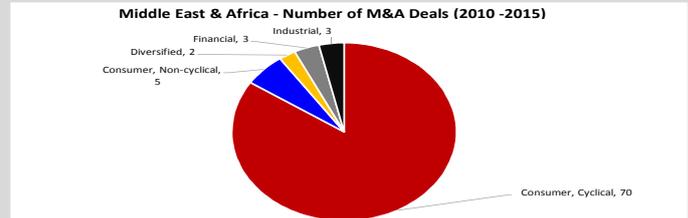


TOPICAL NEWS



Mergers & Acquisitions: InBev & ABMiller case

Mergers are when two companies join to become one new company, in most cases with a new name. For example in 2001 when BHP merged with Billiton it became BHP Billiton. Also when both Daimler-Benz merged with Chrysler, both these firms ceased to exist and a new firm Daimler-Chrysler was formed. Acquisitions are when one company takes over another. A recent example of an acquisition is Anheuser-Busch InBev ('InBev') acquiring SABMiller for about R1.6 trillion. If the deal is a success SABMiller will cease to exist because InBev would have swallowed SABMiller. Many businesses benefit from mergers and acquisitions ('M&A') deals mainly because of synergies. Using InBev and SABMiller as a case, when the M&A was announced, SABMiller share price soared 29.7% and InBev gained more than 7.3%. The deal is more lucrative because InBev can now expand into higher growth emerging markets. This also gives InBev an opportunity to improve its book by divesting from poor assets and capitalising on high quality assets from SABMiller. This M&A is quite interesting in many things such as SABMiller is the largest bottler for Coca-Cola outside of the US. ABI has a significant bottling relationship with Pepsi, which is due to be renewed at the end of this year. SABMiller was trading at R624.41 when the deal was announced and now it is trading at R809.69. The market has already priced in a 30% premium to SABMiller. Some of the complications that comes with this deal are key SABMiller shareholders may require equity in InBev to avoid capital gains tax. Major shareholders for SABMiller are Altria (27%), Santo Domingo (14%) and Public Investment Corporation (PIC), owns 3%. InBev's key shareholders would be reluctant to cede voting control. 3G Capital (ex-controlling shareholders of AmBev) controls 27.5% whilst the Belgian family owns 29.5%. It would be interesting to see whether SABMiller key shareholders would prefer a non-voting interest in a new company formed from InBev and SABMiller. InBev shareholders would be better off from share buybacks or increase in dividends. SABMiller Plc agreed to R888.09 per share offer in principle from AB InBev last week. Currently SABMiller share price is R807.39 and trading on a price earnings multiple of 30.5 times and ABI is on 20.1 times. The cash portion of the deal to be funded with new debt. Seven banks are lined up to arrange as much as US\$70 billion of financing which may include US\$55 billion of bonds alongside US\$10 - US\$15 billion of term loans. This deal might affect liquidity on the JSE should the new company not list on the local market, we still view that given the premium that InBev is preparing to pay it was better off to do share buybacks and increase its dividends.

Market Snapshot

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 16 OCT 2015 |
|-------------------------|-------------|-----------------|-----------------|
| FTSE/JSE Indices | | | |
| All Share Index | 52,945.1 | -0.7% | 6.4% |
| Top 40 Index | 47,460.0 | -0.7% | 7.9% |
| Resources Index | 35,811.1 | -4.3% | -15.6% |
| Industrials Index | 70,859.3 | 0.2% | 11.7% |
| Financials 15 Index | 43,960.2 | -1.1% | 7.3% |

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 16 OCT 2015 |
|---------------------------------|-------------|-----------------|-----------------|
| Interest Bearing Indices | | | |
| BEASSA All Bond Index | 506.2 | 0.4% | 5.2% |
| STeFI 12 Month Index | 327.3 | 0.1% | 5.0% |
| Inflation-Linked Bond Index | 631.7 | 0.9% | 4.5% |

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 16 OCT 2015 |
|----------------------|-------------|-----------------|-----------------|
| World Indices | | | |
| MSCI World Index | 1,683.6 | 0.6% | -1.5% |
| MSCI Europe Index | 1,590.9 | 0.3% | -1.1% |
| MSCI Emerging Index | 865.3 | 0.7% | -9.5% |

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 16 OCT 2015 |
|-------------------|-------------|-----------------|-----------------|
| Currencies | | | |
| Rand/Dollar | 13.07 | -2.1% | 14.1% |
| Rand/Pound | 20.07 | -1.2% | 11.8% |
| Rand/Euro | 14.84 | -2.1% | 6.1% |
| Dollar/Euro | 1.13 | -0.1% | -6.2% |

