



Trading Update; Maintaining momentum... 11th July 2006

Econet Wireless Holdings

Telecoms

Update on 30th June 2006.

- Management informed the market that it had accessed a US\$20 million loan from Egyptian based Afrexim Bank primarily to continue its network expansion. It is anticipated that the company is to acquire amongst other equipment 100 high capacity base stations. The interest on the loan is fixed at a LIBOR related spread. The loan's tenure is 36 months with an initial 9 month grace period. The debt will be serviced with income from international roaming and international-related traffic.
- It is anticipated that the enhanced investment will ensure a 60% rise in subscribers to just under 800,000 from 459,910 subscribers at the end of May. At present the group has a 39% market share of all telecommunications (incl. fixed) in the market.
- **For FY'06** Econet Wireless reported a positive increase in revenue from Z\$679 billion, 12 months ending 30 June 2005 to Z\$2.6 trillion for 8 months ending 28 February 2006, a 275% increase despite the economic constraints of hyper-inflation, currency depreciation and sub economic tariffs. The group changed its year-end for tax purposes.
- The group's profit before tax increased by 275% to Z\$1.46 trillion from Z\$424 billion in the prior period. PBIT margin saw a 4% decrease from 51% to 41%. The group's net profit also saw an increase from Z\$317 billion to Z\$986 billion. Depressed interest rates had an adverse effect on the net profit margin which saw a decrease to 39 (FY05: 63%). The group's margins were also affected by the inability to cover costs because of constraints in tariffs approval.
- We believe that the decision to forgo the group's zero debt policy has been necessitated by the environment (lack of forex) and is ultimately a proactive one, given the low penetration rates in the local market (7%) compared to the region (30%). Potential exchange losses will be partially offset by interest income from the group's local cash piles.

Recommendation:

Accumulate

Z\$440,000 (US\$1.11)

Key Data

Reuters Code	ECO.ZI
Market Cap (Z\$m)	65,608,486
(U\$m)	165.260
Implied OM Rate Z\$396,999.78:1US\$	
Inter-Bank Rate Z\$101,195: 1US\$	
Shares in Issue	
(000's)	149,542
Mkt Weighting	10.46%
Year High	Z\$440,000
Year Low	Z\$16,000
EPS	Z\$9,951
P/E	44.2x
Forward P/E	3.8x
Large Cap	
Sector P/E	28.8x
NAV per share	Z\$4,742.04
NAV Multiple	92.79x
Operating Cash	
Flow Per Share	Z\$13,134.37
EV/Operating	
Profit	34.36x
Price/Sales	17.19
Dividend	Z\$859.10
Dividend Yield	0.79%

Key Ratios & Efficiencies

Operating Margins	15.7%
Net Margins	49%
ROA	57%
ROE	209%
ROCE	267%
Gearing	-115%

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Nature of Business

Subsidiaries	Nature of Business
Econet Wireless (Pvt) Ltd (100%)	Cellular network operator; 459,910 subscribers
FDM t/a Your Fone (100%)	Community payphone service
Data Control & Systems t/a Ecoweb (100%)	Internet Service Provider
Transaction Processing Systems (84.3%)	Provider of financial transaction switching, & point of sale
Other Interests	
Kingdom Financial Holdings (23.4%)	Kingdom Bank (commercial Bank); DCZ (Discount House); Kingdom Stockbrokers; Kingdom Asset Management

SWOT Analysis

Strengths

- Leading telecoms provider in the country. As at May 2006 group had 459,910 subscribers, which equates to 59% of the mobile market.
- Strong track record of delivering sustainable earnings, thus reaffirming the group's blue-chip status.
- Group owns 23% of Kingdom Bank in which potential synergies have been identified.
- Solid Balance sheet; highlighted by a gearing of -115%; although this is set to change.
- Sound Management.

Opportunities

- Penetration rates in Zimbabwe still heavily lag the region at 7%, relative to a regional average of 40%.
- The significant capex set to be spent in the upcoming period should see the group grow market share significantly.
- Recent underwriting of Kingdom's latest rights offer, should see the augment their stake in the banking group.
- Group is looking to introduce new products; GPRS, 3G, WiFi & WiMax.

Weaknesses

- Foreign currency denominated loan now leaves the group exposed to unrealised exchange losses.
- Majority of revenues generated in local currency.

Threats

- Declining disposable incomes which may have a negative impact on total minutes usage.
- The group's tariff increases are determined by the regulator, & despite recent increases, there is a concern of the regularity of the increases given inflation.
- Hyperinflation; increasing cost pressures and thus squeezing of margins.
- Continued inability to access foreign exchange, although this has been mitigated by the loan facility.

