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### Imperial Holdings Limited

Imperial Holdings Limited (IPL) is a well diversified industrial and retail services company with six income streams and operates in three continents (Africa, Australasia and Europe).

Performance has been good and exceeded expectations with revenue up 25%, and HEPS 14% to June 2012. The results are pleasing and impressive to shareholders. In support of this, the share price has rocketed up with momentum carrying the stock price to new highs after trading above 17100c in 2006.

The performance has been buoyed by acquisitions – Watts Truck and Van (UK) and additional stake in Accordian Investments (distributor of Tata vehicles) and increase in vehicles sales in South Africa.

### Valuations: The JM BUSHHA DEVA Model

We used the JM BUSHHA Dividend Equity Valuation (DEVA) Model to value the share, and determine whether it is trading at a discount or premium to its fair or current value. It is a forward looking quantitative model that uses forecasts to calculate target or exit share prices over a one year investment horizon.

Imperial has returned double digit return on equity (ROE) over the last four years, averaging 20.83%. The year to June 2012 ROE was at 24.00%, a **5.14% decrease** from last year's 25.30%. The following table indicates the target prices given one year earnings per share (EPS) forecasts for IPL.

IPL Share Target Prices		
EPS Forecast (cents)	1749	1974
Target Price (cents)	17847	20011
Recommendation	<b>SELL</b>	<b>HOLD</b>

### Dividend & earning analysis

The dividend pay-out ratio (POR) has been very stable for the past ten years. The average POR is 38.18% compared to the current 38.03%. The volatility or risk associated with achieving such a dividend payment is low at 3.39%.

The current dividend yield is 3.64%, below the 10-year average of 3.81% at 3.33% risk. Although the dividend yield is classified as good in our investment process, it is below SA core inflation (CPI) number of 4.9%, which is likely to remain above 4.00% or increase during the next year due to high food and transport costs. The expected dividend yield is 3.27%, assuming no surprises.

Share	IPL	IPL
ROE	24.00%	24.00%
EPS	1749	1974
Cur. Price	20415	20415
Targ. Price	17847	20011
PreDisc	14.39%	2.02%
Recom m	<b>Sell</b>	<b>Hold</b>

Share	IPL	IPL
Prob.	56.45%	51.43%
Risk	3.33%	3.33%

Factor	Div. Yield	POR
UCI	7.14%	41.58%
Average	3.81%	38.18%
Current	3.64%	38.03%
LCI	0.48%	34.79%
Volatility	3.33%	3.39%
Expectation	3.27%	Low
Div. Yield	Dividend Yield	
POR	Pay-out ratio	

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Share Details	
Share Code	IPL
Current Price	20415
ROE	24.00%
Dividend Yield	3.33%
Earnings Yield	7.28%
Historical High	21849
Target Price	20011
3m Momentum	18845

Recommendation **HOLD**

Historical high is highest price reached to date. Price in cents

JM BUSHHA Funds Returns	
Fund Name	3 Years
CashPlus	7.06%
BondPlus	12.14%
Absolute AllClass	13.66%
Absolute Aggressive	13.25%
Communities Fund	N/A
Diversified Equity (1yr)	23.23%
Real Return	11.68%
Global Investor	N/A
Afro Fund	11.68%

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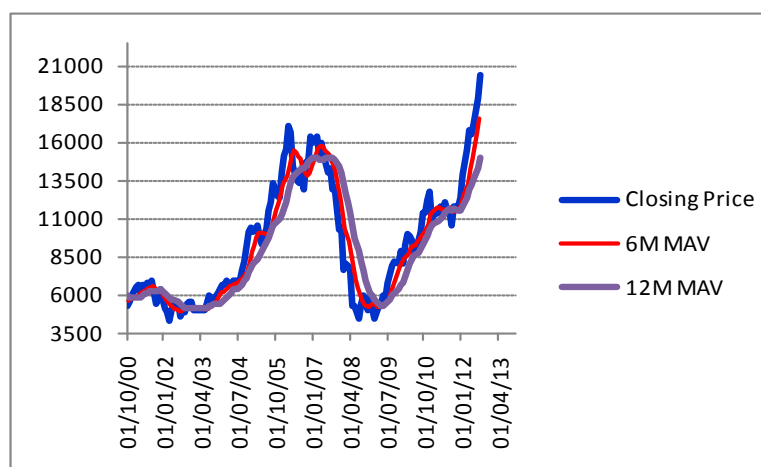
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The lower confidence interval (LCI) of the dividend yield is positive, although near zero. To compensate for the share price risk of 32.41%, the dividend yield must improve or payout ratio increase to above 50%.

### Momentum analysis

The share price of Imperial Limited has had a very good run since the financial crisis in 2008. On 31 July 2008, the share price closed at 4406 cents, and at 20415 cents on 31 August 2012, a massive 463.35% growth or 46.72% per annum return. These are almost abnormal returns. **The share price has rocketed 93.97% for the past 12 months**, making it one of the best performers on the JSE. The chart shows the hard run the share has enjoyed.



The 3-months, 6-months and 12-months momentum are indicating prices at 18845 c, 17575 c, and 15043 c respectively. From a technical perspective, the upward momentum is holding, but too steep for entry at the current level of 20415 c.

### Recommendation

Given the uninterrupted good run the share has had since 2008, and consensus EPS forecast, **the share price does not have much room for exceptional returns going forward. Our target share price at EPS forecast of 1974 c is 2011 c over one year investment holding period.** Therefore Imperial share price is currently trading at a premium, although small, to its forward price. We believe dividends must be increased to cushion potential reduced capital appreciation.

Based on model and analysis, **we recommend a cautious hold on IPL, and reducing (taking profits) on further share price run from the current 20415 (closing price on 31 August 2012). The target price is 20011. The price is likely to fall on any surprise downward revision of EPS.**