

Breakfast Briefing Note

3 June 2009

Trustco Group Holdings

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"The Usual Suspects..."					Buy from Sell	
Year to 31 March	2008A	2009A	2010F	2011F	Price (c)	70
Revenues (N\$m)	283.9	484.4	539.7	606.1	Symbol	TUC
Profit/ (Loss) (N\$m)	77.9	92.4	75.5	85.6	No. of shares (m)	660.2
HEPS	7.8	10.8	11.4 c	13 c	Mkt Cap (N\$m)	462.1
HEPS growth (%)	-64.9%	39.1%	6.0%	13.3%	Traded p.a. (N\$m)	109.1
P/E (x)	9.3	6.5	6.1	5.4	NAV/ share (c)	39.5
DPS (c)	5.0	1.0	2.3	2.6	Insider Interest (%)	58.6
ROE (%)	39.3%	29.3%	18.6%	18.0%	Price:Book (x)	1.8

Source: IJG

Trustco Group Holdings Limited (Trustco) released its financial results for the 12 months ended 31 March 2009 on 28 May 2009. It reported an increase of 18.9% in attributable earnings to N\$92.4m. It also reported HEPS increased by 39.2% to 10.81c. Headline earnings increased by 54%. Trustco divested from its restaurant operations and increased its investments in the media segment by acquiring the remaining 50% of Printas (Pty) Ltd.

Nature of the Business

Trustco is a dynamic Namibian company that is experiencing high growth in all its divisions, with a core focus on insurance, education and financial services, which are further supported by strategic investments in property, property developments; aircraft charter services, management services, wholesale distribution, publishing and printing.

Salient Financial Highlights:

Total Revenue up 70.6% to N\$484.4m	Mainly due to Trustco's Financial Services (Dex) contributing to revenue for a full financial year. In 2009 it contributed 55.3% to total revenue whereas in 2008 it only contributed 36.4%.
Gross Profit up 37.7% to N\$227.2m	Pulled down due to increased cost of sales by Trustco Financials Services.
Administration Expenses up 40.4% to N\$153.8m	Increased due to Trustco Financial Services
Tax Credit increased 38.7% to N\$26.9m	"The Usual Suspect" increased but according to management this is expected to be fully utilized by 2011. The tax credit is related to the acquisition of Dex Financial Services in 2008 and the creation of certain trade marks.
Net Profit increased 18.9% to N\$92.4m	The slow down in growth was due to the significant decline in investment revenue.
Total Assets increased 19.9% to N\$762.3m	This was mainly due to a increase in deferred income tax (146.8%) and loans and receivables (69.7%).
Total Liabilities increased 4.5% to	This would indicate that the majority of the increase in

N\$391.8m and **Total equity** increased 41.4% to N\$370.5m

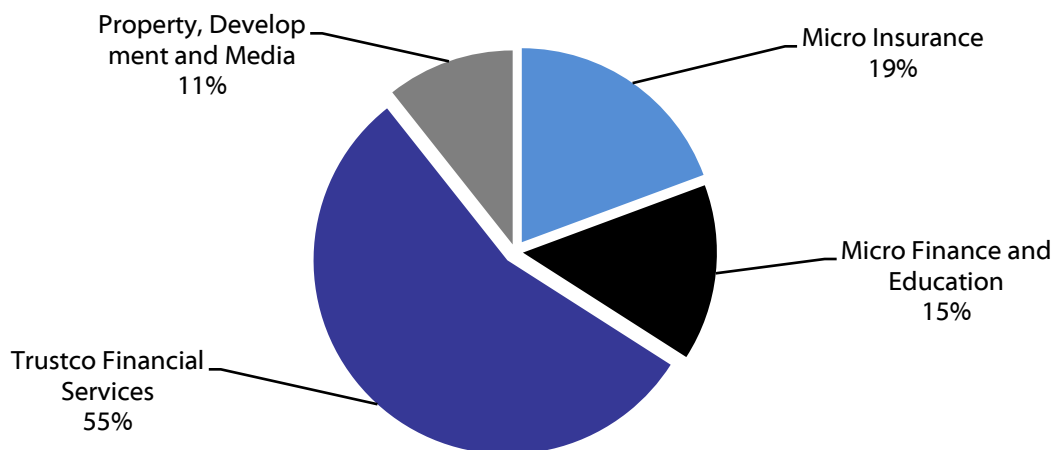
assets was financed by equity and only 4.5% of the increase in total assets was debt financed.

Operational and Segmental Highlights

Trustco disposed of its restaurant business called "Café Society" for N\$2m through a loan agreement in which Trustco would earn 10% per annum on the deal. The other party to the contract is Mr Grobler who is the director of Trustco Tourism.

