African Markets Research
Zimbabwe

Bedding down the Assets….

1st September 2006

TA Holdings
Investment Company-*Insurance, Hotels, & Agro-Chemicals*

Based on the Interims to 30th June 2006

- TA produced a mixed set of results which simultaneously highlighted difficulties at the group's insurance companies at the underwriting level, while emphasising the group's formidable investments which bolstered bottom-line earnings ahead of average inflation.

- Group revenues grew by 1,025% to Z$2,577 billion ahead of average Y-o-Y inflation of 956% reflecting marginal real growth in gross premiums of the group's insurance concerns. However a trading loss of Z$54,260 million was incurred reflective of underwriting losses at the group's insurance concerns which outweighed trading profits at the hotels.

- The group's share of associate income increased by an impressive 3,076% to Z$187,690 million; the main contributors being AON Insurance Brokers (up 2,237% to Z$96,614 million) and Zimbabwe Fertiliser Company (up 2,400% to Z$116,983 million) Trading losses were incurred at United Refineries (-Z$23,788 million) and Cresta Marakenelo (-Z$2,119 million).

- The bulk of the group's profits were generated by a massive 1,919% increase in investment income to Z$1,286 billion. 61% of the income was unrealised principally in the form of gains in local equities, and translation gains in its foreign equity portfolio. Net profits overall rose by 2,058% to Z$1,052 million.

- Turning to the balance sheet, total assets grew by 1,154% to Z$8,506 billion, of which 45% are located offshore, and the balance locally. NAV increased by 1,983% to Z$2,758 billion, while the group's foreign debt decreased to P28.5 million thus resulting in a decline in gearing to 21% (H105: 58%).

- Focus for the group going forward will be enhancing profitability of insurance concerns, further investment income should be earned helped by a revaluation in group's properties carried out annually.

Recommendation:
Accumulate Z$110
(US$0.13)

Key Data

Reuters Code	TAHO.ZI
Market Cap (Z$m)	17,798
(U$m)	21.034
Implied OM Rate Z$1,010.89:1US$	
Inter-Bank Rate Z$250: 1US$	
Ave. Daily Turnover	Z$978m
YTD	US$5,985
Shares in Issue (000's)	161,846
Mkt Weighting	0.88%
Year High	Z$136
Year Low	Z$0.55
Ann. EPS	Z$10.81
Rolling P/E	10.2x
P/E (+1)	**1.5x**
Mid-Cap Sector P/E	40.87x
NAV per share	Z$17.05
NAV Multiple	6.45x
Ann. Op. Cash Flow Per Share	Z$1.27
EV/Operating Profit	6.85x
Price/Sales	5.10
Dividend	-
Dividend Yield	0.00%

Key Ratios & Efficiencies

Operating Margins	48%
Net Margins	37%
ROA	26%
ROE	81%
ROCE	38%
Gearing	-21%

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Nature of Business

Insurance	Hotels	Agro-Chemicals	Other Assets
Botswana Insurance Company (62.5% owned) – Leading short-term insurer by market share (GP) in Botswana	**Cresta Zimbabwe (100% owned) –** 4 Hotels, with 441 rooms.	**Zimbabwe Fertiliser Company (22.5% owned) –** Blender and distributor of fertilizer and pesticides. Capacity; 300,000 tonnes per annum	**Zimnat Asset Management (100% owned) –** Local asset management company
Zimnat Lion (100% owned) – Short-term insurer on local market ZSE listed, mkt cap Z$2,943 billion (US$2.911 million)	**Cresta Marakenelo (40% owned) -** 8 hotels with 651 rooms	**Sable Chemicals (51% owned) -** Manufacturer of Ammonium nitrate. Capacity; 240,000 tonnes per annum	**United Refineries (20% owned) –** Manufacturer of cooking oil and soap.
Zimnat Life (100% owned) – Life Assurer in local market			**Property portfolio amongst its entities incl.** properties in residential and commercial sectors locally.
Grand Reinsurance (100% owned) – Local reinsurer, recently acquired assets and liabilities of SwissRe in Zimbabwe			
AON (30% owned) – local insurance brokers			
Lion Assurance – Short term insurer based in Uganda			

SWOT Analysis

Strengths

- Diversified portfolio of assets; both regionally and locally. See above.
- Dominant player in the local insurance market with a presence in the short-term, reinsurance and life assurance industries.
- Group does have a considerable portfolio of local property assets, which provide further hedge against inflation.
- The group has a varied portfolio of investments, constituting 59% of total assets.
- Group's cash balances at H106 stood at Z$1.1 billion (H105: Z$56 million), added to the payments of some debt gearing has reduced to 21% (H105: 58%); debt at H106 stood at BP28.5 million, at an effective rate of 15% p.a.

