

The Case for Nedbank Zimbabwe Depository Receipts

Investment Research

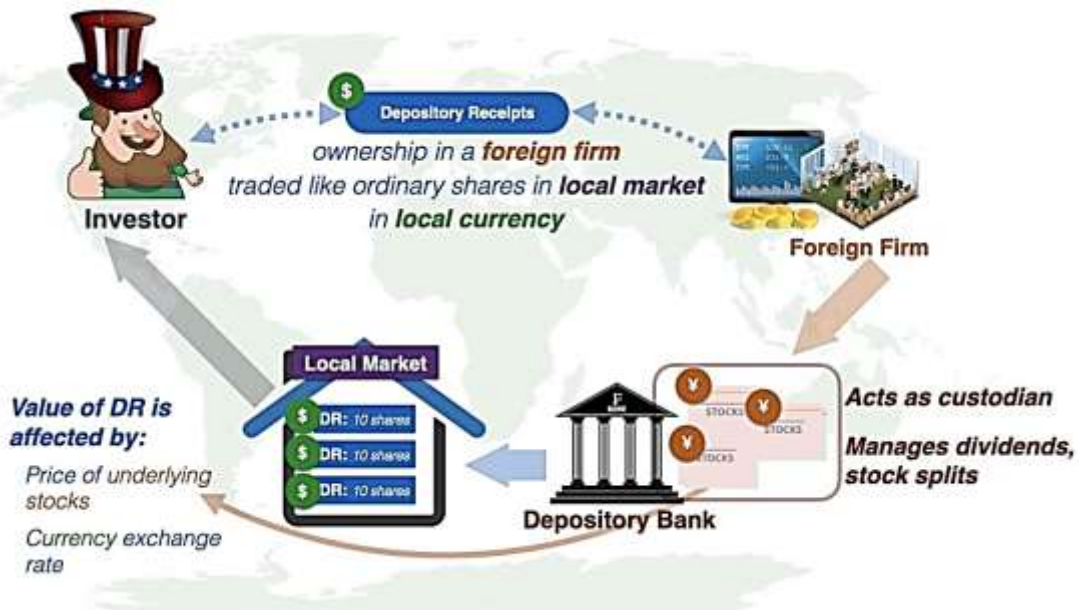
Ground Floor Block D, Smatsatsa Office Park
Borrowdale Road
Borrowdale
Tel: +263 4 783 069-71/744 467
research@mmccapital.co.zw
www.mmccapitalzim.com



mmc
CAPITAL
(Members Of The Zimbabwe Stock Exchange)



A depositary receipt is a locally listed negotiable certificate representing shares of a foreign entity. The instrument allows local investors to gain exposure to a foreign investment without the tedium and bureaucracy associated with opening a foreign trading account. The first depositary receipt listed on our VFEX was the Caledonia Mining Corporation depositary receipt, representing its shares, which are listed on the New York and London stock exchanges, respectively. Its listing on the VFEX has enabled investors to gain exposure to a high quality foreign investment through the usual trading processes associated with Zimbabwean equity trades.



Source: PrepNuggets.com

In October 2018, Old Mutual Plc completed its managed separation and unbundled its majority shareholding in Nedbank, resulting in the issuance of the bank's shares to Old Mutual Plc shareholders. Hence, numerous Zimbabwean investors found themselves with Nedbank shares which could not be traded locally. As a remedy to this debacle, Corpserve structured a share dealing facility, through Corpserve Nominees (Private) Limited, which made it possible for Zimbabwean Nedbank shareholders to sell their shares on the Johannesburg Stock Exchange (JSE). However, this facility came with it certain drawbacks which we summarise hereunder;

