

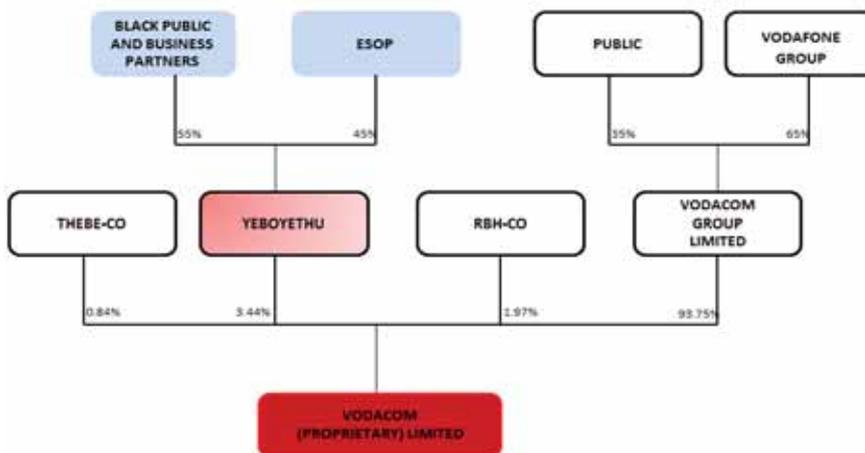
Valuing YeboYethu

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Deal structure and investment summary

Vodacom concluded its BEE deal during July 2008. According to the terms of the deal, YeboYethu shareholders may commence trading their shares (subject to the restriction that they may only sell to other BEE individuals or entities) on Monday 3rd February on the 'over-the-counter' facility provided by YeboYethu. We present the deal structure in order that YeboYethu investors are aware of the positioning of their investment in YeboYethu as part of a larger BEE deal concluded by Vodacom.

Figure 1: Vodacom BEE deal structure



Source: Vodacom, Yebo Yethu

We draw YeboYethu investors' attention to the following issues:

- Your YeboYethu shares represent a portion of the 3.44% investment made by YeboYethu in Vodacom South Africa.
- It is important to remember that this investment does not equate directly to a similar investment in Vodacom Group shares listed on the JSE. This is due to the fact that the Vodacom Group has investments in Vodacom South Africa, Tanzania, Mozambique, Democratic Republic of Congo and Lesotho.
- Thus, YeboYethu shares in Vodacom South Africa are not (and will not be at some future point) interchangeable with Vodacom Group shares listed on the JSE. As a result there is no direct link between the value of the YeboYethu shares and Vodacom Group shares.

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Estimating a value for YeboYethu shares

Although we have emphasised the fact that there is no direct link between YeboYethu shares and Vodacom Group shares listed on the JSE, we do attempt to assign a value to your investment via a series of calculations. We outline our thought process as follows:

- We know that YeboYethu has subscribed for a 3.44% stake in Vodacom South Africa. We can estimate Vodacom South Africa's value (see Figure 2 below) through discounting its expected future after tax cash flows. We estimate Vodacom South Africa's value is R164.74bn (after deducting net debt). We exhibit our estimates related to Vodacom South Africa's revenue and EBITDA, which form the base of our valuation estimate in the appendix.

Figure 2: Vodacom South Africa Discounted Cash Flow valuation

	ZAR m
NPV of explicit free cashflows	50 591
Terminal value	126 113
Total pre debt value	176 703
Less Net Debt	-11 963
100% of Vodacom South Africa valuation	164 740
YeboYethu's share (3.44%) of Vodacom SA is valued at	5 667

Source: Company data, sbg securities' estimates

- Thus, given YeboYethu has subscribed for 3.44% of Vodacom South Africa, we estimate YeboYethu owns an asset which we estimate may be valued at R5.67bn.
- However, when the BEE deal was concluded, YeboYethu received funding (both equity from BEE shareholders and debt from the Vodacom Group) to enable it to purchase the 3.44% stake in Vodacom South Africa. As a result, we reduce the value of YeboYethu's stake in Vodacom SA (R5.67bn) by the value of the debt granted by Vodacom Group (termed 'notional funding'). This debt owed by YeboYethu amounts to c. R3.185bn (according to Yebo Yethu's interim financial statements). As a result, we estimate the net equity value attributable to YeboYethu shareholders is R2.482bn.

