



Remains a Sanctuary...

19th July 2006

Meikles Africa

Conglomerate-Hotels & Retail

Based on the year to 31st March 2006

- Meikles Africa posted a remarkable 2,801% increase in net profits to Z\$5.98 trillion on the back of enhanced margins in its retail business and exchange gains emanating from a considerable depreciation in the local currency. Operating profit increased by 1,023% to Z\$1,9 trillion from the prior period, contributions were as follows; from TM Supermarkets (Z\$1,2 trillion), Retail (Z\$317 billion), Hotels (Z\$349 billion).
- The group's margins increased from the prior period. Operating margins were up 63% to 15% (9.2%: FY05) as a result of enhanced margins in the retail division and the devaluation of the local currency which in turn raised the value of foreign tourists receipts. Net margins went up 380% to 47% (9.7%: FY05) attributable to exchange gains (Z\$4,2 trillion; up 4,772%) as a result of devaluation of the local currency, enhanced investment income (Z\$361,9 billion; up 575%) and increased value in quoted investments (Z\$630,7 billion; up 11,426%).
- Meikles Africa's total assets rose to 12,6 trillion; a 1,225% increase from the prior year. Shareholders funds increased by 3,044% to Z\$6,7 trillion from Z\$420 billion FY05. The group's ROA was 47%. The balance sheet still remains strong as evidenced by a net gearing of -42%.
- The group's diversified portfolio of assets (especially the foreign assets) should enable Meikles to hedge against the hostile economic environment. Uncertainty regarding foreign exchange policy will be a concern for the group as regards earnings for FY07. However the group's local operations, particularly food retail should remain buoyant despite declining disposable incomes on margin maintenance, whilst the group's local hotels will continue to be affected by negative perceptions concerning the country.

Recommendation:

Accumulate

Z\$400,000 US\$0.82

Key Data

Reuters Code	MEIK.ZI
Market Cap (Z\$m)	65,462,714
(U\$m)	133.382
Implied OM Rate Z\$490,789.83:1US\$	
Inter-Bank Rate Z\$101,195: 1US\$	
Shares in Issue	
(000's)	163,656
Mkt Weighting	8.18%
Year High	Z\$450,000
Year Low	Z\$8,600
EPS	Z\$34,796
P/E	18.3x
Forward P/E	2.33x
Large Cap	
Sector P/E	21.8x
NAV per share	Z\$42,534.81
NAV Multiple	9.4x
Operating Cash	
Flow Per Share	Z\$11,979.41
EV/Operating	
Profit	32.65x
Price/Sales	5.37
Dividend	Z\$2,375
Dividend Yield	0.59%

Key Ratios & Efficiencies

Operating Margins	15.7%
Net Margins	49%
ROA	47%
ROE	86%
ROCE	22%
Gearing	-42%

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Nature of Business

Retail	Hotels	Other Assets
<p>TM Supermarkets (75% owned-balance being held by leading SA retailer Pick n Pay) -54 stores- 52 in-store bakeries Trading Area 58,000 m sq. Warehousing 22,000 m sq.</p> <p>Department Stores (incl. Greenters, Meikles Stores & Barbours) - 7 stores Trading Area 22,593 m sq. Warehousing 3,400 m sq.</p> <p>Clicks- 15 stores Trading Area 6,081 m sq. Warehousing 1,860 msq.</p>	<p>Cape Grace Hotel (100% owned) - Cape Town, South Africa 120 rooms</p> <p>Meikles Hotel (100% owned)- Harare, Zimbabwe 320 rooms</p> <p>Victoria Falls Hotel (50% owned) - Victoria Falls, Zimbabwe 180 rooms</p> <p>All Members of the Leading Hotels of the World Brand.</p>	<p>Kingdom Bank (33% owned) - ZSE listed, group's share amounted to Z\$60 billion FY '06.</p> <p>Mvela Group (1% shareholding) - JSE listed, interests in energy, mining, property, & financial services.</p> <p>Meikles Financial Services (49% owned) - services retail debtors.</p> <p>Foreign Currency Reserves- Approx. US\$47 million.</p>

SWOT Analysis

Strengths

- Diversified portfolio of assets both regionally and locally. See above.
- Strong track record of delivering sustainable earnings, thus reaffirming the group's blue-chip status.
- Group does have a considerable portfolio of local property assets, which provide further hedge against inflation.
- Solid Balance sheet; highlighted by a gearing of -42%; local operations have no debt at present.
- Sound Management.

Opportunities

- Potential JV investments flowing from relationship with the Mvela group.
- The substantive local cash generation will enable further organic growth for TM supermarkets.
- Removal of price controls on most goods in the period under review.
- Recent rights offer undertaken by Kingdom Bank will see the group enhance its stake in the bank.

Weaknesses

- Opportunity costs associated with the non-utilisation of substantive foreign currency reserves.
- Earnings linked heavily to movement in the 'official exchange' rate.

