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Investment Letter

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Buffetology: A year to forget but lessons to remember

David Shapiro: Fund Manager, Sasfin Securities

I attended the Berkshire Hathaway annual shareholders' meeting at the beginning of May. It was my third successive visit to Omaha for this event and, as in the past, I had hoped that by listening to the wisdom of Warren Buffett and his long-time business partner Charlie Munger, a little bit of their vast knowledge might rub off onto me, especially in the current uncertain climate. I wasn't the only person seeking guidance and counseling in these turbulent times; a record 35 000 shareholders crammed into the Qwest Center in Omaha to hear Warren and Charlie being probed by shareholders and answer questions posed by three popular American journalists appointed to evaluate a wide selection of issues submitted to them by e-mail.

From the outset, we discovered that neither Warren nor Charlie had the faintest idea where the global economy was heading over the next year or two. They've often admitted that they have a file called "Too Hard" in which they store problems or topics that they do not understand and I assumed that figuring out the direction of the world economy was dispatched to this file.

Yet, Buffett remains remarkably optimistic about the future. From time to time, he explained, progress in society is interrupted by events like the current recession and these phenomena crop up a number of times in each century. Nonetheless he was confident that the US had systems in place to unleash human potential and the economy would again move ahead at a rapid rate. "Opportunities will continue to present themselves and our grandchildren will live a lot better than we do," he assured the audience.

Quizzed about the government's actions to rescue the economy, he believed the new administration should be judged leniently. Faced with a possible meltdown of the global economy, working 20 hours a day, and battered from all sides, it was almost impossible for the authorities to uncover a swift solution to highly complex issues. Of course in hindsight commentators will reflect that there were more suitable remedies that could have been applied but the very nature of the crisis demanded a rapid response by policy-makers.

He spoke about deep feelings of hatred in Washington aimed at the financial industry. People were angry and the only way that Congress could vent its fury was to demand considerable changes to regulations. There was little that the industry could do other than to adapt to the fresh proposals and at this stage, there were still no clear indications of what transformation to expect.

By his own admission, even Buffett's genius could not escape the recent downturn in markets; last year was one of Buffett's worst in almost forty years. Nor has he been able to swing things around in the first quarter of 2009. Apart from his insurance and utilities businesses, he has seen a sharp fall in the earnings of most of the businesses in which Berkshire Hathaway is invested.

And he does not anticipate a quick turnaround either.

The excess capacity created in the residential housing market over the past decade would take a few years' work out of the system. And as long as new houses were not being built, construction and manufacturing industries associated with residential property development would remain under pressure.

With mortgage rates dropping and credit beginning to ease, Buffett sensed that activity in the residential housing market was picking up, mainly at the bottom end of the market; but it would be some time yet before prices rose again, especially for houses above $750 000. A solution he offered to increase the market for new homes and thereby sop up the surplus inventory: encourage 14 year olds to marry.

In terms of strategy, Buffett was more obsessed with building his cash float to take advantage of investment opportunities in these weak markets rather than with growing earnings in the short-term. And it's his insurance businesses that provide him the necessary resource. Anything less than $20bn made the man insecure. "I like to be comfortable, very comfortable, in fact," he informed his shareholders.

Buffett has never tried to pick the bottom of the market. If an investment makes sense he doesn't wait for the next day in case the stock becomes cheaper. "Investment managers need an inner peace because once you have made a decision to buy you will be subjected to the emotions of people offering opinions all the time," he counseled a young follower seeking advice on starting a portfolio.

"How do you select your investments?" the young man asked. You certainly do not require a computer spreadsheet or mathematical wizardry to decide what makes a good investment, he retorted. If the benefit is not obvious, it is not worth it. And do not think you need a high IQ to be a good investor? Anything over 120 is a waste. Sell the extra points.

Buffett Tidbits:

“I look for businesses in which I think I can predict what they are going to look like in ten to fifteen years’ time. Take Wrigley’s chewing gum. I don’t think the Internet is going to change how people chew gum.”

“No matter how great the talent or effort, some things just take time – you can’t produce a baby in one month by getting nine women pregnant.”

“You should invest in a business that even a fool can run, because some day a fool will.”

“It’s easier to stay out of trouble than it is to get out of trouble.”

Warren E Buffett

Of Thoughts and Things ... Investment themes, thoughts and comments

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You get more at Clicks

After thirteen years as a "new" business New Clicks is dropping the "new" in the name and shall be reclassified from Broadline Retailers to the Food & Drug Retailers sector in June, joining Pick 'n Pay, Shoprite and Spar. Clicks group has been completely revitalised under the stewardship of CEO David Kneale and the financial result for the six months ended February 2009 reinforce the fact this journey of improvement continues unabated. "You pay less at Clicks" has been an age old catchy slogan yet the group has certainly not been cheap in its delivery this past few years and has lived up to the confidence we have had in the ability of the team to take a recognised high street name with strong residual loyalty to new heights of achievement.

