

Challenges facing Gordhan ahead of mini-budget - pg. 2

Naspers sells Polish auction site - pg. 3

Market moves

Performance: 15/10/2016 to 21/10/2016	Return (Cumulative)
EA: Inflation rate	
All Share TR ZAR	0.96
Ind/Financials TR ZAR	2.23
Ind/Industrials TR ZAR	0.14
Financials&Indl 30 TR ZAR	0.78
Ind/Basic Materials TR ZAR	1.58
Gold Mining TR ZAR	4.82
SA Listed Property TR ZAR	2.70
Beassa ALBI TR ZAR	0.04
Commodities	
Oil Price Brent Crude PR	-0.33
LBMA Platinum AM PR USD	-1.28
Gold London AM Fixing PR USD	0.62

The week ahead

Domestic

26 Oct Medium term budget

01 Nov Unemployment rate

International

28 Oct Japan: Inflation rate

31 Oct EA: Inflation rate

Macro

South Africa

Consumer prices in South Africa rose 6.1% YoY in September, following a 5.9% increase in August. This was below market expectations of 6.2% gain. It was the highest figure since June as the cost of transport went up at a faster pace.

United States

The flash IHS Markit Manufacturing PMI for the US increased to 53.2 in October, from 51.5 in September, beating market expectations of 51.5. It is the highest figure since October 2015. The PMI was boosted by stronger output and new business growth.

European Union

The ECB held its benchmark refinancing rate at 0% for the sixth straight time in October, as widely expected. Both the deposit rate and the lending rate were also left steady at -0.4% and 0.25%, respectively.

Markets*

Best performer

For the week was Tradehold Ltd. with a return of 8%. Calgro M3 Holdings Ltd. was second with a 7% return for the week.

Worst performer

Royal Bafokeng Platinum was the worst performer for the week with a loss of 13%. Followed by ArcelorMittal South Africa with an 11% drop for the same period.

Sectors

The best performing sector for the week was industrial engineering with a return of 11.8% for the week. The sector representing equity investments was the worst performing sector for the week with a 3.4% loss.

*Disclaimer: Total weekly returns based on closing values from Monday to Monday.

Macro note

Challenges facing Gordhan ahead of mini-budget

The Finance Minister faces his “toughest budget speech to date”, economist have noted.

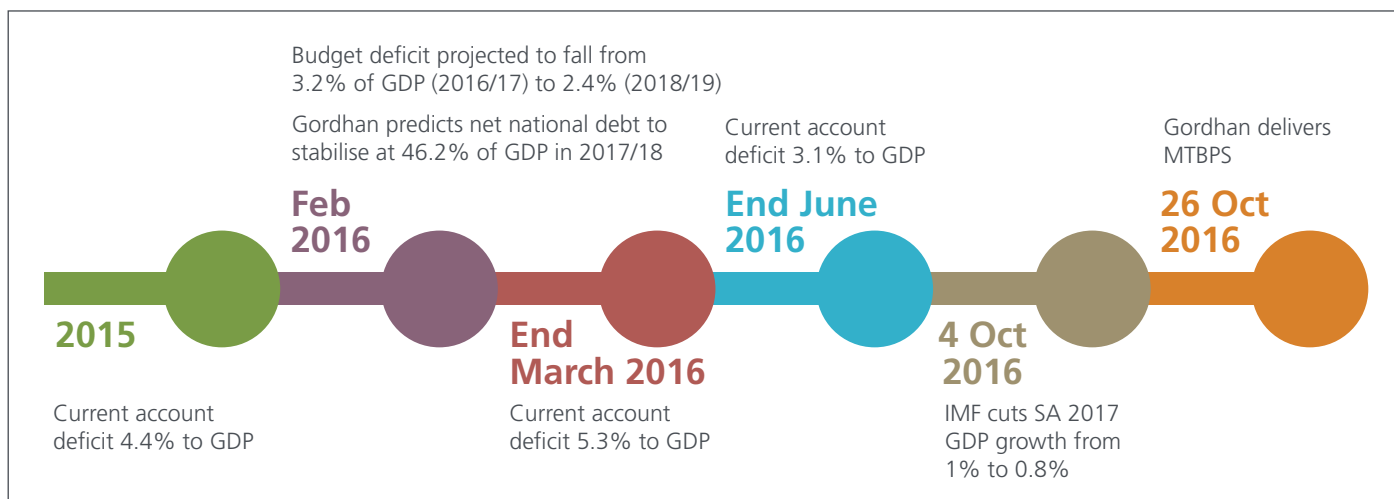
Finance Minister Pravin Gordhan is expected to deliver the Medium Term Budget Policy Statement (MTBPS) later today in parliament. Gordhan will seek to stimulate the economy while containing expenditure. This will be a careful balancing act of raising revenue through taxes on already strapped consumers, and curtailing government spending in a low growth environment worsening every year. It will be even harder this year with factors such as the fees-must-fall campaign, the threat of a sovereign downgrade and the minister’s pending court appearance on fraud

charges. Economist agree that Gordhan faces five key challenges in his MTBPS:

1. Weak economic growth and an appropriate turnaround strategy
2. Sustained budget deficits
3. Containment of government debt
4. The current account deficit
5. Political uncertainty

Weak economic performance has strained the budget deficit, while revenue stays inefficient to cover expenditures. Gordhan will need to present viable strategies to tackle these challenges, especially if a downgrade is to be avoided.

