keep our recommended asset allocation unchanged with an underweight in bonds, neutral on cash and overweight equities.

We anticipate that bond yields will move gradually higher over the medium term as the market starts pricing in the probability of central banks tightening money supply. However, we do not foresee a significant spike/overshoot in bond yields as it is important for central banks to keep managing the trend in order to avoid the detrimental impact of higher finance charges to the global economy. South African bonds, however are expected to show increased volatility on account of the bearish rand sentiment. We recommend an **underweight in bonds** and income yielding instruments (with a limited growth profile). Within the bond asset allocation we do however prefer longer duration over shorter duration, based on the view that the yield curve has factored in the interest rate hiking cycle at the long end, with the shorter end set to react and be more sensitive to the actual increases.

We take a **neutral view on cash**. We do, however, prefer it over bonds, but prefer equities over both. We recommend tying a combination of floating rate notes and inflation linkers with the cash position to achieve some yield pickup.

Given our view that the late expansion is only commencing, we expect to see momentum in corporate earnings growth over the next 18 months, which in turn bodes well for equities. We recommend an **overweight in equities** with the view that the second half of the bull rally has only started and is likely to persist for at least another 12 to 24 months. We do, however, expect investor nervousness, on the back of increasing bond yields, to result in an increase in market volatility.

Our most and least preferred stocks are as follows:

Most Preferred	Least Preferred
NSX Local Index	
FNB Namibia	Oryx Properties
Bidvest Namibia	Namibia Breweries
Bank Windhoek	
NSX Overall Index	
Investec Ltd	African Oxygen Ltd
Barloworld Ltd	Vukile Properties
FirstRand Ltd	Shoprite Holdings
Sanlam Ltd	Truworths International Ltd
JSE Top40 Index	
Steinhoff International	Financiere Richemont DR
Investec Ltd/Investec Plc	Capital & Counties Properties Plc
Reinet Investments SA-DR	Growthpoint Properties
FirstRand Ltd	Shoprite Holdings
AngloGold Ashanti Ltd	Imperial Holdings
Sasol Ltd	African Rainbow Minerals Ltd
Sanlam Ltd	Impala Platinum Holdings Ltd
Standard Bank Group Ltd	Assore Ltd
Naspers Ltd	Exxaro Resources
SABMiller Plc	Kumba Iron Ore Ltd

Source: IJG

Secular Bull

As of the end June 2014 the S&P 500 Index had increased 189.75% since the inflection point in the spot index in early March 2009. Thus, the annualized return over this period was 22.17%. Take these returns and the age of this bull (5 years and 3 months) and throw in steadily rising PE multiples, and a number of bearish calls start surfacing across financial media space.

A quick scroll through MarketWatch, Bloomberg and Seeking Alpha produces a heavily bearish view on global equity markets:

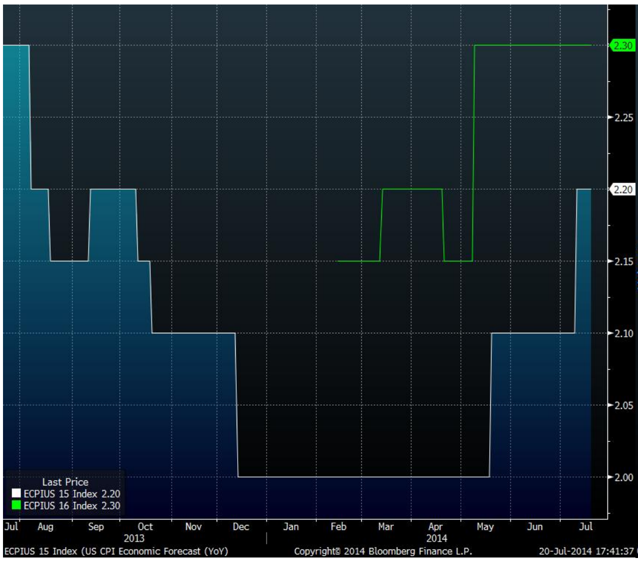
- ✓ Industrial Production Surge Looks Like 2007 Just Before Economy Collapsed
- ✓ The Implosion Is Near: Signs Of The Bubble's Last Days
- ✓ Bubble Paranoia Setting In as S&P 500 Surge Stirs Angst
- ✓ We're in the third biggest stock bubble in U.S. history

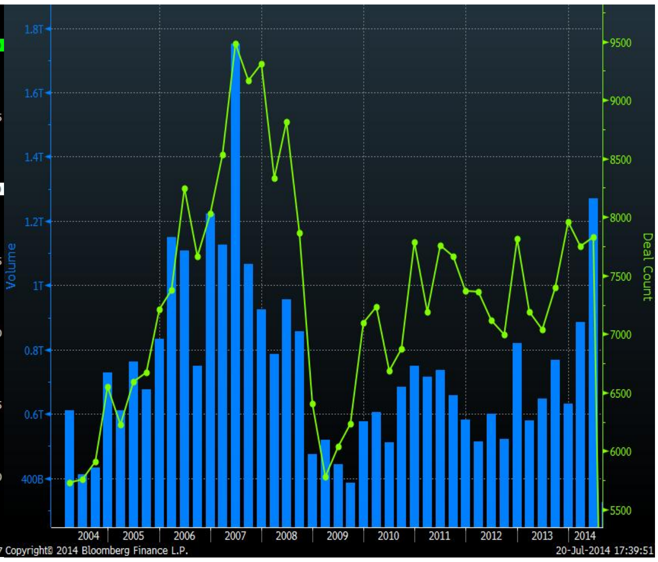
If there is one thing that financial markets repeatedly teaches us, it is the fact that the conventional wisdom of the consensus view are more frequently than not, completely wrong. As such, investment strategies, such as value investing, were developed around the principle of contrarian investing, seeking to shy away from convention and consensus opinion.

With a typically contrarian take, IJG continues to be of the view that 2013 saw the global economy making the transition from the early expansion phase to the late expansion. This view is backed across the spectrum of economic indicators and evident in the pricing of assets across the global financial markets.

The US Economy

After the winter thaw, from an economic perspective the US economy has started to show some momentum with 2015 and 2016 forecasts ahead of the long term trend at 3.0% plus. Inflation figures are also starting to tick upwards, but more importantly inflation forecast numbers have signaled a trough. This is viewed positively by the FOMC, who are actively targeting higher prices across the consumer basket and personal consumption expenditure. Business confidence has also been strong, with the volume of M&A deals at US$1.27 trillion, the highest since mid-2007. Tightening monetary policies are also synonymous with the late expansion theme, with economic momentum and corporate profitability expected to spur growth in aggregate demand, offsetting the declines resulting from the tapering of QE and rising interest rates.





Equity performance

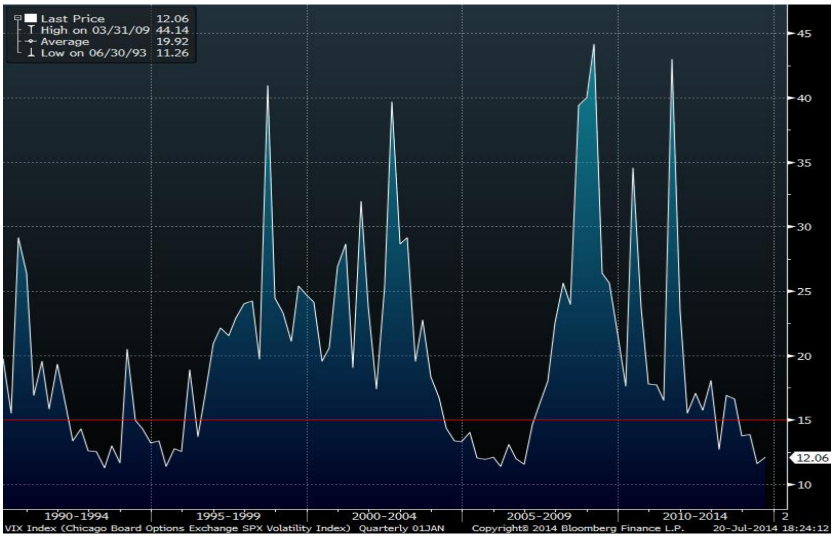
Returns across the equity market spectrum have in a large part been attributed to increases in the PE multiples, a classical late expansion characteristic. A relative comparison to long-run histories suggest that multiples are rich, but considering the macro climate and the probable impact on forward earnings, it seems likely that the current valuations are in fact more reasonable than perceived at first sight. In our view the relative attractiveness of equities to other asset classes remainskey,underpinning the strong demand, and thus increasing price for such.

Fixed income performance

US bonds have seen a bottoming out in yields, with yields likely to trend higher in the foreseeable future. Alongside higher yields we expect to see a flattening yield curve both of which further cement our view of a late expansion play.

Volatility

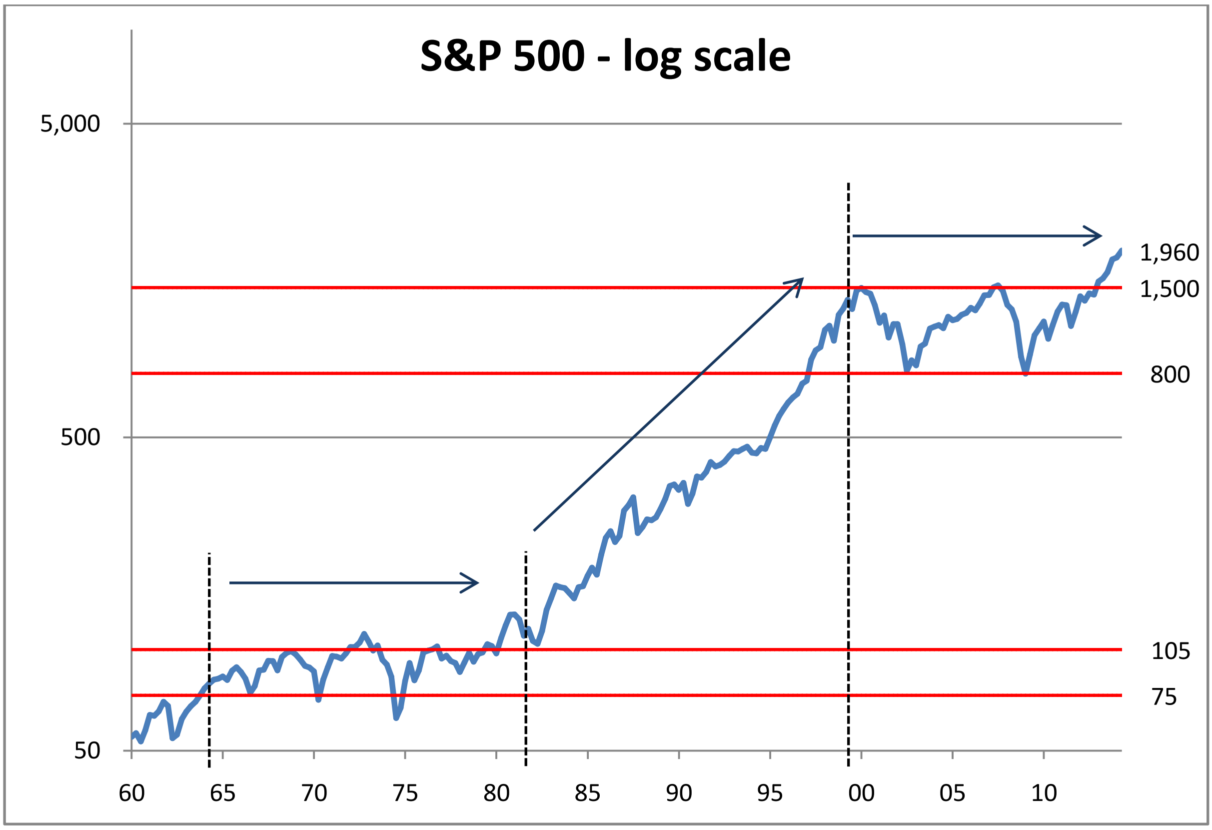
Volatility tends to be declining throughout the initial economic recovery, low during the early expansion while starting to rise during the late expansion. We await the confirmation from volatility that late expansion has commenced.