Turnover for the half year was up 7% to R6bn, driven by Clicks brand which was up 15.4% to R3.6bn, and group operating profit grew by 18.5% to R354.6m, with Clicks up 27.2% to R236.3m. Profit margin thus increased to 5.9% from 5.3%, with Clicks up to a very respectable 6.6%. Costs were well contained despite continued investment in new stores and dispensaries. Interest charged to the P&L, including non-cash, more than doubled to R35m but this was in line with the H2 F2008 interest charge and as expected. The tax rate was broadly constant. Bottom line is up 11% to R231.7m and as a consequence of the continuing vigorous capital management programme, which has resulted in a further reduction in shares outstanding, diluted EPS is up 18.8% to 80.3cps. Return on equity was further enhanced to an annualised 38%, significantly higher than a few years back. Cash flow was prodigious with free cash increasing from R137m to R355m, in large measure due to higher creditor funding. The balance sheet remains strong and gearing remains minimal even after substantial buy-backs and capex. As indicated last year dividend cover has been reduced to 2x so distribution per share for the period was increased by 30% to 24.5 cents.

Comparable turnover growth for Clicks brand, which accounts for two-thirds of group profits, was 13.7% and in the face of selling price inflation of 6.5%, showed good real growth. On a net basis there were 17 more Clicks stores compared with H1 2008 and nine more than at year end, taking the total to 335. What is particularly pleasing is that weighted annual sales per square meter are up 11% to R38.2m, with weighted trading area up 4%, and it took slightly less staff to achieve this despite more stores. There are now 180 dispensaries, an additional 23 since year-end, and the goal is to have as many Clicks stores with pharmacies as possible. At least 12 new stores and 20 pharmacies are planned for H2. In this period discretionary sales were weak but necessities, convenience, and private label made good gains. Fine fragrance, a R1.5bn a year market, climbed a robust 36% and health categories also showed meaningful growth. Retail pharmacy market share is now estimated at 13%, up from less than 11%.

Pharma distributor UPD sales were effectively flat at R2.4bn but tight expense control resulted in profits up 12% to R74m and margin edged up to 3.1%. UPD is being repositioned toward more profitable business from key customer group, including Clicks. The health sector regulatory picture remains clouded but UPS is set to retain its leading position in distribution with little if any disruption likely in the near term. The Direct Medicines courier business, 60% owned, is included as from December. Musica was affected by reducing discretionary spend and did well to actually increase sales slightly and keep profits broadly constant. The Body Shop had a 9% rise in sales and a 9% rise in profits.

For H2 selling price inflation is expected to ease and trading is expected to be in line with H1. In a difficult consumer economy a combination of savvy merchandising, improved competitive advantage across all business units, and evident consumer acceptance of the Boots type drug store model will keep Clicks group at the top of the game.

Management is signalling 15% to 20% earnings per share growth for the year ended August 2009. Our earlier forecast was for a 16% rise in diluted EPS to 153cps (earnings of R440m) and thus we see no reason to make a forecast change. Our current expectation is for EPS growth to slow to 13.7% in F2010 before picking up to 17% growth the year after, implying EPS of 174cps in F2010 and 204cps in F2011. Expect the dividend for the full 2009 year to come in at around 76.5cps.

At a share price of R16.30 Clicks is on a rolling exit P/E of 11x and a forward dividend yield of 5%. Our previous fair value was R15 with a target of R17. With the passage of time we have now raised target price to R18.50 and the current share price represents optimum pricing in my view. There is little risk of downside and by and large the share price should broadly track the movement in earnings for the foreseeable future. Clicks offers dependable cash flows plus further gains in its core Clicks brand which remains in a growth and steady improvement phase. Management is top drawer and delivers on its promises – we can't ask for more than that. There is little to choose between a Pick 'n Pay, our current grocery favourite in Food & Drug retailers, and Clicks; both are worthy of inclusion in a diversified portfolio as each has different merchandise drivers.

Recommendation: BUY maintained.

Pick 'n Pay is not letting Shoprite get it all its own way

This old stalwart in grocery retailing has had to face stiff rivalry from a resurgent Shoprite in recent years, which has steadily increased South African market share to around 30% whilst Pick 'n Pay has eased back from 37% four years ago to 33% (measurements differ slightly, Shoprite reckons it has 29.7% now whereas Pick 'n Pay calculates 28.4%). Either way, Pick 'n Pay has not wallowed in its no-name margarine and has reengaged on the battle ground with gusto.

In truth, these are not strictly similar businesses and have differing customer profile in aggregate. Pick 'n Pay's traditional stronghold has been the high end, holding dominance in the LSM 10 and above income group and also leading in LSM 9 whereas Shoprite is the leading force below LSM 7. Over 70% of LSM 8 though 10 continues to place Pick 'n Pay ahead as their preferred grocer. For years Pick 'n Pay was the grocer of choice for the white, predominantly English speaking upper middle classes until Woolworths ate into that space with its me-too Marks & Spencer type food shops, where even today its presence below LSM 9 and 10 is all but non existent. As South Africa's socio-demographic profile has changed so too has the customer mix broadened – it is no longer black, brown or white or ethnicity or lingo it is simply class, a function of education and thus earning power. Shoprite turned the has-been Checkers into its upper market assault force to the extent that LSM 10 now account for 15% of its shoppers, up from 10% in 2005, LSM 9 is 18%, up from 13%, and the combined total for LSM 8 through 10 is 48%, up from 36% in 2005. However, over half of Pick 'n Pay shoppers are now LSM 7 or less and account for 40% of spending.

At the recent count there were 125 Checkers stores 24 Checkers Hyper stores, and the Shoprite brand had 312 supermarkets. In the grocery space Pick 'n Pay has 20 hypermarkets, 152 supermarkets and 250 franchised stores. Pick 'n Pay has no plans however to ape Shoprite in the lower income shopping trenches and it has no plans

to go on a store opening spree. Defending its traditional strength at the upper end and indeed growing it is a key strategy.

