

Trustco Group Holdings Limited – FY09

Core divisions performing well

Trustco reported EPS of 14 cps (IHN: 11 cps), up from 13 cps and HEPS of 11 cps (IHN: 11 cps), up from 8 cps. Profits from the core micro insurance and micro finance & education divisions increased 30%, while profits from the SA financial services and property, development & media divisions remained flat.

Once off items & tax credit boosting profits

The bottom line of the current year's performance was enhanced by a N\$7m increase in tax credit and a N\$6m settlement advance received when Trustco decided to exit the Free Press partnership, a once-off item. All tax assets are expected to be utilised during the current year resulting in a potential tax charge for FY10.

Good prospects anticipated

Good prospects for Lafrenz housing project and Trustco Mobile are anticipated. First developments of Lafrenz should be sold before year-end. Trustco Mobile will be introduced to other African countries, initially Botswana. Negotiations are in an advance stage for expanding life cover to contract cell phone users.

Valuation: Increase PT, upgrade recommendation

On balance we are more positive on the stock. We increase our PT to 91 cps from 71 cps and upgrade our recommendation to Hold, from Reduce.

Highlights (N\$'000)	Mar-07	Mar-08	Mar-09	Mar-10E	Mar-11E
Revenue	182,295	283,911	484,412	571,606	623,051
EBIT	40,852	57,087	55,650	118,330	136,644
Net Income	31,491	77,915	93,378	95,851	103,515
HEPS (cents)	4.7	7.8	10.8	13.3	15.5
DPS (cents)	0.5	1.0	1.0	3.0	4.0
Profitability & Valuation	Mar-07	Mar-08	Mar-09	Mar-10E	Mar-11E
EBIT margin (%)	22.4%	20.1%	11.5%	20.7%	21.9%
EV/EBITDax	8.4	6.3	6.5	3.4	3.0
PEx	11.9	5.4	5.4	5.3	4.9
Dividend yield %	0.7%	1.4%	1.3%	3.9%	5.3%

Source: Company Data, IHN

Equity Research

Namibia

Financial Services

Rating **Hold**
Prior: Reduce

Price Target **N\$Cnt91**
Prior: N\$Cnt71

Price **N\$Cnt80**

JSE: TTO
NSX: TUC

Stock Code:

Trading data (N\$)

52-wk range	N\$Cnt71-80
Market Cap	N\$565.7m
Shares in issue	707.1m
Free Float	20%
PE	7.7x
1 year avg. price	N\$Cnt75
Avg. daily volume ('000)	1.1
Avg. daily volume (N\$'000)	1.0

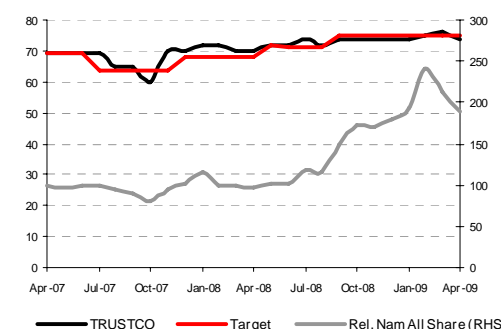
Balance sheet data – FY10E

Shareholders' equity	N\$446m
NAV / share	N\$Cnt68
P/NAV	1.1x
PE	5.3x

Forecast returns

Forecast Price appreciation	13.8%
Forecast dividend yield	3.9%
Forecast stock return	17.7%
Market return assumption	14.4%
Forecast excess return	3.3%

Price performance (RCnt) relative to All Share



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Segmental analysis and forecasts

Table 1: Contribution to Revenue – 12 months ended 31 March

N\$ Million	FY07	FY08	FY09	FY10E
Micro Insurance	68.1	75.7	93.7	110.6
Micro Finance & Education	48.2	54.9	71.2	84.0
Financial services outside Namibia	-	103.6	267.8	316.0
Property, Development & Media	66.0	49.7	51.6	60.9
Total	182.3	283.9	484.3	571.5

Source: Company Data

Table 2: Contribution to Earnings after Tax – 12 months ended 31 March

N\$ Million	FY07	FY08	FY09	FY10E
Micro Insurance	21.9	27.8	36.2	43.4
Micro Finance & Education	18.7	22.9	30.0	36.0
Financial services outside Namibia	-	21.2	19.6	25.5
Property, Development & Media	3.4	3.3	3.1	10.9
Investment related services	(11.2)	(25.2)	(16.0)	(21.0)
Net profit before negative goodwill	32.8	50.0	72.9	94.8
Negative Goodwill		27.7		
Gain on loan written off			7.2	
Profit on disposal of non-core division			12.3	
Net profit after tax	32.8	77.7	92.4	94.8