Riding the secular bull…

With these comments made, we investigate the idea that the current cyclical bull (and consensus view soon to be new bear) witnessed in the S&P 500 index, is in fact the first phase of a secular bull market which can rally into the late teens or twenties of the 2000s.

As is illustrated in the graph below, the S&P 500 has only now emerged from the highs set 15 years ago and has consequently been in a secular bear market since the year 2000.

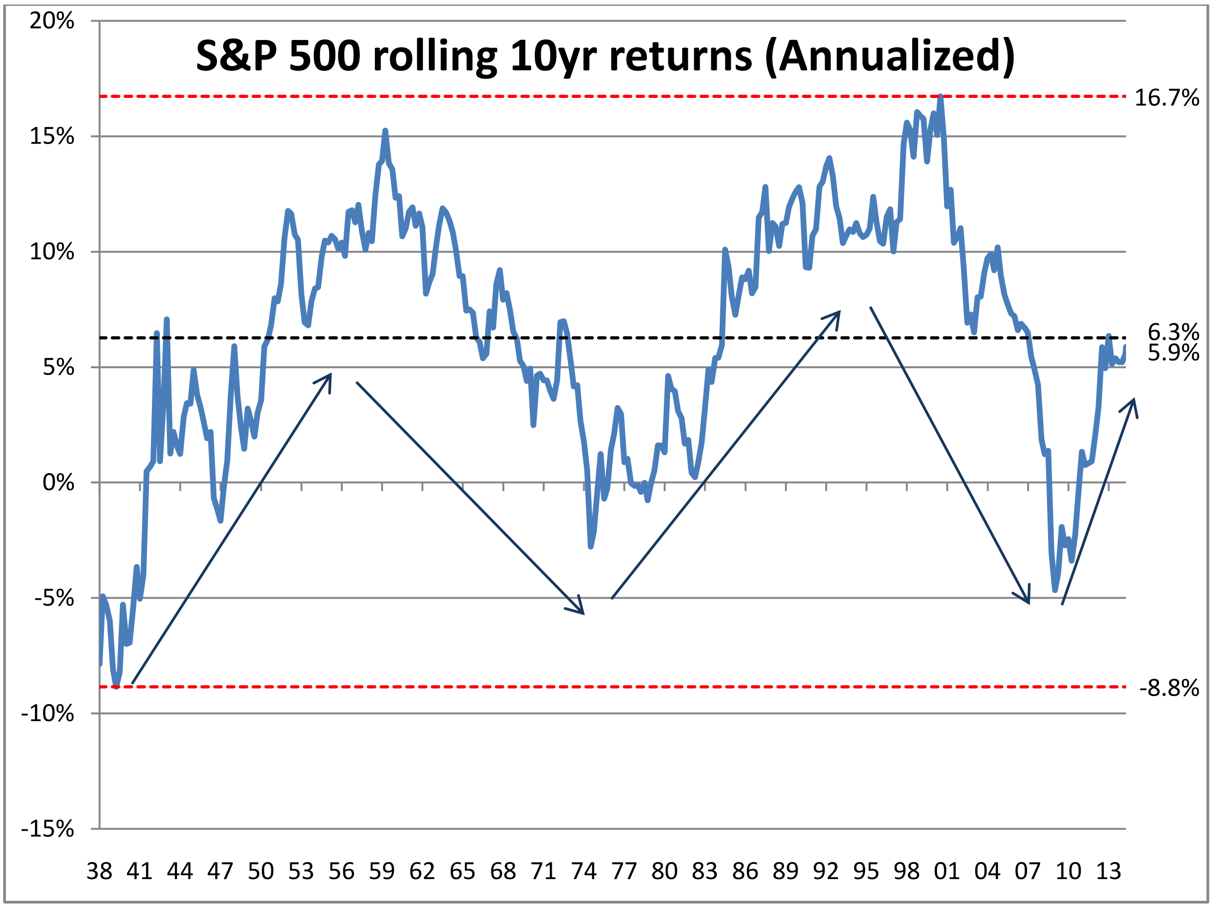


Secular bull and bear trends are also evident in the 10 year returns of the S&P 500. The index is currently 77.0% up on its level 10 years ago, an annualised rate of 5.9%. This is marginally lower than the long run average return of 6.3%.

What stand out in the graph below are the long term trends in 10 year returns. The market returns tends to trend in a direction for multi decades, overshooting to both ends. The highest 10 year return in the graph below is 16.7% versus the lowest 10 year return of -8.8%. Considering that the S&P 500 is still less than 5 years into the longer run uptrend, history suggests that there are still a number of years to come.

In our view the secular bull case is supported by the low and rising global inflation numbers, the emergence of economic momentum, reasonable valuations (S&P 500 trading 16.6x and 14.9x earnings 6 and 18 months out relative to the long run average of 16.3x) and the great rotation from fixed income to equities.

Cheaper energy (as a result of fracking and other drilling technologies) together with the transition from Boomers to the Millennial Generation could further justify the secular bull.



…just don't fall off!

A secular bull does not mean no bear market at all. Cyclical bears and declines of 20% to 25% will be part of the secular bull. The risk also remains that equities remain in the secular bear market. Thus while riding the current bull (be it cyclical or secular) we advise to keep a close eye on the following indicators in order to appropriately take risk off the table when needed:

i. Economic growth
   a. Downward revisions
ii. Inflation
   a. Downward revisions
iii. Corporate earnings surprises
   a. Negative surprises
   b. Rising PE multiple as a result of earnings declines
iv. Market breadth and sentiment
   a. A broad based loss in momentum
v. The US yield curve
   a. Flat or inverted yield curve

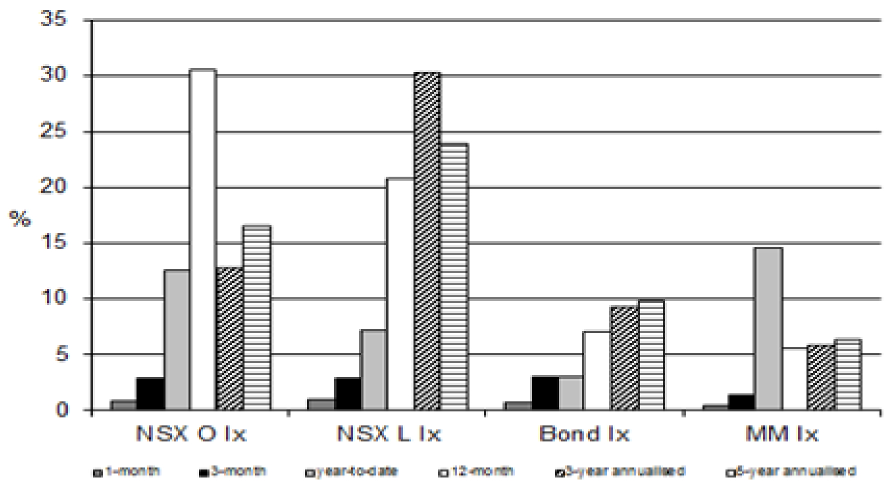
Namibian Asset Performance

The **NSX Overall Index** closed at 1,103.43 points in June, up from 1,094.17 points in May, gaining 0.90% on a total return basis in June compared to a 2.17% m/m decrease in May. The NSX Local Index increased 1.05% m/m compared to a 0.91% m/m increase in May. Over the past 12 months the NSX Overall Index returned +30.5% against +20.8% for the Local Index. The best performing share on the Overall Index in June was Trustco at +28.51%, while Nictus was the worst performer at -12.63%.

The IJG All Bond Index (including Corporate Bonds) rose 0.73% m/m in June after gaining 1.44% m/m in May. Namibian bond premiums relative to SA yields in June generally strengthened, with only the GC17 premium weakening 1bp to 50bp; the GC18 premium strengthening 2bp to 48bp; the GC24 premium strengthening 3bp to 65bp; the GC25 strengthening 6bp to 69bp; the GC27 premium strengthening 5bp to 98bp; the GC30 weakening 9bp to 108bp; the GC32 strengthening 6bp to 109bp; and the GC35 strengthening 6bp to 114bp.

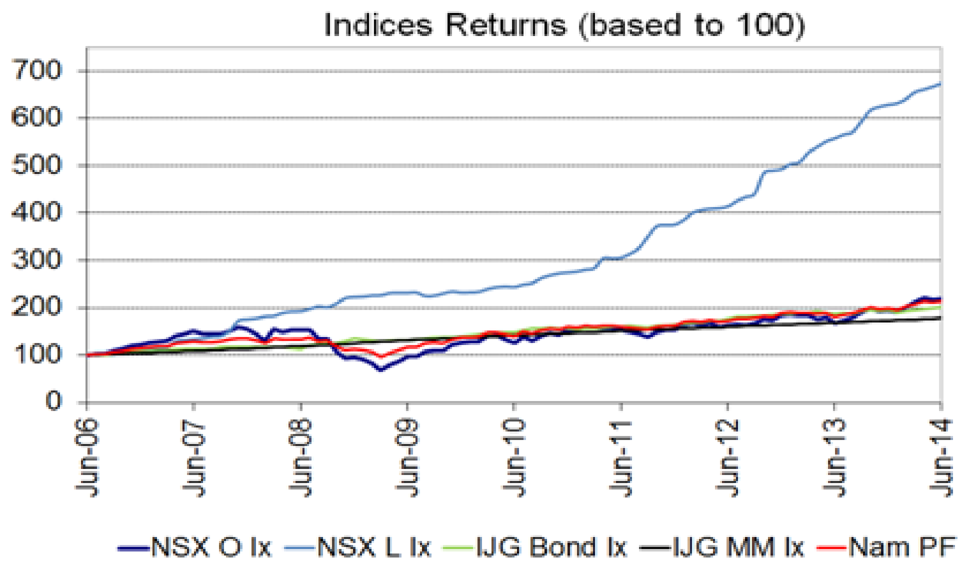
The IJG Money Market Index (including NCD's) increased by 0.46% m/m in June after rising 0.48% m/m in May.