The group is revitalising its image, pumping significant capex into store refurbishment and distribution, improving merchandise quality and ensuring that it has a value appeal for shoppers LSM 4 through 7 by reinforcing a perception that being posh does not mean pricier. On a trolley for trolley basis it has been proven time and again that the differences in a basket of groceries across the major groups is minimal and largely a "swings and roundabouts" game – each grocer benchmarks assiduously and pricing coalesces around a mean. Adcheck, the independent consultancy, tends to find Pick 'n Pay highly price competitive and often the price leader.

Perceptions are rather more powerful than reality – perhaps a reason Shoprite has muscled in on the poor with a fallacy that it is the keenest game in town. Well, two can play that game and frankly a refurbished Pick 'n Pay store with a far higher brand cache is an appealing alternative and already getting the punters through the checkout tills. The fact of the matter is that whilst penny pinching is the new order of business, in straitened times South Africa remains an overwhelmingly aspirational society – in other words we're a bunch of snobs. All refurbished Pick 'n Pay flagship stores have seen substantial growth in sales and thus we are set to see increasing densities and thus improved square meterage profitability. R1.7bn in cash has been invested in the past two year years, R1bn is to be spent on revamps in the 2010 fiscal year, and the group is close to completing a R530m SAP implementation to improve supply chain and management systems.

Pick 'n Pay results for the year ended February 2009 were pleasing, with SA turnover up 17% to R44bn, profits up 13% to R1.75bn, and total group headline earnings up 18% to R1.1bn. Diluted HEPS from continuing operations was 230.6cps, ahead of our forecast of 226cps, and a total dividend of 170c is paid for the year (167c forecast). Margin slipped deliberately as Pick 'n Pay kept prices in check but SA operations' continuing margin remains healthy at around 4%. The balance sheet retains customary strength and there is cash on hand exceeding R1bn. Cash generated by operations after working capital and interest increased by a whopping 67% to R2.6bn. The Franklins business in Australia remains a flea bite on the P&L although progress is being made.

Per our revised estimates, in the coming year Pick 'n Pay will be a R50bn turnover business (South Africa operations) generating R2bn in operating profit; bottom line will be approximately R1.27bn or 268cps (up from my earlier forecast of 246cps).

Shoprite is parsimonious with its disclosure but our sense is that SA grocery will have around R47bn in sales and R2bn or so in profits for the year ended June 2009. Furniture sales are likely to be R2.5bn and African operations will exceed R10bn. Group profits, including African operations and Furniture, grew by 38% to R1.4bn in H1 off a 27% growth in sales, earnings for the six months grew by 43% to R966m, and diluted EPS was up by 43% to 184cps. Store openings, in contrast to Pick 'n Pay, continued apace and in the six months a net 41 supermarket stores were added, largely in SA, and approximately 4% of the 27% sales growth in Shoprite was accounted for by new stores.

Now there is no gainsaying the achievement Shoprite has made in the past decade – but there are limits to growth, not least in SA. Moreover, margin is probably reaching the upper limits after a long spell of catch up. Group trading margin is around 4.8%, having increased from less than 2% in 2000. Indeed as recently as 2004 group margin was only 2%. Africa profits and margins (not disclosed) will typically be north of SA ops and our guesstimate is 6.5% for Africa and just over 4% for SA. Furniture margin exceeds 6% but the contribution is only 7% of group profits. In other words, using some educated guess work on the atrociously opaque segment reporting, grocery SA is now matching Pick 'n Pay – which pretty much makes top quartile margins in the international grocery context (Tesco, Britain's leading grocer, makes a world class trading margin of 6% in the UK but in a rather different market and Sainsbury makes less than half that). Further margin gains in the hard fought SA grocery retail space will be nigh on impossible.

The second half for Shoprite will be substantially less robust as the H1 result is pretty much cruising altitude. Our sense is that no more than 25% to 30% earnings growth is in prospect for the full year (following 43% in H1) and 380cps seems a realistic target with a full year dividend of 200cps.

There is a thesis that Shoprite's thrust for the future will come from north of the border. Undoubtedly so, indeed Africa ops generate an annualised R10bn in revenue versus R3bn in 2005 – a CAGR of 35%. Sales will have doubled in two years. How much further in the near term is a moot point as African countries suffer disproportionately in the wake of world economic turmoil. SA grocery has gone from R25bn to an estimated R47bn since 2005 – a CAGR of 17%. In that same time Pick 'n Pay has grown SA sales from R28bn to R44bn, a CAGR of 12%. For a supposed laggard that is now upping the ante this is not bad and one should question Shoprite's scope to gain further traction when faced with a reenergized competitor that has long been the yardstick by which all else is measured.

At R31 Pick 'n Pay is on a rolling exit P/E of 13x and a forward dividend yield of 6.4%. This compares with Shoprite on a exit P/E of 13x and a forward yield of 4% at R50 per share. Both are arguably "defensive" – or rather resilient – but Shoprite has been priced for perfection for some time, becoming the proverbial darling of food retailing. Shoprite's earnings growth could feasibly reduce sharply at a time when Pick 'n Pay is scaling up to regain lost ground – there is plenty of life yet in the old dog and at this juncture offers real value.

Recommendation: Pick 'n Pay is maintained as a BUY.