Figure 3: Estimated YeboYethu share value prior to applying liquidity discount

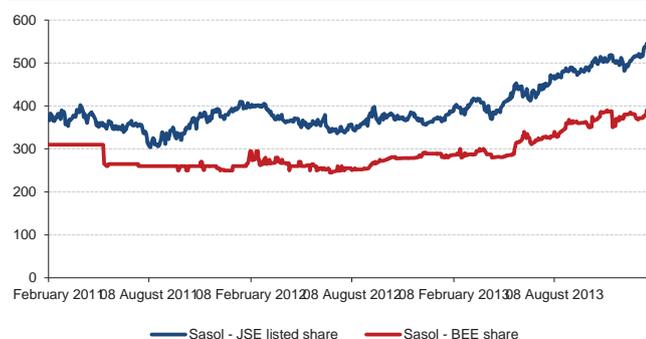
		Number of YeboYethu shares in issues (millions)	Value per YeboYethu share prior to discount (Rand)
Yebo Yethu - value of shares in Vodacom SA	3.44%	5 667	
Notional funding		(3 185)	
Net equity in Yebo Yethu		2 482	R 94

Source: Company data, sbg securities' estimates

- Thus, we calculate the rand value per YeboYethu share (prior to applying a liquidity discount) as R94, which equates to the net equity (R2.482bn) divided by the number of YeboYethu shares in issue (26.4m).
- However, investors must consider that a YeboYethu share will attract a discount relative to its benchmark valuation (Vodacom South Africa) given that there are restrictions placed on the sale of the YeboYethu share (you may only sell to another black individual or entity). We focus on this source of potential discount, which we term a liquidity discount (given you may only sell to other black individuals and entities).

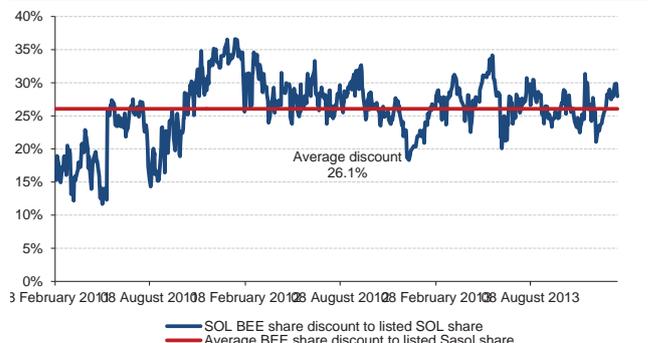
- We examine the case of Sasol, which is listed on the JSE and its BEE share, which is also listed on the JSE, but may only be traded between black individuals or entities. On average, the BEE share has traded at a c. 26.1% discount, which provides a benchmark for the market price of limited liquidity.

Figure 3: Sasol JSE listed and BEE share price (Rand)



Source: Bloomberg, sbg securities estimates

Figure 4: Sasol BEE share discount to JSE listed Sasol share



Source: Bloomberg, sbg securities estimates

- As a result, we apply a liquidity discount of 40% against the YeboYethu share, which is slightly higher than that accorded to Sasol's BEE share. We believe this is justified given YeboYethu will not trade on a listed exchange, but only 'over-the-counter'.
- As a result, we estimate the YeboYethu share value is R56 per share. This value is based on a valuation of 100% of Vodacom South Africa at R164.74bn, which equates to 7.0x FY15e EV/EBITDA. We deduct the notional debt residing within the YeboYethu structure from the Vodacom SA value and apply a liquidity discount of 40%.

Figure 5: Estimated YeboYethu share value after liquidity discount

		Rand per share
Value per Yebo Yethu share prior to discount		94
Liquidity discount	40%	(38)
Estimated Yebo Yethu share value		56

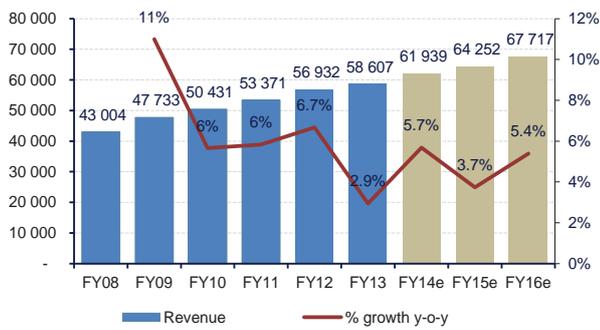
Source: Company data, sbg securities estimates

- We caution that the estimates made in our valuation carry significant forecast risk. Should Vodacom South Africa perform differently from our underlying assumptions, our estimated value could differ significantly from that presented.

Appendix – Vodacom South Africa revenue and EBITDA forecasts incorporated into the cash flow valuation

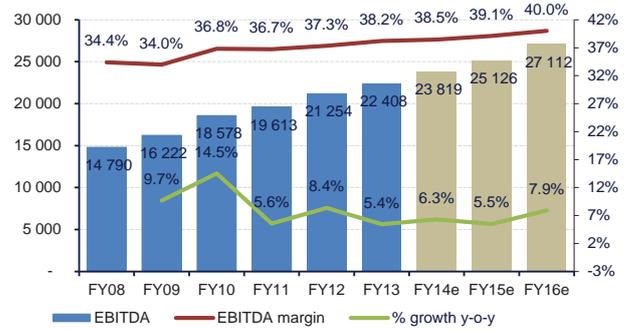
As previously stated, we present our forecasts for Vodacom South Africa’s revenue and EBITDA utilised in the calculation of the Vodacom South Africa cash flow valuation.

Figure 1: Vodacom SA revenue (Rm)



Source: Company data, sbg securities estimates

Figure 2: Vodacom SA EBITDA (Rm)



Source: Company data, sbg securities estimates

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