GNAM Investment Competition

Harmony Gold Mining Company Ltd

30 October 2016

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Company Overview
Listed on JSE, NYSE & BSE in Mining sector

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

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

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

Tech
• Investment in;
  – ice plants
  – rail-veyor for semi-automated

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
<table>
<thead>
<tr>
<th></th>
<th>Forecast (2017)</th>
<th>Justification</th>
<th>Effect on Harmony Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>Increase to $1,420 an</td>
<td>▲ demand for jewellery in Asian and investments in the West</td>
<td>▲ revenue</td>
</tr>
<tr>
<td></td>
<td>ounce ▲</td>
<td></td>
<td></td>
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<tr>
<td>US dollar</td>
<td>Strengthen ▲</td>
<td>▲ global confidence in US economy</td>
<td>▲ earnings</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Revenue earned in US dollars</td>
<td></td>
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<tr>
<td>SA rand</td>
<td>Weaken ▼</td>
<td>SA downgrade to junk status</td>
<td>▲ earnings</td>
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<tr>
<td></td>
<td></td>
<td>SA mines’ costs are in SA rand</td>
<td></td>
</tr>
<tr>
<td>US Fed int. rate</td>
<td>Increase ▲</td>
<td>Attempt to boost US economy</td>
<td>Dampen gold price rally</td>
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</tbody>
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**Increase in rand gold price => Rally in Harmony share price**
## Group Performance vs Competitors

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

Despite low ROE’s the SA gold industry is on treading upwards.

Performance over the last year

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**

- % change in Harmony Gold share price
- % change in volume traded
- % change in ALSI

**Share Price over the past year**

- Harmony Gold Price
- Exchange rate
Warranted price from all valuation methods is below market price

- **Current Share Price is R42.20**
  - Value per share R47.06 (upside of 4.5%)
  - ROE 3.0%
  - HEPS at 500
  - R at 10%
  - G at 1% (SA’s GDP growth 2017)

**caused by**
- Conservatively estimated growth

**Incomplete/biased valuation of PNG Operations**

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**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

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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