

01 June 2011

Trustco Group Holdings

Target Price (c) 65

F2011 Results Review

Current Price (c) 70

| Year End 30 June | 2010A | 2011A | F2012 | F2013 | Recommendation | HOLD |
|-----------------------|--------|-------|-------|-------|---------------------|-------|
| Revenue (N\$m) | 550.4 | 587.0 | 649.1 | 769.9 | NSX Code | TUC |
| Profit/ (Loss) (N\$m) | 137.54 | 189.1 | 153.1 | 227.5 | Market Cap (N\$m) ^ | 380.1 |
| HEPS (c) | 12.60 | 19.48 | 22.61 | 33.60 | Shares in Issue (m) | 707.1 |
| P/E (x) | 3.4 | 3.2 | 3.1 | 2.1 | Free float (%) | 30 |
| DPS (c) | 2.0 | 1.5 | 1.0 | 1.0 | P/E (x)* | 2.4 |
| ROE (%) adjusted | 32.4 | 32.9 | 20.1 | 24.3 | P/B (x)* | 4.5 |
| ROA (%) adjusted | 16.3 | 17.6 | 10.7 | 13.2 | DY (%)* | 2.7 |

*1yr forward

^Weighted average between JSE (473.0m shares) and NSX (234.2m shares) market capitalization

Source: TUC, IJG

Financial Review

The 2011 financial year an increase in revenue from N\$550.4m to N\$587.0m. Gross profit for the period rose by 19% to N\$321.9m, which is partially attributed to the cost of sales being reduced by 5% to total N\$265.1m. There was a substantial increase in investment income, from N\$7.9m to N\$29.3m. This, along with the large rise in other income (from N\$23.8m to N\$65.1m) contributed to the 38% increase in income for the period to N\$189.1m. The extraordinary rise in other income is attributed to damages awarded to Trustco relating to a breach of contract by the South African Broadcasting Commission (N\$54m), as well as negative goodwill arising upon the acquisition of a property company. Headline earnings for the period rose by 55% to total 19.48cps.

Administrative expenses rose by 10%, which was mainly due to a N\$17m underwriting fee paid to a third party insurance firm in Zimbabwe as part of the Trustco Mobile business and N\$14m impairment charge recognised on the loans provided on the sale of the restaurant business.

Investment properties have risen substantially when compared to the previous period, totaling N\$232.8m, representing a rise of 63% from N\$143.2m previously. While educational loans advanced saw a rise of 13%, other loans advanced fell by 35% to total N\$24.2m. There was a rise in financial assets of 41% to N\$25.7m from N\$18.3m. Total assets saw a rise of 33% to N\$1,222.3m. Long-term liabilities rose by 36% in the financial year to N\$151.4m, while the company's bank overdraft increased by 90% to N\$41.2m. The group's cash position weakened for the period to N\$41.5m from N\$69.4m previously.

An interim dividend of 1.5cps was paid on 27 January 2011. A final dividend payment will be considered during the June 2011 Trustco Board meeting.

Operational and Segmental Highlights

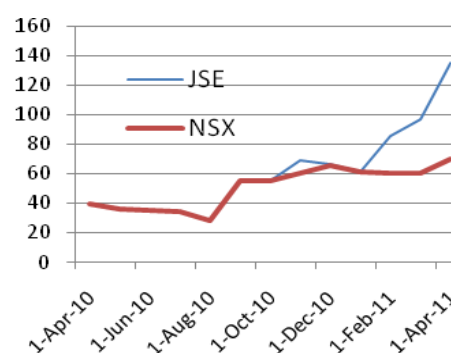
Micro Finance and Education

There was a drop of 13% in revenue from this segment, as more stringent credit criteria now govern the extension of loans, which in turn improved the quality of loans on book and resulted in a lower bad debts charge for the period. A further negative contributing factor came as a result of flooding in the northern part of Namibia, where the bulk of students are located; along with a reduction in the prime lending rate, which together saw net profit from this segment falling by 13% compared to the previous financial period. Gross Educational loans, however, increased from N\$193m to N\$226m from 31 March 2010 to 31 March 2011.

