

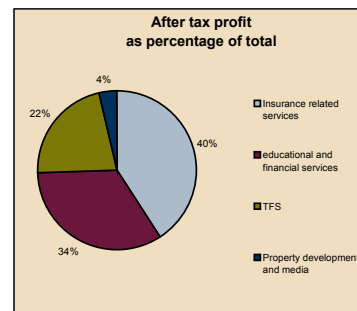
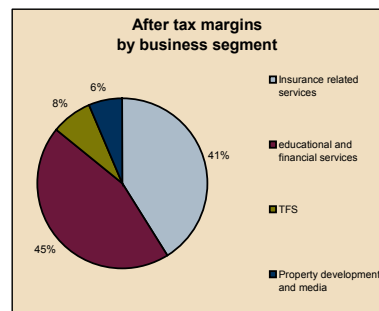


Share price (cps)		340	70 (restated)	70 (5:1 share split)	71 (current)
TUC	2006	2007	2008	2009	2010E
Revenue	132,181,000	182,295,000	283,911,000	484,412,000	556,807,840
% change	30%	38%	56%	71%	15%
Profit before tax	27,941,000	30,799,000	58,551,000	66,526,000	91,154,360
% change	31%	10%	90%	14%	37%
Headline earning per share (cps)	18.2	21.0	7.8	10.8	13.6
% change		15.6%	-62.8%	38.3%	26.0%
Dividends per share (cps)	0	2.50	0.50	0.75	1.05
Return on Assets	0.0%	7.3%	8.5%	11.4%	13.5%

Source: TSO results; SSS Research

- Deteriorating margins 19% from 27% after tax mainly due to non-recurring earnings in base year
- Growth in insurance income of 24% to N\$93.7m remains firm
- TFS remains driver of top-line growth (+160% to N\$267.8); bottom-line deteriorated 7.6% to N\$19.6m
- N\$13m in tax credits remains; earnings support to decline in FY10
- Half of the N\$66.5m pre-tax earnings are of a non-recurring nature
- Return on average assets 11.4% from 8.5% in FY 08; NAV 56.12cps (+29%); tangible NAV 25.1cps (+60%)

Trustco Group's reviewed results for the year to end March 2009, reflected deteriorating margins ex-insurance (34% from 43% in FY08) as an 88% increase in non-insurance revenue to N\$390.7m was countered by a 116% surge in cost of sales. Trustco Financial Services outside Namibia (formerly Dex Financial Services) recorded net margins of 7.3% (more reflective of normalised levels) from 20.4% in the partially consolidated FY08. Trustco Financial Services (TFS) FY08 margins were supported by once off charges), the group currently accounts for 55% of group revenue. While TFS remains the main driver of top-line growth (+160% to N\$267.8) the bottom-line deteriorated 7.6% to N\$19.6m due to once off charges in the base year.



Source: TSO reviewed FY09 results

Growth in insurance income of 24% to N\$93.7m remains firm and outstrips claims growth at 11% to N\$21.8m. Declining investment and other income on the back of increasing administrative expenses (+40.3% to N\$150.3m) result on greater margin pressure. Pre-tax margins declined to 14% from 21%, the N\$26.8m tax credit enhanced net margins by 500bp. We remain wary of the quality of group earnings and anticipate the tax cushion will be replaced by a small charge in FY10 as about only N\$13m in tax credits remain. In adjusting basic earnings of N\$92.4m we subtract the N\$12.2m profit on disposal of litumba and Café Society; N\$7.2m Printas loan account written off; N\$6m in damages (actual charge N\$10m over 10 years) from the Namibian due to cancellation of the printing

contract, N\$5m forex translation gains and N\$1.7m in fair value adjustments. Our adjustments result in normalised pre-tax earnings of N\$34.6m. The imminent exhaustion of the group's tax buffer (+N\$26.8m) will exert further pressure on the bottom line.

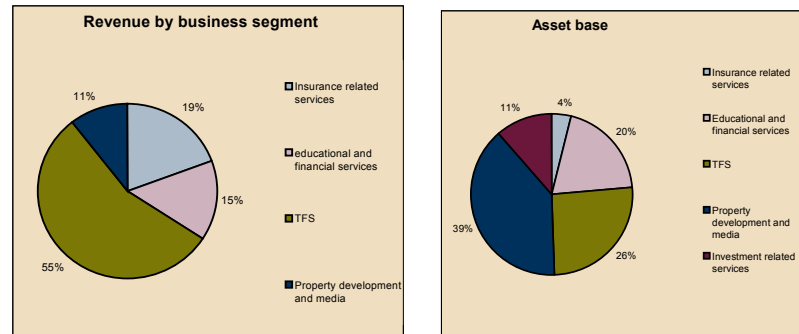
The statement of source and use of funds for Trustco (below) reflects the group's cash flow between balance sheet accounts over the year ended March 2009.