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 16 OCT 2015 |
|------------------------|-------------|-----------------|-----------------|
| Commodities | | | |
| Gold (US\$) | 1,177.02 | 1.8% | -0.5% |
| Platinum (US\$) | 1,015.00 | 3.5% | -16.0% |
| Brent Crude Oil (US\$) | 50.46 | -4.2% | -12.0% |

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 16 OCT 2015 |
|--|-------------|-----------------|-----------------|
| Major Economies Indices (base currency) | | | |
| S&P 500 (United States) | 2,033.1 | 0.9% | -1.3% |
| FTSE 100 (United Kingdom) | 3,484.7 | -0.7% | -1.4% |
| Nikkei 225 (Japan) | 18,291.8 | -0.8% | 4.8% |

Top and Worst Performers

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 16 OCT 2015 |
|--------------------------------|-------------|-----------------|-----------------|
| Top Performers (Top 40) | | | |
| Reinet Investments SCA | 30.33 | 2.7% | 0.2% |
| Capitec Bank Holdings Limited | 577.33 | 2.4% | 0.7% |
| MTN Group Limited | 186.05 | 2.1% | -0.1% |

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 16 OCT 2015 |
|----------------------------------|-------------|-----------------|-----------------|
| Worst Performers (Top 40) | | | |
| Anglo American Platinum Limited | 282.51 | -2.9% | -0.2% |
| Standard Bank Group Limited | 143.00 | -2.4% | 0.0% |
| Mediclinic International Limited | 114.34 | -1.9% | 0.2% |

THE WEEK AHEAD

- **Consumer Price Index (CPI), September 2015** – The consumer price index is expected to remain constant at 4.6% as a decline in fuel prices was offset by higher food costs.
- **Retail trade sales, August 2015** – Retail sales look to climb to 3.5% on a year-on-year basis due to the increase in public sector wages.
- **Wholesale trade sales, August 2015**
- **Motor trade sales, August 2015**

LOCAL ECONOMY

The South African Finance Minister looks to table the Medium Term Budget Policy Statement this week. This statement will be very important as South Africa's sovereign credit rating has come under stress in recent periods. During the national budget in February, Treasury had set a growth forecast of 2.0% and 2.4% for 2015 and 2016 respectively, however the country looks to miss these targets as all major institutions have reduced South Africa's growth forecasts. The lack of growth in the country could indicate that tax receipts fall short of forecasts – this could lead to a reduction in spending by the government and further tax increases in order to meet budget targets. The South African Reserve Bank has stated that they are concerned with the weak level of growth within the country. The bank predicts that growth will reach 1.5% for the current year and this is too low to support unemployment of 25%. The youth wage subsidy that South Africa has tried to implement has done little to eradicate youth unemployment in the country. SA's youth unemployment currently sits at 51%, whilst across the globe about 500 million youth are unemployed, underemployed or working in positions that offered no security.

GLOBAL ECONOMY

The University of Michigan's preliminary Consumer Sentiment Index for October increased to 92.1 versus 89, the median projection. This is the first advance in four months, from 87.2 recorded in September 2015. The increase was driven by lower-income Americans projected wage gains and falling energy prices that helped stretch pay-cheques. Lower income earners projected their pay over the next year will increase by the most in more than a decade. Wages rise and subdued inflation combined with cheap borrowing costs are green lights for Americans planning to buy big-ticket goods such as cars and appliances. The Sentiment report showed that over the next 5 – 10 years the inflation expectations dropped to 2.6%, matching the lowest since 2002, from 2.7% surveyed in September 2015. Consumers seem to be shaking off US growth worries driven by stock-market turmoil and softening foreign economies, instead turning their attention to prospects for income growth as the labour market continues to tighten. Households' expectations for personal finances improved to their highest level since 2007, and 48% of respondents projected good times for the economy over the next five years, up from 41% in September 2015. The US factory output fell 0.1% in September 2015 from a revised 0.4% decrease in August 2015. This is the third decline in the last four months. Factory output makes up 75% of all production. Bloated inventories, which rose in the first half of 2015 by the most on record, a stronger dollar and weaker global economy, are hindering factory output. Russia was kept at one step above junk at BBB-, the lowest sovereign investment grade by Fitch Ratings, which cited a strong balance sheet as the weaker ruble offsets the effects of lower oil prices in the state budget. Fitch downgraded Russia in January 2015, while Standard & Poor's and Moody's Investors Service cut Russia to junk earlier this year. Standard & Poor's affirmed its BB+ credit rating of Russia indicating fiscal buffers could deteriorate faster over the next 12 months than currently expected. Russia forecast a budget deficit of 3% to GDP for 2015 and 2016, the largest since 2010.