Threats

- Continued negative country perception unlikely to alleviate itself, thereby affecting its local hotel operations.
- Non-availability of foreign currency, reducing variety of merchandise on offer particularly in department stores.
- Declining disposable incomes thus potentially having an adverse impact on volumes.
- While the group's debtors' book

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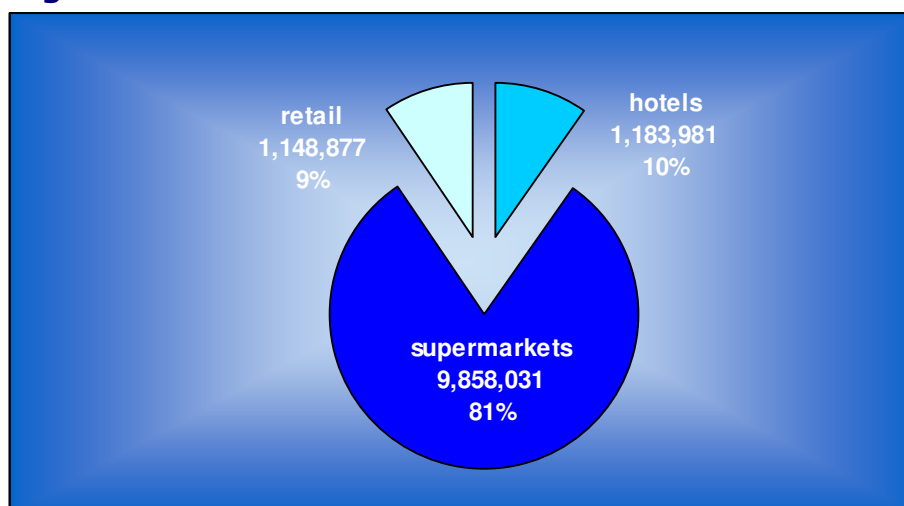
(MFS) continues to perform to expectations. The increasing nature of inflation will see the value of the book erode eventually.

- Inaccessibility of US\$27 million deposit held at the RBZ.

Operational Review

Z\$millions	Revenue	% of Total	Op. Margin FY '06	Op. Margin FY '05	Op. Profit	% of Total
Hotels	1,183,981	9.7	29.4%	19.3%	348,369	18.2
Supermarkets	9,858,031	80.9	12.7%	7.5%	1,248,707	65.2
Retail	1,148,877	9.4	27.6%	15.3%	317,020	16.6
Corporate	-	-			2,266	0.1
Group	12,190,889				1,916,362	

Segment Contribution to Turnover



The chart shows the supermarket division as the largest contributor at 81%. There's a marginal difference in contribution between the hotel and retail divisions.

TM Supermarkets maintained its No. 1 position in food retail in the country. Net turnover grew by 576% to Z\$9,8 trillion (Z\$1,5 trillion: FY05). More importantly margins were buoyed by the resurgence in inflation, almost doubling to almost 13% for FY06. The period saw two new shops opening in Chikanga (Mutare) and Southworld (Bulawayo). Contractors are on site in Nyamhungu Township (Kariba) and negotiations for three new outlets are underway and are at an advanced stage. Operating profit in the reviewed period posted a 1,034% increase to record Z\$1,2 trillion in comparison to the prior period of Z\$279 billion.

Peer Analysis OK Zimbabwe v. TM Supermarkets

Z\$M	No. of Stores	Sq. metres	Turnover FY05 Z\$M	Turnover FY06 Z\$M	Turnover (%)	Operating Margin	Sales/sq.m
TM Supermarkets	54	58,000	1,459,241	9,858,031	576%	13%	169,966,051
OK	52	79,000	1,218,796	7,408,157	508%	12%	93,774,139

The comparison between the two largest supermarket chains highlights that OK remains firmly in the second place in terms of market share and appears to have lost some market share for FY06.

The **hotels** which comprise Cape Grace Hotel, Meikles Hotel and Victoria Falls Hotel contributed 18.2% to the group's operating profit, an amount of Z\$348 billion (Z\$23,6 billion : FY05). The Zimbabwean hotels (Meikles and Victoria Falls) contributed Z\$107 billion to the gross profit, whilst Cape Grace contributed Z\$259 billion. The division's performance was attributable to movements in the exchange rate, which in turn saw the group derive more revenue from foreign arrivals given the weak local currency. In terms of occupancy, the Cape Grace, grew by 7% to 65%, Victoria Falls by 3% to 21% and Meikles decreased by 3% to 22%.

