

Discount Instalments

A new style of investment product has recently hit the South African market. The products known collectively as share instalments are designed specifically to provide potential investors with a simple low cost alternative to buying shares directly in the market.

In essence the products are designed to mimic the movement of a range of leading South African shares without the necessity of paying the full purchase price upfront.

How is this practically achieved?

Quite simply instead of paying the full purchase price of the share on day one the investor will pay an initial instalment (typically 50%) on purchase followed by a 2nd instalment (a completion payment) on expiry, at which point you would take delivery of the underlying share.

In the interim the client has the potential for capital growth, greater returns than holding the share itself (although with greater risk), high liquidity due to the fact that the instruments are listed on the JSE Securities Exchange with the added advantage of two-way prices being quoted by the issuer at all times, limited downside (being the initial instalment amount) as well as leverage without the risk of margin calls.

Currently there are two types of instalments listed on the JSE

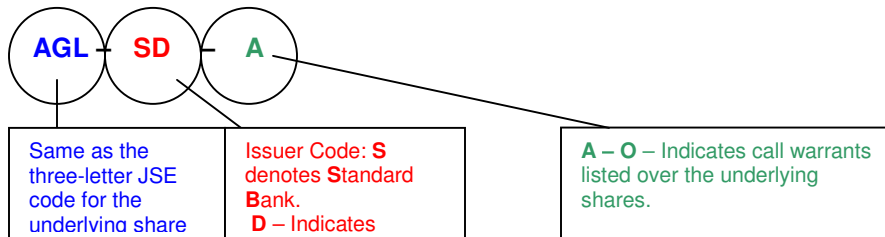
1. Vanilla or Standard Instalments
2. Discount Instalments

Vanilla Instalments

Under this form of Instalment the holder becomes eligible to receive the full ordinary dividend payable on the underlying share that the instalment is listed over. In order to receive the dividend they will need to be the holder of the instalment on the LDT (Last Day to trade) of the underlying.

Discount Instalments

Under discount instalments the holder of the instalment is not eligible to receive the dividend payable on the underlying share. However, the dividend stream of the share is discounted into the price of the instalment upfront. This has the effect of making discount instalments cheaper than vanilla Instalments.



How do I go about trading Discount Instalment?

You can buy discount instalments on the JSE Securities Exchange via any registered stockbroker. The price at which the instalments are available is published daily on the Standard Bank website at www.warrants.co.za; or call 0800 111 780 for the latest pricing matrix.

What am I buying when I purchase a Discount Instalment?

When buying a discount instalment the investor is in essence purchasing the underlying share forward at a future date. As an initial payment you will pay around half the value of the share as an initial down payment with the payment of the balance deferred until expiry.

When you purchase a discount Instalment you enter into the following:

1. An initial payment in respect of the instalment.
2. An option to pay the final instalment (take up price) in respect of the instalment on expiry.

What Happens at Maturity?

At maturity Discount Instalment holders will have two options:

