

WEEKLY REVIEW – 15 June 2012

Is Econet overpaying for TN Bank stake?

Since its listing in 2009 market watchers have viewed TN Holdings with a certain degree of skepticism. This is not surprising given the company's unconventional business model which incorporates a bank, furniture manufacturer, medical benefit fund, fast food and retail operations under one roof. In some of the company's branches these units actually offer these different products under one roof. You could buy take-aways and do a bank transfer under one roof and grab a lounge suite on your way out! Despite the company's unconventional business model and the market's skeptical view of it the counter has done well on the stock market, gaining a whopping 399% in 2011 alone. The two biggest units in the group of seeming misfits are the bank and the furniture unit. A circular was released detailing a proposal to de-merge TN Bank from the rest of the group.

We imagine this move will be viewed positively in the market. In the same circular it was revealed that subsequent to the de-merger Econet Wireless Zimbabwe would then inject US\$20million into the bank in exchange for a 45% stake. A fresh capital injection should help the liquidity situation at the bank in a market that is generally hard pressed for money. Also, given their recent launch of mobile money transfer service EcoCash and the general trend of banking being technology driven the deal seems to make sense for Econet. The pricing of the purchase however seems rather lofty. Paying US\$20million for a 45% stake implies a value of US\$44,4million for TN Bank. Before the de-merger the whole of TN Holdings which includes the bank, the furniture manufacturer, retail operations and other units is valued at US\$25million by the market.

Normally when a company does a private placement a small discount or premium over the current market price is to be expected. The price that Econet is paying is valuing TN Bank way ahead of even the holding company's current market value. So why would Econet pay that much for TN Bank? As suggested earlier their investment into the bank could be motivated by their future plans for EcoCash. If banking services migrate more towards mobile banking with a wider range of services becoming available on the platform banks may become more reliant on mobile telecoms companies. Possibly these two services could become so integrated they will be carried out by one entity. Even if this were the case, theoretically Econet could just apply for a new banking license and start a new bank from scratch. As banking is not their core competence perhaps their investment into TN is well thought out. However as said before, the pricing just seem very far from current market values.

Market rumours suggest that TN Bank is facing liquidity challenges and Econet is one of the major depositors. Speculation is that the deal is simply Econet converting the money they are owed into equity to ease pressure on the bank.

It is highly unlikely that the market will follow suit and trade TN Bank at Econet's subscription price of US\$0.3208 upon its listing. Should the price fall sharply below this price then Econet will immediately realize a loss on their acquisition. To recoup this money they would have to add value to the bank until the market values it at above US\$44,4million. We wait with bated breaths, perhaps Econet has grand plans otherwise they are poised for a rude awakening.

CORPORATE NEWS

TN Bank proposed demerger from TN Holdings

- TN Holdings limited wishes to demerge its wholly owned banking unit TN Bank
- The transaction will be done in two parts; the first being the issue of TN Bank shares to existing TN Holdings shareholders and the second being the issue of TN Bank shares to Econet Wireless Zimbabwe
- **First part;** ordinary shares in TN Bank will be issued to TN Holdings shareholders at a ratio of 1 share for every 10 resulting in the issue of 76,203,638 TN Bank shares
- 30,301,253,348 TN Bank ordinary shares held by TN Financial Holdings Limited will be cancelled and converted into 3,030 10% irredeemable non-cumulative preference shares with a nominal value of US\$1. This is based on a consolidation ratio of 1 for every 10,000,000
- **Second part;** US\$20million recapitalisation of TN Bank through the issue of 62,344,140 new TN Bank shares at US\$0.3208 per share to Econet Wireless Zimbabwe. This will dilute existing shareholders' stake to 55% from 100%. This issue will bring the total shares in issue for TN Bank to 138,547,778
- TN Bank will then be listed separately on the stock exchange. TN Holdings' shares in issue will be unchanged and the company will have its name changed to Lifestyle Holdings Limited

	Before Transaction		After Transaction
TN Holdings Limited Shares in Issue	762,036,367		762,036,367
TN Bank Shares in Issue	30,301,253,348		138,547,778
TN Bank 10% Prefs (US\$1 nominal value)	1,000		4,030