Barloworld produces a creditable set of first half numbers

Results for the six months ended March 2009 were remarkably good in prevailing economic circumstances. The management team has proven its mettle as timely remedial measures have limited what could have otherwise been a far poorer performance. Cash generation in particular was excellent and will get better in the second half. Investment in working capital more than halved and cash generated from operations increased 26% to R1.2bn. Investment activities were curtailed with the result that R600m was invested excluding disposal proceeds versus R2.4bn in the prior period.

Underlying operating profit, excluding restructuring costs of R114m, was down only 12% to R1 159m and reported profit was down 20% to R1 048bn. Revenue increased 6% to R22.5bn. And this was achieved despite a loss in Iberia of R45m (a profit of R50m excluding restructuring costs of R95m), a R377m reversal from the profit of R332m reported in H1 of F2008. Equipment Southern Africa continued to ride high, with profits up 37%, and if associate income is included the total Equipment business reduced profits by 13% (down 2% if restructuring charges are excluded). The real star was Automotive – segment profits were up slightly at R320m and if recently consolidated dealership NMI is excluded like for like profits were down 6%, strongly outperforming the industry. In fact Southern Africa Automotive trading was broadly flat on H1 2008 like for like. With car sales falling sharply and the industry in disarray this is nothing short of astonishing, testament to a conservative but very joined up business model. Handling in Southern Africa did very well but conditions in Europe and the US dragged down the segment result. Although Logistics profits were down the business is resilient and set for further gains when conditions stabilise.

Earnings from continuing operations decreased 44% (34% excluding restructuring costs) and reported diluted HEPS was 198.2cps (237cps ex restructuring costs) versus 361.2cps. A dividend of 40cps is being paid compared with 100cps. Going forward interest costs will

reduce as cash flow continues to increase and the fact that the debt profile has been improved. Whilst working capital will fall sharply this is also a function of reduced growth expectations; preserving liquidity, right sizing the cost base, and enhancing the cash position are focal points in difficult times. The weaker ZAR boosted the result in H1 by around 10% but recent strength will reverse much of this during H2.

Our provisional earnings revision suggests operating profits for the full year of around R2 280m (down 24%) and earnings of R1 124m (down 28%), with diluted EPS (on 210m shares) coming in at 535cps – down 29%. A dividend of around 185cps is thus indicated. Dividends to BEE shareholders will be reflected in the minorities line, hence the fact this number is forecast to be R77m in F2009 versus R14m in F2008. With reference to our comments on 24 April we maintain fair value at R50. At a share price of 3750c Barloworld is on a forward P/E of 7x and a yield of 5%, which is fairly pitched in this market. Earnings growth will be difficult to achieve in F2010 but line of sight remains murky and forecasting at this time remains a function of differing scenarios. Nevertheless, one can have confidence in Barlow's good cash generation properties and its proven management team. Many a company abroad in a similar space would be thrilled to achieve the results Barlow's has produced.

Recommendation: BUY maintained

SasSec Realty Research

Heather Smith: Property Analyst, Sasfin Securities

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Octodec (1300cpu): Interim Results

As highlighted in our November 2008 'Octodec – Realty Newsflash', Octodec's distributable income was forecast to slow. Distributable income of 62,2cpu was declared for the half year ended 28 February 2009, 1% up on the comparable period the previous year. Rental income and net rental income increased by 11,4% and 5,9%, respectively, with the core portfolio (properties held for 12 comparable months) showing growth of 4,4%. Growth of only 1% was recorded in rental income from Octodec's retail portfolio, which accounts for some 50% of total rental income. Octodec's retail portfolio comprises investments in five significant shopping centres (Woodmead Value Mart, Killarney Mall, Elardus Park, Waverly Plaza and Gezina Stad).

Management's focus on rent collection in 1H09 has enabled the company to reduce its exposure to bad debts, with the ratio of debts to revenue declining to 1% (FY2008: 1,7%), a level which management expect to maintain.

Octodec's development and upgrading program continues to unlock value in its strategically situated Johannesburg and Pretoria CBD properties. Increased lettings and income streams are particularly evident in the Johannesburg CBD investments (including Inner Court, Anderson Place and Registry House). R28m is to be spent on an upgrade at Inner Court, where a lease, covering 10000m^2 of office space, has been secured with a government tenant. Additional upgrades undertaken during 1H09 include those at Woodmead Value Mart, Waverley Plaza and the Tiny Town residential property.

Three properties were acquired for R86m – the R48m Rentmeester Park, on a yield of in excess of 12%; Union Club residential block in Johannesburg CBD and 39 Rudolph Street in Sunderland Ridge.

The Tiny Town upmarket residential development, in Pretoria, has commenced at a cost of R100m. Completion is expected within the next 18 to 24 months and is forecast to generate an initial yield of 8,5%. Its close proximity to the official seat of the South African government (Union Buildings) is likely to make Tiny Town a highly sought-after address.

At 28 February 2009, Octodec's vacancy level totalled 22,7% of GLA – like 'sister' fund Premium, a large portion of unlet space is attributable to properties recently acquired or undergoing redevelopment or refurbishment. A number of these properties were acquired with large vacancies where little or no consideration was paid for the space. The vacant retail space is largely located in line shops. Following a recent R28m renovation to Inner Court, Johannesburg CBD, management has successfully secured a government tenant lease within the building, covering 10000m^2. The letting is effective from 1 March 2009, at R80/ m^2/month, and will provide an income 'sweetener' for 2H09/1H10.

