




## Share Instalments



Investors on the JSE Limited have recently been able to invest in an exciting new type of financial product known as Share Instalments.

## What are Share Instalments?

Share Instalments are instruments that allow investors to gain exposure to some of the JSE Limited's leading companies. The holder of the Share Instalment enjoys many of the benefits (capital growth and dividends) of directly owning some of the country's leading stocks without having to pay the full purchase price on day one.

The fact that you only pay a portion of the cost of the underlying stock upfront means that you gain geared exposure through the Share Instalment. This allows you to magnify potential gains arising from movements in the underlying share price.

## What am I buying when I purchase a Share Instalment?

When buying a Share Instalment you are purchasing the underlying share in two easy steps. There is an initial upfront payment. This provides you with exposure to the share over which the Share Instalment is issued. There is an optional 2nd payment (the exercise price). This can be paid at any time up to the expiry of the Share Instalment. At this point full ownership of the underlying instrument is taken.



For the term of the Share Instalment you will receive all the ordinary dividends paid by the underlying share.

## What happens during the term?

As a Share Instalment holder you have several options:

1. If you wish to take full ownership of the share, you exercise the Share Instalment at any time up to expiry, by making the final payment. At this point Standard Bank will deliver the shares into your share account.
2. If you wish to maintain your exposure to the underlying share, you can sell out of your existing Share Instalment and buy a new one over the same underlying share with a longer term to maturity.
3. If, upon expiry of the Share Instalment the share price has fallen significantly, and you choose not

to exercise your right to take up the underlying share, you will still receive a cash payment if the share price exceeds the Share Instalment's exercise price.

4. If you want to close down your exposure to the underlying share you can simply sell the Share Instalment on the market.

## Pricing

The price of the Share Instalment will change with any movement in the price of the underlying security. The Share Instalment will move on a 1:1 basis with the underlying security that is, if the underlying moves by R1 then the Share Instalment will move by R1.

Standard Bank will, on a daily basis, publish a matrix of the price of the Share Instalment in relation to the underlying security on its website at [www.warrants.co.za](http://www.warrants.co.za).



## Key benefits

- **Geared share exposure**
  - For the term of the trade. Full ownership of the underlying share will be transferred to you on payment of the exercise price on or before the expiry date.
  - As only a partial payment is made upfront, you receive gearing on any share price movements, in comparison to holding the underlying share itself.
- **Enhanced dividend yield**
  - As the holder of the Share Instalment you receive the full ordinary dividends payable on the underlying share. For example, for a share trading at R100 paying an annual dividend of R5, the dividend yield on an outright share purchase would be 5%. With an initial Share Instalment of R55, the tax-free dividend yield would be 9,09%.
  - A strong dividend income can be the cornerstone of any investment portfolio. This is especially true where cash flow is a priority. Investors can use Share Instalments to take advantage of the relatively high dividend yield of South African companies.
  - For active investors, Share Instalments offer a perfect opportunity to participate in multiple upcoming dividends from numerous companies using the same capital investment. This strategy, known as a 'dividend yield play', entails rolling out of one share upon becoming ex-dividend and into another for its imminent dividend payment.
  - Share Instalments have added appeal when trading for dividends, as they provide a leveraged exposure to the share while passing on the full dividends benefit. As a result you are able to boost your tax-free dividend income stream.
- **No Margin Calls**
  - Unlike futures, you are not obligated to take up the underlying share at expiry, and there are no margin requirements that need to be maintained during the term of the investment.
- **Partial share price protection**
  - Using a margin lending facility can expose you to margin calls, and in the worst-case scenario, you are obligated to either pay in more margin or risk having your position closed out. Share Instalments, on the other hand, are not subject to a margin call no matter what the performance of the underlying share. You are not obligated to make the final payment and take up the underlying share; your maximum loss is limited to the initial amount invested.



- **Flexibility to restructure existing share portfolios**
  - By selling out the underlying shares and replacing them with Share Instalments, you can maintain exposure to the underlying shares and free up cash while still maintaining your dividend income stream.
  - Share Instalments offer you the potential to accelerate your capital growth by leveraging an existing shareholding without having to invest additional capital. This strategy, known as 'Cash Extraction', allows you to convert your existing shareholding into an equivalent number of Share Instalments plus a significant cash payment. The extra cash can either be reinvested into more Share Instalments to increase share exposure or deployed for other uses.
- **Quoted on the JSE Limited**

Share Instalments can be bought and sold on

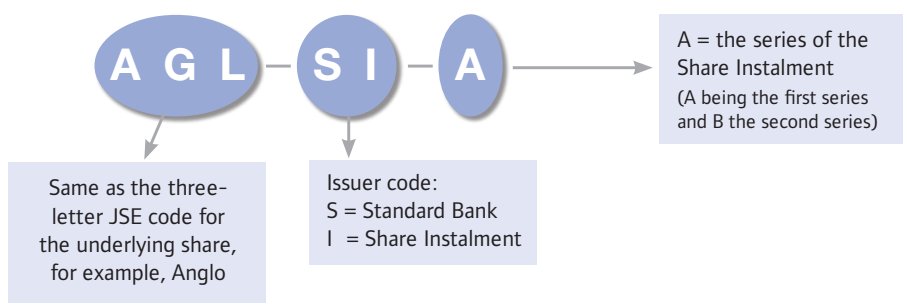
the JSE just like shares, so you are able to trade Share Instalments through your normal share portfolio.