Performance by Asset Class



Source: IJG

Indices Returns (based to 100)



Source: IJG

Namibian Returns by Asset Class [N$,%] –June 2014

	1 month	3 month	6 month	12 month	year-to-date	3 years*	5 years*
NSX Overall Index	0.90	2.93	12.56	30.50	12.56	12.66	16.41
NSX Local Index	1.05	2.87	7.22	20.80	7.22	30.18	23.91
IJG ALBI	0.73	3.03	3.08	7.13	3.08	9.18	9.76
IJG GOVI	0.75	3.05	3.32	7.43	3.32	9.26	9.80
IJG OTHI	0.67	2.91	1.79	5.59	1.79	8.83	9.79
IJG Money Market Index	0.46	1.41	2.77	5.54	2.77	5.63	6.20

** annualised*

Source: IJG

Namibian Returns by Asset Class [US$,%] –June 2014

	1 month	3 month	6 month	12 month	year-to-date	3 years*	5 years*
US$ Strength/(Weakness)	-0.66	-1.03	-1.41	-7.14	-1.41	-13.99	-6.23
NSX Overall Index	0.24	1.87	10.97	21.18	10.97	-3.11	9.16
NSX Local Index	0.39	1.81	5.71	12.17	5.71	11.97	16.20
IJG ALBI	0.07	1.97	1.62	-0.52	1.62	-6.10	2.93
IJG GOVI	0.08	1.99	1.86	-0.25	1.86	-6.03	2.96
IJG OTHI	0.01	1.85	0.35	-1.95	0.35	-6.40	2.96
IJG Money Market Index	-0.20	0.36	1.32	-2.00	-21.86	-9.15	-0.41

** annualised*

Source: IJG

IJG Money Market Index Performance [average returns, %] -as at June 2013

	this month	3 months	6 months	12 months	YTD	3* years	5* years
Money Market Index	0.46	1.41	2.77	5.54	2.77	5.63	6.20
Call Index	0.37	1.14	2.27	4.59	2.27	4.70	5.09
3-month NCD Index	0.46	1.37	2.65	5.25	2.65	2.86	5.32
6-month NCD Index	0.49	1.45	2.81	5.54	2.81	3.17	5.54
12-month NCD Index	0.49	1.48	2.91	5.81	2.91	3.40	5.93
NCD Index incl. call	0.47	1.42	2.80	5.58	2.80	2.87	5.64
3-month TB Index	0.47	1.43	2.83	5.74	2.83	5.67	6.12
6-month TB Index	0.50	1.49	2.92	5.82	2.92	5.78	6.31
12-month TB Index	0.47	1.40	2.75	5.50	2.75	5.70	6.51
TB Index incl. call	0.46	1.39	2.73	5.47	2.73	5.57	6.21

**annualised*

Source: IJG

Individual Equity Total Returns [N$,%] June 2014

	Month end price (c)	NSX FF Market Cap Weight	1 month	3 month	6 month	12 month	year-to-date
FINANCIALS			**2.62**	**7.24**	**14.48**	**38.34**	**14.48**
banks			2.78	8.31	14.27	39.83	14.27
BWH	1,115	0.08%	3.07	12.88	13.54	n/a	28.78
FST	4,075	12.38%	2.64	14.04	15.72	47.01	15.72
FNB*	2,316	0.18%	2.25	3.88	9.16	30.98	9.16
NBK	22,917	4.23%	3.63	3.30	11.24	35.87	11.24
SNB	14,500	16.88%	2.68	5.45	14.10	35.86	14.10
insurance			-8.63	0.71	6.50	4.52	6.50
SNM	19,500	0.67%	-8.63	0.71	6.50	4.52	6.50
life assurance			2.34	5.24	13.60	35.90	13.60
MMI	2,625	2.22%	3.10	8.10	6.37	26.18	6.37
OLM	3,598	12.66%	0.37	2.47	11.67	35.41	11.67
SLA	6,175	9.61%	4.75	8.22	17.83	38.79	17.83
investment companies			0.61	24.67	79.78	189.47	79.78
NAM*	55	0.00%	0.61	24.67	79.78	189.47	79.78
real estate			0.11	3.76	4.76	16.72	4.76
ORY*	1,787	0.06%	0.99	4.73	7.71	29.03	7.71
VKN	1,703	0.62%	0.02	3.67	4.46	15.46	4.46
specialist finance			7.94	16.62	34.05	59.70	34.05
IVD	9,748	1.98%	7.59	15.77	32.94	57.13	32.94
TUC	199	0.03%	28.51	67.75	100.33	213.29	100.33
RESOURCES			**0.93**	**-4.73**	**30.58**	**78.22**	**30.54**
mining			-0.96	-4.85	30.88	78.89	30.84
ANM	26,025	26.28%	0.38	-2.29	15.60	40.57	15.60
PDN	307	0.19%	-20.26	-33.12	-30.54	-59.71	-30.54
FSY	391	0.03%	-4.63	-21.33	-0.51	-27.99	-0.51
DYL	19	0.01%	-17.39	-32.14	11.76	-36.67	11.76
BMN	68	0.01%	-12.82	-30.61	47.83	21.43	47.83
MEY	4	0.00%	0.00	0.00	0.00	28.89	0.00
B2G	2,993	0.83%	16.78	1.66	42.46	61.26	42.46
EOG	253	0.02%	13.96	1.61	57.89	-45.24	-8.00
chemicals			-1.63	7.68	-2.61	3.15	-2.61
AOX	2,120	0.26%	-1.63	7.68	-2.61	3.15	-2.61
INDUSTRIAL			**-2.24**	**0.28**	**5.44**	**6.57**	**5.44**
GENERAL INDUSTRIALS							
diversified industrials			0.80	-9.59	2.87	28.65	2.87
BWL	10,125	1.68%	0.80	-7.64	2.87	28.65	2.87
Suppport Services			0.54	1.62	3.80	7.12	3.80
BVN*	1,273	0.08%	0.54	1.62	3.80	7.12	3.80
NON-CYCLICAL CONSUMER GOODS							
beverages			0.47	1.36	2.64	21.28	2.64
NBS*	1,633	0.12%	0.47	1.36	2.64	21.28	2.64
food producers & processors			-3.11	-2.95	8.46	7.36	8.46
OCG	8,700	0.30%	-3.11	-2.95	8.46	7.36	8.46
CYCLICAL SERVICES							
general retailers			7.22	16.28	36.41	50.31	36.41
NCT	83	0.00%	-12.63	18.57	-12.63	-18.97	-12.63
NHL*	240	0.00%	0.00	-11.11	n/a	n/a	0.00
TRW	7,499	2.27%	7.24	16.30	36.48	50.40	36.48
NON-CYCLICAL SERVICES							
food & drug retailers			-6.50	-2.73	-5.09	-15.36	-5.09
SRH	15,400	6.31%	-6.50	-2.73	-5.09	-15.36	-5.09

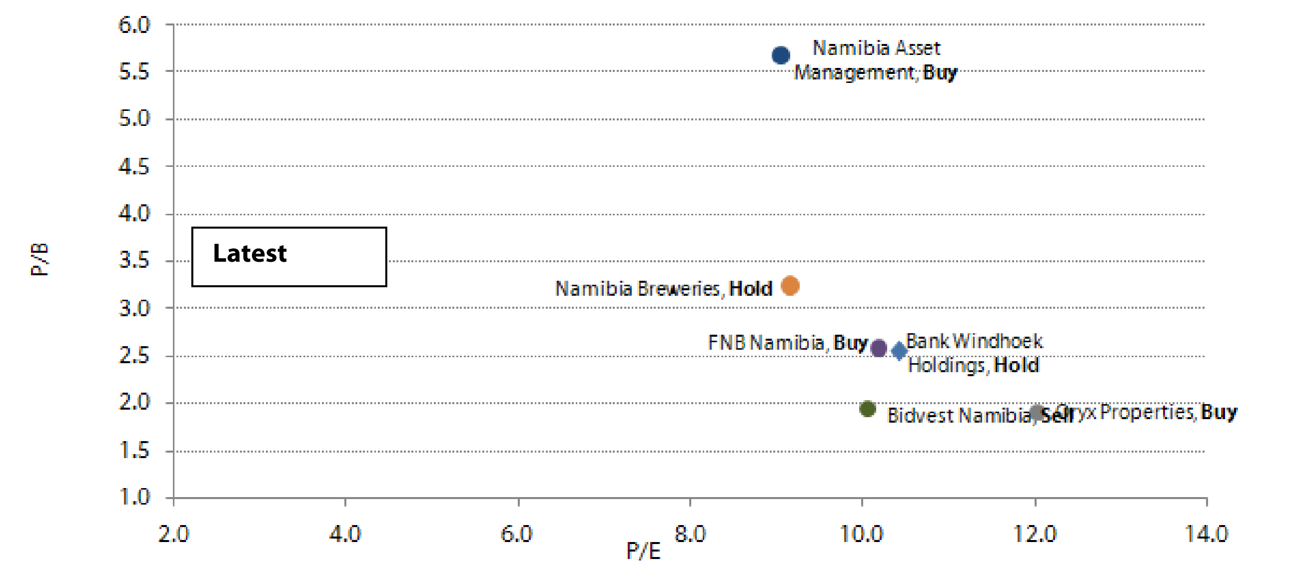
Source: IJG, NSX, JSE, Bloomberg

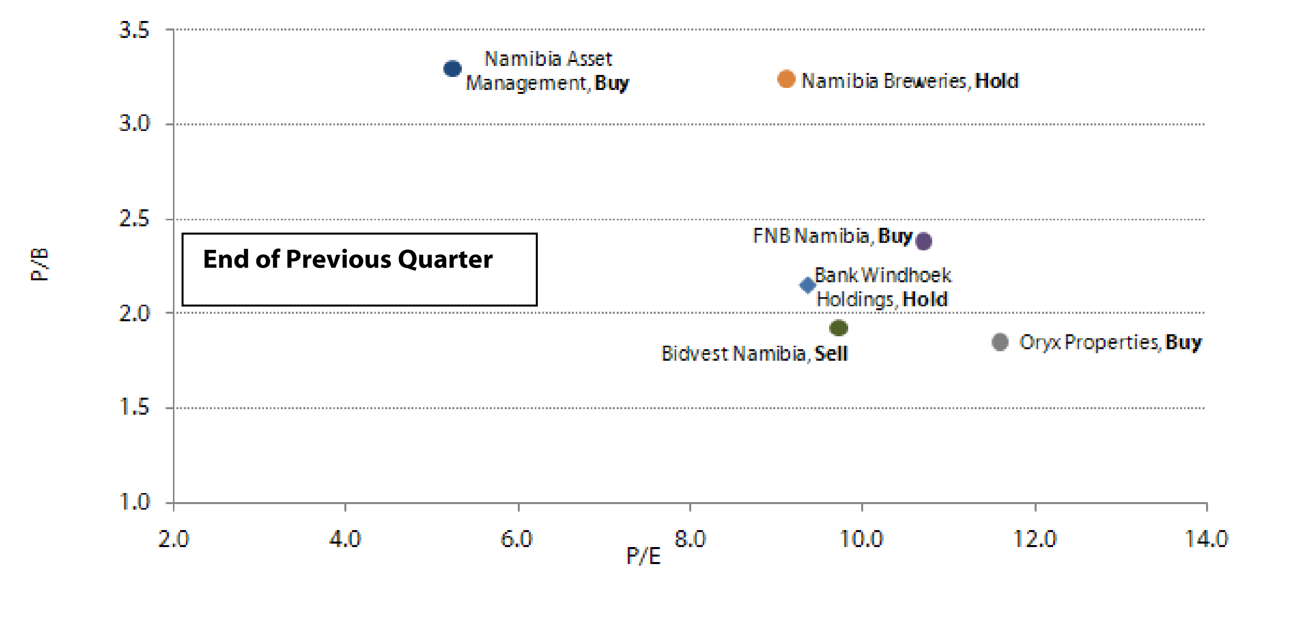
NSX Company Round-Up

Company	Code	Mkt Cap (N$m)	Share price (c)	P/E (A)	P/E (F)	HEPS (A)	HEPS (F)	Rec
Bank Windhoek Holdings	BWH	5,740	1,136	10.4	9.8	109.0	115.7	BUY
FNB Namibia	FNB	6,291	2,351	10.2	8.3	231.2	285.0	BUY
Namibia Asset Management	NAM	110	55	9.1	6.8	6.1	8.1	BUY
Oryx	ORY	1,181	1,788	12.0	12.4	148.9	144.0	HOLD
Namibia Breweries	NBS	3,379	1636	9.2	10.6	35.3	154.3	HOLD
Bidvest Namibia	BVN	2,758	1301	10.0	9.2	129.5	141.5	BUY