Business development, Trustco Property, Trustco Media and Trustco Tourism were all merged according to management in an attempt to be more versatile and so Trustco could focus on its core business.

Contribution to Revenue in 2009



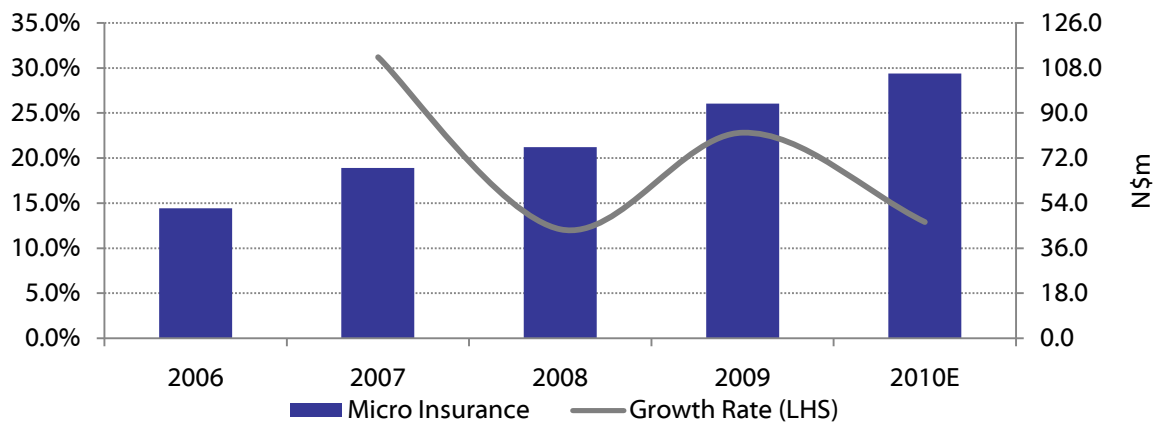
Source: TUC, IJG

Micro Insurance

Revenue increased by 23.8% to N\$93.7m and claims expenses as a % of revenue decreased by 3.0% to 26.0%. According to management this sector managed to maintain its annual growth in a challenging market through business synergies with other Trustco operations and stringent expense controls.

Micro insurance decreased its contribution to revenue to 19.4% in 2009 from 26.8% but contributed 39.2% to net profit. This segment continued to remain the second largest contributor to revenue.

Micro Insurance Growth



Source: TUC, IJG

Although we expect growth to be positive in this segment in 2010 we do expect a slowdown in revenue growth. This is due to an increase in unemployment in the income brackets that this segment targets. Micro insurance generally targets the low to middle income brackets.

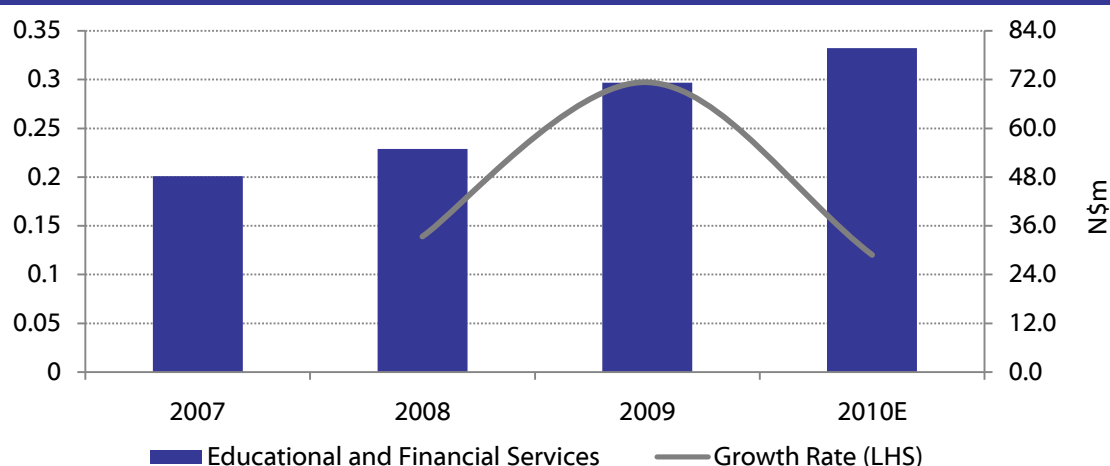
Increased competition in the legal insurance market in Namibia is also expected to contribute to the slowdown in revenue growth from this segment. Legal insurance in Namibia is a relatively untapped market and Trustco is currently the main provider. We expect the segments' relatively high net profit margins of around 30% to attract competition.

