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## Market Overview

The new year is upon us and with it comes a myriad of resolutions and promises to make this year the one that counts. International economies, however, haven't taken much notice of the change in dates and the global economic outlook remains relatively uncertain, with a number of important influencing factors likely to have a bearing on global and local investment markets in 2012.

Internationally the debt problem, both consumer and sovereign, will likely continue to dominate headlines. Consumer debt levels in the developed world remain high and ongoing deleveraging will prove somewhat of a handbrake to economic growth. The cost of refinancing government debt will remain a core focus, with the balance between the need for fiscal discipline (read austerity) and economic growth becoming increasingly delicate. Government debt levels could deteriorate if average borrowing rates exceed nominal (real plus inflation) economic growth rates.

Monetary policy globally is likely to be accommodating for some time to come. In the developed world weak labour and housing markets will constrain inflation and policy rates could well stay low (in the US), or even be lowered (in Europe). In China, where economic growth is forecast to decelerate, monetary policy is likely to be loosened further. The jury is out as far as more quantitative easing in the US is concerned, with the effectiveness of such programmes being questioned. We would not be surprised to see the Federal Reserve reverting to such measures should economic activity start to falter markedly.

The Eurozone will remain a key focus in 2012. Large divergences in competitiveness between countries within the Eurozone provide challenges to maintaining a single currency. While cheap money has been made available to European banks there is concern that authorities have still not put together a comprehensive solution to the crisis, that the ECB has not been aggressive enough and that the focus remains more on austerity than growth.

From a valuation perspective there is little doubt that investors continue to price in a lot of bad news (evidenced by equity earnings yields being significantly higher than bond yields). While equities are likely to provide the best long term returns, a number of important issues are unresolved and the near term outlook remains uncertain. In this context a neutral and relatively cautious approach appears warranted for now.

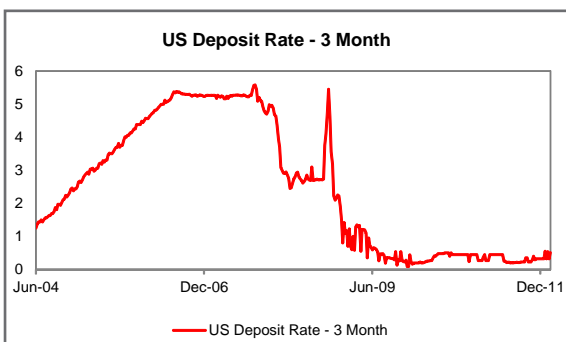
Locally, notwithstanding strong consumer consumption spending and a weaker rand feeding through into slightly higher inflation, we would not be surprised to see the SARB keep rates on hold for most of 2012.

On the equity front we continue to favour companies both local and offshore whose earnings streams we are able to forecast with a fair degree of confidence together with strong balance sheets, cash flows and attractive dividend yields.

Mark Appleton, chief investment officer ([mappleton@bjm.co.za](mailto:mappleton@bjm.co.za))

Indicator	26 Jan 12		Monthly change		YTD % change
Rand/US\$	7.8	▼	-3.1%	▼	-3.1%
Rand/GBP	12.2	▼	-2.3%	▼	-2.3%
Rand/EUR	10.2	▼	-2.2%	▼	-2.2%
USD/EUR	1.3	▲	1.0%	▲	1.0%
Gold	\$1722	▲	10.1%	▲	10.1%
Platinum	\$1610	▲	15.5%	▲	15.5%
Oil Price	\$110.1	▲	2.7%	▲	2.7%
JSE ALSI	34065	▲	6.5%	▲	6.5%
FTSE100	5795.2	▲	4.0%	▲	4.0%
S&P500	1318.4	▲	4.8%	▲	4.8%
R157 Bond	6.5	▼	-3.8%	▼	-3.8%

*The Eurozone will remain a key focus in 2012.*



## Fresh look for BJM

As one of South Africa's most respected private client stockbroking businesses, BJM is delighted to unveil our fresh new company logo and corporate identity. Our new look recognises our forward thinking, professional culture and is in tune with our progressive outlook.

While our logo may have changed, the way we do business has not. BJM's focus remains on servicing the financial needs of high net worth individuals and boutique financial services businesses by providing a full stockbroking service.

As always, our core strength lies in the people who make up our business, from our team of highly qualified and experienced investment professionals to the experienced support team who make the wheels turn behind the scenes.



# PRIMARY SCHOOL ART COMPETITION



The winners of the 2011 BJM Primary School Art Competition have been announced and we would like to extend our congratulations and a warm thank you to all the learners and teachers who participated in the BJM Art Competition. We were thrilled by the imagination and creativity displayed in the artworks submitted by the learners.

*The theme for this year's competition was 'Forests: Nature at your service'.*

It has been a fascinating journey to have been involved in this competition and we have finally arrived at the stage where we can announce the thirteen winners. Twelve artworks were used in the BJM 2012 Desk Calendar and Pocket Diary, where each artwork represents a month of the year. The thirteenth artwork was printed on the covers



*Thys Vorster (regional manager for BJM Bellville) and Shirley Alberts (junior trader) hand over prize to Mr M Daniels (principal of Heideveld Primary School).*

Their passion for what they do means that we can meet your unique needs by building long-term partnerships with you.

The new BJM logo retains some of the qualities of the original logo, while taking on a more modern, visually appealing design. This is

*The new BJM logo retains some of the qualities of the original logo, while taking on a more modern, visually appealing design.*

indicative of the fact that we remain the same business, with the same core values and business practices, while embracing and aligning ourselves more closely with our parent company, the FirstRand Group, and recognising that we need to remain innovative and be open to change in a fast paced world.