Earnings Forecast

Z\$000's	June 2004	June 2005	8 months to Feb 2006	Feb 2007
Turnover	200,046,636	678,994,517	9,505,923,238	85,500,000,000
Operating income	98,224,747	360,255,855	3,802,369,295	29,925,000,000
Interest	5,206,695	45,591,485	895,950,000	147,000,000
Exchange Losses*	8,406,872	42,929,453		(5,000,000,000)*
PBT	111,838,314	448,776,793	4,698,319,295	25,072,000,000
Taxation	(35,264,069)	(149,547,234)	(1,456,478,982)	(7,772,320,000)
Minority Interest	(89,274)	18,176,592	(223,185)	(2,231,850)
Attributable earnings	76,484,971	317,406,151	3,241,617,129	17,297,448,150
EPS	\$476.84	\$2,128.67	\$21,884.48	\$117,270.83
Target Price				\$2,930,000.00
Forward P/E				3.8x
DPS	\$77.55	\$318.29	\$2,220.74	\$14,658.75
Cover	6.1	6.7	9.9	8.0
Shares in issue '000s	160,400	149,110	148,124	147,500
No. of active subscribers '000's	173.6	243.8	439.4	780
Ratios				
Turnover growth	699.6%	239.4%	1300.0%	799.4%
Operating margin	49.1%	53.1%	40.0%	35.0%
Net Profit Margin	38.2%	46.7%	34.1%	20.2%
Interest Cover	(18.9)	(7.9)	(4.2)	(203.6)
Pretax margin	55.9%	66.1%	49.4%	29.3%
EPS Growth	911.9%	346.4%	928.1%	435.9%

Recommendation

Econet's potential continues to lie in the low penetration rates in the country. Thus, management's decision to undertake a loan to further exploit the demand for communications in the country is a proactive one, especially given the lack of foreign currency at present. However shorter term the concern for the company will be ensuring regular tariff adjustments by the regulator. Undoubtedly the company will gain considerable market share and maintain its grip as the leading mobile telecoms provider in the country. The company is a rarity in the present environment in that it is experiencing organic growth in a largely contracting economy. Despite the demanding relative valuations, we recommend investors **accumulate** the stock.

Implied EV Acquisition Based US\$ Valuation

Econet Valuation	
No. of Subscribers at May	459,910
Average Acquisition US\$ EV per subscriber	707.1
Implied EV	US\$325,202,361
Premium factor for low penetration rates	4
	US\$1,393,724,404.29
Country Risk Discount Factor	65%
	905,920,862.79
US\$ EV 12/07/06	160,696,160
Discount	18%

Source Date for Valuation-Recent Telecom Acquisitions

Acquirer	Target	Target Country	Date Announced	Stake Acquired	Implied Acquisition Price (\$ MM)	Subscribers ('000)	EV Per Subscribers
MTN	Investcom	Pan African/Middle East	02-May-06	100.0%	5,560	4,900	\$1,135
MTC	Celtel	Pan African	29-Mar-05	100.0%	3,400	5,200	\$654
MTN	Loteny Telecel	Ivory Coast	23-Jun-05	51.0%	408	800	\$509.8
MTN	Zambia	Zambia	10-Aug-05	100.0%	47	91	\$516.5
Millicom	Oasis	DRC	19-Sep-05	100.0%	35	77	\$454.5
MTN	Mascom Wireless	Botswana	30-Sep-05	44.0%	291	440	\$661.2
Celtel	Sudatel-Libertis	Sudan Congo-	06-Feb-06	61.0%	2,184	1,900	\$1,149.3
MTN	Telecom	Brazzaville	15-Dec-05	100.0%	103	190	\$539.5
Vodafone	Vodacom	South Africa	01-Jan-06	15.0%	16,000	21,500	\$744.2
							\$707.1

Source: Bloomberg

Technical Analysis Econet Relative to Industrial Index (Daily)



- **Currently testing two and half year bullish support; a breaking of which would be negative.**

Econet Relative to Implied Old Mutual Rate (Daily)



- Trading above 6 year resistance level; year to date has seen the counter under-perform the US\$.
- Pulling back to a conglomeration of support at just below US\$1.00

Key:

Black Line- Security

Red Line- 30 Day Moving Average

Dotted Red Line- 90 Day Moving Average

Blue Lines- Trendlines

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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 based on technical analysis may contradict with fundamental recommendations.

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