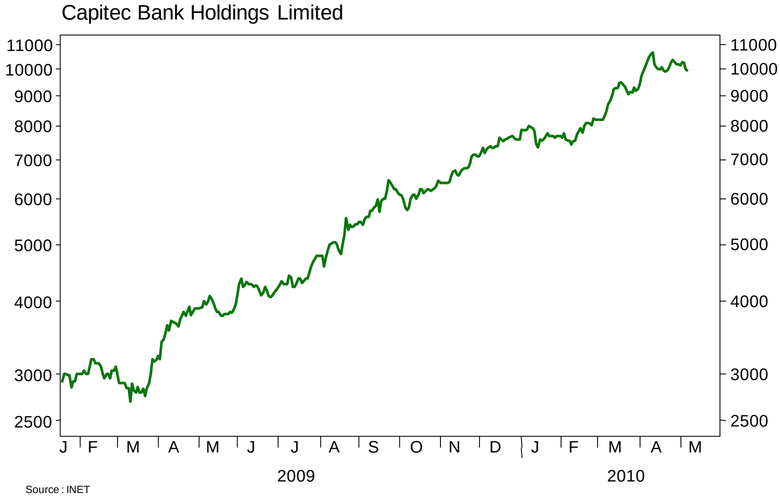
14 May 2010

OMIGSA Comment – Tracy Brodziak, Head: Financials

Capitec – a great company …..but very expensive



Capitec has had a phenomenal run over the last year - its share price has appreciated from just R32 in March 2009 to approximately R100 currently. This equates to a 200% return versus the 40% return of the SWIX, over the same period.

Capitec has also shown strong earnings growth over this period as it moved away from short-dated microloans toward longer-dated (three-year loans). It has used the high interest (and profit) it earns on the microloans to subsidise its cheap transactional facilities. It also embarked on a very clever marketing campaign which helped it gain mainstream acceptance and increased the number of customers (and deposits).

The shares in Capitec are very tightly held by PSG, management and associates – only 7% of shares in issue were traded over the last year. This makes it very tricky for institutional shareholders to build a significant stake in the share. The major driver of share price growth has been the smaller retail investor.

Capitec is trading on a 19 p:e (price to earnings ratio) versus a current p:e of 12 to 14 for the big four banks and a p:e of 14 for African Bank (ABL). In terms of price-to-book, Capitec is trading at a whopping 5 times versus the 1.5 to 1.8 times of the other banks. Capitec is a great company, but at current levels it is looking full.

07 - 13 May 2010 in a nutshell

Global: Major global stock markets were a mixed bag this week, influenced by a lacklustre jobs report from the US and persistent concerns over Eurozone sovereign debt, despite the European Union's massive rescue package. The S&P 500 in the US was flat at -0.77, while the European stock markets rallied 5.86% and emerging market shares collected a healthy 3.17%.

South Africa: In cheering the "rescue package" news from the Eurozone, the local bourse ended the week in positive territory, with the ALSI climbing 1.92%, on buoyant commodities prices. The biggest winners were resources, gaining 2.63%.

Markets and Economics - Highlights

Global

- The US trade deficit widened for the second month in March to its highest level since December 2008. The trade shortfall increased 2.5% to $40.4bn from February, the commerce department's seasonally adjusted data showed.
- European policymakers unveiled an unprecedented loan package worth R7.25 trillion and a programme of bond purchases to stop a sovereign debt crisis that threatened to shatter confidence in the euro. Also, the European Central Bank said it would buy government and private debt.
- Stocks in emerging markets surged the most in almost 10 months, and their currencies rebounded as European leaders unveiled a loan package to stop a sovereign debt crisis that

threatened to slow global growth.

South Africa

- The South African Reserve Bank's monetary policy committee (MPC) left the key repo rate unchanged at 6.5% on Thursday, leaving the prime lending rate steady at 10%.
- The job market will not recover and the unemployment rate will rise to 30% over the next five years because of labour regulation and high wage settlements in unionized industries, said staffing company, Adcorp.
- Factory output surged at its fastest pace in two years in March, suggesting the economy's second biggest sector helped to drive overall growth faster than expected in the first quarter. Manufacturing production was 6.3% higher than in the previous March, quickening from a 2.7% rise in February and well above consensus forecasts for a 2.8% rise, Statistics SA figures showed.
- Gold prices hit a new peak above $ 1 245/oz on Wednesday as investors sought a safe haven from volatile equity and currency markets with concern spreading about contagion from the Greek debt crisis. However, SA could miss out on this rally due to the strong rand and rising costs offsetting the price rise.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 13.05.2010	% Performance Return
United States	S & P 500 (US$)	-0.77%	1,157	3.76%
Europe	Euro Stoxx 50 (Euro)	5.86%	2,764	-6.82%
Emerging Mkts	MSCI Emerg Mkts (US$)	3.17%	976	-1.36%
South Africa	FTSE/JSE All Share (ZAR)	1.92%	28,042	1.36%
Global	MSCI (US$)	2.49%	1,153	-1.28%
ZAR/Dollar	Rand/US $ (ZAR)	-3.36%	7.48	1.22%
ZAR/Pound	Rand/£ (ZAR)	-5.12%	10.93	-7.84%
ZAR/Euro	Rand/Euro (ZAR)	-4.19%	9.38	-10.58%
JSE	Industrials	-0.06%	26,003	3.00%
JSE	Financials	1.73%	20,828	7.77%
JSE	Resources 20	2.63%	49,329	-3.44%
JSE	Small Companies	-1.25%	29,366	5.31%
JSE	Listed Property	-0.58%	343	6.19%
JSE	RAFI® ALSI	1.80%	5,877	2.17%
JSE	RAFI® 40	1.69%	5,658	1.18%
JSE	SWIX	1.78%	5,889	2.69%

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