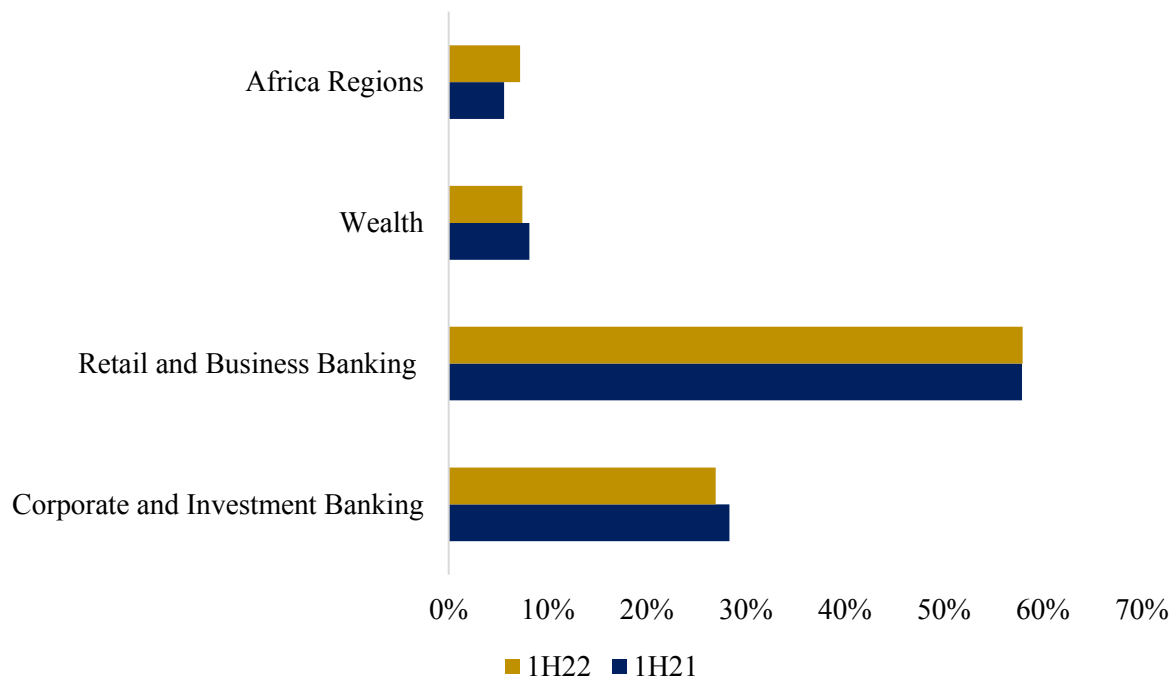
- Local investors cannot buy Nedbank shares on the JSE through this facility;
- The current settlement for receipt of sales proceeds is T+9, three times the local settlement cycle;
- Shareholders' sales proceeds are subject to foreign exchange surrender requirements;
- No localised exit mechanism. Investors can only sell on the JSE through Corpserve Nominees.

Consequently, a decision to list Nedbank ZDRs on the VFEX was made in order to deal with the above-mentioned weaknesses of the pre-existing structure. To this end, it was announced that Nedbank Zimbabwe Depositary Receipts (ZDRs) will be listed on the VFEX next month, with the listing date confirmed for the 18th of November. Zimbabwean Nedbank shareholders will therefore have the option to convert their Nedbank shares under Corpserve Nominees into ZDRs listed on the VFEX. We as MMC Capital encourage existing Nedbank shareholders to convert their shares into DRs so that they can enjoy the full benefits of having an easily tradable foreign investment, thus enabling efficient hard- currency generation. We have inserted a form of acceptance on the last page of this report for existing Nedbank shareholders to fill out, should they want to convert their shares to ZDRs.

Business Description

Nedbank is a financial services group offering wholesale and retail banking services, as well as insurance, asset management and wealth management services. Through its principal banking subsidiary, Nedbank Limited, the group is one of South Africa's four largest banks. Apart from its predominant exposure to the South African market, the business also has subsidiaries in Lesotho, Mozambique, Namibia, eSwatini (Swaziland) and Zimbabwe. Furthermore, Nedbank is currently engaged in an alliance with the leading banking group in West and Central Africa, Ecobank Transnational Incorporated (ETI), for which it has a 21% equity stake. The Ecobank-Nedbank Alliance is the largest banking network in Africa.