EVENT	DATE
Last day to hand in proxies	2-Jul-12
EGM (10:00hrs)	5-Jul-12
EGM Results	10-Jul-12
TN Bank shares issued, conversion to preference shares	10-Jul-12
Proposed Listing date	11-Jul-12

Interfin Financial Services suspended from ZSE

The Zimbabwe Stock Exchange (ZSE) issued a public notice advising that trading of Interfin Financial Services was suspended with effect from Tuesday 12th June. Interfin failed to publish its audited financial statements within the stipulated timeframe. It has been concluded by the ZSE that at the moment information on the financial affairs of the Company is not readily available. The placement of Interfin Bank, a major operating subsidiary of the company, under curatorship was also taken into consideration. An update will be given in 6 months.

Gulliver Suspended from ZSE

Gulliver was suspended from trading for failing to publish its financial results within the stipulated timeframe.

Cairns Holdings Limited Cautionary Statement

The Company gave notice that negotiations whose outcome may affect the value of its shares were taking place. Unconfirmed market speculation suggests that this may relate to a possible disposal of RBZ's 64% stake.

Celsys Transaction Update

On the 6th of June the High Court of Zimbabwe duly sanctioned a Scheme of Arrangement which will pave way for the reverse listing of Cambria into Celsys. Eighty one percent of the shareholders who voted approved the Scheme. However one condition precedent is outstanding which is delaying the Scheme. The Scheme will only become effective on fulfilment of all conditions precedent, and upon the order of court and Scheme document subsequently being filed with the Registrar of Companies. The company will advise shareholders when this occurs and seven days will be given for shareholders to lodge their election to receive cash or shares as provided in the Scheme.

Trust Holdings Limited Cautionary Statement

Trust Holdings gave notice that the Company is engaged in discussions that may have a material effect on its share price. Market rumours suggest that the cautionary has to do with a capital injection of between US\$10million and US\$20million by a yet to be named European investor.

Falcon Gold Zimbabwe Limited Interim Results to 31 March 2012

	H1 to June 2011	H1 to June 2012	% Change
	<i>US\$</i>	<i>US\$</i>	
Ounces gold sold	3,821	9,693	154%
Average gold sale price	\$ 1,471	\$ 1,688	15%
Sales of bullion	5,619,801	16,360,398	191%
Gross Profit	1,218,538	4,322,394	255%
Finance Costs	(12,666)	(175,521)	(1,286%)
Profit for the Period	763,020	3,159,185	314%
EPS (cents)	0.69	2.84	314%
Shareholders' loans	10,573,793	10,635,823	1%

- Revenue increased by 191% to US\$16,4million benefiting from both increased production and higher prices
- Gross margin also improved to 26% from 22% as a result of improvements made under the recovery plan
- Despite a sharp increase finance costs are still comfortably covered. The company has US\$10,6million in shareholder loans and negative equity of US\$6,1million
- EPS increased by 314% to 2.84cents

National Tyre Services Full Year Results to 31 March 2012

	FY to March 2011	FY to March 2012	% Charge
	<i>US\$</i>	<i>US\$</i>	
Revenue	11,320,233	15,935,943	41%
Operating profit	516,184	888,997	72%
Finance Income	2,798	1,883	-33%
Profit Attributable to Shareholders	616,159	841,186	37%
EPS (cents)	0.24	0.33	38%

- Revenues increased 41% to US\$15,9million as volumes went up 17% boosted by strong demand for high value truck and Off The Road tyres
- Two additional branches were opened in Kwekwe and Chiredzi. In addition the retreading factory in Bulawayo was also reopened to cope with demand and decongest the Harare factory
- Attributable profit increased by 37% to US\$841,186

TSL Limited Interim Results to 30 April 2012

	FY to 30 April 2011	FY to 30 April 2012	% Change
	<i>US\$</i>	<i>US\$</i>	
Revenue	22,187,972	24,182,572	9%
Profit from operations	2,019,881	3,170,744	57%
Net finance costs	(282,615)	(136,353)	-52%
Total comprehensive income	1,375,250	2,262,921	65%
EPS (cents)	0.40	0.65	63%

- The reorganisation programme has started to yield results as evidenced by the 57% increase in operating profits.
- Operating margin improved from 9% to 13%
- The operating units performed well although Avis faced reduced demand and Hunyani's performance was negatively impacted by power cuts and lower sales. Agricura was discontinued and TS Timber is being disposed of.
- Plans are underway to finance some of the key income generating initiatives, possibly through borrowings.