Based on the last year-end earnings and quarter-end share price

P/B vs P/E





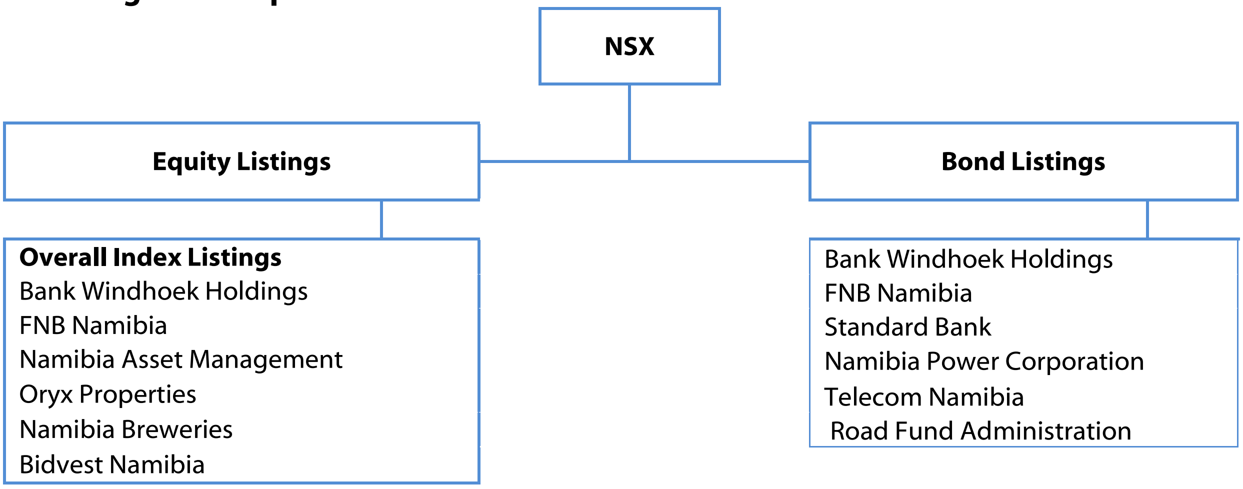
Source: NSX, IJG

Quarterly Recommendations Changes

Overall Index	Target Price (c)	Recommendation	Change from
Bank Windhoek Holdings	1145	BUY	
FNB Namibia	2700	BUY	
Namibia Asset Management	55	BUY	
Oryx Properties	1632	HOLD	
Namibia Breweries	1715	HOLD	
Bidvest Namibia	1400	BUY	

Source: IJG

Coverage of Companies on NSX



Financials: Banks

Bank Windhoek Holdings

*Recommendation: **BUY**, TP: **1145c**, Code: **BWH***

Nature of Business: Bank Windhoek Holdings (BWH) was created in 1982 from Volkskas' Namibian branches. BWH is a Namibian bank assurance business offering a wide spectrum of financial services via its subsidiaries and associates. The bank listed on the NSX on 20 June 2013.

Top Shareholders: Capricorn Investment Holdings (62.8%)Nammic Financial Services (10.5%)

Net interest income

BWH increased net interest income after impairments by 17.1% in 1H14 compared to the comparable 1H13. This performance was bolstered by strong growth of 13.4% or N$2.2bn in loans and advances (L&A) over the 12 month period while the bank also managed to further increase its net interest margin.

The quality of the book showed further improvement on top of already high base with impairments remaining at very low levels of N$9.0m on a L&A book of N$18.7bn, translating to a loan loss ratio of 0.1%, while nonperforming loans improved further from 0.90% to 0.76%. BWH successfully issued two tranches of floating rate notes on the JSE, the first R600m at 3m jibar plus 180bps and more recently R300m at 155bps spread above the 3m jibar.

Non-interest income

Non-interest income increased a significant 30.5% on the comparable period with the CUTM transaction contributing to the gain. On a like-for-like basis non-interest income increased 19.5% on the back of increased business volumes through transactional accounts and electronic banking channels.

Acquisition of Capricorn Asset Management

BWH recently announced the acquisition of Capricorn Asset Management subject to regulatory approval from the Bank of Namibian and Namfisa. BWH will purchase CAM for a cash consideration of N$128m, an implied PE multiple of 7.4x which is reasonable in our view and set to result in a positive bootstrapping effect.

Earnings forecast and outlook

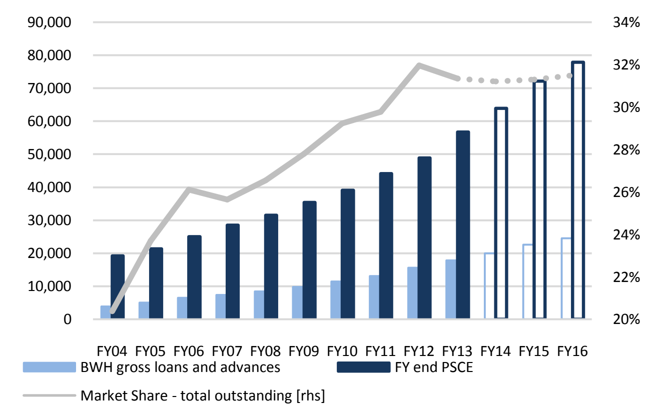
We forecast earnings 116cps and 131cps for FY14 and FY15, respectively with the FY14 numbers marginally ahead of the prospectus forecast. The upbeat forecast and positive outlook is a result of our anticipation of continuing strong growth in domestic demand while BWH is set to benefit from the start of an interest rate hiking cycle throughout FY15.

Target price and recommendation: Based on a justified PE multiple of 8.75x, which is in our view conservative when compared to the current rating of 9.0x and considering the long term re-rating that is playing out amongst NSX Locals, and our FY15 earnings per share forecast of 131cps, we derive a **target price of 1145cps**. Based on our expected 12 month total return of 13.2%, we recommend a **BUY** on BWH.

Bull Points:
- Controlled credit growth
- Diversification of income streams
- Improved efficiencies

Bear Points:
- Lucrative returns attracting new entrants
- Regulatory focus on non-interest income
- Bank of Namibia divergence from SARB

Loans and advances vs PSCE



Net interest margin

Fiscal Year End: June	2010	2011	2012	2013	F2014
Income Statement Extract (N$m)					
Net interest income	568	671	783	914	1,009.7
Fee and Commission Income	263	301	355	416	497
Operating expenses	578	643	707	763	911
Operating profit	341	404	515	648	756
Share of profit from jointly controlled assets	34.3	54.8	53.3	60.4	95
Profit before tax	380.1	462.6	570.0	709.7	853
Income tax (expense)\ credit	(98.6)	(134.0)	(167.4)	(216.4)	(273)
Net gains on available for sale financial assets	1.0	0.9	14.0	22.4	-
Total Comprehensive Income	282.5	329.4	416.6	515.6	580.1
Balance Sheet (N$m)					
Governemnt and other debt securities	1,069.0	1,194.8	1,523.8	1,493.2	1,792.8
Loans and advances	11,320.3	13,004.4	15,484.9	17,652.0	19,920.3
Due from other banks	403.7	362.2	211.0	251.4	210.0
Total Assets	14,451.1	15,984.8	18,921.1	20,938.6	24,146.7
Due to customers	8,419.8	9,852.7	12,126.6	13,023.0	12,892.4
Deposits from banks and others	-	247.0	237.6	167.0	200.0
Debt securities in issue	352.1	767.3	917.3	1,324.0	1,451.3
Total Liabilities	13,109.1	14,412.0	17,034.0	18,314.6	21,244.4
Total shareholders' equity	1,342.0	1,572.9	1,887.1	2,624.1	2,902.4
Growth Rates (%)					
Net interest income	13.9%	18.2%	16.6%	16.8%	10.4%
Loans and advances	15.3%	14.9%	19.1%	14.0%	12.9%
Due to customers	-1.9%	17.0%	23.1%	7.4%	-1.0%
Total Assets	18.0%	10.6%	18.4%	10.7%	15.3%
Financial Summary					
HEPS (c)	63.0	74.0	87.0	109.0	115.7
DPS (c)	0.0	0.0	0.0	32.8	46.0
NAV (c)	3.0	3.5	4.2	5.3	5.8
Weighted Average shares (m)	447.20	448.13	452.48	493.14	501.42
Key Statistics					
RoAA (%)	2.1%	2.2%	2.3%	2.5%	2.6%
RoAE (%)	22.2%	22.5%	23.3%	23.7%	21.0%
Valuation Metrics					
P/E (x)	18.0	15.4	13.1	10.4	9.8
P/BV (x)	3.5	3.0	2.5	2.0	1.8
Dividend Yield (%)		0.0%	0.0%	2.9%	4.0%
Earning Yield (%)		6.5%	7.7%	9.6%	10.2%

Source: BWH, IJG
**BWH Forecasts*

Financials: Banks

FNB Namibia Holdings

*Recommendation: **BUY**, TP: **2700**, Code: **FNB***

Nature of Business: FNB Namibia Holdings (FNB) is one of the largest financial services groups in Namibia with a total asset base of N$24.8bn and offers a wide product range spanning from banking to insurance products. In FY03 FNB merged with Swabou Holdings Limited and in FY12, FNB disposed of its interest in Momentum.

Top Shareholders: FirstRand (59.8%), GIPF (14.5%)

Net interest income

In our view the latest decrease in FNB's net interest margin is more a function of a lower yield on advances (on the back of competitive pricing) as opposed to an increase in the cost of funding. Going forward we continue to see FNB being competitive in pricing of new business, while increasing deposit rates in anticipation of an interest rate hike will see continuing compression in FNB net interest margin in the immediate future. We do however expect to see a rebound in the net interest margin in FY15 when assets re-price faster once the Bank of Namibia commences its interest rate cycle.

Non-interest income

FNB's non-interest income continued to show significant growth, increasing 22.9% on top of an already high base, underpin by elevated volume, increase in the value of transactions and further expansion of the banking network. The strong growth has led to the increased significance of non-interest income within FNB, making it one of the bank's strongest attributes. In FY13 non-interest income and insurance income jointly contributed 48.8% to total revenue, the most significant contribution yet.

Outlook: We revised our earnings forecasts upward on the back of stronger than previously anticipated macro backdrop leading to increased demand and faster growth in PSCE. This coupled with the bank's dominance in the sector leads to a rosy outlook. We forecast earnings of 285cps in FY14, and 331cps in FY15, which implies strong earnings momentum.

Valuation: Based on a justified PE multiple of 8.79x, relative to the current rating of 8.9x and our FY14 and FY15 earnings per share forecasts of 285cps and 331cps respectively, we derive a **target price of 2700cps**. Based on our expected **12 month total return of 24.6%**, we recommend a **BUY** on FNB.

Bonds: FNB currently has N$390m nominal bonds in issue, N$280m in the FNBJ22 and N$110m in the FNBX22. The FNBJ22 is benchmarked against the 3-month JIBAR at a premium of 165bp and the FNBX22 trades at a premium of 50bp to the GC17.

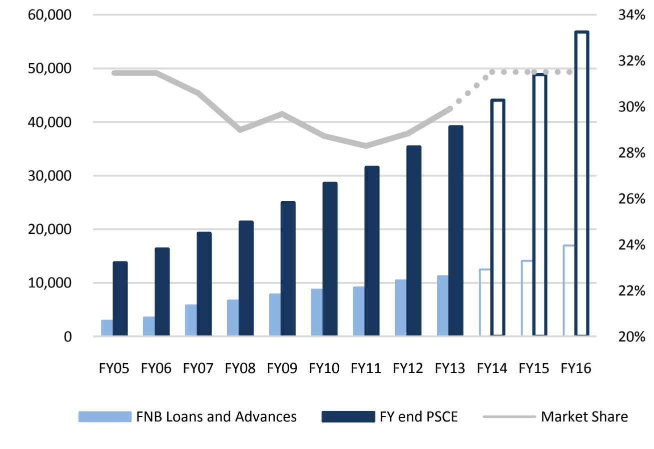
Bull Points:

- Solid strategy and management
- Stable advances growth
- Compelling e-bank/technology offering
- Strong macroeconomic environment
- High barriers to entry

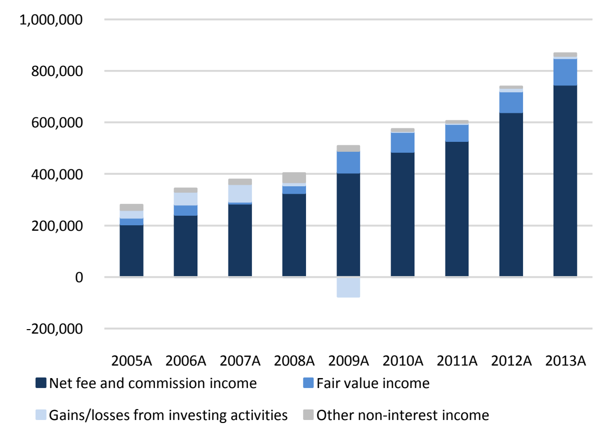
Bear Points:

