



INVESTMENT ADVISORY

"IN SEARCH OF VALUE"

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<p>Econet Wireless Telecommunications Based on full year to June '05</p> <ul style="list-style-type: none"> ➤ The group's registered an impressive performance for FY '05 on the back of solid subscriber growth and the continued effects of a tariff adjustment granted by the regulator in Q1 '04. ➤ Consequently turnover grew 240% ahead of average Y-o-Y inflation (202.8%) to Z\$369,256 billion. In line with subscriber growth of 49% to 258,268 subscribers. Main source of new growth in subscribers from non-contract lines through Buddie and Libertie brands. ➤ This was accompanied by an increase in operating margins from 49% to 53% on the back of effects of last tariff review and sub-inflationary increases in overheads up 162% to Z\$178,213 billion. However cost of sales did rise 318% to Z\$131,525 billion. ➤ Following the sale of 14% of Mascom (leading wireless operator in Botswana) for U\$14 million; considerable capex was devoted to the network, approximately Z\$192,625 billion; 63 base stations commissioned compared to 6 in the prior period. ➤ The group's balance sheet remains healthy, prompted by a 313% increase in cash reserves to \$179,353 billion. Thus group was able to generate a 776% increase in interest income on prior period to Z\$45,591 billion; bolstering net profit margins from 38% to 47%. 	<p>Recommendation: Buy Z\$22,000</p> <p>Key Data</p> <table border="0"> <tr> <td>Market Cap (Z\$m)</td> <td style="text-align: right;">2,982,203</td> </tr> <tr> <td style="padding-left: 20px;">(U\$m)</td> <td style="text-align: right;">121,720</td> </tr> <tr> <td>Shares in Issue (000's)</td> <td style="text-align: right;">149,110</td> </tr> <tr> <td>Mkt Weighting</td> <td style="text-align: right;">6.94%</td> </tr> <tr> <td>Year High</td> <td style="text-align: right;">Z\$26,000</td> </tr> <tr> <td>Year Low</td> <td style="text-align: right;">Z\$1,750</td> </tr> <tr> <td>EPS</td> <td style="text-align: right;">Z\$2097.09</td> </tr> <tr> <td>P/E</td> <td style="text-align: right;">9.5x</td> </tr> <tr> <td>Large Cap P/E</td> <td style="text-align: right;">13.5x</td> </tr> <tr> <td>NAV per share</td> <td style="text-align: right;">Z\$2,237.55</td> </tr> <tr> <td>NAV Multiple</td> <td style="text-align: right;">8.9x</td> </tr> <tr> <td>Operating Cash Flow Per Share</td> <td style="text-align: right;">Z\$2,458.70</td> </tr> <tr> <td>EV/Operating Profit</td> <td style="text-align: right;">7.78x</td> </tr> <tr> <td>Price/Sales</td> <td style="text-align: right;">4.53</td> </tr> <tr> <td>Total Dividend</td> <td style="text-align: right;">Z\$709.20</td> </tr> <tr> <td>Dividend Yield</td> <td style="text-align: right;">4%</td> </tr> </table> <p>Exchange Rate Z\$24,500: U\$1</p> <p>Key Ratios & Efficiencies</p> <table border="0"> <tr> <td>Gross Op. Margins</td> <td style="text-align: right;">53%</td> </tr> <tr> <td>ROA</td> <td style="text-align: right;">83%</td> </tr> <tr> <td>ROE</td> <td style="text-align: right;">94%</td> </tr> <tr> <td>ROCE</td> <td style="text-align: right;">60%</td> </tr> <tr> <td>Net Gearing</td> <td style="text-align: right;">-54%</td> </tr> </table> <p>Contact Details</p> <p>Dzika Danha dzika@zol.co.zw Tel No. +263 4 852070/1 Mob. No. +263 23 412 170</p>	Market Cap (Z\$m)	2,982,203	(U\$m)	121,720	Shares in Issue (000's)	149,110	Mkt Weighting	6.94%	Year High	Z\$26,000	Year Low	Z\$1,750	EPS	Z\$2097.09	P/E	9.5x	Large Cap P/E	13.5x	NAV per share	Z\$2,237.55	NAV Multiple	8.9x	Operating Cash Flow Per Share	Z\$2,458.70	EV/Operating Profit	7.78x	Price/Sales	4.53	Total Dividend	Z\$709.20	Dividend Yield	4%	Gross Op. Margins	53%	ROA	83%	ROE	94%	ROCE	60%	Net Gearing	-54%
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SWOT Analysis

Strengths

- Leading mobile network operator in the country with 250,000 subscribers in a total market of 550,000.
- Solid Balance sheet aided by a highly cash generative business minimising gearing (net gearing -54%).
- Group recently acquired a 23.1% stake in Kingdom Bank.
- Other subsidiaries include Your Fone (mobile payphones; which grew number of payphones 975% to 4,300 phones), Transaction Processing Systems (financial transactions services provider).