The ratio of operating costs to revenue was 37,8% for 1H2009 (37,2% for FY2008).

Octodec's current investment in 'sister' fund, Premium, is 12.7m units (9,8%). Octodec is a buyer of Premium on an ongoing basis.

At 28 February 2009, interest bearing borrowings totalled R714.4m (R640,1m: 31 August 2008), representing a gearing ratio of 29,7%. 73,7% of borrowings are fixed at various dates ranging from November 2009 until April 2018. The all-in cost of debt at 28 February 2008 was 11,6%. The recent reductions in interest rates are forecast to offer upside potential on the 26,3% of Octodec's floating debt.

Octodec has a 40% stake in IPS Investments Ltd. IPS contributed R5,9m in interest income and dividends to Octodec for 1H09 (R5,5m for 1H08). IPS's property portfolio continues to perform well and is valued in excess of R790m. IPS has a 50% interest in various joint ventures (JV). These include a JV with Bidvest which houses a motor dealership developed at a total cost of R38m (yield of 11%) and a JV with Old Mutual, which includes four residential properties, with an average yield of in excess of 14%. There has been a phased take-up of the residential units in the Old Mutual development over the past two years. With the units currently at full occupancy, profitability from this development is forecast to rise by some R3m in the year ahead. IPS has a committed residential development pipeline to build 1085 residential units at a total cost in excess of R400 million. The majority of these units will be built at Kempton City, Kempton Park, Tayob Towers and Corporation Place in the Jo'burg CBD. Increased lettings, particularly in the University of the Technicon building, and increased profitability from completed developments are forecast to boost IPS's income. Accordingly we forecast 20% growth in interest income and dividends from IPS for the next 12 months.

The expected introduction of REITS in 2010 may provide an opportunity for Octodec and Premium to merge (both are managed by City Property Administration (Proprietary) Ltd).

Rental growth slowed during 1H09, along with a slowdown in the take-up of vacancies. While the difficult trading conditions in the property market are forecast to prevail for 2H09, a significant new letting at Inner Court (effective 1 March 2009) and the recent reductions in interest rates, will impact positively on earnings in the second half of FY2009. Accordingly, we forecast distributable income growth of 5,7% (to 129,6cpu) for FY2009. This forecast is slightly higher than my 3% growth previously forecast.

Recommendation: HOLD

Premium (1145c): Redevelopment and Refurbishment Strategy Reaps Benefits

Premium reported a total distribution of 95,1cpu for the year ended 28 February 2009, slightly ahead of our forecast. The FY2008 distribution represents y-on-y growth of 12,5%. Y-on-y rental income and net rental income increased by 23,4% and 20,3%, respectively. Major contributors to the growth were the residential and office properties. As anticipated, the distribution growth was negatively impacted by the Hatfield Phase 1 development – a result of the phased take-up of units and the higher cost of borrowings, relative to the initial 10% yield of the project. To date 95% of the 677 residential units are let, together with some 75% of the 4400m^2 of rental space. With Hatfield Phase 1 approaching full occupancy, the development is expected to 'boost' Premium's distributable income by some R15m for FY2010.

Phase 2 of the Hatfield development has commenced at an estimated cost of R280m. This includes a four level parking bay, 9000m^2 of "A" grade offices, retail space and a hotel. Phase 2 is forecast to be fully let on completion in mid-2010. City Lodge will occupy the hotel and negotiations regarding the letting of the bulk of the retail and office space are at an advanced stage. The expected initial yield on the development is 9,5%.

Management's focus on acquiring and redeveloping/refurbishing properties in the Pretoria and Johannesburg CBD's, and surrounding areas, continued to impact positively on rental income in FY2009. During FY2009, R57,9m was spent on upgrades and projects, including Hatfield Phase 2, Gilboa and the NHG Building.

The Longsbank building, Johannesburg CBD, is to be converted into 142 residential units at a cost of R45m with an approximate yield of 11%.

Bad debts are well contained below 1,5% of total revenue.

Premium's residential portfolio comprises 3011 units and delivered rental income growth in excess of 12% for FY2009. This portfolio contributes approximately 30% of total turnover and is forecast to show y-on-year rental growth of approximately 10% for FY2010.

At 28 February 2009, vacancies totalled 21,7% of total lettable area. A large percentage of vacancies are in respect of properties recently acquired or undergoing refurbishment or redevelopment. Many of these properties were strategically acquired with large vacancies, with little or no consideration paid for the vacant space. It is interesting to note that demand for Premium's affordable and secure residential accommodation remains good and vacancies are low. At 28 February 2009, only 1,8% of total vacancies were attributable to Premium's residential portfolio (29 February 2008: 2,9%).

Interest bearing borrowings at 28 February 2009 totalled R697,2m (R765,5m 29 February 2008). 87,1% of Premium's debt is fixed at an average rate of 11,4%. Debt matures at various dates ranging from April 2009 to April 2018.

Approximately R200m of debt expires during September/October 2009 (average expiring rate 10,8%). However, with the declining trend in interest rates, new rates secured on expiring debt are likely to be more favorable. In fact, if management were to float expiring debt at current rates (taking into account the latest 1% cut in the prime overdraft rate to 12% – 30 May 2009), a rate of 9,85% could be secured (2,15% below prime).