- Lucrative returns attracting new entrants
- Regulatory focus on non-interest income
- Bank of Namibia divergence from SARB

Loans and advances vs PSCE



Non-interest income



Cash and short-term funds	2010	2011	2012	2013	F2014
Income Statement (N$m)					
Net interest income after impairments	744.7	851.8	931.8	961.6	1,089.2
Non-interest income	574.3	604.9	739.6	868.5	1,024.9
Net insurance premium income	56.2	71.9	84.5	99.7	117.7
Net claims and benefits paid	(38.3)	(41.4)	(41.0)	(50.9)	(63.6)
INCOME FROM OPERATIONS	1,334.6	1,486.5	1,719.3	1,879.0	2,168.1
Operating expenses	(718.7)	(768.9)	(884.1)	(940.4)	(1,025.0)
Income from associates	5.2	5.0	3.0	2.0	-
Profit before tax	621.1	722.5	838.2	940.5	1,143.1
Income tax (expense)\ credit	(218.0)	(258.3)	(299.6)	(330.3)	(394.8)
Minorites	29.6	42.7	9.9	11.0	9.6
Net Profit	458.9	539.0	772.0	610.2	748.3
Balance Sheet (N$m)					
Cash and short-term funds	455.2	428.1	1,002.1	690.3	769.6
Loans and advances	11,226.7	12,464.3	14,076.8	16,964.7	20,113.0
Due from other banks	851.2	763.1	1,925.7	1,889.0	2,437.2
Investment Securities	2,799.7	1,643.5	2,144.4	2,272.8	2,714.0
Total Assets	15,937.1	17,163.9	19,697.6	22,499.4	24,929.4
Deposits and current accounts	12,045.9	13,305.6	16,238.5	18,835.7	21,661.0
Due to banks and other fin institutions	54.3	43.9	48.4	319.1	351.9
Policyholder liabilities	1,043.0	41.7	45.1	50.5	57.1
Debt	269.6	270.6	392.6	392.6	569.6
Total Liabilities	13,786.0	15,178.1	17,313.9	20,209.7	22,186.4
Shareholders' equity	1,951.6	1,820.1	2,362.0	2,262.0	2,715.3
Minorities	199.5	165.7	21.6	27.7	27.7
Total shareholders' equity	2,151.1	1,985.8	2,383.6	2,289.7	2,742.9
Growth Rates (%)					
Income from operations	6.3%	11.4%	15.7%	9.3%	15.4%
Loans and advances	7.1%	11.0%	12.9%	20.5%	18.6%
Deposits	13.6%	10.5%	22.0%	16.0%	15.0%
Assets	13.0%	7.7%	14.8%	14.2%	10.8%
Financial Summary					
EPS (c)	166.1	191.8	294.3	231.2	285.0
HEPS (c)	165.7	191.6	203.1	231.2	285.0
DPS (c)	67.0	247.0	262.0	100.0	109.6
NAV (c)	755.1	703.6	912.0	872.6	1,047.5
Weighted Average shares (m)	267.6	267.6	267.6	267.6	267.6
Key Statistics					
Net interest margin (%)	5.2%	5.6%	5.4%	4.7%	4.6%
RoA (%)	2.7%	2.8%	2.9%	2.9%	3.2%
RoE (%)	20.6%	22.4%	24.7%	26.1%	29.7%
Valuation Metrics					
P/E (x)	14.2	12.3	11.6	10.2	8.3
P/BV (x)	3.1	3.3	2.6	2.7	2.2
Dividend Yield (%)	2.8	10.5	11.1	4.3	4.7
Earning Yield (%)	7.0	8.1	8.6	9.8	12.1

Source: FNB, IJG

Financials: Investment Companies

Namibia Asset Management

*Recommendation: **BUY**, TP: **55c**, Code: **NAM***

Nature of Business: Namibia Asset Management Ltd's (NAM) focus is on asset and unit trust management.

Top Shareholders: Coronation Investment Management (Pty) Ltd (48.0%), Heike 39 Investments (Pty) Ltd (14.0%), AE Gams Investments (Pty) Ltd (8.6%).

FY13Highlights: Namibia Asset Management (NAM) released its results for the financial year ended 30 September 2013. The company reported increased profitability with Basic and Diluted EPS both rising by 28.9%% y/y and 30.0% y/y, respectively. NAM declared a dividend 4cps, with last day to trade 15 Nov 2013. We highlight the salient points.

- Total comprehensive income rose by 32.3% to N$10.5m from N$8.0m reported for FY12.
- Revenue increased by 53.3% in FY13 to N$63.8m from N$41.6m before. This growth stemmed off strong assets under management which increased 25.4% or N$3.1bn to N$15.3bn.
- Institutional AUM has increased by 21.8% from N$11.0bn in FY12 to N$13.4bn at the end of FY13. This performance was on the back excellent investment performance across all portfolios and good inflows during the period.
- Retail AUM increased 58.3% to N$1.9bn again on excellent performance and flows.
- The company managed to increase return on equity from 53.9% to 59.9%.
- NAM sits on strong balance sheet with cash and equivalents amounting to N$9.7m, representing approximately 34% of the company's total assets and in our view increasing the probability for a special dividend in the near future.

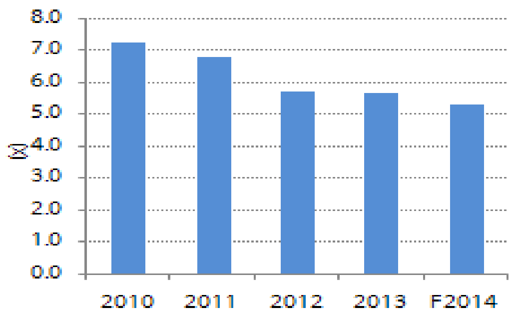
Outlook: In the results statement, NAM highlighted the current macroeconomic environment which entails the possible tapering by the US FOMC in the near future while South African equities are also fully valued with muted expected returns. The company also cautioned with regards to the recent promulgation of Regulation 15 and 28, and the probable negative impact it may have on business.

Valuation: In our view the share is attractively priced at 2.7x book and 5.0x earnings with a dividend yield of 13.3%. We value NAM relative to the JSE General Finance sector, applying a 35% discount for NAM to account for lower liquidity in the Namibian market. This implies a target P/E of 6.88x and a target price of 55c. Coronation Fund Managers is currently trading at a P/E of 28.12x. We thus maintain our **Buy** recommendation with an expected total return of 97%.

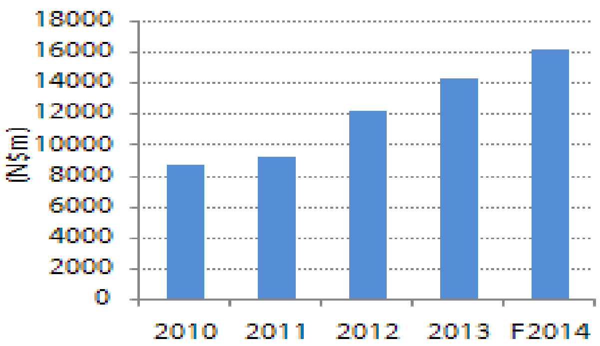
Bull Points:
- Institutional and retail inflows
- Institutional support from Coronation
- Growth from new products, e.g. medical aid

Bear Points:
- Risk of challenging market conditions continuing
- Uncertainties regarding Regulation 28

Price to Book



Assets Under Management



Fiscal Year End: June	2010	2011	2012	2013	F2014
Income Statement (N$m)					
Revenue	28.8	45.5	41.6	55.2	72.9
Other income	0.0	0.1	0.0	0.0	0.1
Net finance income	0.9	0.5	0.7	0.9	1.0
Operating expenditure	22.9	38.9	31.0	41.4	54.6
Profit before tax	6.9	7.2	11.4	14.8	19.4
Income tax (expense)\ credit	(1.2)	(2.4)	(3.8)	(4.7)	(6.0)
Net Profit	5.7	4.8	7.7	10.1	13.4
Balance Sheet (N$m)					
Assets under management	8,800.0	9,300.0	12,200.0	14,320.3	16,198.4
Cash and short-term funds	6.8	8.1	8.8	9.3	10.2
Total Assets	22.2	21.5	26.2	26.5	27.7
Debt	-	-	-	-	-
Total Liabilities	6.9	8.1	10.1	10.3	10.5
Total shareholders' equity	15.3	13.5	16.1	16.2	17.2
Growth Rates (%)					
Revenue	22%	58%	-8%	33%	32%
Assets under Management	9%	6%	31%	17%	13%
Assets	21%	-3%	22%	1%	5%
Financial Summary					
EPS (c)	2.9	2.9	4.6	6.1	8.1
HEPS (c)	2.9	2.9	4.6	6.1	8.1
DPS (c)	2.5	3.0	4.0	5.1	6.7
NAV (c)	7.6	8.1	9.7	9.8	10.4
Weighted Average shares (m)	200	166	166	166	166
Valuation Metrics					
P/E (x)	19.3	19.1	11.8	9.1	6.8
P/BV (x)	7.2	6.8	5.7	5.6	5.3
Dividend Yield (%)	4.5	5.5	7.3	9.2	12.2
Earning Yield (%)	5.2	5.2	8.4	11.0	14.7

Source: NAM, IJG

Financials: Real Estate

Oryx Properties

Recommendation: ***HOLD****, TP:* ***1632c****, Code:* ***ORY***

Nature of Business: Oryx Properties (Oryx) is a property loan stock company listed in the Real Estate sector on the NSX. Retail makes up 56% of the portfolio (mainly from Maerua Mall shopping centre in Windhoek) while Industrial contributes 36% to the portfolio and Offices contribute 8%.

Top Shareholders: Standard Bank Namibia Nominees (38.6%), TLP Investments One Three Seven (Pty) Ltd (25.5%), CBN Nominees (Pty) Ltd (6.1%)

1H14 Highlights: Oryx Properties Limited (Oryx) released its results for the six months ended 31 December2013, reporting a 20% increase in total distributions to N$44.4m from N$37.0m declared in the first half of 2013. The increase in distributions notwithstanding, no growth in distribution per unit was witnessed following a rights issue of 11,008,335 new linked units in November 2013. As such the distribution per linked unit remains at67.25cpu.Over the same period EPU rose by 113.5% to 209.85c but HEPU only rose by 12.3% to 81.58c.

The company displayed another period of good operational performance, with net rental income increasing by 20.9% y/y to N$89.7m, supported by above average occupancy levels, low interest environment, as well from strong renewals characteristic of the period under review. Rental expense added 42.6% to N$18.9m. Oryx reported a profit of N$75.9m (up 344.7% y/y), mainly as a result of a 237.6% higher change in the fair value of investment property of N$46.6m (1H13: N$13.8m) and a bargain purchase gain stemming from acquisition of Tuinweg Properties, which is the owner of the Gustav Voigts Centre.

Vacancies (as a % of lettable area) increased from 0.35% as at December 2012 to total 0.95% this time round. The increase in the vacancy rate was to be expected, and is in line with our forecast, as a result of the additional lettable area coming upstream following Maerua construction and the Gustav Voigts acquisition.

Oryx' long term borrowing increased by 53.1% y/y to N$777.9m in 1H14, from N$507.8m reported as at 1H13. Of this, N$211.7m (27.2%) is made up of fixed interest rate loans at a weighted average interest rate of 10.15%; and N$566.2m in variable interest rate loans carrying a weighted average rate of 7.30%. Thus, the weighted average interest rate of total borrowings amounts to 8.07% as at 1H14, down from 8.45% as at 1H13. The firm took on a Development Loan Facility of N$330m with Absa Bank in order to finance the Maerua Mall extension and upgrade, of which N$239.5m had already been utilised by 31 December 2013.