Total Income Contribution by Segment



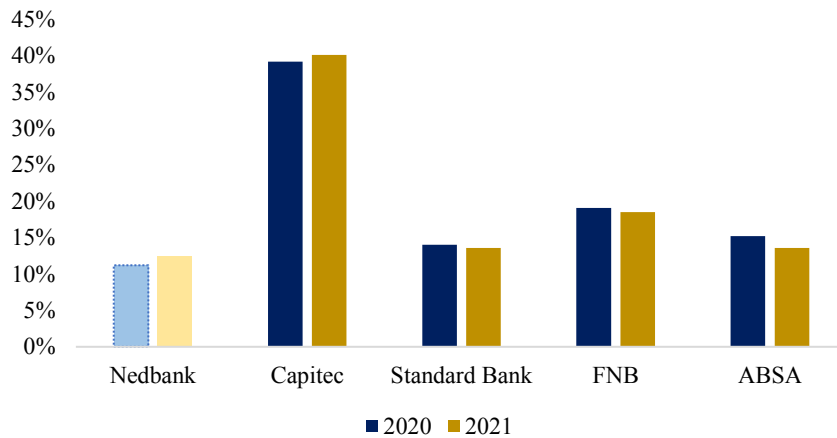
Investment Summary

Growing Market Share

According to Consulta, Nedbank has a main-banked market share of 12.4% which is fifth largest among South Africa's banks. Furthermore, the group recorded the largest retail main-banked market share gain in 2021, largely attributable to the growth of the company's digital product sales, which have improved at an accelerated pace. For instance, digital sales of transactional retail products increased by 529% y-o-y for the half year ended 30 June 2022.

However, Capitec's main-banked market share remains dominant at 40.1% with FNB in a near but distant second place position with a market share of 18.5%. Nonetheless, Nedbank has taken a piece of market share from all of the top five banks (excluding Capitec), an indication of aggressive growth in both presence and brand awareness. The banking segment also has a 16% share of total assets in the SA banking industry.

Market Share of SA's Top Five Banks

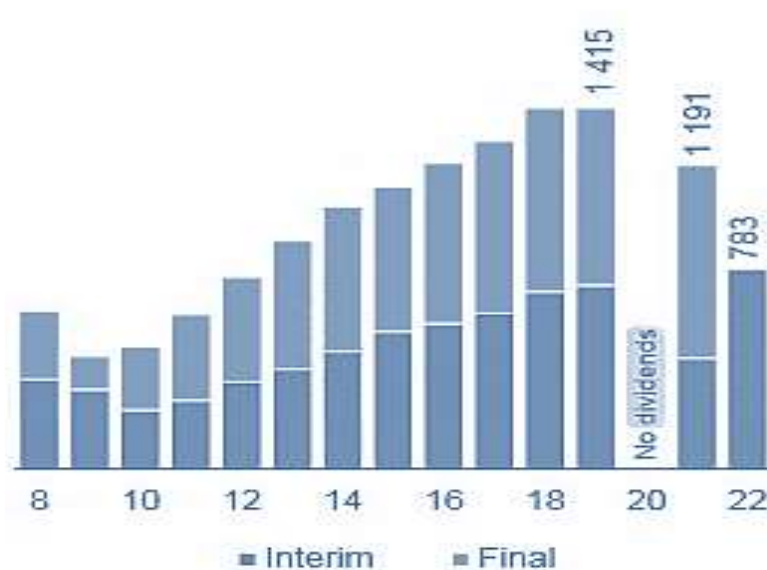


Source: Consulta

Consistent Dividend Payouts

Nedbank is a consistent payer of dividends with the business only failing to disburse any cash to shareholders in 2020 during the covid-19 pandemic, which placed the SA banking industry in crisis mode. Apart from the 2020 outlier, Nedbank has been paying interim and final dividends since 2008. The 1H22 interim dividend returned above pre-pandemic levels as earnings rebounded on the back of increased economic activity and the resumption of normal working hours. As a result, the dividend was up 81% y-o-y following a 27% increase in earnings. We foresee a slight decrease in the group's earnings momentum in the second half of the year owing to continued interest rate hikes following persistent global inflationary pressures. Consequently, this hawkish stance by the South African Reserve Bank (SARB) should dampen GDP growth in the fourth quarter leading into early 2023, until inflation returns to target levels, which are between 3% and 6%. SA inflation currently stands at 7.5%.