Weaknesses

- Portfolio of foreign equities heavily skewed in favour of one counter African Bank Investments, a mid tier financial services group listed in Johannesburg.
- Earnings to a certain extent linked to movement in the 'official exchange' rate, which continues to lag inflation.
- Due to the maintenance work to be carried out at Sable, earnings from that concern will be affected.
- The soft market in the local insurance market has meant that, the insurance entities have struggled to maintain technical profits.

Opportunities

- The flagship Zimbabwean hotel the Cresta Jameson is set to have its refurbishments complete in H206, while the Cresta President, Cresta Rileys, and Cresta Thapama (all in Botswana) are set to undergo refurbishments.
- Zimnat Life's embedded value is set to be consolidated into the group thus enhancing TA's asset base. Furthermore management intends to grow GrandRe's market share.
- Continued development of synergies with AIG South Africa.
- Considerable gains expected in the revaluation of the group's local properties which are revalued annually.
- Performance of the local equities market since year-end (up 261%) will see the group earn enhanced investment income.
- Zimnat Asset Management set to be capitalised to Z$100 million by Q306, in line with regulatory requirements.
- Great scope for growth exists in the Ugandan market which is one of the most profitable markets in Africa due to the markets' relative immaturity. However Lion Assurance can be described as a Greenfield venture at the present moment.

Threats

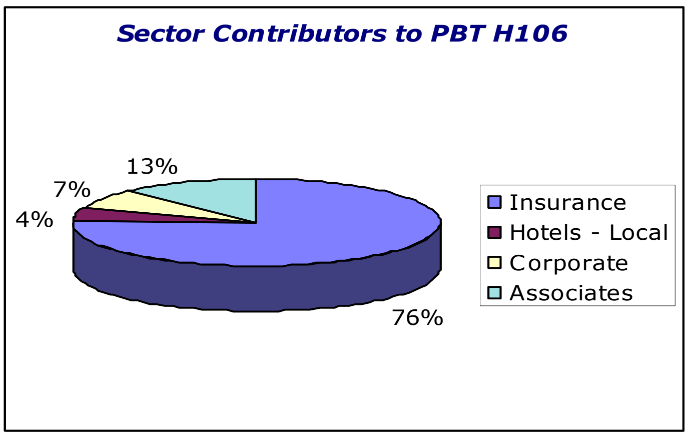
- Continued decline in disposable incomes and general decline in GDP set to undermine the performance of local insurance concerns particularly short-term insurance.
- Continued negative perception of the country will see depressed foreign arrivals to local hotels.
- Sub-economic pricing structure of fertiliser will continue to hinder the performance of Sable Chemicals and ZFC.

Operational Review

Sectoral Performance in ZW$ & US$

	Z$000's				US$000's			
	Revenue	Trading Profit	Inv. Income	PBT	Revenue	Trading Profit	Inv. Income	PBT
Insurance - Local	718,388	(104,904)	927,158	882,254	6,052	(884)	7,810	7,432
Insurance - Foreign	1,490,972	(23,794)	268,323	244,529	12,560	(200)	2,260	2,060
Insurance - Total	2,209,360	(128,698)	1,195,481	1,126,783	18,611	(1,084)	10,071	9,492
Hotels - Local	368,494	73,462		66,823	3,104	619	-	563
Corporate	-	976	90,578	106,715		8	763	899
Associates	-	-	-	187,690				1,581
GROUP TOTAL	**2,577,854**	**(54,260)**	**1,286,059**	**1,488,011**	**21,716**	**(457)**	**10,834**	**12,535**

US$ figures translated at average Implied OM rate Z$115 to 1US$



Breakdown in Associates Income		
Z$000's	H106	H105
SABLE	-	-5,777
AON	96,614	3,981
ZFC	116,983	4,679
URL	-23,788	43
Cresta Marakenelo	-2,119	2,983
	187,690	5,909

The trading loss registered by the group owed much to underwriting losses experienced at the group's **insurance** entities. BIC, the dominant local insurer in the Botswana market, broke even in terms of technical result, reflecting an improvement on prior period (H105: (P2.1 million)). Improvements in the expense ratio from 30% to 24% helped the group. Zimnat Lion, the group's local short-term insurer, underwriting loss was attributable to a non-recurring expense of Z$70 million associated with retrenchments carried out in the year. Benefits for Zimnat associated with the group's merger with AIG included reduced re-insurance costs. Lion Assurance of Uganda narrowed its losses compared to the prior period to a loss of US$121,000.