Source: Company Data

Table 3: Net Profit Margin – 12 months ended 31 March

N\$ Million	FY07	FY08	FY09	FY10E
Micro Insurance	32.2%	36.7%	38.6%	39.3%
Micro Finance & Education	38.8%	41.7%	42.1%	42.8%
Financial services outside Namibia	-	20.5%	7.3%	8.1%
Property, Development & Media	5.2%	6.6%	6.0%	17.9%
Total	18.0%	17.6%	15.1%	16.6%

Source: Company Data

Table 4: Return on Net Assets

N\$ Million	FY08	FY09
Micro Insurance	264.8%	425.9%
Micro Finance & Education	25.7%	25.3%
Financial services outside Namibia	68.4%	29.9%
Property, Development & Media	5.4%	2.6%
Investment related services	3.6%	6.0%
Total	29.8%	24.9%

Source: Company Data

Micro Insurance

Revenue from this division increased by 24% and net profit by 30%. The profit margin therefore improved from 37% to 39%. Claims expenses as a percentage of revenue decreased from 26% to 23%.

Profit from micro insurance up 30%

In terms of return on net assets (table 4), this division is by far the most profitable, since it is not capital intensive.

Micro Finance & Education

Revenue and net profit from this division increased by 30%; with margins remaining intact at 42%. The Educational loan book grew by 45% to N\$133 million. For the second year in a row, the floods in the North hampered sales during the main period of registration (January to March).

Educational book now at N\$133m

Growth is expected to remain high due to the offering of accredited short courses and learning over the internet (e-learning).

This division had a net asset value of N\$119 million at the end of March 2009 and a return on these assets of 25%.

Financial Services outside Namibia

Total revenue increased significantly by 70%. More than half of revenue was generated in South Africa through Trustco Financial Services (formerly Dex). This is the first year that this division was consolidated for a full 12 months, the prior year represents only 5 months. If one annualises this period, year-on-year growth is 8%.

More than half of revenue from SA

Notwithstanding the increase in revenue, net profit from this division decreased slightly from N\$21 million to N\$20 million. This is due to once off items included in the prior period in the form of a N\$7 million tax credit and a N\$4 million credit adjustment to depreciation.

Slight decrease in profit from SA

Net assets worth N\$66 million for this division were consolidated into Trustco's books at year end. The division returned 30% on these assets. The returned for the prior year is skewed with the once off items mentioned above.

Property, Development & Media

These divisions were consolidated during the year. Previously the property division were shown separate. This forms part of management's medium term strategy to focus on its core operations.

Growth in revenue and profits from this division remained largely flat compared to the prior period. Return on net assets from this division is currently the lowest in the group at 2.6%.

The Lafrenz housing project should boost profits from this division within the near future. Management's objective is to sell many of these developments before the end of the 2010 financial year. A large portion of the N\$200 million loan currently being negotiated will be spent on this project.

Trustco mobile was launched during the financial year. It's a basic concept where mobile phone users receive N\$100 worth of life cover for every N\$1 they spend on airtime. Trustco then receives commission on the airtime sales from the mobile operator. Management's objective is to receive between 3% and 5% commission. The life cover is only valid for one month. At the moment the life cover is only applicable to pre-paid airtime. However, management stated that they are negotiating with Cell One to have the life cover available to contract users as well. The company is also in the process to expand the service to other African countries, in particular Botswana.

Lowest return on net assets from this division

Management planning to sell Lafrenz developments in 2010

Life cover for Cell One contract customers on the cards

Investment Related Services

This is mostly made up of head office and other corporate costs. For the current year, this line item includes the following credits:

- Profit on sale of Itumba restaurant	N\$10 million
- Profit on sale of Café Society restaurant	N\$2 million
- Advance received on settlement of Free Press contract	N\$6 million

Excluding the total credits of N\$18 million, head office costs decreased from N\$25 million to N\$22million.