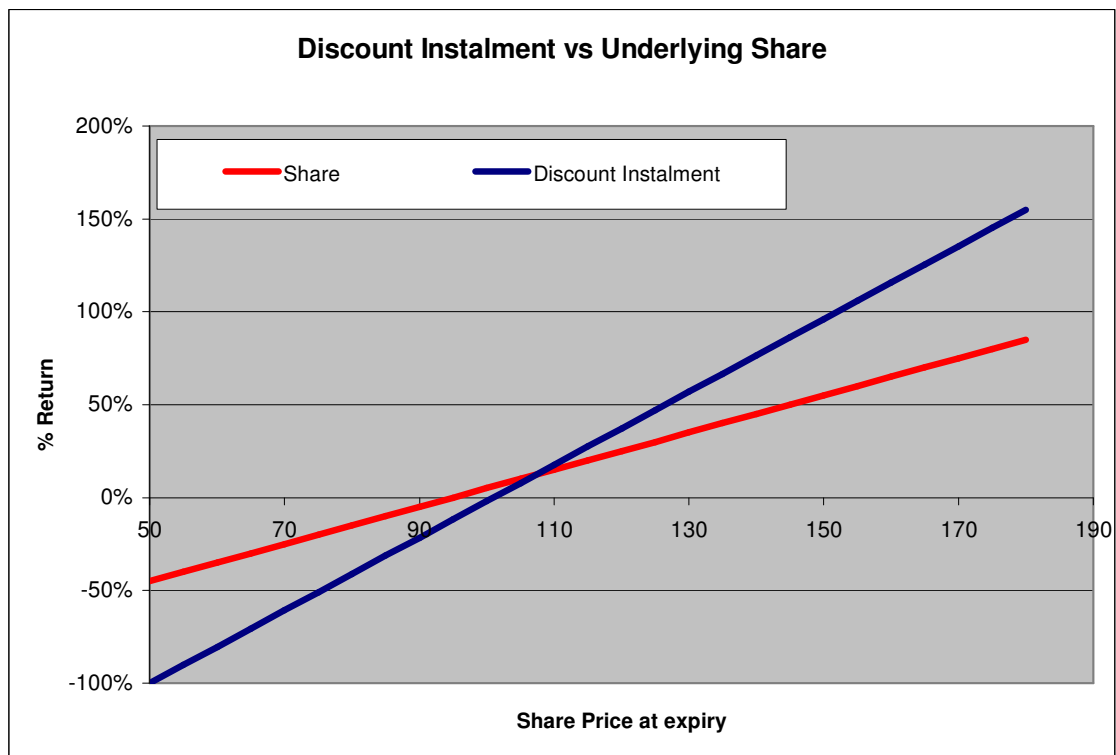
1. You can pay the final instalment and take delivery of the Underlying Securities.
2. If you do not make pay the final payment and the instalment still has a positive value -Worked out by taking the (Price of the Underlying on expiry) – (The Strike price of the discount Instalment) - it will be paid out to the instalment holder.

Pricing

The price of the Instalment warrant will change with any movement in the price of the underlying security. Standard Bank will publish daily a matrix of the price of the discount instalment in relation to the underlying security on its warrant website at www.warrants.co.za

Key Benefits

- **Geared Share exposure through the forward purchase**
 - For the term of the trade, with full ownership of the underlying shares being transferred to the holder on the expiry date.
 - As only a partial payment is made upfront, the investor receives gearing on any share price movements, in comparison to holding the underlying share.



- **No Margin Calls**
 - The investor is not obligated to make the final instalment payment and there are no margin requirements that need to be maintained during the life of the discount instalment.
- **Limited Downside**
 - As a holder of a discount Instalment you will have the option pay the final instalment and take delivery of the underlying. Should you choose not to make the final payment and positive value remaining in the instalment will be paid back to you.
- **Flexibility to restructure existing share portfolios**
 - By buying discount instalment warrants and selling out the underlying shares investors can maintain their exposure to the underlying shares and free up cash.
- **Discount Instalments don't go ex-dividend**
- Because the expected dividends of the share are priced into the instalment upfront discount instalments will not change price when the share goes ex-dividend i.e. if the share falls by its full dividend amount on the day it goes ex-div, the price of the discount instalment will be unchanged.

Trading Tips

1. When trading discount instalments remember that you are trading a geared product – typically 2 times. As a simple rule of thumb look to buy the same number of Discount Instalments as you would the underlying to avoid leveraging your position.
2. Always trade with a stop-loss – whenever trading it is important to implement sound money management principles. We would recommend a stop loss of 10 – 15%.
3. Don't average down on losing trades rather look to exercise a stop loss. Averaging down results in increased exposure, which can compound losses in the long term.

Always do your homework before entering a trade. We recommend using fundamental analysis in order to help pick the stocks you wish to trade in, combined with technical analysis to help time your entry into the instalment.