Outlook: We forecast FY14 distribution to be 143c per linked unit, this is after incorporating for the repayment of debt and the dilution effect. Based on this Oryx is currently trading on a before tax yield of 8.2%, compared to the GC24 at 9.27%, pointing to the stock's relative expensiveness considering the Oryx tend to trade at a premium to the government bond.

Valuation: Overall the performance of the company remains satisfactory, however following the rights issuance dilution and the increased trading price, we believe that the yield given the current price no longer justifies a buy recommendation in the short term. However growth prospects for financial years 2015 and 2016, coupled with the illiquidity of the stock and the possibility that once sold units may be difficult to rebuy in future, we recommend a hold on the stock for the current year.

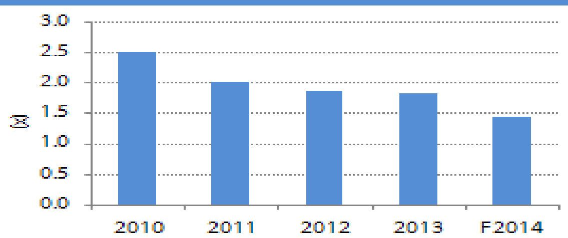
Bull Points:

- Very low vacancy levels
- Location of properties
- Quality tenants profile
- Value adding acquisitions
- Strategic positioning of Gustav Voigts Centre

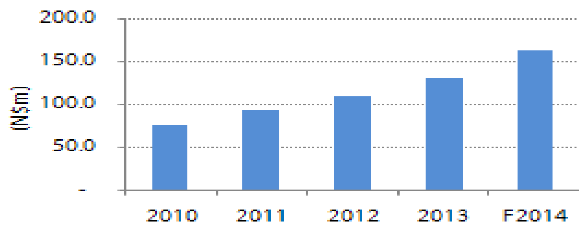
Bear Points:

- Unexpected interest rate increases
- Lack of good expansion opportunities (especially in the Namibian market)
- High exposure to a single property (Maerua Mall)

Price to Book



Net Rental Income



Fiscal Year End	2010	2011	2012	2013	F2014	F2015
Income Statement (N$m)						
Revenue	96.7	115.3	132.8	160.6	203.3	238.1
Rental expense	20.1	21.7	23.6	28.9	39.7	45.6
Net rental income	76.5	93.6	109.2	131.7	163.6	192.4
Investment income	6.0	0.4	1.2	0.8	0.8	0.9
Amortisation of debenture premium	2.8	2.8	2.8	2.8	3.1	3.3
Fair value changes	92.2	90.9	41.1	5.5	96.1	96.1
Other expenses	(5.7)	(6.6)	(8.6)	(10.4)	(11.5)	(12.7)
Finance cost	(17.4)	(21.5)	(28.3)	(37.9)	(57.8)	(77.1)
Debenture interest	(60.1)	(64.7)	(70.5)	(76.8)	(95.1)	(103.5)
Profit before tax	95.8	95.0	36.4	19.5	99.2	99.5
Income tax expense	15.3	0.2	(1.3)	4.6	3.5	3.5
Net Profit	80.5	94.9	37.7	14.9	95.7	95.9
Balance Sheet (N$m)						
Cash and other liquid assets	2.2	4.9	3.0	3.6	4.0	4.0
Investment properties	883.1	1,041.5	1,239.7	1,447.3	1,685.1	1,705.8
Trade and other receivables	11.2	10.8	11.7	18.7	12.0	12.0
Total Assets	918.3	1,084.1	1,284.2	1,507.3	1,730.1	1,750.9
Linked unitholders for distribution	30.1	33.6	36.5	39.8	43.8	48.1
Debentures	247.1	247.1	247.1	247.1	247.1	247.1
Long-term borrowings	187.3	256.2	395.7	590.4	543.9	464.3
Total Liabilities	536.8	607.7	770.1	978.2	934.7	859.5
Total shareholders' equity	381.5	476.4	514.2	529.1	795.4	891.3
Growth Rates (%)						
Revenue	7.0%	19.2%	15.2%	20.9%	26.6%	17.1%
Rental expense	14.3%	7.7%	8.7%	22.6%	37.3%	15.0%
Net rental revenue	5.2%	22.3%	16.7%	20.6%	24.2%	17.6%
Investment properties	252.7%	-93.4%	211.3%	-38.7%	10.0%	10.0%
Assets	18.6%	18.1%	18.5%	17.4%	14.8%	1.2%
Liabilities	-2.4%	13.2%	26.7%	27.0%	-4.4%	-8.0%
Financial Summary						
HEPU (c)	107.1	118.1	131.7	148.9	144.0	156.7
DPU (c)	109.3	117.5	128.0	139.5	144.0	156.7
NAV (c)*	693.2	865.6	934.1	961.3	1,204.2	1,349.5
Weighted Average shares (m)	55.0	55.0	55.0	55.0	66.1	66.1
**realisable NAV*						
Key Statistics						
Vacancies (as % of GLA)	0.8%	2.6%	0.6%	0.5%	1.5%	1.5%
Property expenditure/revenue	20.8%	18.8%	17.8%	18.0%	19.5%	19.2%
Debt/Equity	0.5	0.5	0.8	1.1	0.7	0.5
Valuation Metrics						
P/E (x)	16.7	15.1	13.6	12.0	12.4	11.4
P/BV (x)	2.6	2.1	1.9	1.9	1.5	1.3
Distribution Yield (%)	6.1	6.6	7.2	7.8	8.1	8.8
Earning Yield (%)	6.0	6.6	7.4	8.3	8.1	8.8

Source: Oryx, IJG

Non-Cyclical Consumer Goods: Beverages

Namibia Breweries Limited

*Recommendation: **HOLD**, TP: **1715c**, Code: **NBS***

Nature of Business: Namibia Breweries Limited (NBS) operated as a family business for many years and listed on the Namibian Stock Exchange in 1996. NBS produces its beer in accordance with the Reinheitsgebot, a purity standard which guarantees that only natural products are used in the production process. Other products produced are soft drinks that fall under the McKane range and the newly launched Vigo. Its preferred brands are Tafel Lager and the Windhoek range.

Top Shareholders: NBL Investment Holdings (NBLIH, 50.1%), Standard Bank (Namibia) Nominees (37.7%), FNB Namibia Nominees (6.7%), CBN Nominees (2.5%) & Namibia Breweries Share Purchase Trust (2.3%). Heineken and Diageo's stake of 28.9% in Nambrew consists of a 44% stake in the 50.1% shareholding of NBLIH, as well as a 6.8% direct stake in Nambrew. The remaining 56% of NBLIH is held by Olfitra in the Ohlthaver& List Group.

1H14 Results – Operationally Strong

The interim results reflect a strong operational performance with operating profit up 17.3% y/y. Basic EPS rose 40.5% y/y to 82.5c, whileHEPS were up 18.9% from 83.0c to 98.7c. The board declared an interim dividend of 34cps increasing its dividend for 1H13 by 9.7%.

NBS managed to grow revenue by 10.9% y/y to N$1.35bn, with growth stemming from sales of goods, which is up 11.6% y/y while royalty income fell 8.6%.Locally,double digits sales growth was seen,with beer sales volumes up 11%, while in South Africa,total volumes produced by NBS and sold to theDHN Drinks joint venture (JV)increased 7% compared to 1H13, however the value of sales actually decreased 3.7%, implying pricing pressure in SA.

Operating Margin – High base created

In FY14 we expect to see further expansion in the operating margin as the continuing surge in local revenue (higher margin business) more than offsets the negative impact of a weakening exchange rate and rising raw material prices.

However, in the medium term we turn more negative on NBS operating margins and profits. The strong increases in local revenue had a leverage effect through to operating profits on the back of higher selling prices in the local market. We are however concerned of the inverse effect that might come through when increased competition puts pressure on local revenue and ultimately operating margins.

NBS operating margin was at 20.98% as at FY13, the highest it has been since 2005 and we forecast that margins will keep up in FY14 after which we expect it to mean revert and go below the 20% level in the medium term as we are seeing a high base currently in the making.

Outlook: Fundamentally Namibia Breweries offers attractive value which could justify a buy recommendation on the stock; however, the potential downside risk (price and free cash flow dilution) to the DHN/Sedibeng deal and the upcoming change in the competitive landscape are creating a cause of concern.

Valuation: We value NBS using the dividend discount model, with the required rate of return based on an expected market return of 12.8%, justified by inflation expectations of 6.1% and forecasted economic growth of 2.45% in SA, according to Bloomberg. The required rate of return is 11.8%, based on a risk free rate of 9.01% (GC24), equity risk premium of 3.49% and a beta of 0.8. Based on these assumptions and our forecasted dividends for NBS, we value the company at an intrinsic value of N$14.40 per share. We do however forecast a target price for NBS of N$17.15 per share, based on a justified PE multiple of 11.1x, with an implied expected total return of 9.7% over the next twelve months; and therefore we recommend a HOLD on the stock.

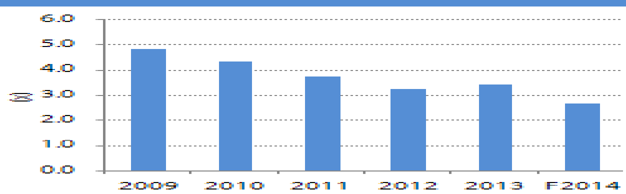
Bull Points:

- Migration from mainstream to premium brands
- Improved access to international customer base
- Maintaining local market share

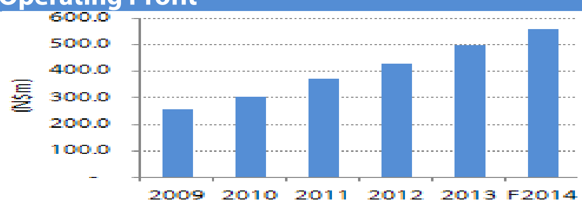
Bear Points:

- Increased competitive pressures in key export markets
- New SABMiller plant

Price to Book



Operating Profit



Fiscal Year End	2009	2010	2011	2012	2013	F2014	F2015
Income Statement (N$m)							
Sales Revenue	1,566.5	1,731.1	1,797.1	2,160.1	2,383.4	2,703.6	2,730.8
Operating Profit	256.6	303.0	375.3	429.0	500.1	561.9	541.7
Net interest income(expense)	8.3	6.3	6.9	(0.9)	(3.3)	16.8	24.8
Profit before tax	229.3	230.9	307.3	336.0	199.7	468.7	466.6
Income tax expense	(70.9)	(71.1)	(96.0)	(114.0)	(126.8)	(150.0)	(149.3)
Net Profit	158.4	159.8	211.3	222.0	72.9	318.7	317.3
Balance Sheet (N$m)							
Cash and other liquid assets	66.7	177.0	91.7	91.9	267.8	323.6	769.6
PPE	431.7	474.1	668.6	799.8	827.7	966.3	959.5
Intangible assets	0.6	2.7	4.6	6.4	12.2	2.7	0.9
Investment in JV	469.4	553.4	121.4	118.1	13.6	118.1	118.1
Inventories	185.8	124.5	151.1	203.2	285.9	240.5	353.0
Total Assets	1,513.0	1,609.7	1,406.7	1,672.5	1,714.2	2,102.3	2,508.4
Interest bearing debt	7.5	159.1	189.4	270.2	275.4	200.9	200.0
Current liabilities	330.6	380.8	304.9	356.1	672.8	462.4	585.7
Non-current liabilities	562.9	529.7	310.1	409.2	180.9	394.5	414.3
Total Liabilities	893.4	910.5	615.0	765.2	853.7	857.0	1,000.0
Total shareholders' equity	608.8	677.5	791.7	907.3	860.5	1,109.3	1,356.1
Growth Rates (%)							
Sales	17.7%	10.5%	3.8%	20.2%	10.3%	13.4%	1.0%
Opertaing Profit	41.3%	18.1%	23.9%	14.3%	16.6%	12.4%	-3.6%
Cash and other assets	-56.4%	165.3%	-48.2%	0.3%	191.4%	20.8%	137.8%
Interest Bearing debt	-67.9%	2020.4%	19.1%	42.6%	2.0%	-27.1%	-0.4%
Inventories	56.6%	-33.0%	21.4%	34.4%	40.7%	-15.9%	46.8%
Assets	11.5%	6.4%	-12.6%	18.9%	2.5%	22.6%	19.3%
Financial Summary							
EPS (c)	76.7	77.4	102.3	107.5	35.3	154.3	153.6
DPS (c)	43.1	45.1	49.0	54.0	62.0	68.2	71.6
NAV (c)	2.95	3.28	3.83	4.39	4.17	5.37	6.57
Valuation Metrics							
P/E (x)	21.3	21.1	15.9	15.2	9.2	10.6	10.6
P/BV (x)	4.8	4.3	3.7	3.2	3.4	2.6	2.2
Dividend Yield (%)	2.6	2.8	3.0	3.3	3.8	4.2	4.4
Earning Yield (%)	4.7	4.7	6.3	6.6	10.9	9.5	9.4