SA government debt



Ratings agencies will view it as negative, if Gordhan does not have political support to implement his strategies

Source: Trading Economics, Moneyweb

Bottom line

We have been communicating that macro-economic considerations will have an increasingly important impact on markets going forward. We are mindful of these developments and approach them with much

consideration, prudence and care. We consider these developments in conjunction with our assessment of asset classes and security specific fundamentals.

Market note

Naspers sells Polish auction site

Africa's most valuable company, Naspers, agreed to sell Allegro, a Polish online auction site, for \$3.25bn. This was ahead of expectations.

In a statement the media company said the sale was "consistent with the group's strategy to find and unlock value for shareholders". Founded in 1999 and headquartered in Poznan, Allegro is a popular online shopping destination in Poland with more than 20 million registered users. Allegro was bought as part of Naspers' acquisition of Tradus in 2008, for a purchase price of \$1.485bn, since then it has generated about \$714m in cash flow. Allegro accounted for about 30% of Naspers' annual EBITDA. With other eCommerce businesses recording losses, it's likely a bigger loss in EBITDA would be recorded and it could take time for a loss in EBITDA to be recovered.

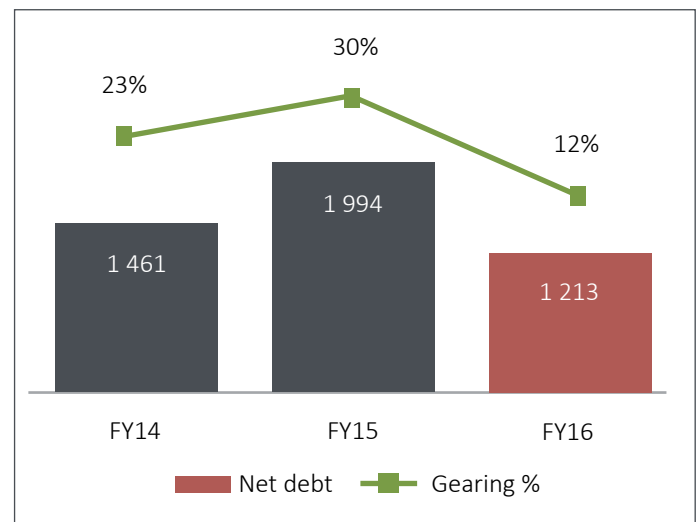
The Naspers statement indicates that proceeds will be used to repay debt, and fund the continuing scaling of Naspers' eCommerce businesses, plus finance any potential new acquisitions. The total debt of Naspers stood at \$3.9bn at the end of the 2016 financial year, while net debt amounted to \$2.2bn. Theoretically placing the company in a positive net cash position. The S&P credit rating of Naspers is currently at BBB-, in line with South Africa's sovereign rating. If South Africa's sovereign rating is downgraded by S&P at the start of December, it could likely lead to a downgrade of Naspers. This transaction is still subject to antitrust clearance.

Then last week Tuesday, Naspers said it would combine Ibibo with competitor MakeMyTrip to create one of the largest travel group's in India. The combination of

Ibibo and MMYT brings together leading consumer travel brands, including MakeMyTrip, goibibo, redBus, Ryde and Rightstay. By combining the complementary strengths of each travel group, the transaction is expected to unlock value for customers, while supplying partners and shareholders for the businesses.

The disposal of Allegro is positive for Naspers' underlying credit fundamentals and showcases Naspers' skill in monetising their fully developed assets. However, Naspers' valuation remains driven by the share price of Tencent, the groups largest investment. Especially because the market does not ascribe significant value to the group's other eCommerce operations, despite an increase in the scale of these operations over the last few years.

Naspers net debt since 2014 financial year



Source: Naspers 2016 financial results

Previous publications

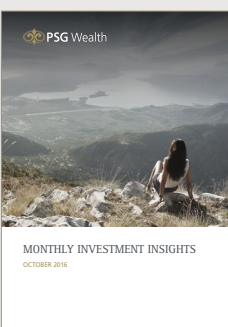


Daily
26 October 2016



Weekly

12 Oct	13 Jul	04 May	23 Feb
05 Oct	06 Jul	26 Apr	11 Dec
28 Sep	29 Jun	20 Apr	20 Nov
14 Sep	22 Jun	12 Apr	16 Nov
07 Sep	15 Jun	05 Apr	
31 Aug	08 Jun	30 Mar	
17 Aug	01 Jun	23 Mar	
10 Aug	25 May	16 Mar	
02 Aug	18 May	09 Mar	
27 Jul	11 May	01 Mar	



Monthly

Oct 2016	Dec 2015
Sept 2016	Nov 2015
Aug 2016	Oct 2015
July 2016	
June 2016	
May 2016	
Apr 2016	
Mar 2016	
Feb 2016	



Quarterly

Spring 2016
Winter 2016
Autumn 2016
Summer 2015
Spring 2015

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