The prior year saw the group assume the assets and liabilities of SwissRe in Zimbabwe into GrandRe. The emphasis for GrandRe will be to increase its capacity. The period under review saw GrandRe make an underwriting loss of Z$6.4 million. The bulk of the group's profits emanated from investment income, with the local entities contributing Z$927 million, reflecting gains in local equities, a period in which the Industrial Index gained 197%. While performance of the group's foreign equities was inhibited by weak emerging markets particularly in May, the majority of the portfolio is concentrated on the JSE. The local **hotels** emerged with an impressive trading profit of Z$3,462 million reflecting an operating margin of 20%. Room occupancies remained at 40% (H105: 40%), the group's occupancies remain buoyed by local arrivals. The group's **associates** performed ahead of inflation, with notable performances coming from the insurance brokers AON, and ZFC. Sable Chemicals earnings were yet again subdued by continued price controls on its products. While Cresta Marakenalo representing the group's foreign hotels in Botswana registered a loss attributable to ongoing refurbishments. URL continued to perform poorly, contributing a Z$23,789 million to the group.

Analysis of Investment Portfolio

Investment Portfolio at H106							
Z$million Asset Class	**Local**	**Foreign**	**Total**		**US$000's Local**	**Foreign**	**Total**
Money Market	418	308	726	14%	1,326.94	977.75	2,304
Loans		298	298	6%	-	946.00	946
Equities	1,860	1,308	3,168	63%	5,904.57	4,152.25	10,056
Associates	154	316	470	9%	488.87	1,003.14	1,492
Properties	393		393	8%	1,247.58	-	1,248
TOTAL	**2,825**	**2,230**	**5,055**	**100%**	**8,967.97**	**7,079.14**	**16,048**
					US$ figures translated at average Implied OM rate Z$115 to 1US$		

Z$millions					**US$000's**			**US$000's**
Major Listed Holdings-ZSE	**Weight**	**Value (E) H106**	**% Change**	**Value 01-09-06**	**Major Foreign Holdings**	**Weight**	**Z$ Value**	**US$ Value**
Old Mutual	30%	558	184%	1,585	**ABI-JSE**	81%	1059.48	10,489.90
Econet	15%	279	345%	1,241	**Letsehego-BSE**	11%	143.88	1,424.55
PPC	13%	241.8	205%	738	**Western Areas-JSE**	8%	104.64	1,036.04
Colcom	10%	186	246%	644	**TOTAL**		**1,308**	**12,950.50**
Meikles	4%	74.4	219%	238	**Estimated Value at Official exchange rate 01/09/06 (Z$m)**			3,237.62
Other	28%	520.8	217%	1,650	**Estimated Gains at 01-09-06 (Z$m)**			1,929.62
TOTAL		**1,860**		**6,095**	**Estimated Gain per share***			**Z$8**
		Total Gains since year end		**4,235**				
		Estimated per share gain*		**Z$18**				
***Accounting for corporate tax**					***Total Equities Gain Per Share as at 01-09-06***			***Z$26***

Earnings Forecast FY06

Z$	2002	2003	2004	2005	2006F
Turnover	**12,283,404**	**51,490,664**	**251,040,932**	**1,138,555,000**	**9,108,440,000**
Op. Income incl. Investment Income	1,124,104	5,556,407	57,159,077	1,330,631,000	15,273,253,200
Interest	61,132	(1,613,481)	(6,953,174)	(27,232,000)	1,200,302,575
Associated Companies	1,199,989	18,192,704	12,193,574	48,758,000	487,580,000
Pretax Profit	**2,385,225**	**22,135,630**	**62,399,477**	**1,352,157,000**	**16,961,135,775**
Taxation	(723,725)	(7,442,556)	(15,324,868)	(313,895,000)	(5,257,952,090)
Minority Interests	(443,772)	(1,991,328)	(16,018,138)	(29,633,555)	(222,251,665)
Pref Div	(5,568)	(7,195)	16,018,000	61,370,000	306,850,000
Attributable earnings	**1,212,160**	**12,694,551**	**47,074,471**	**1,069,998,445**	**11,787,782,020**
EPS	$0.01	$0.08	$0.29	$6.61	**$72.83**
Target Price					**$582.67**
Forward P/E					**1.5**
DPS	$0.90	$15.00	$0.05	$0.83	$8.95
Cover	0.0	0.0	6.0	8.0	8.0
Shares in issue '000s	160,879	161,846	161,846	161,846	161,846
Ratios					
Turnover growth	180.4%	319.2%	387.5%	353.5%	700.0%
Operating margin	9.2%	10.8%	22.8%	116.9%	167.7%
Operating Costs	190.1%	311.6%	322.1%	(199.1%)	3109.6%
Net profit margin	9.9%	24.7%	18.8%	94.0%	129.4%
EPS Growth	74.2%	947.3%	270.8%	2173.0%	1001.7%