Source: NBS, IJG

Industrials: Support Services

Bidvest Namibia

*Recommendation: **BUY**, TP: **1400c**, Code: **BVN***

Nature of Business: Bidvest Namibia (BVN) is part of The Bidvest Group Limited, which is listed on the JSE and operates on 4 continents. Similar to the Bidvest Group in SA, BIDNam is a diversified industrial conglomerate. BIDNam's business activities span across the fishing (47.4% of revenue, 87.9% of trading profit), freight services, distribution, business support and tourism industries. The group operates through two holding companies, Bidfish and Bidcom. Bidcom operates through the Bidfreight, Bidserv, Bidfood and Bid Industrial and Commercial Products operating divisions.

Top Shareholders: The Bidvest Group (51%), Ovanhu Investments (14%), Government Institutions Pension Fund (11%)

1H14 Highlights: BVNreleased its results for the first six monthsended 31 December 2013. The firm posted reasonable in light of the difficult trading environment the fishing division finds itself in. EPS and HEPS increased to 55.4cps.While BVN managed to grow revenues by 9.0% y/y to N$1.7bn, mainly attributed to the T&C business and Freight and Logistics, cost of sales grew at 13.1% and operating costs by 10.3% to N$158.2m from the N$143.4m reported for 1H13. The main cost booster came in the form of the quota rentals fees BVN had to pay up in order to counter the impact of their lower direct quota allocation.

Fishing division - The worst is behind us

At 76.8% of trading profit, although down from 84.4% in 1H13, this division remains the backbone of the firm. The higher TAC for pilchard together with strong market prices for the pelagic industry allows for a positive outlook and despite weaker selling prices of horse-mackerel, a weaker local currency and a healthy fishing resource remain the silver lining for this division.

BidCom – The future looks bright

The BidCom companies managed to grow revenues, and almost all businesses within the commercial portfolio showed improvements in trading profit margins. BidCom accounted for 23.0% of trading profits, up from 17.0% in 2012. Increased sales initiatives and effective implementation of turnaround strategies by the Industrial and commercial products divisions allow for a positive outlook, supported by higher trading profits in the Freight and logistics division, stemming from the continuation of the oil and gas exploration opportunities and spin-offs from the expansion of the Walvis-bay harbour is expected to be significant once construction starts.

Valuation and Recommendation

The stock is currently trading on a FY14 yield of 5.8% based on full year dividends of 74cps at an assumed 52% payout ratio. This compares favourably to its average of 4.8% since listing. Cost of equity is calculated at 12.8%, given the risk free rate of 8.59% and a 3.45% equity risk premium with a beta of 1 and country risk premium of 0.71%.

The positive economic environment bodes well for the revenue growth in the commercial businesses, and despite weaker selling prices of horse-mackerel, a weaker local currency and a healthy fishing resource provides support for revenue growth off a low base in the fishing division, justifying FY15 growth in revenue of 12.0% and trading profit margin starting to widen from the low in 2014. The growth HEPS should further benefit from the lower corporate tax rate.

That said, we have adjusted our earnings forecast and target price following a detailed analysis of the first half results. We forecast FY15 earnings of N$1.65 per share and calculate a target price of N$14.00 per share based on a justified PE ratio of 8.5 times. Based on this the 12m total return is 16.2%, sufficing our required rate of return of 12.8%, we therefore change our HOLD recommendation to a BUY.

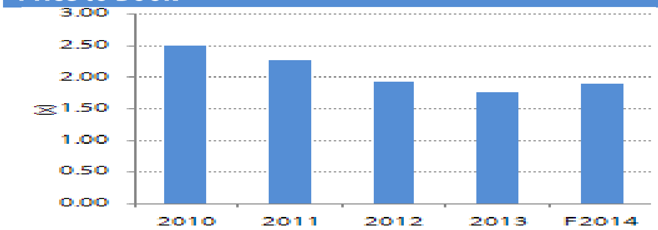
Bull Points:

- Exchange rates
- Strong brands in the industries in which BIDNam operates

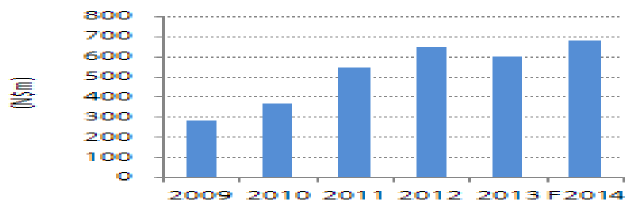
Bear Points:

- Fishing industry conditions and regulation
- Oil price
- Margin contraction
- Low economic growth

Price to Book



Trading Profit



Fiscal Year End	2009	2010	2011	2012	2013	F2014
Income Statement (N$m)						
Sales Revenue	1388	1608	1919	2731	3355	3701
Cost of sales	(951)	(1102)	(1207)	(1890)	(2488)	*
Gross Profit	436	506	712	841	867	*
Operating expenses	(156)	(159)	(186)	(209)	(281)	*
Trading Profit	284	369	545	647	601	634
Net interest income(expense)	3.4	1.3	6.1	17.6	13.0	8
Income from associates	0.0	0.0	0.0	0.0	0.0	0
Profit before tax	289	353	568	672	615	642
Income tax expense	(105)	(116)	(184)	(211)	(188)	(197)
Minorites	53	72	126	162	152	144
Net Profit	183	237	384	469	444	444
Balance Sheet (N$m)						
Cash and other liquid assets	228	591	780	785	853	600
Propert, Plant and Equipment	307	549	569	764	830	*
Intangible assets	49	39	31	31	35	*
Goodwill	69	69	69	102	120	*
Inventories	179	217	230	324	376	*
Total Assets	1073	1725	1940	2469	2779	600
Interest bearing debt	9.5	58.8	2.3	1.2	11.5	*
Current liabilities	345	417	390	517	586	*
Non-current liabilities	72	151	149	239	233	*
Total Liabilities	417	569	539	757	820	*
Shareholders' equity	0.7	1.2	1.4	1.7	2.0	*
Minorities	146	200	267	354	452	*
Total shareholders' equity	656	1156	1402	1712	1959	1502
Growth Rates (%)						
Sales	33%	16%	19%	42%	23%	10%
Trading Profit	84%	30%	48%	19%	-7%	5%
Cash and other assets	20%	159%	4%	34%	9%	
Inventories	77%	21%	6%	41%	16%	
Assets	27%	61%	13%	27%	13%	
Financial Summary						
EPS (c)	86	125	143	130	141	165
HEPS (c)	79	87	120	140	129	141
DPS (c)	15	36	54	63	69	74
NAV (c)	*	*	*	*	*	*
Weighted Average shares (m)	163	192	207	210	212	212
Key Statistics						
Operating margin (%)	21%	22%	29%	24%	18%	17%
Current ratio (x)	1.8	2.5	3.2	3.0	3.0	*
Debt/Equity	1%	6%	0%	0%	0%	0%
RoE (%)	40.2%	32.4%	36.7%	37.0%	29.8%	31.9%
Valuation Metrics						
P/E (x)	16.31	15.20	10.42	9.12	10.04	9.19
P/BV (x)	4.04	2.54	2.30	1.95	1.77	1.90
Dividend Yield (%)	1.2%	2.8%	4.2%	4.8%	5.3%	5.7%
Earning Yield (%)	1.2%	2.8%	6.7%	1.8%	1.8%	0.0%

Source: BVN, IJG

Maintenance Coverage

Financials: Investment Companies

Stimulus Investments

Nature of Business: Stimulus Investments provides expansion capital and funding of management buy-outs or empowerment buy-ins. The company focuses on acquiring interests in established, high cash yielding businesses in Namibia which require empowerment credentials. Stimulus is also actively involved in the management of its investments.

Top Shareholders: AllanGray (68.3%), Sanlam Life (16%), Namibia Asset Management (10.1%), Metropolitan Life 1.9%.

FY13 Highlights:

During the year ended 29 February 2013, group revenue increased by 5.4% from a restated amount for FY12 of N$13.8m to N$14.6m. Operating expenses added a significant 82.3% to N$8.2m from a value of N$4.5m recorded for FY12. The gain on fair value adjustments countered the effect of the additional costs, adding 74.1% y/y to come in at N$34.1m. While finance costs added N$3.1m y/y, the cumulative effect on the bottom line was positive, with profits coming in at N$9.8m, above the N$1.2m reported for FY12.

The firm advised that the size of the investment portfolio (excluding cash) grew by 58% y/y, stemming from a combination of corporate action and growth in the fail value of its investments. The firm declared a preference dividend of N$4.09m, down from N$4.10m, for FY12, and translating to a dividend to 109c per preference share based on 3.750m preference shares in issue (FY12: 164c, based on 2.50m preference shares in issue).

During FY13, Stimulus acquired Desert Trade Investments, holding 50% of the shares in Democratic Medial Holdings. Democratic Media Holdings publishes the Afrikaans daily newspaper Republikein, the German daily newspaper AllgemeineZeitung, and the English daily newspaper Namibian Sun. It owns Newsprint Namibia, a state of the art newspaper printing operation which currently prints all Namibian newspapers as well as commercial publications.

Stimulus Investments currently has the following investments:
- Democratic Media Holdings
- Cymot
- Nashua Namibia
- Plastic Packaging
- Walvis Bay Stevedoring
- Joe's Beerhouse Properties

Outlook: Stimulus will keep reviewing and updating risk management processes so as to aid in achieving success with its portfolio.