Statement of source and use of funds	FY2008	FY2009	Source	Use
Total Assets	635,940,000	762,324,000	-	126,384,000
Non-current assets	433,821,000	524,519,000	-	90,698,000
Plant, prop & equip	142,529,000	154,210,000	-	11,681,000
Investment properties	36,812,000	33,753,000	3,059,000	-
Intangible assets	174,605,000	186,942,000	-	12,337,000
Deferred taxation	18,296,000	45,147,000	-	26,851,000
Loans advanced	-	-	-	-
Educational loans advanced	59,966,000	79,003,000	-	19,037,000
Other loans advanced	-	24,188,000	-	24,188,000
Finance lease receivable	1,613,000	1,276,000	337,000	-
Current assets	202,119,000	237,805,000	-	35,686,000
Available for sale financial assets	6,291,000	10,035,000	-	3,744,000
Short-term portion of educational loans advanced	32,082,000	54,024,000	-	21,942,000
Short-term portion of other loans advanced	-	386,000	-	386,000
Short term portion of finance lease receivables	322,000	337,000	-	15,000
Ammounts due by related parties	-	3,002,000	-	3,002,000
Inventories	30,972,000	30,244,000	728,000	-
Trade & other receivables	33,358,000	31,018,000	2,340,000	-
Taxation	167,000	263,000	-	96,000
Cash & cash equivalents	98,927,000	108,496,000	-	9,569,000
Capital & reserves	260,836,000	370,477,000	109,641,000	-
Share capital	-	162,645,000	162,645,000	-
Stated capital	141,448,000	-	-	141,448,000
Deemed treasury shares	(35,359,000)	(19,137,000)	16,222,000	-
Ord' shareholder's capital	106,089,000	-	-	106,089,000
Policy holder's contingency reserve	(303,000)	726,000	1,029,000	-
Vendor shares	35,526,000	14,976,000	-	20,550,000
Revaluation reserve	12,801,000	16,851,000	4,050,000	-
Distributable reserve	107,862,000	194,416,000	86,554,000	-
Minority interest	(1,139,000)	-	1,139,000	-
Total liabilities	375,104,000	391,847,000	16,743,000	-
Non-current liabilities	170,755,000	164,742,000	-	6,013,000
Ammounts due to related parties (Shareholder's loan)	32,849,000	15,786,000	-	17,063,000
Other liabilities	936,000	1,590,000	654,000	-
Long-term liabilities	109,503,000	117,832,000	8,329,000	-
Deferred tax	25,466,000	27,062,000	1,596,000	-
Policyholder liability under insurance contracts	2,001,000	2,472,000	471,000	-
Current liabilities	204,349,000	227,105,000	22,756,000	-
Trade & other payables	159,353,000	177,846,000	18,493,000	-
Current portion of long term debt	14,854,000	15,700,000	846,000	-
Current portion of other liabilities	2,083,000	1,128,000	-	955,000
Technical provisions	11,018,000	15,834,000	4,816,000	-
Provisions	1,361,000	1,522,000	161,000	-
Taxation	169,000	128,000	-	41,000
Bank overdraft	15,511,000	14,947,000	-	564,000

Source: TGI reviewed FY09 results; SSS Research

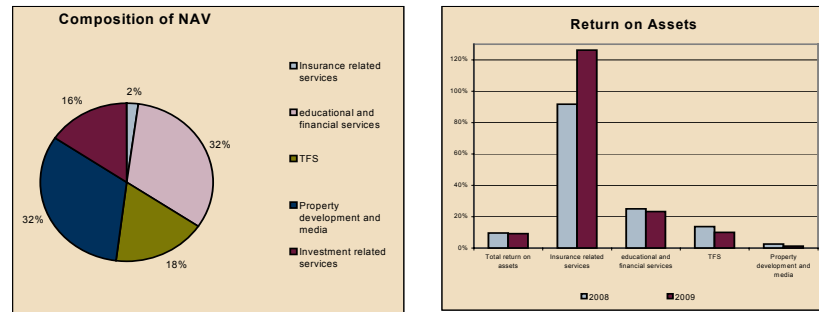
In order to fund its aggressive growth objectives, Trustco requires additional capitalisation. The group intends to come to the market with 24-month convertible debentures to fund its expansion plans. The above statement reveals that in the year under review the group financed its increased investment in plant, property and equipment, intangible assets and loans advanced through increased retained earnings, gearing, sale of investment properties, higher payables and lower receivables. This given, we contend that the group's sources of cash are not sustainable (particularly for a growing business). We maintain our view that Trustco's expansion plans over the long-term hinge on the ability of the group's core business units to deliver sustainable cash flows.