LOCAL MARKETS

The South African market closed off last week mostly flat, with the All Share and Top 40 dropping by 0.04% and 0.01% respectively. Banking and resource shares saw some declines, whilst industrials stocks climbed on Friday. A stronger local currency prevented stocks from making further gains last week. The rand moved to R13.07 at Friday's close, with the currency gaining some strength during the week. Over the week, the All Share and Top 40 dropped by 0.7%, whilst the BEASSA All Bond Index added 0.4%. Emerging markets assets, including the currencies, have seen some gains during last week as the Federal Reserve looks to delay hiking the interest rates and as inflation within the Eurozone moved into negative territory which could spur further stimulus measures in the area.

GLOBAL MARKETS

The pound rose for a third week versus the dollar. It strengthened by 0.8% to US\$1.54. The strengthening of the pound was driven by the Bank of England comments that the next move in the UK interest rates will be up and it should happen 'sooner rather than later.' Last week, the Zambian kwacha declined 1.2% against the dollar to ZK11 677 per dollar. The government is seeking divine intervention as it called for a day of prayer and fasting to help an economy in crisis. Government efforts fail to halt the kwacha's 45% slump against the dollar YTD 2015. Prices have escalated 30% - 100% due to depreciation of the kwacha against the dollar. Yields on the Eurobond that was issued in July 2015 and due 2027 have soared 236 basis points to 11.73%. Zambia is Africa's second largest producer of copper and it accounts for 70% of export income. Its prices have dropped 16.1% YTD 2015 after slumping 14.6% in 2014. The US 10-year Treasury yield dropped 5 basis points to 2.03% and are now hovering close to the lowest since August 2015. If Treasuries sustain this rally, the Fed needs to hold the interest rate hike. The Shanghai Composite Index rose 6.5%, last week. The market is increasingly confident that the Fed will refrain from raising US rate hikes this year and speculation that the Chinese government will introduce more measures to boost growth after a rout in equities erased almost US\$5 trillion of market value. The MSCI Emerging Markets Index rose 0.7% to 865.3 points, last week whilst the Brazilian Ibovespa retreated 4.3%. The Stoxx Index rose last week by 0.1% to 363.1 points driven by healthcare and banks shares. European equities are benefiting from extension of stimulus from Europe and Japan. The S&P 500 Index capped its third weekly gain of 0.9% after rebounding from only its third correction in the 6.5-year bull market on speculation that the Fed's stimulus will continue to underpin equity gains as economic growth strengthens.

COMMODITIES

Gold advanced 1.7% to US\$1 177.32 an ounce as investors returned to exchange-traded funds backed by gold. People's Bank of China increased its gold holdings in September 2015 by 15 tonnes (54.45 million ounces). The hoard is now about 1 709 tonnes. In August and July 2015, it increased its hoard by 16 and 19 tonnes respectively. The World Gold Council data shows that China is the world's 5th biggest with gold stash, it still only represents 1.6% of its reserves compared with 73% for the US and 67% for Germany. Copper posted its first weekly decline this month of 0.4% to US\$5 285 a tonne amid mounting concerns over slowing consumption in China, the world's largest user of the metal. Copper prices are down 16.1% YTD 2015. A positive read through to the copper price is that inventories monitored by London Metal Exchange (LME) have dropped 21% since the end of August 2015, the lowest since February 2015. The US crude oil explorers idled 10 rigs to 595, the lowest since week of July 23, 2010. So far this year, 887 oilrigs have been halted in a push to reduce the burning of cash from drillers and crude output from the US shale formations that helped to create global glut. Excess crude oil has pushed prices down by around 127.5% since its peak in the last two year on June 09, 2015. Last week, Brent crude oil lost 4.2% and closed at US\$50.46. Data from Energy Information Administration shows that US crude output declined by 76 000 barrels to 9.1 million barrels a day for the seven days ending October 14, 2015 after it increased by the same amount, for the seven days ending October 07, 2015. US crude production reached a four-decade high of 9.61 million in June 2015. In Brazil, soybeans gained 1.4% last week as about 20% of the soybean region will get rain this week, which reduces soil and aids germination. Brazil expects the 2015-16 soybean crop to be at record 100.1 – 101.9 million tonnes.