



Company	Trustco Group Hld	
NSX Share code	TSO	
Offer price	320cps	
Closing date	21-09-06	
Listing date	27-09-06	
Managing Director	Quinton van Rooyen	
Post issue stake	70%*	
Issue size	N\$500m	
Free-float	N\$150m	
Objective	Expansion	
Current business	Insurance, education finance, property, wholesale, media, hospitality	
Key projections (published)	06	07
Revenue growth	47%	42%
After tax profit growth	77%	35%
Net margins	21%	20%

* 10% of this will be set aside for staff

Trustco Group Holdings (Trustco) issued an offer for subscription of 46.875m ordinary shares of the holding company at 320cps by way of public offer through the listing of the company on the Namibian Stock Exchange (NSX).

The offer closes on Thursday 21st September 2006 at 15h00 and listing is planned for the 27th of September 2006 under the share code TSO.

Trustco is a high growth Namibian company focusing on insurance, education and financial services. The group also has investments in property and property development, aircraft charter services, management services, wholesale distribution, publishing and printing.

The group's operational strategy is to leverage off services offered by its various subsidiaries, this has paid off resulting in significantly lower operating costs and an in-house clientele base. The above factors enable the group to operate at lower costs as group subsidiaries piggyback off each other with respect to services and clientele.

One of the main reasons the company elected to go public is to broaden the capital base of Trustco in order to facilitate expansion of its operations. While management stated the envisaged growth will be mostly in respect of the flagship insurance, education and finance divisions it hinted that the group remains open to new ventures that would increase shareholder value.

Of the N\$144m to be raised net of listing expenses, N\$20m will be directed to Legal Shield for new product marketing and reserves; N\$30m to the Institute of Open Learning for new product marketing, new branches, expansion of debtors book and TV contact sessions; N\$30m over two years for the Lafrenz property development; and debt settlement mainly with regards to Free Press Printers.

The segmental breakdown presented in Trustco's prospectus revealed that insurance related income accounted for 39% of group revenue in FY06 from 49% in FY05, the group estimates that this segments contribution will

stabilise at 37% over the next two years. Insurance related revenue grew by 5% in FY06 compared to 89% in FY05. The group forecasts 40% growth per annum in both the 2005 and 2006 financial years.

Net margins for insurance related earnings are expected to drop to 22% in 2008 from 30% in 2007 and 38% in 2006 due to taxation.

Legal Shield, the group's main insurance brand which focuses on the lower income retail market was founded in 2000 to offer legal insurance and has grown its products to include salary, funeral and medical insurance. The group has packaged its offerings into OneShield, which is expected to generate an additional 13,000 policies. The insurance division has over 170,000 policyholders and expects this number to increase by 45% over the next two years. We believe that a lot of OneShield's success will eat out the growth rates of some of the other individual products, while negative industry-related news flow over 2006 may result in slower than anticipated policy holder growth over the next two years.

The education division's Institute of Open Learning (IOL) had a total of 8,200 students enrolled in 2006 with branches in Katima Mulilo, Oshakati, Rundu and Windhoek and plans to open in Keetmanshoop and Walvis Bay.

Trustco finance offers complete financing on all IOL courses and grew its book to N\$22.2m in 2006 from N\$4.1m in 2005. The relation between IOL and Trustco finance creates a complimentary mix within the group.

The education division was able to grow off the insurance business client base and collection is enhanced by a direct debit facility offered by government to its employees, who constitute the bulk of students. Possible changes in fee policy structures on debit orders by government and financial institutions pending appeal may reduce holding company after tax profit by 3% based on management's assessment.

The structure of the group enables various subsidiaries to operate from the same systems reducing per unit operating costs while promoting cross selling of new and existing products. This gives group subsidiaries a competitive advantage over competing individual business units over the short-medium term.

The group's growth has over the past two years been exacerbated by an aggressive direct marketing strategy ensuring ownership of its client database and reinforcing members' incentive to maintain paid up premiums through its Winna Mariba game show (expected to generate N\$9.6m in revenue this year).

We believe super profits will eventually attract competition (particularly within the education and finance division) and that while the group may benefit from a first move advantage we are sceptical that the phase of phenomenal growth can extend beyond the short-term.

A dynamic entrepreneur who has taken the group to its current level of diversity and eventually listing leads management. Post-listing Quinton van Rooyen's stake in Trustco will be reduced to 70% with a further 10% holding to be allocated to an employee share scheme. In our opinion the group's exposure to a single majority shareholder poses a risk for minority interests.

We consider a published forward PE of 12.2x (historical: 21.6x) to be aggressive considering an average forward PE of 9x (historical: 7.2x) for a solid local share like FNB Namibia holdings and the relatively short existence of the company.

Our discounted free cash flow valuation indicates a fair value of 220cps while earnings multiple valuation amounts to 185cps. We are comfortable with in the 185-220cps range and therefore believe the offer overvalues the listing. We recommend that our clients wait for buying opportunities post listing.



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