

## **A closer look at the Equity Fund's top holdings**

While there is reasonable broad-based value in our market currently, there are always opportunities for bottom up stockpickers like us. One area of opportunity we have identified is that the market is valuing good quality businesses at similar ratings to average or poor businesses.

The top 10 Holdings of the Allan Gray Equity Fund at the end of June 2004 include Sasol, Tiger Brands, MTN, ABSA, Harmony, Standard Bank, Nampak, Woolworths, Anglo American and FirstRand, and the Fund's top three holdings are Sasol, Tiger Brands and MTN.

### **Sasol**

While the stronger Rand has impacted Sasol's earnings over the last couple of years, we believe that on a normalized basis it should earn approximately 1200cps (using a lower oil price but a slightly weaker Rand). This places it on a normalized PE multiple of around 8 times at the current share price. This is extremely attractive for a much better than average business, which we believe Sasol to be. Sasol has the added advantage of having extensive coal and gas reserves with a significantly longer life than many international oil companies. Its gas to liquid (GTL) projects that start coming on stream over the next few years are not incorporated in our estimates of normalized earnings and could add significantly to the value of Sasol going forward.

### **Tiger Brands**

Tiger Brands has been a significantly better than average business over the long-term, growing its earnings at 6% real over the last 20 years while the average listed company has only grown its earnings by about 1% real over a similar period. We believe that Tigers continues to be a superior business and can be acquired on approximately 10 times our estimate of normalised earnings. We believe that this is very attractive for a high quality business like Tigers. Management has indicated its intention to unbundle the company's holding in Spar to shareholders before the end of the year, progressively reduce its dividend cover and repurchase shares. We believe that all these actions will assist in unlocking the value we see in the company over time.

### **MTN**

Despite the increase in price since we bought MTN, it is still very attractive in our view. It is trading on a forward expected PE multiple of 9 times with good projected earnings growth for the next few years. On a normalized basis MTN is trading on an even lower multiple than this (normalizing the Nigerian business). These multiples are extremely attractive for a highly cash generative business with good management like MTN.

*Commentary by Stephen Mildenhall, Chief Investment Officer, Allan Gray Limited*