Discovery
BUY
Target price: **R136.02**
Potential downside: **-6.1%**
* Based on analysts' consensus forecast

result in the circumstances.

Vitality has certainly done its bit to revive the UK economy, awarding 150,000 Starbucks coffees and 100,000 cinema tickets every month and recording an unbelievable 18bn steps. Vitality Health is in the fortunate position that its new business acquisition costs are fully funded by cash generation of the in-force portfolio — no need to go cap in hand to Gore in Sandton.

There continue to be developments in the global Vitality network, such as the new myOwn in Australia — any similarity to MyWay is not intended.

Ping An Health has a long way to go before it becomes the tail wagging the Discovery dog (as Tencent wags Naspers), but Gore says that at current growth rates it is possible. New business doubled to RMB1.6bn but it still makes a R33m loss.

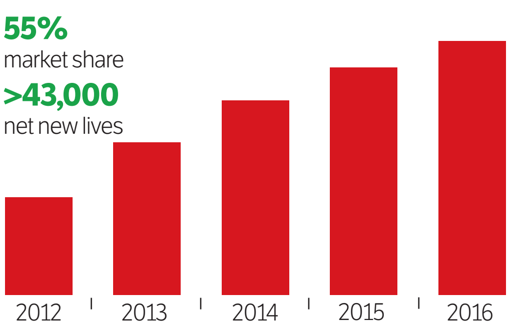
Where Discovery will usually have an edge over its competitors is that it is willing to put 8% of earnings, or R577m, into new initiatives. It is no surprise that it is starting Vitality Invest in the UK, a combination of unit trusts, investment funds, structured products and an investment platform similar to Discovery Invest in SA.

Commercial insurance is coming to Discovery Insure, which promises to do a lot more than insure small traders and their bakkies. Umbrella funds in SA are the least glamorous of the new ventures, but Gore says the group is already in group risk and investments.

With umbrella fund administration, the group will have all the tools to offer employee benefits holistically. **x**

BEHEMOTH

Discovery Health growth



Next 10 largest open schemes' membership decreased by **13,045** lives

Source: Discovery Health

Mall of Africa

ATTACQ

Going the Reit route could help

Diversifying offshore continues to be a major theme among SA property companies, but timing has proved vital

Joan Muller mullerj@fm.co.za

Attacq, which owns the Waterfall development precinct, anchored by the 131,000 m² Mall of Africa near Midrand, last week reported foreign exchange and impairment losses of R280m on its European and African interests.

In addition, Attacq took a R183m knock on the sale of its stake in German shopping centre Nova Eventis. A stronger rand also wiped out most of the gains made by the sale of Attacq's investments in Serbia and Cyprus.

Around 15% of Attacq's R27.2bn portfolio is made up of offshore property interests, including a R2.7bn stake in JSE-listed MAS Real Estate and a R1.2bn portfolio of seven malls in African cities including Accra (Ghana), Lagos (Nigeria), Lusaka (Zambia) and Windhoek (Namibia).

Speaking at the company's results presentation last week, Attacq CEO Morné Wilken said it operated in a challenging environment, which has prompted management to take a hard look at its strategy and simplify its business model.

The latter will include the conversion to a real estate investment trust (Reit) structure in 2019. Attacq will start paying its first dividend next year. Unlike income-paying JSE-listed property companies, Attacq has until now been a pure capital growth play.

Wilken said the disposal of R1.9bn worth of properties over the past year forms part of the restructuring process. It will allow Attacq to reduce debt in preparation for the Reit conversion as well as consolidate its offshore interests into one offshore entry point, MAS.

The latter recently shifted its focus from the UK and Germany to Eastern Europe following a joint venture with Prime Kapital, a development company founded by the highly regarded ex-directors of New Europe Property Investments.

Attacq's intention to become a Reit has been widely welcomed — the share price is up 10% since the June announcement. But it seems some investors are adopting a wait-and-see approach, judging by the sizeable 22% discount to adjusted net asset value (NAV) at which the share price is still trading.