In disclosing its business segments Trustco consolidated its media, development and property segments in FY09 (FY08 restated) to create four reporting units. Although relatively small in the group scheme of things the sale of Iitumba and Café Society coupled with the acquisition of the Namibian's shareholding in Printas reduces the complexity of TGI's structure.



Source: TGI reviewed FY09 results; SSS Research

39% of the group's asset base is housed in the property development and media business unit, which had a return on assets of 1.2% in FY2009 (from 2.4%), this has had a dampening impact on the growth in overall return on assets (8.8% from 7.1% in FY 07). Management indicated it has commenced phased development of its 350-hectare property in the Lafrenz industrial area. The development includes up to 3,000 residential units of about 300-500m², commercial and industrial space over the next 10 years. The concept of the new development is to provide housing with access to shops, schools, business facilities as well as recreation and sports facilities within walking distance. In our previous report we highlighted the drag on asset turn resulting from the low yield on Trustco's properties, which account for the bulk of the group's asset base. The group estimates that N\$50-N\$60m is required for the municipality to provide bulk services to the select areas; this will be followed by the sale of stands to bank financed prospective owners. We expect the property segment to be the next driver of earnings growth for Trustco however; the delivery of a meaningful earnings stream from this business unit is highly dependent on capital and progress on servicing the erven by the City of Windhoek.



Source: TGI reviewed FY09 results; SSS Research

The insurance division continues to generate the highest return on assets at 126% in FY09 from 92% in FY08 and while the education division continues to generate the second highest ROA which declined to 23% from 25% as growth of the education business is at present directly related with higher administrative costs. We expect this situation to change when this business segment has achieved sufficient scale and geographic spread to achieve the lowest possible marginal cost of new business.

Trustco Financial Services represents 55% of group revenue and 21% of the bottom-line; the impact of this business on the group's profitability cannot be understated due to the relative size of TFS. This business is by its nature a low margin business and management expects margins to top at 10%, in order to enhance operating margins TFS would have to acquire or establish a firm relationship with a South African based underwriting management agency. Underwriting management agencies provide access to insurance capacity, by acting on behalf of a registered insurer using an outsourced model. They are typically involved in risk selection and rating, policy, claims and premium administration. While such an association would give the business unit access to increased business volumes, the move requires capital and carries general risks related to merger and acquisition activities.

Contributing 40% and 34% of net profit, the insurance and education & finance divisions remain the group's flagship businesses. In our opinion, growth in the micro-insurance business is limited given the 70% domestic market share for the legal insurance business, limited scope for new product offerings, increasing competition and the worsening macro-economic outlook. Of the group's domestic businesses we consider education and finance to be the most sustainable over the long term. By end FY2009, the segment had over 20,000 students and a N\$132m loan book with an average payback period of 3-4 years. Management expects the book to exceed N\$200m in the current financial year as partnerships improve and new course offerings improve its appeal to a wider target market. The demand for education in Namibia remains high and IOL is involved in formal education from grade 12 to tertiary level, while also offering short IT courses. Collection remains relatively secure as 90% of the book is recovered from salary deduction codes supported by the government and corporates. The current deduction code is valid until 30 August 2009, while the code has been renewed on previous

occasions, the Ministry of Finance has undertaken to allow Trustco to utilise the code until all loans outstanding at the time of expiration are repaid.

The segmental analysis below reflects the impact of the low margin businesses on profitability.