IPS is an unlisted property investment company, in which Premium has a 40% stake. This company contributed R13,2m for the year ended 28 February 2009 (R5,5m in interest income and dividends to Premium for 2H09) and reflects strong performance of the IPS portfolio as well as the advance of additional funds to IPS to fund IPS's growth. The IPS portfolio is currently valued at in excess of R790m. IPS has a 50% interest in various joint ventures (JV), including the JV with Old Mutual, which includes four residential properties, with an average yield of in excess of 14%. IPS has a committed residential development pipeline to build 1085 residential units at a total cost in excess of R400 million. The majority of these units will be built at Kempton City, Kempton Park, Tayob Towers and Corporation Place in the Jo'burg CBD. Increased lettings, particularly in the University of the Technicon building, and increased profitability from completed developments are forecast to boost IPS's income. Accordingly we forecast 20% growth in interest income and dividends from IPS for the next 12 months.

With Hatfield Phase 1 approaching full occupancy, the development is expected to 'boost' Premium's distributable income by some R15m for FY2010. Hatfield Phase 2 has commenced at an estimated cost of R280m. Completion is scheduled for mid-2010 and we forecast virtually full occupancy on completion. While the trading environment is forecast to remain difficult in the short to medium term, Premium's residential and office letting market is expected to remain favourable. We forecast distributable income growth of 15,8% for FY2010, to 110,1cpu. If purchased 'cum', Premium's units are trading on a forward yield of 10,0%, at 1145cpu.

Recommendation: ACCUMULATE.

Listed Property Focus Points

Heather Smith

Panprop (1409cpu) NAV: 1363cpu

In line with my forecast, Panprop increased its distributable income by 10.4%, to 63.5cpu, for the six months ended 31 December 2008. Panprop has undergone a restructuring – acquired 100% of iFour and Siyathenga, with both companies being delisted, and sold 100% of Monyetla to Capital Property Fund. In November 2008, Panprop sold its 60% stake in Aspire financial services for R95m, the proceeds being applied to borrowings. Panprop's intention to sell its 72% stake in Enigma (unlisted property fund) has been unsuccessful. Enigma is forecast to generate no return to Panprop for FY2009.

Panprop's reliance on non-core fee income, highlighted as 'other income' is being phased out. Total non-recurring income of approximately R21m is forecast for FY2009 (includes the R11.4m for 1H09), with the final R9m in sales from Raceway land possibly 'flowing' through in 2010.

In 2008, properties with a total value of R1.5bn were sold. Portfolio focus is on industrial and commercial properties, with retail investments being sold over time.

Most property acquisitions and developments undertaken by Panprop over the past two years (initiated by previous management) are disappointing – feasibilities are not being met and certain developments have unacceptably high vacancies on completion. Many properties have also experienced severe write-downs in value.

Vacancy level of 3.8% at 31 December 2008 (30 June 2008: 4.4%), is expected to increase.

Panprop's portfolio is under-rented with average expiry rentals, for all property types, well below market levels.

Gearing ratio is 40.3%. The board has set a target gearing level of 40% or below. Until this target is reached no acquisition opportunities will be actively pursued by Panprop. The all-in cost of debt approximates 10.8%.

The restructured Panprop portfolio is forecast to produce above average distribution growth (relative to the sector). We forecast distributable income growth of 10.4% and 10.1%, respectively for financials 2009 and 2010. The unit price has increased 5% since Sasfin's report on 13 March 2009. At the current price of 1409cpu the Panprop units offer a forward yield (12 months) of 9.9% 'cum'.

Recommendation: BUY.

Sasfin Collective Investment Schemes

David Shapiro: Fund Manager, Equity Fund, Twenty Ten Fund

Rossouw Steyn: Fund Manager, Balanced Fund, Wealth Preserver Fund

Helen Haworth: Fund Manager, Equity Fund

Sasfin Collective Investment Schemes

The month of April was punctuated by a mixed bag of economic data locally and internationally, painting a picture of continued economic decline albeit with a few encouraging "green shoots". One could (and many are choosing to) use these green shoots indicators to support an argument that the worst is indeed behind us but even if this is so, it doesn't automatically suggest that a full blown recovery is at hand. Bear markets notoriously play host to bull rallies that turn out to be fleeting in the context of a longer-term downward trend in equity prices. The previous bull market was triggered by (among other things) an increased velocity of money into the economy, spurred on by sustained low interest rates globally. This velocity of money forms a core component of innovation and gearing in an economy and these two economic accelerators are key to any material economic recovery. The current dearth of such accelerators leaves one dubious of suggestions of new bull market triggers, let alone recovery in economic activity. This recent rally, therefore, should be treated with caution.

The Sasfin Wealth Preserver and Sasfin Balanced Funds are currently well positioned for a pullback in equity markets.

We are delighted to announce a significant reduction in the management fees of our Sasfin Equity Fund. This was done to increase its attraction to retirement funds which use this fund as the equity building block for their overall portfolio.