The **retail** division which comprises of Barbours, Meikles and Greatermans department stores and Clicks stores contributed 9% to the group's turnover, an increase from the prior period to record Z\$1,1 trillion. The **corporate** division; was as follows, Kingdom Holdings contributed Z\$60 billion reflecting a 4,900% increase, in a period which saw the bank recover from liquidity issues at the end of 2004. While the group's investment in JSE-listed Mvela grew by 40% in rand terms, this was further amplified by a massive devaluation of the local currency. Exchange gains on the group's foreign funds (estimated at US\$47 million at FY06) amounted to Z\$4,2 trillion. Meikles Financial Services which manages the group's retail debtor's contributed Z\$9,6 billion, while the value of the group was Z\$640 billion at year-end.

Earnings Forecast By Division

Z\$millions	Hotels FY '06	%	Supermarkets FY '06	%	Retail FY '06	%	Corporate FY '06	%	Group FY '06
Revenue	5,250	343%	109,108	1007%	8,120	607%			122,479
Operating Profit	945	171%	11,456	817%	1,948	479%	62	1962%	14,412
Net Finance Income	(119)	150%	910	150%	45	148%			835
Exchange Gains	225	244%			35	244%	16,381	294%	16,642
Taxation	(73)	63%	(3,833)	670%	(618)	748%	(16)	125%	(4,541)
Fair Value Adj. Minority Interest			-		3	200%	750	19%	750,691
PAT	978	204%	8,532	665%	1,413	685%	17,177	28659%	28,102
Operating Margin	18%	-7%	11%	-17%	24%	-18%			
Net Profit Margin	19%	37%	8%	-31%	17%	11%			
							Shares In Issue (millions)		163.656

ASSUMPTIONS	
Official Rate (ZW\$:U\$1) 31-03-06	101,465
Official Rate (ZW\$:U\$1) 31-03-07	450,000
Average Rate	275,732
Inflation Y-o- Y 31-03-06	914%
Inflation Y-o- Y 31-03-07	1100%
Average Y-o-Y inflation FY '07	1007%
Average Interest Rates (Deposit Rates)	250%

EPS FY '06	\$171,715.45
Forward PE	2.33x
Target Price	\$2,060,585.39

Variation in EPS with Exchange Rate

Exchange Rate ZW\$ to 1U\$	EPS	Target Price
\$200,000.00	\$ 93,530.65	\$ 1,122,367.74
\$ 300,000.00	\$ 124,804.57	\$ 1,497,654.80
\$ 400,000.00	\$ 156,078.49	\$ 1,872,941.86
\$ 500,000.00	\$ 187,352.41	\$ 2,248,228.92
\$ 750,000.00	\$ 265,537.21	\$ 3,186,446.57
\$1,000,000.00	\$ 343,722.02	\$ 4,124,664.22

Recommendation

The group's performance to date confirms Meikles recovery from a difficult 2005, where a tight monetary policy and an inhibited exchange rate curtailed earnings. The allure of the group continues to be its diversified asset base, both local and foreign. While the group's local hotels will continue to be affected by the negative perceptions of the country, this will be more than offset by the food retail side of the business, whose margins should remain buoyant in the present inflationary environment. Going forward the major challenge for Meikles will be accessing its US\$ reserves at the Reserve Bank, which the group is seeking to use for possible investment opportunities with the Mvela group. Group continues to remain a hedge against the unstable economic environment; we thus recommend investors **accumulate** the stock.

US\$ Valuation

Valuations	US\$
<i>Hotels</i>	89,285,714.29
<i>Supermarkets</i>	62,103,753.30
<i>FX</i>	46,000,000.00
<i>Kingdom (33%)</i>	593,044.72
<i>Department Stores</i>	7,237,710.43
<i>Property</i> <i>(replacement value)</i>	32,051,282.05
<i>Mvela Investments</i>	1,406,896.55
Total Value	238,678,401.34
<i>Per Share</i>	1.46
<i>Price 19/07/06</i>	0.82

TM Supermarkets	
Turnover Z\$	9,858,031,000,000.00
Average OM Rate	71,430.69
US\$ Value	138,008,340.67
P/S Factor	0.45
Implied Value	62,103,753.30

Department Stores	
Turnover Z\$	1,148,877,000,000.00
Average OM Rate	71,430.69
US\$ Value	16,083,800.95
P/S Factor	0.45
Implied Value	7,237,710.43

Insurable Value of Hotels	
Meikles Hotel	45,000,000.00
Cape Grace Hotel*	24,285,714.29
Victoria Falls	20,000,000.00
Total	89,285,714.29
*Insured value, R170 million	

Technical Analysis Meikles Relative to Industrial Index (Daily)



- **Primary thirteen year trend remains intact.**
- **Set to test short term resistance.**

Meikles Relative to Implied Old Mutual Rate (Daily) – US\$

Meikles v. Implied OM Rate (79.0391, 79.0391, 79.0391, +0.44917)



- **The security continues to trade above bearish resistance.**
- **Key resistance lies at US\$1.00**

Official Website

www.meiklesafrica.co.zw

Key:

Black Line- Security

Red Line- 30 Day Moving Average

Dotted Red Line- 90 Day Moving Average

Blue Lines- Trendlines

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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