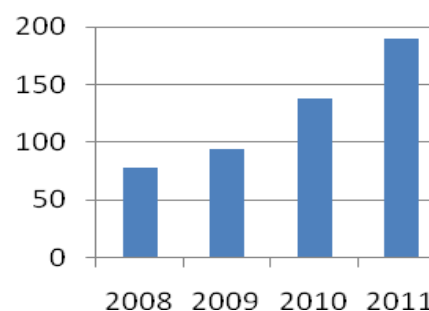
Micro Insurance

The financial period showed a marginal increase in revenue which amounted to N\$111.52m. Net profit after tax for the segment rose by 11% compared to the corresponding period, and is attributed to effective expense controls being in place. A very big problem that the end consumers face, is the N\$150 fee that banks charge on rejected debit orders for the insurance payments, which is particularly applicable to the lower end consumers who do not usually have additional cash in their accounts at month-end.

Share Price (c)



Profit/ Loss (N\$m)



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Trustco Mobile

The year marks the first contribution of this company towards group profits. Contribution to net profit after tax totaled N\$23m. On 7 October 2010, EcoLife, a partnership between Trustco Mobile, First Mutual Life Assurance Company (Pty) Limited and Econet Wireless (Private) Limited, was launched all across Zimbabwe. On 31 March, Trustco Mobile had 1.6m registered customers across Zimbabwe and it anticipates further growth in its customer base as new business opportunities arise across African. Trustco plans to further operations in countries including Zimbabwe, Kenya, Cameroon, Mozambique, South Africa, Nigeria, Ghana and Botswana. Further, margins for this business are expected to increase significantly, and so in turn improve margins for the company as a whole. Management expects this division to be the leading one in the years to come, and to open doors in Africa for other Trustco products to follow.

Properties

Total earnings were boosted by property sales from the Lafrenz property, which houses prime industrial property on the outskirts of Windhoek. During the financial period the group sold 54,000m², 3% of the approximate 1.8m m² of land available for sale, of the Lafrenz property for N\$68m at an average sales price of N\$1,250/m². The current property portfolio consists primarily of residential, commercial and industrial properties in Namibia as well as strategic virgin land, a key driver in this business segment. Initial plans to develop the property for the purpose of low cost residential units has been put on hold, as the company is taking advantage of the high demand for industrial property. Trustco plans to sell the land as it thinks the market can absorb it and considers this to be on-going for a further 10 years.

Future outlook

The availability of term debt will support the growth of the microfinance book along with the anticipated sales of Lafrenz industrial property. Trustco Mobile is also expected to expand as a segment, as well as pave the way for other Trustco segments as it is now well proven and accepted in the mobile and insurance markets. Further, MTN penetrating Ghana to sell life insurance is not seen to pose a risk, due to the difference in products offered. Also, the company has plans to increase the debt to equity ratio to 1:1 on the back of favourable lending conditions. Trustco's management indicated that the company may end up delisting on the NSX, as the market becomes increasingly illiquid and that as a result the Namibian share price does not reflect "the true value of the company".

Valuation

We value Trustco using a Free Cash Flow to Firms (FCFF) methodology, using a WACC of 14.87%. This yields a target price of **65c**, which is still below the current share price on the NSX of 70c. We therefore upgrade our **SELL** recommendation to a **HOLD**.

| Risks: | Profit Drivers: |
|--|--|
| <ul style="list-style-type: none">• Increasing unemployment• Changes to tax legislation• Competitors imitating Trustco's innovative products and methodologies• Legal division facing increased competition• Dilutive impact from current and future acquisitions• Earnings quality | <ul style="list-style-type: none">• Market leader in captured market• High brand recognition• Strong support in target market• Continuous new product and business innovations.• Improving existing products• Cross-selling opportunities |



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