Micro Finance and Education

Despite the floods in the northern parts of Namibia during the beginning of 2009, revenue grew by 29.7% to N\$71.2m. The main registration period for courses is between January and March and according management the floods hampered sales. Therefore in order for Trustco to increase its educational loan book, which it did by 45.0%, it means that the number of customers extending or renewing their existing loans must have grown faster than the actual increase in new customers requiring loans. This means that actual new business did not grow significantly, despite the reported 29.7% growth in revenue.

Micro finance and education contributed 19.3% to revenue in 2009 compared to 17.8% in the previous year. It, unlike micro insurance, contributed more to net profit than to revenue, in 2009 it contributed 32.5% to net profit.

Micro Finance and Education



Source: TUC, IJG

This segment has enjoyed high growth over the past two years however we do expect this growth to moderate in the foreseeable future. Growth is expected to come mainly from the micro finance business and we do not expect new business to grow at any significant rate. The majority of the growth we feel will come from existing customers extending their loans or renewing loans.

Property, Development and Media

This segment was restructured and merged during 2009. Trustco acquired the remaining 50% of Printas (Pty) Ltd for N\$1.0m. This segment mainly consists of Trustco Mobile, Printas and a property development in Laferenz which is currently under progress.

Revenue from this segment grew at 3.8% to N\$51.6m and contributed 3.4% to net profit. However due to the restructuring of this segment comparison to prior years is difficult.

We expect moderate growth from this segment but we do expect growth to be below that of 2009 due to the slowdown in the property market. We feel Trustco will find it marginally difficult to sell its phase 1 in Laferenz in 2010 due to a slowing economy. However we expect growth to pick up from 2011 as the economy recovers from the global crisis.

Trustco Financial Services (Dex)

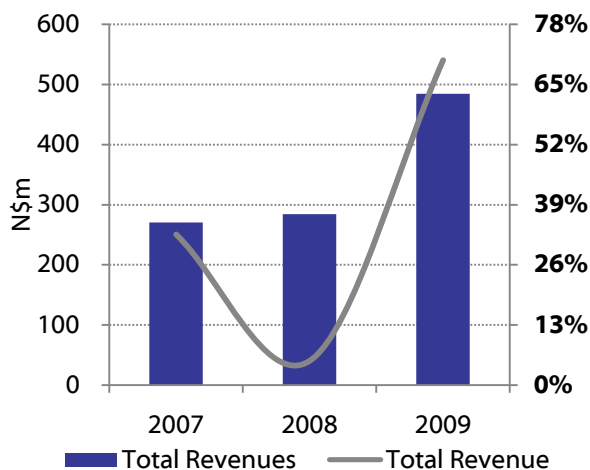
This segment contributed N\$19.6m to net profit and reported a growth rate of 158.6% for 2009. However growth in this segment is misleading. In 2008 this segment reported revenue from when Trustco acquired it, however by our calculations if Trustco had acquired it at the start of its financial year then it would have recorded revenue of approximately N\$264.8m which would mean only a grow rate of 1.1%. And if the same calculation is applied to net profit, this segment would have decreased its contribution by 61% in 2009.

The What If Questions?

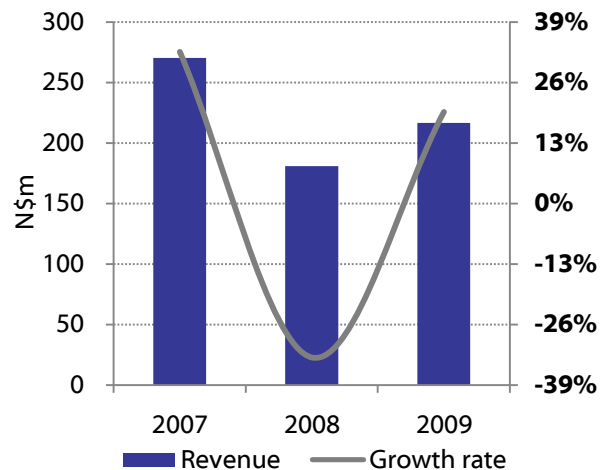
Trustco Financial Services

The acquisition of Trustco Financial Services (Dex) in 2008 resulted in 5.3% and 70.2% growth in revenue for 2008 and 2009, respectively. However if Trustco Financial Services is excluded from revenue, revenue growth comes in at -33.1% and 19.7% for 2008 and 2009, respectively. It could be argued that this reflects positively on management as they could have foreseen the decline in revenue and to increase revenue they acquired Dex. However if a decline in revenue was foreseen, it is our opinion that management should have then focused on its core businesses to find out what was causing the decline in revenue instead of just acquiring another entity.