Earnings Forecast-US$

US$	2002	2003	2004	2005	2006F
Average Implied OM Rate to 1US$	0.522	1.594	4.696	34.906	350
Turnover	**23,531,425**	**32,302,801**	**53,458,461**	**32,617,745**	**26,024,114**
Op. Inc. incl. Inv. Inc	2,153,456	3,485,826	12,171,865	38,120,409	43,637,866
Interest	117,111	(1,012,221)	(1,480,659)	(780,152)	3,429,436
Associated Companies	2,298,830	11,413,240	2,596,587	1,396,837	1,393,086
Pretax Profit	**4,569,397**	**13,886,844**	**13,287,793**	**38,737,094**	**48,460,388**
Taxation	(1,386,446)	(4,669,107)	(3,263,388)	(8,992,580)	(15,022,720)
Minority Interests	(850,138)	(1,249,265)	(3,411,017)	(848,953)	(635,005)
Pref Div	(10,667)	(4,514)	3,410,988	1,758,150	876,714
Attributable earnings	**2,322,146**	**7,963,959**	**10,024,376**	**30,653,711**	**33,679,377**
EPS	$0.01	$0.05	$0.06	$0.19	**$0.21**
Target Price					**$0.30**
Forward P/E					**1.6**
Shares in issue '000s	160,879	161,846	161,846	161,846	161,846

Recommendation

TA Holdings has in recent times undergone a metamorphosis of sorts. The group has not rested on its laurels following the acquisition of the Botswana Insurance Company in late 2004. Last year saw the group fold AIG's local operations into its short term insurer Zimnat, while GrandRe acquired the assets and liabilities of SwissRe's Zimbabwe concern. Recent regional pursuits include the acquisition of Lion Assurance in Uganda. The challenge for the group is now to deliver meaningful cash flows from its business units in order to further augment the group's already significant investment portfolio. While the group has managed to diversify much of its locally associated country risk, the group remains sufficiently exposed to the country to take advantage of any potential recovery. For local investors the group represents an excellent hedge against the prevailing hostile economic environment. We recommend investors **accumulate** the stock.

US$ Valuation of Major Assets

Botswana Insurance Company	
Weighted Historic PE & NAV	
Proxy PER	6.5
PAT FY05 BWP	41,401,119.00
Implied Value BWP	269,107,273.50
Implied Value US$	42,874,689.08
Proxy NAV	3.5
NAV FY05	92,070,879.00
Implied Value BWP	322,248,076.50
Implied Value US$	51,341,184.16
US$ Implied Weighted Value	**47,107,936.62**
Sable Chemicals	
Implied Price Sales Value (Factor 1)	
Average Regional Price Fertilizer per tonne	326.67
Capacity 80% tonnes	192,000.00
US$ Value	62,720,000.00
Required Capex Discount Value	50,720,000.00
US$ Country Risk Discounted Value	**38,040,000.00**
Hotels Cresta Zimbabwe	
Implied US$ P/S Factor	0.4
Annualized Revenue FY05	6,208,305.96
US$ Implied Value	**2,483,322.38**
Zimnat US$ Market Cap	**3,180,159.90**
Zimnat Life Embedded Value at H106 Z$	600,000,000.00
US$ Embedded Value	**1,904,761.90**
Replacement Value of Investment Properties	
MV at FY05 (Z$)	393,000,000.00
Weighted Inflation Valuation at 01-07-06 (Z$)	1,688,840,455.93
Estimated Discount to Replacement (Z$)	0.25
Estimated to Replacement Value (Z$)	6,755,361,823.71
Estimated to Replacement Value (US$)	**21,445,593.09**
Total Value US$	**114,161,773.90**
US$ Valuation per share	***0.71***
Market Value 01-09-06	***0.13***

Exchange Rates used; Average Implied OM Z$115 to 1US$, H106 Implied rate Z$315 to 1US$, BWP 6.2766 to 1US$

Technical Analysis
TA Relative to Industrial Index (Daily)

- **Consolidating above 13 year support level; a tentative primary bullish trend is in place.**

TA Relative to Implied Old Mutual Rate (Daily) – US$0.13

- **Volatile chart in evidence; key resistance lies US$0.25**

Official Website
www.ta-holdings.com

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.

Disclaimer