Dividend per share (cents)



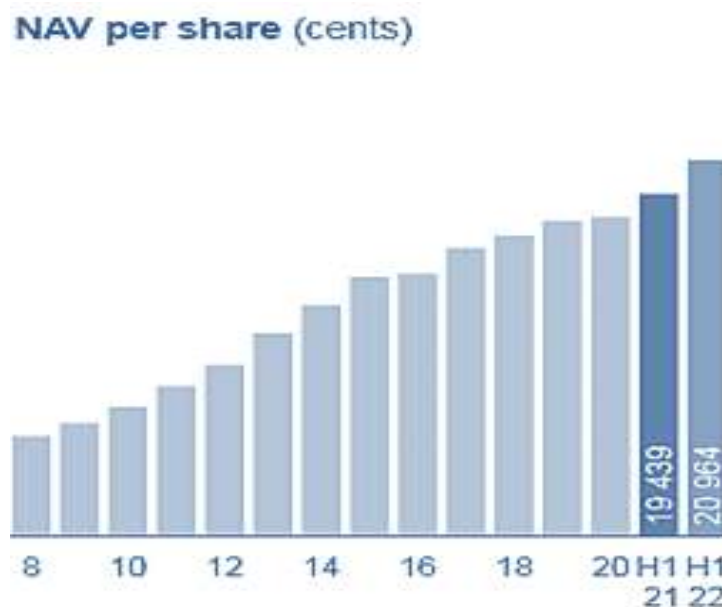
Source: Company

Strong Regional Presence

Outside of South Africa, Nedbank operates in five countries in SADC, through subsidiaries and banks in Lesotho, Mozambique, Namibia, eSwatini (Swaziland) and Zimbabwe. The group also has a strategic alliance with Ecobank as well as representative offices in Angola and Kenya. We opine that regional diversification should insulate the business from local macroeconomic and social volatility. Moreover, geographical spread ensures a natural hedge against poor fundamentals in certain locations. The alliance with Ecobank should also position Nedbank to take advantage of burgeoning opportunities in Central and West Africa. We also note that rising political and economic sentiments in Kenya may signal an expansion drive within the country.

Resilient Balance Sheet

Gross banking loans and advances contribute circa 70% to Nedbank’s total assets with 45% of loans going towards commercial mortgages and home loans. We like this strategy because Nedbank has retained the largest market share in the commercial mortgage loan segment for the past four years (June 2018 to May 2022) at 37.6%— Standard Bank sits in second place with significant ground to cover given its market share of 16.6%. Additionally, Nedbank is ranked fourth in terms of home loans market share in the above-mentioned four-year period. We opine that a flat credit loss ratio of 0.85% y-o-y in 1H22 is indicative of stable asset quality and efficient risk management. Furthermore, Fitch Ratings agency affirmed the Long-Term Issuer Default Ratings (IDRs) of Nedbank Group Limited (NBG) and its main operating subsidiary, Nedbank Limited (NBL), at 'BB-', implying that **outlooks are stable**. NAV per share has also been on an upward trend for the past 14 years as illustrated in the graph below.



Source: Company

Investment Summary

Overall, we opine that existing Nedbank shareholders should convert their nominee shares into ZDRs for the following reasons:

- i. **Increased Liquidity** – This model will unlock liquidity in Nedbank as participants will have coordinated entry and exit mechanisms.

- ii. **Transparency** – There will be increased transparency for shareholders and other investors as daily reports revealing the bid and offer prices will be published by the VFEX.
- iii. **Asset and Cash loss to South Africa** – The model will promote local trading of Nedbank shares and hence no shares or foreign currency will be remitted offshore.
- iv. **Expanded Options** – Both current shareholders of Nedbank together with potential investors will soon find potential avenues to transact in this instrument locally and hence increase convenience and expanded options.
- v. **Security** – The model is anchored on a solid system architecture that delivers the required security and credibility. Additionally, holders of Nedbank ZDRs can use them as security against local borrowings through the pledge functionality of the VFEX CSD.
- vi. **Settlement** – The model will improve settlement cycle by approximately 6 days – the envisaged settlement cycle will be a T+3.