Revenue with Trustco Financial Services



Source: TUC, IJG



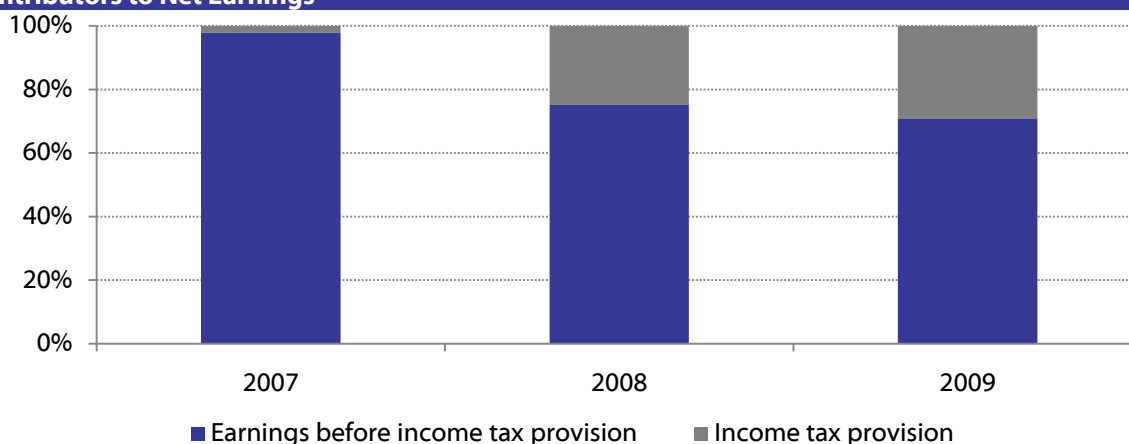
Source: TUC, IJG

The fact that a significant proportion of revenue is dependent on Trustco Financial Services increases the risk profile of Trustco because if Trustco Financial Services fails to perform the effects on revenue and earnings is significant.

The Tax Credit

In 2009 the tax credit contributed 29.1% to net earnings and in N\$ terms this is approximately N\$26.9m. According to management this tax credit is expected to be fully utilized over the 2010 financial year. The question then is how will Trustco fill this "earnings" gap? Trustco has two options, it can either acquire another business or it can find another vehicle that will result in a tax credit.

Contributors to Net Earnings



Source: TUC, IJG

Future Prospects

Trustco announced that it intends to raise N\$200m between Namibia and South Africa and which will be a combination of debt and equity. The N\$200m will be used to further develop the Laferenz property development. Trustco paid N\$1/m² for the property and in 2009 sold the first unit for N\$650/m². Phase 1 is expected to cost between N\$50m to N\$60m and the entire project is expected to cost around N\$100m.

Trustco also expects to launch Trustco Mobile in Botswana within the next six months. Management could not divulge which mobile operator it would partner up with but says the mobile provider has 650,000 subscribers. Like Namibia there are two mobile operators, Mascom Wireless and Orange Botswana, currently Mascom has the widest coverage of around 80% and is currently the market leader. Botswana has approximately 1.55m mobile subscribers, which in turns means that the Trustco's partner has approximately 42% market share.

Valuation

We valued Trustco using the future cash flow to firm model (FCFF) using a WACC of 14.8%, a perpetuity of 3% and a sustainable growth rate of 4-10 of 7.5%. We calculated WACC as follows:

Risk free rate	8.1%
Market Premium	6.00%
Beta	1.2
tax rate	34.0%
Cost of Equity	15.3%
Cost of Debt	10.5%
Debt ratio	5.7%
Equity ratio	94.3%
WACC	14.8%

Source: IJG

Sensitivity Analysis

Fair Value Per Share (c)	Perpetual Growth Rate			
	WACC	2.0%	3.0%	4.0%
13.84%	95	100	106	114
14.84%	85	89	93	99
15.34%	82	85	90	95
15.84%	77	79	83	88
16.34%	70	74	77	80
16.84%	64	66	69	73

Source: IJG

A decrease in WACC and an increase in the perpetual growth rate will have a positive impact on the target price. A 1% decline in WACC results in a 12% increase in the target price and a 1% increase in the perpetual growth rate results in a 3.5% increase in the target price.

Using a WACC of 14.8% we arrive at a target price of **89c** which is 10% above the current share price on the NSX of 70c. We therefore upgrade our recommendation from a Sell to a **BUY**.

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	<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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