*Shirley Alberts and Mr M Daniels with the participants and a winner, Caitlyn Hendricks, of the BJM art competition 2011.*

of the Desk Calendar and the Pocket Diary. This artwork was also used on the electronic seasons greeting card that was sent out to BJM clients, suppliers and industry associates during December 2011.

The theme for this year's competition was 'Forests: Nature at your service'. The 2011 Primary School Art Competition has been won by Shomang Primary School in Soweto, which serves the Orlando West community. Beacon Ridge Primary School in Durban and Heideveld Primary School in Cape Town also participated in the competition.

Prizes have been presented to the winners and the contributing schools. Each school receives a cash donation and art materials to ensure the continuation of art classes.

We would like to congratulate everyone and thank them for their hard work.

## The pricing power proposition

In our last edition, we emphasised slowing rates of global growth and companies that display pricing power. This month we consider four more companies within these parameters.

### To recap

Companies displaying pricing power have business models which, on both the cost and revenue side, display relatively inelastic demand, low substitution of products, monopolistic market tendencies and have high barriers to entry.

Generally, industries whose customers have little power to influence the price of the product experience little or no competition and allow companies to pass on costs, would be regarded as those having pricing power. This would include tobacco, beverages, utilities and food retailing industries. An unattractive industry is one where the opposite applies and would include general retail, restaurants and airlines.

Our last article focused on British American Tobacco (BAT) and BHP Billiton locally and Anheuser-Busch InBev and Johnson & Johnson offshore. These companies have performed in line with expectations, with BAT coming off some 2.4%, BHP Billiton gaining 1.8%; Anheuser-Busch InBev gaining 7.4% and Johnson & Johnson up 1.04%.

This month we focus on Coca Cola and Apple on the international front, and Aspen and Tiger Brands locally.

### The Coca-Cola Company

The Coca-Cola Company manufactures, markets, and distributes soft drink concentrates and syrups. The Company also distributes and markets juice and juice-drink products. Coca-Cola distributes its products to retailers and wholesalers in the United States and internationally. The main features of Coca-Cola are:

- A leading global brand with strong growth prospects in emerging markets
- Strong revenue growth momentum, justifying higher valuation levels
- A strong brand image and rising demand in emerging markets are key drivers
- Operating margin should benefit from cost reductions and synergies
- Another quarter, another one cent earnings surprise
- Last year's bottler acquisition is strategically positive

The stock is trading off its September high of US\$70 at around the US\$68 level, which would represent a good entry point. The current PE on the stock is 17.77 times and consensus on the stock is a strong buy with a forward PE of 16.48 times. It has a forward dividend yield of 3.04%

### Apple Inc.

Apple Inc. designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions. The company sells its products worldwide through its online stores, retail stores, its direct sales force, third-party wholesalers and resellers. The main features of Apple are:

- A key player in the converging PC and mobile phone market
- Negligible valuation premium does not reflect above-average market growth
- New product launch provides positive momentum for Mac business
- Continued strong growth for iPhones even in a weakening environment
- Q4 2011 weaker than expected but reassuring next quarter outlook

- New product cycle ahead - growth story remains intact

The stock is up 16% off its lows in December and now trades around the US\$421 level. This is testing new highs and in anticipation of solid December retail sales and the much awaited release of the iPhone 4S in China this year. The current PE on the stock is 15.27 times. Consensus on the stock is a buy with a forward PE of 12 times.



Tim Jillings, regional manager of BJM Durban (tjillings@bjm.co.za)

### Tiger Brands

Tiger Brands is a branded fast moving consumer goods company with a portfolio of leading food, beverage, personal and homecare brands. It has a balanced portfolio of food products that covers a broad spectrum, from value-added products to staple foods. The main features of Tiger Brands are:

- Tiger Brands retains number one or two positions across most of the categories in which it operates
- Food inflation supports earnings
- Expansion into Africa and other emerging markets through Tiger International now accounts for 7% of operating income and creates further growth opportunities
- It has significant defensive qualities
- Trades at a discount to international peers

The stock is off of its lows of R246 in early January and is now trading sideways at around R257. It would be prudent to wait for a pull back to around the R245 level, which is a good entry point. Tiger Brands has a historic PE of 17.1 times with a forward PE of 15.09 times and forward divided yield of 3.4%. Market consensus is a hold.

### Aspen

Aspen is a supplier of branded and generic pharmaceuticals in approximately 100 countries across the globe, and of consumer and nutritional products in selected territories. It has a presence inter alia in South Africa, Australia, Brazil, Mexico, Germany and Hong Kong. The main features of Aspen include:

- Aspen is a leading generics manufacturer in the Southern hemisphere and is Africa's largest pharmaceutical manufacturer
- Growth has been driven by acquisitions: the Australian acquisition will be significantly earnings enhancing in FY12 and potential Latin American acquisition may add further momentum
- Aspen trades at a premium to its peer group based upon its earnings track record
- Expansion into emerging markets offers significant potential
- It has significant defensive qualities

The stock has traded up 5.9% since early December and is now trading sideways around the R100 level. This is off the back of year-end activity and the stronger rand, which supports the valuation of pharmaceutical stocks. Investors wishing to time the market would probably be advised to wait for an entry point around the R96 level.

The stock trades at a historic PE of 20 times with a forward PE of 16.6 times and a forward dividend yield of 1.47%. Consensus is a hold.

## Technical corner by Mark Huxter

This is a short term trade for traders with the key Sishen mine facing some short term operational difficulties with production down for the quarter 6% quarter on quarter and all technical indicators looking extended as follows:

- Bollinger trading at the top end of the band
- Fibonacci resistance 53600
- RSI @70 – extended
- MACD starting to break down
- Target price 50663



**BJM Chief Investment Officer Mark Appleton's Annual Investment Presentation  
takes place in March 2012**

Look out for further details in the March 2012 edition of eXchange.



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