



GNAM Investment Competition

Harmony Gold Mining Company Ltd

30 October 2016

Jomari **Swarts** – MBA 2016

Keitumetse **Bolata** – MBA 2016

Raymond **Greig** – MBA 2016





Company Overview

Listed on JSE, NYSE & BSE in Mining sector

Operations

- South Africa
 - 9 Operations
 - 1 open pit mine
- Papua New Guinea
 - 1 open pit mine
 - Exploration sites



Customers

- China, India, USA
- Demand for
 - Jewellery,
 - Technology,
 - Investment and central banks



Tech

- Investment in;
 - ice plants
 - rail-veyor for semi-automated



Shareholders

- New experienced CEO
- African Rainbow Minerals Ltd.,
- Allan Gray Proprietary Ltd,
- Van Eck Associate Corporation and
- Retail Investors (North America)

Strategy

- Competitive, value focused gold mining company
- Higher production goals for 2017
- Identifying acquisition targets (outside South Africa) –JV with Hidden Valley mine
- Currency hedge (90% of operations in SA)
- 1st dividend pay-out in 4 years

Market

- 3rd Largest Mining Co& in SA
- 13th largest in the world
- Competitors;
 - AngloGold Ashanti and
 - Gold Fields



Macroeconomic Analysis

US elections

- Hillary Clinton most likely to be the next US president

SA's credit rating decision in Dec '16

- Expect to be downgraded to non-investment grade

US Fed interest rates

- Expect interest rate hike in the short-term

Gold

- Over supply in the market
- Demand down in 2016
- Forecasted demand to increase in Asia
- Increase in western investment interest

Gold price for past 1Y (USD/oz):

Open (30 Oct '16)	1 276
High	1 367
Low	1 054

Gold price forecast for 2017 (USD/oz):

Average	1 420
---------	-------



Macro-economy effects on Harmony

	Forecast (2017)	Justification	Effect on Harmony Gold
Gold	Increase to \$1,420 an ounce ▲	▲ demand for jewellery in Asian and investments in the West	▲ revenue
US dollar	Strengthen ▲	▲ global confidence in US economy	▲ earnings Revenue earned in US dollars
SA rand	Weaken ▼	SA downgrade to junk status	▲ earnings SA mines' costs are in SA rand
US Fed int. rate	Increase ▲	Attempt to boost US economy	Dampen gold price rally