Collective Investment Schemes

Performance Figures for the Period Ending 30 April 2009	Performance since Inception			Cumulative Performance			Annualised Performance	
Fund	Inception date	Cumulative (%)	Annualised (%)	1 yr (%)	2 yrs (%)	3 yrs (%)	2 yrs (%)	3 yrs (%)
Sasfin Balanced Fund	06/06/2006	8.83	2.96	(17.23)	(10.80)	n/a	(5.55)	n/a
Sasfin Equity Fund	10/08/2007	(21.07)	(12.83)	(27.23)	n/a	n/a	n/a	n/a
Sasfin TwentyTen Fund	31/10/2005	18.52	4.98	(34.56)	(36.12)	(11.17)	(20.08)	(3.87)
Sasfin Wealth Preserver Fund	08/06/2006	20.63	6.69	(3.13)	3.55	n/a	1.76	n/a

Figures are quoted from MoneyMate as at 30 April 2009 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

Indices

Performance for the period ending 30 April 2009	Cumulative Performance			Annualised Performance	
Index	1 yr (%)	2 yrs (%)	3 yrs (%)	2 yrs (%)	3 yrs (%)
FTSE/JSE All Share Index	(30,33)	(22,04)	6,54	(11,71)	2,13
FTSE/JSE SA Listed Property Index	17,45	(0,56)	31,68	(0,28)	9,61
ALBI Total Return Index – Beassa	15,02	13,14	19,95	6,37	6,25
Alexander Forbes Money Market Index	11,29	24,33	35,09	11,50	10,55

Figures are quoted from MoneyMate as at 28 April 2009.

Sasfin can manage all portfolios in **living annuities, retirement annuities, pension and provident funds** through the Sasfin Collective Investment Schemes as well as in bespoke portfolios.

The Sasfin Collective Investment Schemes are also ideal investment vehicles for investors who want to **save on a monthly basis**, either through a tax-friendly retirement annuity or a liquid discretionary investment. The minimum amount is R250 per month or a lump sum of R5 000.

The prices of the Sasfin CIS Funds are listed everyday in the daily newspapers

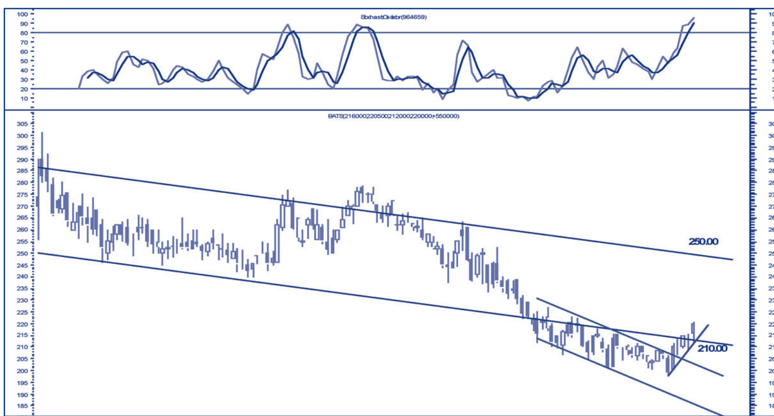
Please contact 012 425 6000 or your Sasfin financial advisor if you would like more information on the above investment vehicles.

Disclaimer

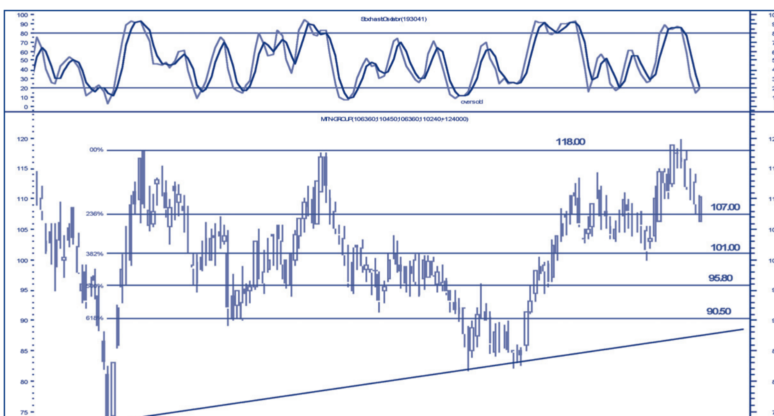
Collective Investments are generally medium to long term investments. The value of participating interests may go down as well as up and past performance is not necessarily a guide to the future. Collective Investments are traded at ruling prices and can engage in scrip lending. Forward pricing is used. A schedule of fees and charges and maximum commissions is available on request from company/scheme. Commission and incentives may be paid and if so, are included in the overall cost. This fund may be closed to new investors. A fund of funds collective investments may invest in other collective investments, which levy their own charges, which could result in a higher fee structure for these portfolios. Graphs and performance figures are sourced from MoneyMate for lump sum investments including income distribution, at NAV to NAV basis and does not take any initial fees into account. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Collective Investment prices are calculated on a net asset value basis and auditor's fees, bank charges and trustee fees are levied against the portfolio. The portfolio manager may borrow up to 10% of portfolio NAV to bridge insufficient liquidity. The portfolio is registered with the FSB as part of the Metropolitan Collective Investments Scheme. Metropolitan Collective Investments is a full member of the Association for Savings and Investments SA. Metropolitan Collective Investments Ltd is an authorised Financial Services Provider.