TGI	2004	2005	2006	2007	2008	2009
Revenue and other income						
Insurance related	27,338,402	49,603,352	51,891,000	68,085,000	75,704,000	93,745,000
% change		81.4%	4.6%	31.2%	11.2%	23.8%
% of total	62.8%	48.8%	39.3%	37.3%	26.7%	19.4%
Educational and financial services	-	2,987,391	23,879,000	48,195,000	54,889,000	71,197,000
% change			69.3%	101.8%	13.9%	29.7%
% of total	-	2.9%	18.1%	26.4%	19.3%	14.7%
TFS					103,589,000	267,843,000
% change						158.6%
% of total					36.5%	55.3%
Property (development and media)	3,433,906	5,953,184	7,971,000	9,782,000	49,729,000	51,627,000
% change		73.4%	33.9%	22.7%	408.4%	3.8%
% of total	27.0%	5.9%	6.0%	5.4%	17.5%	10.7%
Wholesale, dev & mgt services	12,728,006	43,046,577	48,440,000	56,233,000		
% change		238.2%	12.5%	16.1%		
% of total	29.3%	42.4%	36.6%	30.8%		
Total	43,500,314	101,590,504	132,181,000	182,295,000	283,911,000	484,412,000
% change		133.5%	30.1%	37.9%	55.7%	70.6%
Profit after tax (ex. HQ costs)						
Insurance related	11,417,378	19,372,023	19,914,000	21,902,000	27,829,000	36,227,000
% change		69.7%	2.8%	10.0%	27.1%	30.2%
Net Margin	41.8%	39.1%	38.4%	32.2%	36.8%	38.6%
% of total	141.9%	209.6%	50.2%	49.7%	36.6%	39.2%
Educational and financial services	-	218,719	15,398,000	18,707,000	22,871,000	30,015,000
% change		#DIV/0!	6940.1%	21.5%	22.3%	31.2%
Net Margin	#DIV/0!	7.3%	64.5%	38.8%	41.7%	42.2%
% of total	0.0%	2.4%	38.8%	42.5%	30.1%	32.5%
TFS					21,159,000	19,561,000
% change						-7.6%
Net Margin					20.4%	7.3%
% of total					27.9%	21.2%
Property (development and media)	1,131,670	1,779,358	1,040,000	1,211,000	1,556,000	3,139,000
% change		57.2%	-41.6%	16.4%	28.5%	101.7%
Net Margin	33.0%	29.9%	13.0%	12.4%	3.1%	6.1%
% of total	14.1%	19.2%	2.6%	2.7%	2.0%	3.4%
Wholesale, dev, print & mgt services	(4,500,523)	(12,125,969)	3,340,000	2,235,000		
% change		169.4%		-33.1%		
Net Margin			6.9%	4.0%		
% of total			16.8%	10.2%		
Investment related services					2,518,000	3,481,000
% change						38.2%
% of total					3.3%	3.8%
Total	8,048,525	9,244,131	39,692,000	44,055,000	75,933,000	92,423,000
% change					72.4%	21.7%
Net Margin	18.5%	9.1%	30.0%	24.2%	26.7%	19.1%

Source: TGI reviewed FY09 results; SSS Research

The group has announced it is in the process of obtaining funding to support its expansion plans following the collapse of the proposed transaction with Barclays capital. It was ruled that the arbitration process with SABC will proceed from the 27th July to the 3rd of August 2009, the preliminary amount claimed by Trustco for breach of contract is N\$140m. The board will decide on a dividend in early July, the group did however re-iterate a dividend policy of 4-5x cover.

TSO [71cps]	FY08 restated to reflect share split			
	Mar-06	Mar-07	Mar-08	Mar-09
Price per share (cents)	360	340	70	70
Return on Assets	-	7.3%	8.5%	11.4%
Return on Equity	36.3%	23.5%	23.5%	27.6%
Current ratio	126.8%	127.4%	98.9%	104.7%
Debt to equity ratio	89.9%	175.6%	47.9%	35.8%
Book Value	68,470,790	135,873,000	260,836,000	370,477,000
Book Value per share (cents)	62.57	118.40	43.68	56.12
Tangible Book Value	38,813,790	94,100,000	93,401,000	165,450,000
Tangible Book Value per share	35.5	82.0	15.6	25.1
Price to book ratio	5.8	2.9	1.6	1.2
Price to tangible book value	10.1	4.1	4.5	2.8
PE	19.8	16.2	9.0	6.5
Times interest earned	5.4	2.2	2.5	3.6

Source: TGI reviewed FY09 results; SSS Research

Trustco is trading at 71cps on the NSX and 80cps on the JSE, an anomaly resulting from its primary dual listing and differences in the form in which script is held on the two exchanges. Due to the difference in form of script (paper vs electronic) it is not possible to arbitrage.

Trustco currently trades at a 5.2x forward multiple (6.5x trailing), while a book value of 56.1cps; price to book of 1.2x (25.1cps of which is tangible; price to tangible book value of 2.8x) renders it relatively attractive compared to its historical price relative matrices. The deteriorating macro-economic outlook dampens the group's growth prospects considering its direct exposure to the consumer and in particular the more vulnerable lower income end.

We note the associated high forecast risks emanating from the group's acquisitive growth strategy, yet to be confirmed funding, related costs and potential awards from the arbitrator. We calculate a fair value of 61cps for Trustco and retain our **SELL** recommendation pending the outcome of the capital raising exercise, group annual report and progress of the property developments.





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