Africa Board Listing

Trustco listed on the Africa Board of the JSE on 19 February 2009 by means of a dual primary listing (share code: TTO). In preparation for the listing, a share split was approved by the shareholders. One ordinary no par value share was converted into a par value share of N\$1.15 each and thereafter subdivided into 5 ordinary par value shares of 23 cent each. Each share was therefore split into 5 shares. All calculations that involve the number of shares in prior periods were restated in accordance.

Income statement analysis & forecasts

Table 4: Financial forecasts: Income Statement for FY08 – FY11E

Income Statement (N\$ '000)	FY08	%Ch	FY09	%Ch	FY10E	%Ch	FY011E
Revenue	283,911	70.6%	484,412	18.0%	571,606	9.0%	623,051
Operating Expenses	(217,499)	90.3%	(413,843)	5.7%	(437,312)	7.3%	(469,325)
EBITDA	66,412	6.3%	70,569	90.3%	134,294	14.5%	153,725
Depreciation	(9,325)	60.0%	(14,919)	7.0%	(15,964)	7.0%	(17,081)
Operating Income (EBIT)	57,087	-2.5%	55,650	112.6%	118,330	15.5%	136,644
Other Income	37,776	-11.3%	33,521	5.0%	35,197	1.0%	35,549
Net Finance Costs	(36,312)	-37.6%	(22,645)	80.0%	(40,761)	5.0%	(42,799)
Profit Before Tax	58,551	13.6%	66,526	69.5%	112,766	14.7%	129,394
Net Taxation	19,364	38.7%	26,852	-163.0%	(16,915)	53.0%	(25,879)
Profit for the year	77,915	19.8%	93,378	2.6%	95,851	8.0%	103,515
Outside Shareholders Interest	(233)	309.9%	(955)	-100.0%	-		-
Dividends Declared	(5,972)		(6,602)		(19,806)		(26,408)
Retained Earnings	71,710	19.7%	85,821	-11.4%	76,045	1.4%	77,107
Per Share (N\$ cents)	FY08	%Ch	FY09	%Ch	FY10E	%Ch	FY011E
EPS	13.0	7.6%	14.0	3.7%	14.5	8.0%	15.7
HEPS	7.8	38.3%	10.8	24.5%	13.5	16.5%	15.7
Net DPS	1.0	0.0%	1.0	200.0%	3.0	33.3%	4.0
Cash EPS	13.6	12.5%	15.3	-8.7%	13.9	2.4%	14.3
Profitability & Valuation	FY08		FY09		FY10E		FY011E
EBITDA margin %	23.4%		14.6%		23.5%		24.7%
EBIT margin (%)	20.1%		11.5%		20.7%		21.9%
ROE (%)	29.9%		25.2%		21.5%		19.8%
EV/EBITDAx	6.3		6.5		3.4		3.0
PEx	5.4		5.4		5.2		4.8
Dividend yield %	1.4%		1.3%		3.9%		5.3%

Source: Company Data, IHN

Key issues

Profits were enhanced during 2009 by means of a N\$7.5 million increase in tax credit. Deferred tax assets are recognised on intangible assets and investment properties. Incomes from the life insurance company as well as investment income received from financial instruments are exempt from tax. Management stated that it expects the group's tax assets will be fully utilized during FY10, resulting in a tax charge for that year.

Although revenue increased, EBIT margin was reduced from 20% to 12%. This is mainly due to the once off credits for the financial services business, included in the prior year.

Profits boosted by N\$7.5m tax credit

Margins down due to once-off items in prior year

Headline EPS increased 38%, from 7.8 cps in FY08 to 10.8 cps in FY09. However earnings for FY09 does include a N\$6 million once off item in the form of a settlement advanced to Trustco at the time of its withdrawal from the Free Press (now Printas) partnership.

N\$6m once off income included in FY09

No final dividend has yet been declared by the board. According to management the board will decide during June 2009 what dividend, if any, should be declared. The policy is to declare dividends of between 4 and 5 times cover. We included a 2 cps dividend in our forecast, representing a 5 times cover of headline EPS.