Peter Clark, portfolio manager at Investec

Attacq
BUY
Target price: **R18.91**
Potential upside: **1.8%**
* Based on analysts' consensus forecast

Asset Management, said while Investec supports Attacq's conversion into what will be a quality retail Reit in time to come, the market may take some time to digest the conversion.

In addition, the ramp-up in dividends may come at the expense of NAV growth, he said.

Meago Asset Managers director Anas Madhi has an equally cautious view, saying Attacq's slowdown in NAV to 3.2% for the 12 months ending June (against a three-year rolling growth rate of 11.95%) is not only due to foreign exchange losses and impairments of the ➡

company's offshore assets.

"It also relates to the general slowdown in the SA economy and its knock-on effects, which reflect in a significant slowdown in new office take-up within the Waterfall development and low single-digit trading density growth across Attacq's retail portfolio."

Madhi said large, regional malls were under pressure, particularly in highly competitive nodes such as Sandton, Midrand and Centurion.

"Mall of Africa will be significantly tested once the first rental reversionary cycle occurs in around two years' time."

Besides its 80% stake in Mall of Africa, Attacq owns a stake in Lynnwood Bridge, Brooklyn Mall and Glenfair Shopping Centre in Pretoria, Newtown Junction in the Johannesburg CBD, Garden Route Mall in George, MooiRivier Mall in Potchefstroom and Eikestad Mall in Stellenbosch.

Attacq is targeting a maiden dividend payment from its income-producing assets, including the existing SA portfolio and MAS investment, of 73c/share for the year ending June 2018, with dividends forecast to grow 20%/year for the next three years.

Madhi said based on these forecasts, Attacq was trading at a two-year forward yield of 4.9%, which he believed makes the stock look expensive relative to the rest of the sector.

The latter is trading at an average dividend yield of around 7%.

However, Wilken argued that Attacq was undervalued at a current share price of around R18.60. "If the sum of all its parts is considered, Attacq should be trading closer to R23." He believed analysts should be valuing Attacq on a total return basis instead of purely as an NAV play.

"We believe there is still a lot of value on the table, especially regarding the potential upside that will be unlocked at the Waterfall precinct over the next 10-15 years."

Wilken felt analysts were being too conservative in their Waterfall valuation projections.

He said there was still around 1m m² of developable bulk left at Waterfall.

"The weak economy and political instability is playing in our favour as it supports the consolidation trend among corporates, who are keen to cut costs by vacating a number of smaller offices in favour of one, centrally located head office between Pretoria and Johannesburg."

He referred to, among others, large auditing firms PwC and Deloitte, whose new regional head offices are under construction at Waterfall.

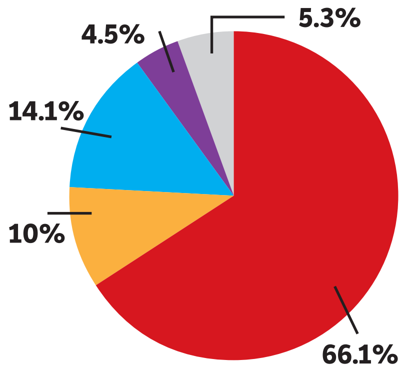
The advent of another Gautrain station on the doorstep of Waterfall City will encourage further bulking-up of the precinct, he said.

"Our projections show potential capital expenditure of R3.7bn at the node over the next few years, which will lead to a development profit of R440m. These numbers are not reflected in our current NAV." x

Morné Wilken: A lot of value on the table

WHAT ATTACQ OWNS

R27.2bn portfolio by value



Source: Attacq annual results June 2017

SANLAM

Continuing to spread its wings

It may be seen as conservative but it is making steady progress, whether organically or by shrewd acquisitions

Stephen Cranston cranstons@fm.co.za

Sanlam CEO Ian Kirk says there are many things that the life office does well.

The core Bellville-based machine used its enormous scale to build a new business margin of 2.76%, the envy of its competitors.

But he makes no apology for the partnership approach of tapping into entrepreneurs.

"Take BrightRock, in which we now have majority control. It gives us immediate access to life insurance built on an entirely different model," says Kirk.

BrightRock, started by four former Discovery executives, offers insurance tailored to each lifetime need, so that, for example, life cover taken out for the duration of a mortgage expires when it is no longer needed.