Increase in rand gold price => Rally in Harmony share price

Group Performance vs Competitors



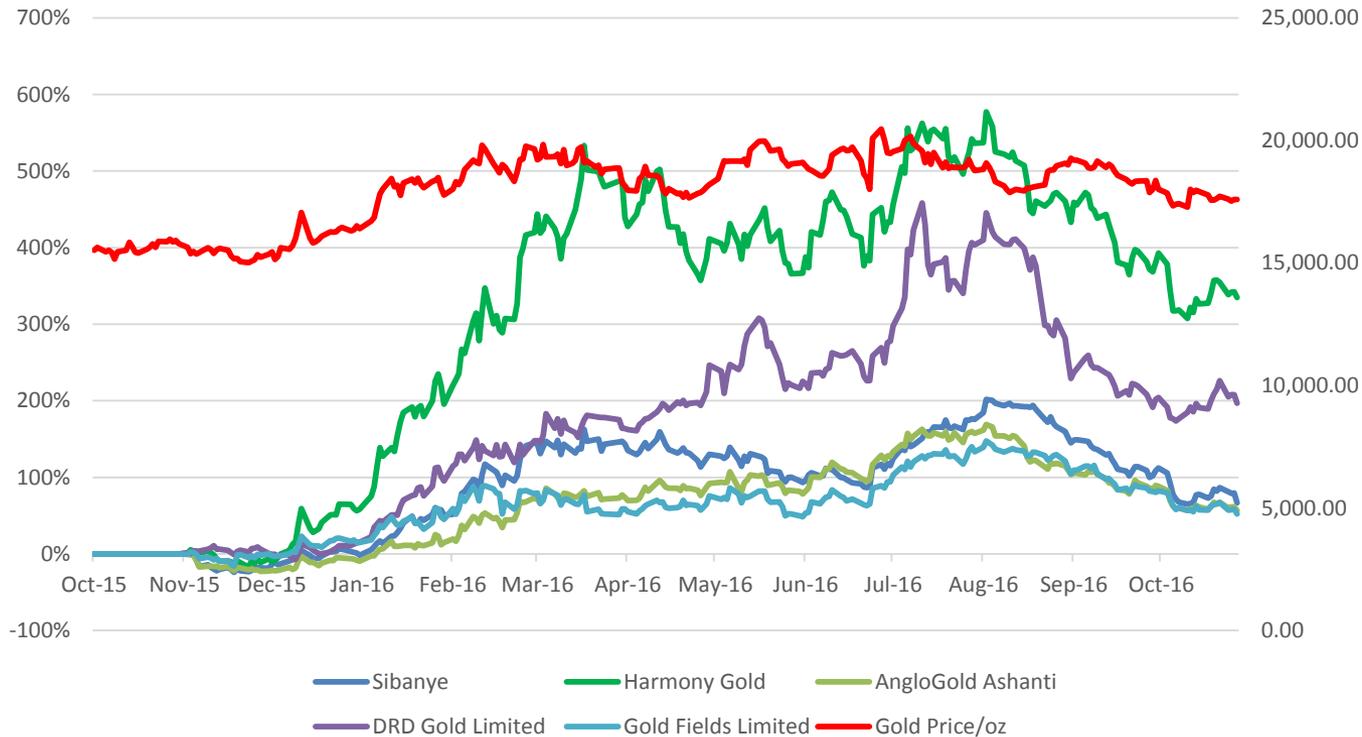
	Harmony	AGA	Sibanye	Gold Fields	Pan African
Market Cap	18,461,615,024	75,308,871,871	34,674,059,662	45,915,462,994	6,762,358,808
Share price	R42.20	R184.49	R37.53	R55.89	R 3.48
Change in 2016	328.86% ▲	56.71% ▲	61.21% ▲	52.04% ▲	87.1% ▲
P/E	19.1	37.4	21.32	25.51	11.5
ROE	3.37%	4.57%	1.23%	7.97%	16.89%

Despite low ROE's the SA gold industry is on trading upwards



Performance over the last year

Share price against the SA rand gold price



Strong performance for South African gold companies due to strong Rand gold price



Company Analysis: Financials

Profitability

- Revenue ↑18.8%
- Gross margin ↑13.9%
- Operating costs ↓17.1%
- ROE increased 20.33 % points

Efficiency

- Collection period ↓4.62 days
- Settlement period ↑7.3 days
- Operating cycle ↓9.69 days
- Increased ability to generate profits using assets

Liquidity and cash flow

- Current ratio at 1.71
- Acid ratio at 1.13
- Increased cash from operations
- Sufficient liquidity to cover short-term borrowings

Leverage

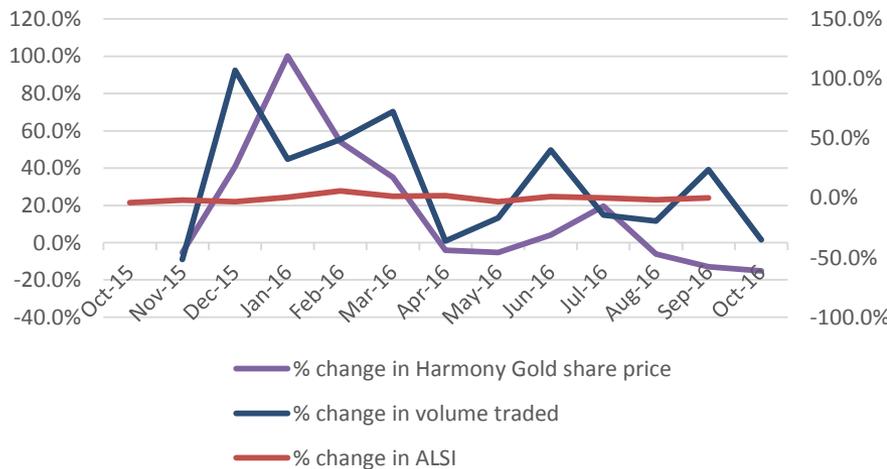
- Debt ratio ↓ to 23.9%
- Debt to Equity ↓ to 31.4%
- Interest cover ↑ at 5.81 times
- Lower financial risk in macroeconomic environment