## How do I go about trading Share Instalments?

You can buy Share Instalments through any registered stockbroker. As an issuer of Share Instalments, Standard Bank will continuously quote prices at which you can both buy and sell the product. This will give you easy entry to and exit from your investment.

## How do I recognise Share Instalments?

By their coding. Share Instalments will have a 6-letter short code which you enter in order to trade them on the JSE Limited.



## Tax implications

- As Standard Bank cedes dividends to the warrant holder they maintain their nature as tax-free dividends in your hands.
- Standard Bank recommends that potential investors seek their own independent tax advice before making an investment.

## Frequently asked questions

**Question:** Am I receiving the same ordinary dividend on the Share Instalment as I would receive on the underlying share?

**Answer:** Yes. It is the same dividend (as defined in the Income Tax Act) that would accrue to the ordinary shareholder, with the same LDT date and tax treatment.

**Question:** Will I receive voting rights on the underlying shares during the term of the investment?

**Answer:** No. Voting rights will only pass to the holder upon exercise of the Share Instalment.

**Question:** Are there any margin calls during the term of the trade?

**Answer:** No, unlike most geared instruments, no margin payments will need to be made.

**Question:** Is there a UST cost payable on purchasing the Share Instalment?

**Answer:** Yes, a UST cost of 0,25% will be payable by the purchaser of the Share Instalment. Upon exercise of the Share Instalment when you take delivery of the underlying share, a second UST payment based on the full face value of the underlying stock, will be payable.

**Question:** If the price of the underlying share reduces, don't I lose all of the money invested?

**Answer:** No. It is only when the underlying share's price reduces to the level of the exercise price that the full investment will effectively be lost.

## Further information

Contact us on our toll free number: **0800 111 780**

email us: [derivatives@standardbank.co.za](mailto:derivatives@standardbank.co.za)

### Example:

John is a successful businessman looking to start investing on the JSE Securities Exchange. He has R100 000 available to invest and is weighing up his alternatives. John is looking to invest in well-known TOP40 shares paying good dividend yields. The kind of companies that John is familiar with are Anglo American Plc, Sanlam Ltd and so on.

Having spoken to his stockbroker, John is considering whether he should invest the entire R100 000 directly into his favourite TOP40 companies or to utilise Share Instalments to give him equivalent exposure and free up some cash to diversify into other asset classes. John is also considering whether he should look to leverage his investment by investing the same amount of money in the Share Instalments as in the underlying stocks so as to gear up his share exposure.

It is important to realise that no matter what his choice, the performance of the portfolio will be driven by the movements of the underlying securities. The diversified approach will reduce his capital at risk when compared to a direct share investment, whilst the leveraged approach will magnify the potential profit/loss of the portfolio.

#### Alternative 1: Direct share investment

Share	Price	No. of shares	Cash outlay	Exposure
Anglo American Plc	R140,00	179	R 25 000	R 25 000
Investec Plc	R150,00	167	R 25 000	R 25 000
Anglo American Platinum	R240,00	104	R 25 000	R 25 000
Sanlam Ltd	R 12,00	2 083	R 25 000	R 25 000
			R100 000	R100 000

### Alternative 2: Share investment – Diversified strategy

Share instalment	Price	No. of share instalments – diversified	Cash outlay	Exposure
AGLSIA	R77,00	179	R 13 750	R 25 000
INPSIA	R82,50	167	R 13 750	R 25 000
AMSSIA	R132,00	104	R 13 750	R 25 000
SLMSIA	R 6,60	2 083	R 13 750	R 25 000
			R55 000	R100 000

### Alternative 3: Share investment – Geared strategy

Share instalment	Price	No. of share instalments – diversified	Cash outlay	Exposure
AGLSIA	R77,00	325	R 25 000	R 45 500
INPSIA	R82,50	303	R 25 000	R 45 500
AMSSIA	R132,00	189	R 25 000	R 45 500
SLMSIA	R 6,60	3 788	R 25 000	R 45 500
			R100 000	R182 000

Share	Dividend yield
AGL – Anglo American Plc	2,75%
INP – Investec Plc	4,25%
AMS – Anglo American Platinum	3%
SLM – Sanlam Ltd	3,5%

Average yield

3,38%


Share instalment	Dividend yield
AGLSIA	5,00%
INPSIA	7,73%
AMSSIA	5,45%
SLMSIA	6,36%

6,14%

## Let's assess the alternatives

The advantage for John of investing in the market through the Share Instalments, as opposed to directly through the underlying shares, is that he frees up a large amount of cash. The excess cash can be used to diversify his portfolio.





Investing in Share Instalments will enable John to generate a regular income stream from dividends paid by the underlying companies. The price of a Share Instalment is approximately 55 per cent of the prevailing share price at listing, yet the investor still receives the full ordinary dividend. As a result, the dividend yield on Share Instalments is higher than that of the underlying shares.

By investing in the Share Instalment portfolio John is able to diversify his exposure to the share market, enhance his income stream and use the excess funds to further diversify his investment portfolio.

If John chooses alternative 3 he will leverage his position, in that it will provide him with an exposure to a greater number of shares than had he bought the shares outright. In this example the leveraged share exposure is equivalent to about R182 000 worth of shares.

As mentioned previously, the performance of the portfolio will be largely dependent on the performance of the underlying securities. From a risk perspective the diversified approach can reduce John's investment capital at risk compared to investing directly in shares, while the leveraged approach potentially magnifies his profits or losses on the portfolio and boosts his dividend income stream.

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