Traders' Corner

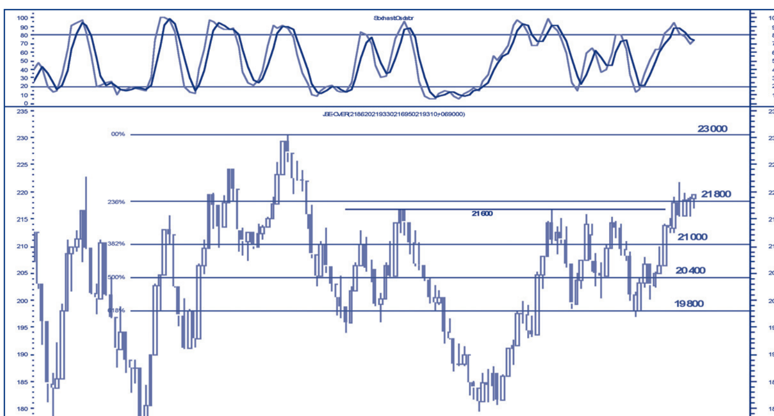
Dawid Balt and Nicholas Sorour: Technical Analysts, Sasfin Securities



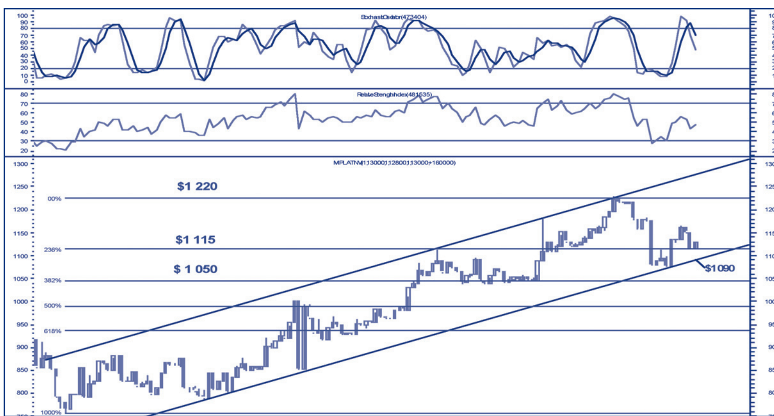
British American Tobacco: BAT (BTI) has seen a 30% drop since its recent high in November last year, achieved shortly after its listing on the JSE. This pullback has occurred as world stock markets have rallied sharply off recent multi-year lows. A distinct base has formed in the region of 20000cps, and currently we are seeing a 10% bounce off these levels. In the short-term BTI is overbought, however if we consider the "bigger picture" there is much room for potential upside towards at least 25000cps. Technically a buy off the 20000cps level is recommended with upward moves to 25000cps being fairly feasible.



MTN Group Ltd: MTN has created a "triple top" resistance at around 11800cps. We've subsequently seen a sharp pullback from that level. Currently the stock is fighting with initial support at 10700cps. With an oversold position on the Stochastic Oscillator, short-term traders can buy on a bounce off 10700cps with a view to taking profits at 11800cps. For value investors, 10100cps provides an excellent entry point.



FTSE/JSE All Share Index: A fairly distinct pattern has formed on the JSE overall Index. The Index has moved sideways since November 2008 and could arguably be forming a base at current levels. As we stand now, we're technically at a crossroads. Overall the resistance on the JSE is in the region of 21 600-21 800. One can see that we've been hovering and testing those levels over the past few trading days. However the market is overbought and it is more likely that we'll see a reversal back to first support at 21 000 rather than a further upward move to 23 000. Therefore, the suggestion is to take profit at these levels and to short the market. Levels to re-enter are clearly stated on the graph, with 21 000 being new first support.



USD Platinum Spot Price: The Platinum price has seen a steady increase since the recent five-and-a-half-year lows of $732.00/oz. There is a well defined bull channel, and within this we can plot a Fibonacci Retracement. Support is at $1 090/oz (support of the bull channel). If we do break this, next support will be $1 050/oz (38,2% Fibonacci Retracement). Upside is resistance at $1 220/oz. Go long platinum positions in the region of $1 050/oz – $1 090/oz. Stop loss is a move below $1 038/oz. Take profit at $1 200/oz.

SASFIN SECURITIES – Indicated money market rates at 21 May 2009:

Daily Call: 7,85%	**Fixed Deposit:**	1 Month:	7,90%	6 Months:	7,30%
		3 Months:	7,65%	12 Months:	7,95%

- 24 hours' notice is required for the withdrawal of funds on daily call.
- Four days' notice prior to maturity is required for the withdrawal of fixed deposit funds.
- Service fees, based on a sliding scale, are charged on call and fixed deposits.
- These rates are applicable to investments over R250 000, are indicative only and are subject to market fluctuations.

Please contact Ana Pereira on (011) 809 7542 for the latest quoted rates or for further information on Sasfin's money market products.

Keep up-to-date with current market news

Tune in to SABC SAfm for **Sasfin's daily market update**, at 12:45, Monday to Friday, given by Mpho More, Clinton Smit, Elan Levy or Sudheer Singh.

Tune in to Chai Fm for **Sasfin's daily market update**, at 13:00, Monday to Friday, given by Mpho More, Clinton Smit, Elan Levy or Sudheer Singh.

David Shapiro can be heard on Moneyweb Radio on the Power Hour between 18:00 – 19:00 Monday to Thursday; East Coast Radio daily at 07:30 and 17:30 and Radio 702 at 17:30 daily. He also appears on Summit TV every Wednesday at 19:30 and CNBC Africa at 19:15.

Tune in to **RSG's Geldsake** every Wednesday at 17:00, with Laurette Pretorius and Michelle Bester.

Nicolas Sorour appears every second Thursday on **CNBC Africa** at 17:15.

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