Bull Points:

- Sufficiently available capital
- Little to no competition
- Well balanced portfolio with strong underlying investments

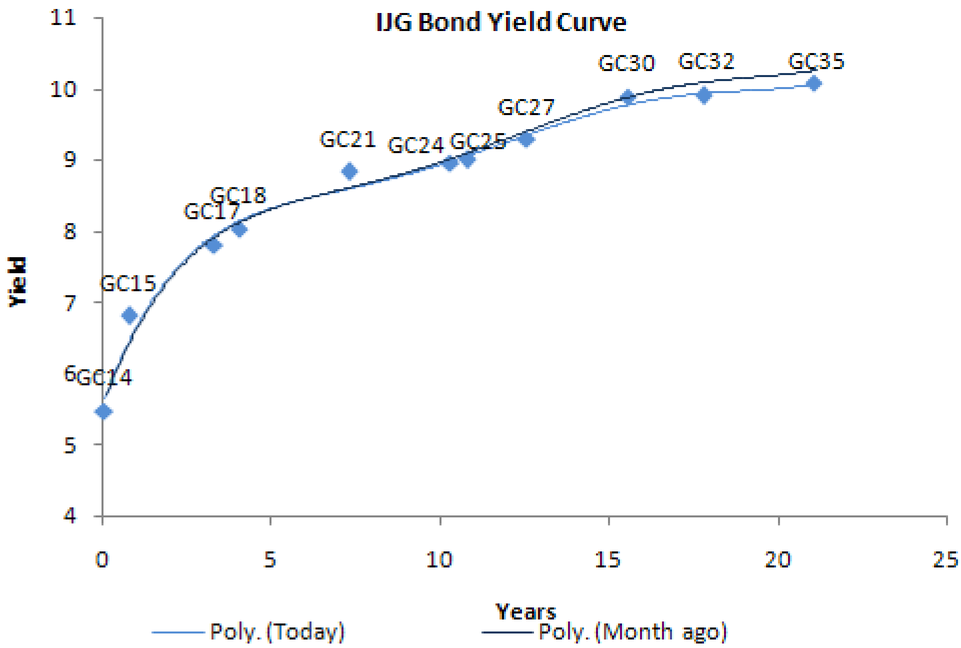
Bear Points:

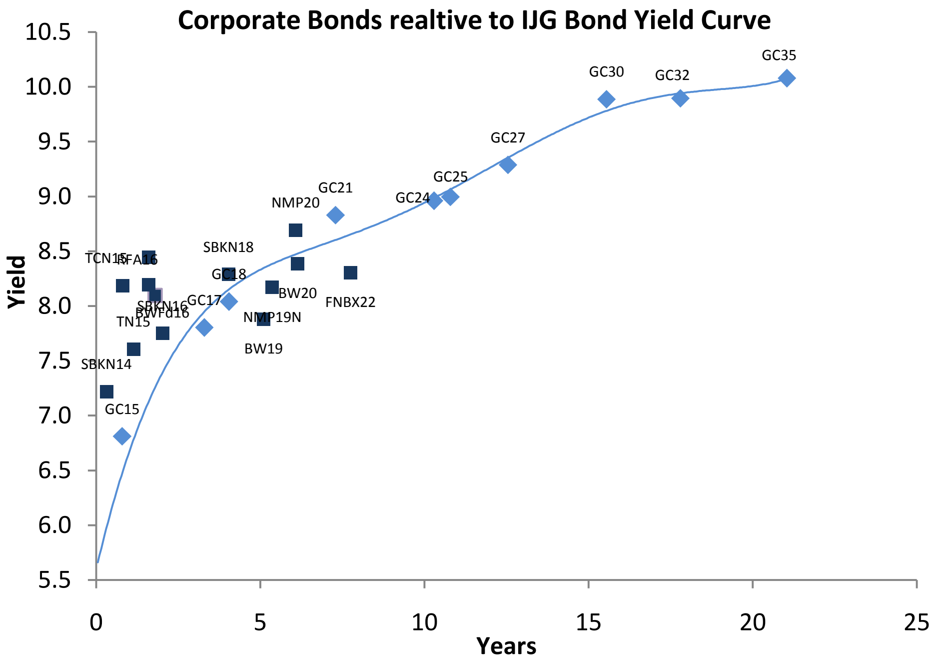
- Financial skills shortage

Bond Listings

- Bank Windhoek Holdings
- FNB Namibia
- Standard Bank Namibia
- Namibia Power Corporation
- Telecom Namibia
- Road Fund Administration

<u>30 June 2014:</u>





Financials: Banks

Standard Bank Namibia

Nature of Business: Standard Bank Namibia is one of the largest financial services groups in Namibia with a total asset base of N$18bn as at FY12. Standard Bank offers a full range of banking services as well as insurance broking, asset management, unit trusts and safe custodianship services.

Top Shareholders: Standard Bank Group (100%)

FY12 Highlights:
Standard Bank Namibia reported that profit for 2012fell 8% to N$276m. Revenue increased 11.8% to N$1.2bn while total assets grew by 12.3% to just over N$18bn. During the period, Standard Bank's loans and advances increased by 20.8% to N$12.3bn, while the funds in its current and deposit accounts grew by 6.9% to N$14.8bn

Standard Bank issued senior and unsecured notes, the SBKN15 and SBKN18, amounting to N$307m and 26m respectively. SBKN15 is a 3 year floating bond while the SBKN18 is a six year fixed paper. The SBKN 18 is benchmarked against the GC18, while the SBKN 15 is benchmarked against the 3-months Jibar rates.

Outlook: Despite the outlook for lower interest rates, the bank expected credit growth to be moderate over 2013.

Bonds: Standard Bank currently has four bonds in issue, namely the SBKN14, SBKN15, SBKN16 andSBKN18, amounting to N$643m listed on the NSX. SBKN14, SBKN15, SBKN16 and SBKN18are currently trading at premiums over their respective benchmark notes of 41bp, 105bp, 94bp and25bp, respectively. We view these bonds as being fairly priced at current rates.

Maturity dates for the bonds are as follows:

SBKN14:	23 October 2014
SBKN15:	11 July 2015
SBKN16:	7 July 2016
SBKN18:	7 July 2018

Bull Points:

- Large asset base
- Largest banking face to face customer footprint in Namibia

Bear Points:

- Government pressure to decrease banking fees
- Margin pressure
- Increasing interest rates on non-performing loans

Industrial: PARASTATAL

Namibia Power Corporation

Nature of Business: Namibian Power Corporation (NamPower) is Namibia's power utility which specialises in the generation and transmission of electricity. NamPower is the sole energy generator, trader and transmitter in Namibia. Electricity is generated by the 4 power stations; Van Eck, Ruacana Hydro, Paratus and Anixas.

Top Shareholders: Namibian Government (100%)

FY12 Highlights

NamPower's total revenue increased by 10.7% for the FY12, coming in at N$2.6bn. Profit before tax rose by 84.1% y/y, albeit coming off a low base after a fall of 66.9% in the previous financial year. The company has a negative taxation charge (as opposed to a tax break in FY11), and resultantly, profit after tax dropped by 14.8% y/y. Capital expenditure has been on the decline, where the FY 12 figure came 61.9% below that of FY11 and 80.4% below the FY10 figure.Units sold has been on the rise, and came in at 3,726GWh for the financial year.

Nampower reported that during the yearunder review, the Ministry of Mines and Energy introduced a National Energy Fund levy as part of the tariff increase,equivalent to 4.4%. This was included in the total tariff increase of 18.3% announced by the Electricity Control Board. The effective tariff increase awarded to NamPowerexcludingthe levy was thus 13.9%. As a result of the delays experienced in announcing the tariff increase, the new tariffs came into effect only on 1 September 2011, impacting negatively on Group revenue.

The commissioning of the ANIXAS Power Station in December2011 and Ruacana Fourth Unit that came into operation in March 2012 provided additional local generation capacity during the second half of the year. We expect to see this filter through to additional energy generation in FY13.

The power utility is soliciting a bid for the construction of the much-delayed 800MW Kudu gas-to-power plant, according to the Namibian, citing Business Day. The Kudu project near Oranjemund involves pumping gas from the Kudu filed about 170km offshore to a combined cycle gas power plant.

Fitch Ratings affirmed NamPower'slong-term foreign currency Issuer Default Rating (IDR) in April 2012 at 'BBB-' and Short-term IDR at 'F3'. Fitch has also affirmed NamPower's National Long-Term rating at 'AA-(zaf)' and its Short-Term rating at 'F1+(zaf)'. Both Long-term ratings have Stable Outlooks. The affirmation continues to reflect the alignment of NamPower's ratings with those of the Namibian sovereign ('BBB'/Stable).

Bonds: NamPower currently has two bonds, NMP19N and NMP20N, to the amounts of N$500m and N$250m respectively, listed on the NSX. The NMP20 bond has a coupon rate of 9.35% and is trading at a 90bp premium to its benchmark (R207), while the NMP19N has a 10.00% coupon and trades 13bps over the GC18.

Bull Points:

- Financial support from Government
- Electricity generation and transmission monopoly in Namibia

Bear Points:

- Expensive electricity generative fuels (diesel & coal)
- High electricity demand from mining sector
- High reliance on imported electricity

Industrial: PARASTATAL

Telecom Namibia

Nature of Business: Telecom Namibia Limited (Telecom) is the national telecommunications operator and sole fixed line service provider in Namibia. Telecom provides mobile telephony (Switch) and broadband – data network in addition to fixed line telephony.

Top Shareholders: Namibia Post and Telecommunication Holdings (100%).

FY12 Highlights:
Telecom's FY12 saw a 7% increase in revenue to N$1.22bn from N$1.14bn previously. Operating profit was reported at N$123.1m for the financial period, which represents an increase of 65.9% from the FY11 figure of N$74.2m. Company profit after tax rose to N$60.8m from N$50.6m in FY11. The group posted a profit of N$56.3m from the loss after tax of N$87.4m in FY11, and the even larger loss of N$122.2m reported in FY10.This growth is mainly attributable to the increased uptake of the broadband offerings (up 500% from 2009 to 2012) following the capital investment amounting to N$746m since 2009.

A deal to divestment in the 44% held associate MundoStartelwas concluded during the financial period, and will result in cash payments of N$2m and the issuance of N$12m in preference shares, to be redeemed over 10 years, Telecom advises.

Telecom Namibia announced on 28 November that the Communication Regulatory Authority of Namibia (CRAN) has formally cleared the Company's completed acquisition of Powercom (Pty) Ltd, trade name Leo, the country's second mobile operator. The transaction was already approved by the Namibia Competition Commission (NaCC) on 27 April 2012. CRAN's approval marks the final approval required for Telecom Namibia's overall transaction with Guinea Fowl Investments Two (Pty) Ltd to acquire 100% equity stake in Powercom (Pty) Ltd T/A Leo; effectively placing the Company under the full control of Telecom Namibia; and is described by the group as "imminent".

Following the acquisition of the mobile operator, Leo, Telecom Namibia announced that Chinese firm ZTE Corporation will upgrade the Telecom and Leo network at a cost of N$46m, according to the Namibian. The agreement with ZTE is reportedly expected to lead to the building of a unified mobile network that will provide Telecom and Leo with a fully transformed 2G/3G/4G networks.

Bonds: Telecom currently has five bonds in issue, the TCN15, TCN16, TCNF01, TN15 and TCNF02, with a total nominal amount of N$347m. The TCN15, TCN16, TCNF01, TN15 and TCNF02 are trading at premiums of 149bps, 175bps, 151bps, 255bps and 149bps relative to their respective benchmarks**.**

Bull Points:

- Fixed line monopoly
- Transition into an IP based company
- Completion of network infrastructure investment programme
- Increased market share in mobile telecommunication through Leo acquisition

Bear Points:

- Uncertainties presented by the market liberalisation process
- No experience in mobile network systems
- Competition from mobile operators

Important Company Dates

Company	Share code	Fin year	Interims	Finals
Bank Windhoek Holdings	BWH	30-Jun	28-Feb	30-Sep
FNB Namibia	FNB	30-Jun	28-Feb	30-Sep
Namibia Asset Management	NAM	30-Sep	30-Jun	30-Nov
Trustco Group Holdings	TTO	31-Mar	31-Dec	30-Jun
Oryx Properties	ORY	30-Jun	28-Feb	29-Aug
Bidvest	BVN	30-Jun	31-Mar	30-Sep
Namibia Breweries	NBS	30-Jun	31-Mar	30-Sep
Nictus	NCT	31-Mar	31-Dec	30-Jun
Paladin Energy	PDN	30-Jun	31-Dec	30-Sep
B2Gold	B2G	31-Mar	30-Sep	28-May
Eco (Atlantic) Oil & Gas	EOG	31-Mar	31-Dec	30-Jun
Deep Yellow	DYL	30-Jun	31-Dec	30-Sep
Bannerman	BMN	30-Jun	31-Dec	30-Sep
Forsys Metal Corporation	FSY	31-Jan	30-Sep	30-Apr
Marenica	MEY	30-Jun	31-Dec	30-Sep

Source: NSX, Company reports

The above table shows the financial year-ends of all NSX local companies, the NSX share code, and the dates that interim and final results are due to be, or were last released.

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