No dividends have yet been declared

Table 5: Financial forecasts: Cash flow for FY08 – FY11E

Cash flow (N\$ '000)	FY08	%Ch	FY09	%Ch	FY10E	%Ch	FY11E
Net Income before Interest & Tax	94,863	-6.0%	89,171	72.2%	153,527	12.2%	172,193
Depreciation	9,325	60.0%	14,919	7.0%	15,964	7.0%	17,081
Other Non-Cash Items	(86,597)		(40,979)		(40,569)		(40,975)
Net change in Working Capital	14,283		(7,765)		(17,370)		31,858
Cash Generated by Operations	31,874	73.6%	55,346	101.6%	111,552	61.5%	180,158
Net Finance Income / (Costs)	(34,213)	-39.0%	(20,875)	95.3%	(40,761)	5.0%	(42,799)
Taxation Paid	(122)		(720)		(16,915)		(25,879)
Net Dividends Received / (Paid)	15,432	-143.4%	(6,698)	195.7%	(19,806)	33.3%	(26,408)
Cash Retained from Operating Activities	12,971	108.6%	27,053		34,070		85,072
CAPEX - Additions	(20,121)	-31.9%	(13,694)		(200,000)	-90.0%	(20,000)
Net Acquisitions / Disposals	178,756		(16,926)		-		-
Other	(26,742)		-		(27,277)		(27,822)
Cash flow from investing activities	144,864		(3,567)		(193,207)		37,249
Proceeds/(Repayment) of Loans	(77,188)	-94.1%	(4,530)		200,000	-120.0%	(40,000)
Share Sale (Issue)	9,220		18,060		-		-
Other	274		170		-		-
Net Cash Flow	77,170	-86.9%	10,133	-33.0%	6,793	-140.5%	(2,751)

Source: Company Data, IHN

Key issues

Net cash flow for FY09 of N\$10 million was reported. Cash flow for the prior included large non-cash items, like negative goodwill of N\$28m and proceeds on sale of financial assets.

Positive net cash flow of N\$10m

Dividends received during the prior period relates to a financial instrument created in the structured finance investment with Pointbreak. The deal was terminated during the current period. The N\$179m for net acquisitions in the prior period include N\$131m for 'proceeds on sale of available-for-sale financial assets'. This financial asset served as security for the long term financial instrument that has now been terminated.

Structured finance deal terminated

N\$18 million for net share sales include N\$19 million for the sale of deemed treasure shares (relating to employee share options).

In our cash flow forecast we assume that the N\$200 million loan facility will be secured during FY10. We also assume that it will be fully utilised during that year, with repayments commencing the following year.

Table 6: Financial forecasts: Balance sheet for FY08 – FY11E

Balance Sheet (N\$ '000)	FY08	%Ch	FY09	%Ch	FY10E	%Ch	FY011E
Total Tangible Fixed Assets	142,529	8.2%	154,210	119.3%	338,246	0.9%	341,165
Investments and loans	98,713	38.7%	136,944	10.0%	150,638	10.0%	165,702
Total Intangible Fixed Assets	192,901	21.0%	233,365	0.0%	233,365	0.0%	233,365
Total Non-Current Assets	434,143	20.8%	524,519	37.7%	722,250	2.5%	740,232
Trade Receivables	33,358	-7.0%	31,018	44.9%	44,946	-15.8%	37,855
Inventories	30,972	-2.4%	30,244	14.0%	34,472	1.5%	34,974
Cash	98,927	8.1%	106,906	40.3%	149,988	78.1%	267,189
Other Current Assets	38,540	76.6%	68,047	-67.7%	22,000	4.5%	23,000
Total Current Assets	201,797	17.1%	236,215	6.4%	251,406	44.4%	363,018
Total Assets	635,940	19.6%	760,734	28.0%	973,655	13.3%	1,103,250
Shareholders' Equity	261,975	41.4%	370,477	20.5%	446,522	17.3%	523,630
Total Equity	260,836	42.0%	370,477	20.5%	446,522	17.3%	523,630
Interest-bearing borrowings	145,289	-6.3%	136,090	100.0%	272,180	10.0%	299,398
Other Non-Current Liabilities	25,466	6.3%	27,062	0.0%	27,062	0.0%	27,062
Total Non-Current Liabilities	170,755	-4.5%	163,152	83.4%	299,242	9.1%	326,460
Trade Payables	159,353	11.6%	177,846	0.4%	178,632	14.1%	203,901
Overdraft / Interest-bearing borrowings	30,365	0.9%	30,647	0.0%	30,647	0.0%	30,647
Other Current Liabilities	14,631	27.2%	18,612		18,612		18,612
Total Current Liabilities	204,349	11.1%	227,105	0.3%	227,891	11.1%	253,160
Total Equity and Liabilities	635,940	19.6%	760,734	28.0%	973,655	13.3%	1,103,250
Net Debt	76,727	-22.0%	59,831	155.5%	152,839	-58.9%	62,856

Source: Company Data, IHN

Key issues

The balance sheet in table 6 above includes the acquired assets and liabilities of Dex Financial Services. Investments and loans increased by N\$38m mainly due to additional educational loans advanced. Intangible assets increased by N\$40m a result of trademarks bought over from Dex as well as software acquisitions.