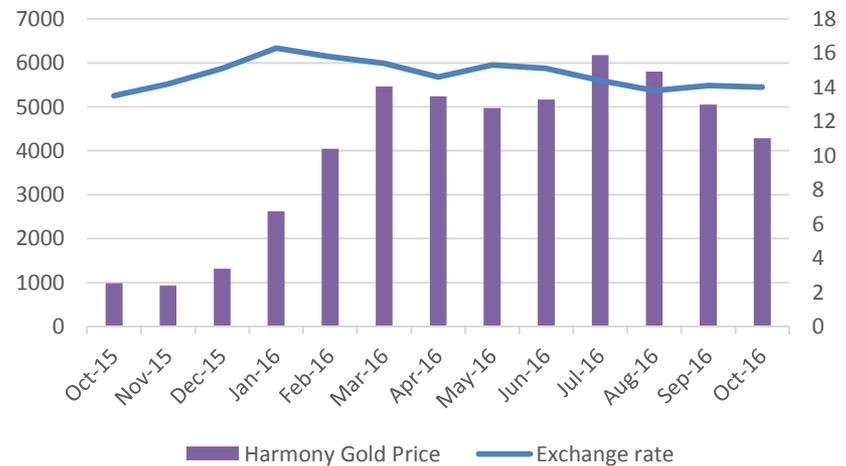
Market sentiment

- PE at 19.19, below industry average of 31.8
- Dividend declared of R0.50 in 2016
- Share price trending upwards

Reaction to the All Share index



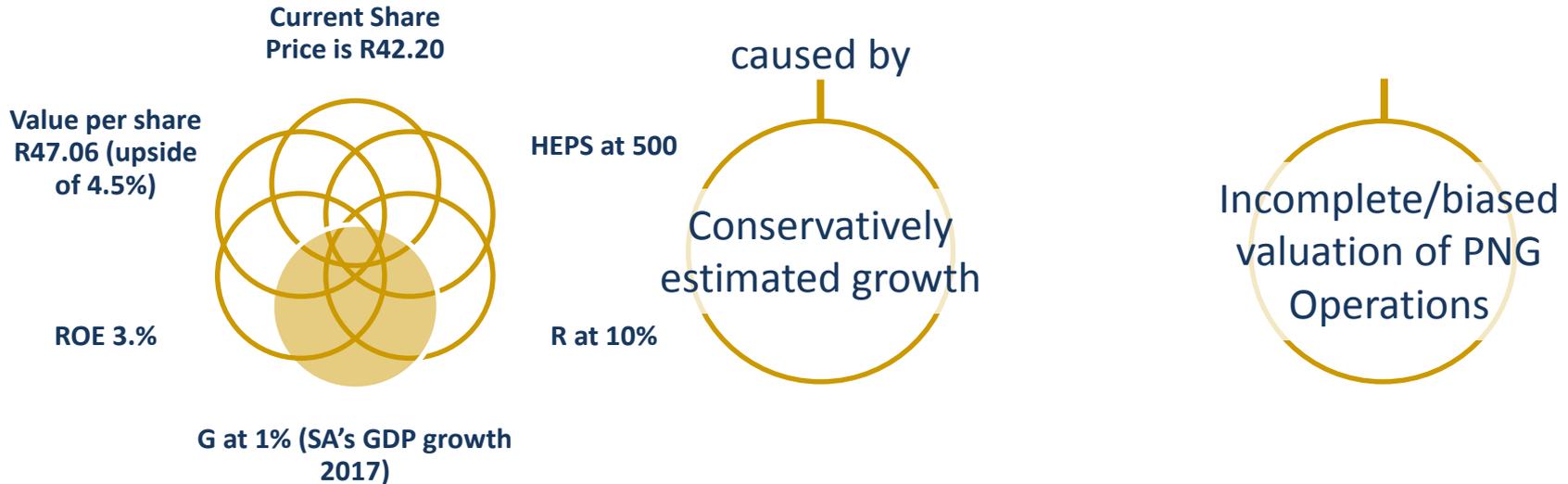
Share Price over the past year





Valuation BUY

Warranted price from all valuation methods is below market price



BUT

- Harmony has recognised the risks in Southern Africa and is diversifying operations by investing in emerging markets
- company, appears to have a good business strategy and is not highly leveraged. Harmony should remain a good long term investment

We recommend revaluing Harmony when the next interim financials are out to confirm whether we have undervalued Harmony's growth and value of acquisition.



Thank You