Additionally, Nedbank trades at a favourable forward P/E of 7.15x against a South African peer group average of 11.61x. We therefore view the counter as undervalued at current levels. Zimbabwean Nedbank shareholders are also set to benefit from consistent dividend payouts, thereby increasing passive income prospects. The counter trades on a dividend yield of 7.3%, significantly above the ZSE average of 1.3%.
BUY

Key Dates and Participants

| | |
|--|-------------------------|
| Opening date for Conversion of Nedbank shares into Nedbank ZDRs on the VFEX | 21 October 2022 |
| Closing date for Conversion of Nedbank shares into Nedbank ZDRs on the VFEX | 11 November 2022 |
| Commencement of trading in Nedbank ZDRs on the VFEX | 18 November 2022 |

Depository & Issuer



Sponsors



Legal Advisors



NB: Nedbank shareholders will still be able to convert their shares after the VFEX listing



FORM OF ACCEPTANCE

Dear Sir/Madam

The Offer

I/We the undersigned, hereby irrevocably and unconditionally accept the Offer of 1 Nedbank Zimbabwe Depository Receipt ("Nedbank ZDR") for every 1 Nedbank Limited share held, the details of which are included in the enclosed Circular. I/We also cede ownership and accept the transfer of ownership of the Nedbank Limited shares to Nedbank ZDRs.

NEDBANK LIMITED SHAREHOLDERS ACCEPTING THE OFFER MUST COMPLETE THIS SECTION IN BLOCK LETTERS

| | |
|---------------------------------------|--|
| Surname: | |
| Given Names (in full): | |
| Title (Mr., Mrs., Miss., Ms., Other): | |
| Address: | |
| Telephone: | |
| Mobile: | |
| Email address | |

I/We hereby surrender the undermentioned shares/share certificates:

| Name of registered holder (separate form for each holder) | Certificate number/CSD number (in numerical order) (if applicable) | Number of Nedbank Limited Shares |
|---|--|----------------------------------|
| | | |
| | | |
| | | |
| | | |
| | Total | |

| | |
|---------------------------------|---|
| Signature of Shareholder: | Stamp and address of agent lodging this form (if any) |
| Date: | |
| Assisted by me (if applicable): | |
| State full name and capacity: | |
| Date: | |
| Telephone number (home): | |
| Telephone number (work): | |
| Mobile Number: | |

Notes:

- No receipts will be issued for Documents of Title lodged unless specifically requested. Lodging agents who require special transaction receipts are requested to prepare such receipts and submit them for stamping together with the Documents of Title lodged. Additional copies of this Form of Acceptance, Surrender and Transfer are available upon request from the Transfer Secretaries.
- Any alteration to this Form of Acceptance, Surrender and Transfer must be signed in full and not initialed. Any alteration may not be accepted by Corpserve Registrars.
- If this Form of Acceptance, Surrender and Transfer is signed under a power of attorney, then such power of attorney or a notarial certified copy hereof, must be sent with the form for noting, unless it has already been noted by the Transfer Secretaries.
- Where the Nedbank Limited Shareholder is a company or a close corporation or other juristic person, a certified copy of all Directors' or members' or other resolution authorizing the signing of this Form of Acceptance, Surrender and Transfer must be submitted together with this form.
- Where the Nedbank Limited shares are jointly held, this Form of Acceptance, Surrender and Transfer must be signed by all joint holders; however, Corpserve Registrars shall be entitled to, in its absolute discretion, accept the signature of that holder whose name stands first in the register in respect of such Nedbank Limited Shares.
- The Offer is made gross of tax, and where applicable Capital Gains Tax & other related costs will be deducted at source prior to settlement of the Consideration
- Shareholders with CSD accounts will have their new Nedbank Limited ZDRs credited automatically to their VEX electronic accounts.

Disclaimer: While sources used in preparation of this research report are believed to be reliable, **MMC Capital** makes no representation that they are accurate or complete. The opinions, forecasts, assumptions and other information contained in this research report are as of the date indicated and are subject to change at any time without prior notice. This report is provided for informational purposes and should not be construed as a solicitation or offer to buy or sell any securities or related financial instruments. Neither **MMC Capital**, nor any of its partners, directors, employees, representatives or agents shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including loss of profits arising in any way from the information contained in this report. **MMC Research** is a division of **MMC Capital**.