Shareholders equity increased from N\$262m in FY07 to N\$370m in FY08, mainly due to N\$93m profit reported for the year.

Fixed assets and net debt is expected to increase during FY10 due to the R200 million loan facility currently being negotiated and the planned expenditure on Lafrenz.

Dex asset & liabilities included

Assets and debt expected to increase

Valuation

Our PT is based on the DCF methodology with the following main assumptions:

- 1) Cash flows discounted over 5 years.
- 2) Discount rate of 13.5%.
- 3) Terminal value estimated using an EV/EBITDA multiple of 3.5 and the estimated EBITDA value for FY14.

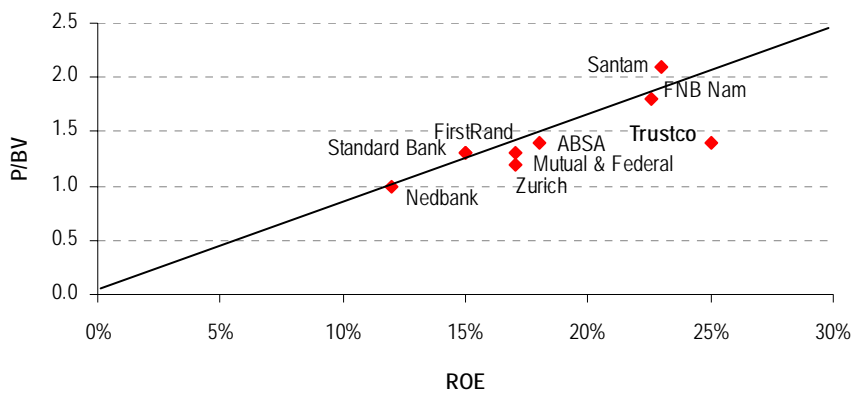
Based on these assumptions, we derived a PT of 91 cent per share (previous PT: 75 cps). Trustco is currently trading at 80 cps. We upgrade our Reduce recommendation to Hold.

Relative to peers – Price to Book

Trustco's NAV per share increased from 44cps in FY08 to 56cps in FY09. We are forecasting NAV per share of 67cps for FY10. Based on our target price of 91cps, Trustco will be on a forward P/B multiple of 1.4x, with an average ROE of 25%. It's currently trading on the same levels. The share seems somewhat undervalued, when compared to its peers.

Somewhat undervalued compared to peers

Chart 1: Current P/B Multiple and ROE: Trustco vs. peers



Source: IHN, UBS

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Recommendation

The micro insurance and micro finance & education divisions is the driving force behind profit growth at this stage. Together these two divisions contributed more than 70% to the current year's profits. There was no profit growth from the South African operations or the property, development & media divisions. However, the prospects for these divisions does seem rosy. The company is planning to expand Trustco Mobile to other African countries and also to include contract cellphone subscribers in there customer base. Management is also aiming to start selling some of the Lafrenz units before the end of FY10.

If one analyse the earnings growth of the current year, it still seems to be driven by increases in tax credits and not by growth in core operating profits. Profits were also boosted by a N\$10 million once-off item in the form of a settlement advance received (in terms of the contract) when Trustco decided to exit the Free Press partnership.

A positive move in our view was the selling of non-core operations and a clear strategy by management to focus on its core operations.

On balance, we are more positive on the stock. The latest results were somewhat better than expected, in terms of EPS. Shareholders will have to wait till later this month to see what dividend will be paid, but we expect at least 2 cps (5 times cover).

We increase our PT to 91 cps, from 75 and we recommend investors to hold their positions on the stock (prior: Reduce).

Profit growth driven by micro insurance, finance & education

Good prospects for property and development

Profits not yet driven by core operating performance

On balance, more positive

Annex: Rating Definitions and Disclaimer

IHN Rating	Definition
Buy	Forecasted Stock return is >6% above the Market return assumption
Hold	Forecasted Stock return is between -6% and 6% of the Market return assumption
Reduce	Forecasted Stock return is >6% below the Market return assumption

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