Weaknesses

- Perceives political risk.
- Over 90% of revenue is derived from the main telecom provider Econet Wireless.

Opportunities

- Increased capex spent in prior year has laid down the foundation for a targeted doubling in subscribers for FY '06.
- Penetration rates in Zimbabwe at 5% compared to South Africa 40%, Botswana 30% and Kenya 12%.
- The increasing development of wireless broadband services should benefit Ecoweb.
- Significant cash resources, some of which will be used for a continued share buyback.

Threats

- Continued foreign currency shortages thereby limiting the group's capacity to appropriately maintain the network.
- The group's tariffs continued to lag its regional rivals, which in the past had hindered network development.
- Hyperinflation; increasing cost pressures and thus squeezing of margins.

Earnings Forecasts

Z\$000's	2004	2005	Forecast (+1) 2006	Forecast (+2) 2007
Turnover	200,046,636	678,994,517	1,960,596,668	4,215,282,836
Operating income	98,224,747	360,255,855	784,238,667	1,475,348,993
Interest	5,206,695	45,591,485	352,950,000	582,367,500
Profit/Loss on Disposal	8,406,872	-	-	-
Pretax Profit	111,838,314	405,847,340	1,137,188,667	2,057,716,493
Taxation	(35,264,069)	(149,547,234)	(352,528,487)	(637,892,113)
Equity Accounted Earnings	(89,274)	61,106,045	36,000,000	81,000,000
Attributable earnings	76,484,971	317,406,151	820,660,180	1,500,824,380
EPS Adjusted PER	\$476.84	\$2,128.67	\$5,507.38	\$11,117.22
Target Price			3.63x	1.80x
			\$60,581.18	\$122,289.39
Shares in issue '000s	160,400	149,110	149,011	135,000
Turnover growth	700%	239%	189%	115%
Operating margin	49%	53%	40%	35%
Net Profit Margin	38%	47%	42%	36%
Pretax margin	56%	60%	58%	49%

Recommendation & Outlook

The past period has seen Econet make significant progress in growing its network and subscriber base, thus maintaining its position as the leading mobile operator in the country. The U\$14 million derived from the sale of Mascom, has enabled the operator to substantially increase its operational base, added to this the group has also benefited from economies when purchasing large quantities of equipment from its supplier. A concern is the declining ARPU (U\$30 for FY '05) being experienced particularly since year end which has seen the Zimbabwe Dollar devalue by 142%. **At present Econet's tariffs equate to U\$0.08 a minute compared to the regional average of U\$0.32 a minute.** It is therefore critical that the regulator award the telecoms operators a re-adjustment in tariffs in light of the devaluation, so that the group is able to maintain its network; 95% of costs are U\$ denominated. However management has indicated that negotiations are progressing with the regulator, and the group may be approved a tariff increase in the coming financial year. Given the low penetration rates in the economy, and despite the depressed tariffs, we expect organic growth in the future, thus we recommend investors **BUY** the stock.

Technical Analysis

Econet Relative to Index (Daily)



- The security has recently rebounded off a 6 year resistance level.
- Appears to be turning southward, but security has just rebounded above a short term resistance level.
- Confirmation of a trend reversal will only come if security breaches ensuing 6 year support level.

Key:

Black Line-

Red Line-

Dotted Red Line-

Blue Lines-

Security

30 Day Moving Average

90 Day Moving Average

Trendlines

3IA Investment Advisory

Explanation of Recommendations

Trading Buy;	implies gains within the short term.
Buy;	expect out-performance in short and medium term.
Accumulate;	expect out-performance in medium to long term.
Reduce;	Bearish short term outlook also implies taking profit.
Sell;	Bearish short and long term outlook on security.

Comments and Recommendations are based on technical analysis may contradict with fundamental recommendations.

Disclaimer

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