More recently, it took 30% of EasyEquities, which offers cheap online investment portfolios. Kirk says barriers to entry in legacy operations, such as high cost and product complexity, are keeping potential investors away.

EasyEquities already has a partnership with Sanlam's Satrix passive management business, which should be well-placed to get a good share of the low-cost index funds sold through this channel. But competition is growing.

Just this week Outsurance bought a 25% stake in Satrix's archrival CoreShares, which will form a integral part of Outsurance's new OutVest investment products arm.

Outsurance remains the most powerful direct-to-consumer insurance brand in SA.

Kirk says some acquisitions have got away, such as Regent Life (recently sold by Imperial and acquired by Hollard). While this might have been a useful bolt-on to add scale it wouldn't have added much innovation to the mix.

The partnership with Morocco-based Saham Finances should prove the defining deal of Kirk's tenure. It was recently further consolidated when he bought another 16.6% and now holds about 46%. Saham gives Sanlam exposure to a range of African countries, mostly French-speaking, from Tunisia to Madagascar.

To ensure that the African business was diversified beyond life insurance, he also acquired a majority stake in one of the region's high-profile fund managers – PineBridge Investments East Africa, which now forms the core of Sanlam Investments East Africa.

Kirk says a great deal can still be done in-house, even in the more creative areas. It has started a Sanlam Design Studio that focuses on the development of digital distribution channels as part of what it calls omni-channels.

EasyEquities will fit nicely here.

And there is a Business Information project to improve client service – where no life office has a good image – as well as underwriting capabilities and product development, making use of Sanlam's colossal database.

Sanlam's reputation for shrewd use of capital was developed under Kirk's predecessor Johan van Zyl. It is one of the main reasons why, unlike its peers, the life office trades at a premium to its embedded value. In a bid to sound less like a life business this is called group equity value, but what makes it different from NAV is the valuation of the in-force life book, which is open to some subjective calls by the actuaries. Sanlam trades around R67/share, a 24% premium to its R55 group equity value.

But Clyde Rossouw, manager of the Investec Opportunity Fund, says Sanlam is undoubtedly at the conservative end of valuations.

Ian Kirk: More in-house work to be done

Martin Rhodes

Sanlam
BUY
Target price: **R81.75**
Potential upside: **21.5%**
* Based on analysts' consensus forecast

It probably helps that Kirk was a partner at PwC and not KPMG. But many fund managers consider Sanlam to be fully priced. Allan Gray, for example, was one of its top five shareholders and now only holds the share in some specialist portfolios. But Allan Gray portfolio manager Leonard Krüger still has great respect for Sanlam's capital management disciplines.

Sanlam gave back R1.9bn in the first half of 2017 through dividends. It also received R1.6bn for its stake in Enterprise Group in Ghana, which looks like a very high price for an insurer in such a small economy.

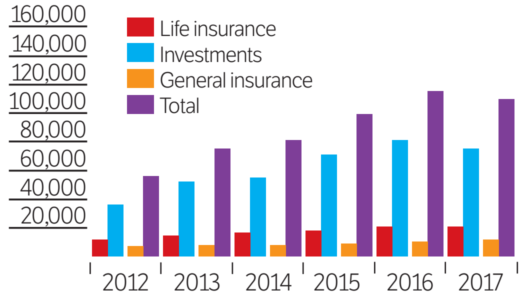
And Kirk says it has been determined that Sanlam's operating unit has excess capital. Sanlam Life in SA will undergo a R2bn reduction in capital: nearly R800m including investment returns has already been seized by the head office team.

Another Kirk-based initiative has been the creation of Sanlam Corporate, which includes its well-established employee benefits business and its health business centred on its holding in Afrocentric, which controls Medscheme.

Subject to regulatory approval, Sanlam Employee Benefits will get some additional scale once it acquires Absa Consultants & Actuaries, which also carries out administration for the Absa staff pension fund and some others. Sanlam stands out for its balanced mixture of organic and acquired growth. x

STRONGER TREND

New business volumes at Sanlam



Source: Sanlam