EQUITY MARKET

The mainstream industrial index opened the week with three straight days of losses culminating in a loss of 0.91% for the week despite small gains on Thursday and Friday. Likewise the mining index was in the negative for the week after a 2.91% loss on Thursday. Pioneer emerged as the market's top performer for the week with a shocking 175% gain. The relatively inactive counter usually experiences sharp up or down swings on the few occasions that it trades. At the other end of the spectrum was Nicoz Diamond, the worst performer for the week with a 50% loss. Overall 18 counters ended the week in positive territory, 36 were in the negative and 20 were unchanged.

Unlike the week before there were no special bargains to boost turnover. The value of trades as a result dropped 49.28% from the previous week's level to US\$8,8million. Two counters were suspended from trading. Interfin Financial Services was suspended after its banking unit was placed under curatorship. It is believed the bank has a negative capital position exceeding US\$92,9million. Gulliver was also suspended for failing to publish its March results on time. This brings to 5 the number of counters that are not trading on the ZSE out of a total of 77 listed counters.

GLOBAL MARKETS

European stocks advanced for a second week as Greeks prepared to vote, after the Bank of England (BoE) announced credit-easing measures, boosting optimism central banks will take steps to stimulate the global economy. In the U.K. stocks rose, with the FTSE 100 Index climbing for a second week. Royal Bank of Scotland Group Plc and Lloyds Banking Group Plc both jumped more than 4 percent as Bank of England Governor Mervyn King said they will provide billions of pounds of cheap emergency aid to the industry.

Mining companies also advanced amid optimism that central banks around the world will take coordinated action to support growth.

The FTSE 100 rose 0.2 percent to 5,478.81 at the close on Friday in London, extending its weekly advance to 0.8 percent. Gains were however limited as investors awaited the outcome of this weekend's elections in Greece.

U.S. stocks also rose, giving the Standard & Poor's 500 Index its first back-to-back weekly gain since April, amid speculation central banks will take steps to stimulate growth and contain a prolonged debt crisis in Europe. All 10 S&P 500 groups advanced. JPMorgan Chase & Co. (JPM) surged 4 percent, pacing gains among financial companies, after Chief Executive Officer Jamie Dimon testified about his bank's \$2 billion trading loss.

Asian stocks likewise traded positively with the Nikkei recording its biggest weekly gain in almost five months. The mood in Asia was bullish as there was optimism that central banks from China to the U.S. will take new steps to fuel growth.

TRADING STATISTICS

Table 1: ZSE Trading Statistics

	<u>Previous Week</u>	<u>Current Week</u>	<u>Change</u>
Total Market Capitalization	US\$3,350.69 million	US\$3,330.09 million	(0.61%)
Total Value of Trades	US\$17,411,116.90	US\$8,831,313.00	(49.28%)

Table 2: Old Mutual prices on different exchanges

	<u>Previous week</u>	<u>Current Week</u>	<u>Change</u>	<u>Premium/(Discount)</u>
ZSE price	US\$1.48	US\$1.51	2.03%	-
JSE price	R19.10	R19.55	2.36%	(35.15%)
LSE price	£1.4710	£1.4870	1.09%	(34.57%)

Table 3: International Cross Rates

	<u>Previous week</u>	<u>Current Week</u>	<u>Change</u>
GBP:US\$	1.5511	1.5520	0.06%
US\$:ZAR	8.3006	8.3962	1.15%
GBP:ZAR	12.8751	13.0307	1.21%

Table 4: The comparison of the ZSE to other major indices

	<u>Previous week</u>	<u>Current Week</u>	<u>Change</u>
Industrial Index	133.34	132.13	(0.91%)
Mining Index	82.48	81.58	(1.09%)
FTSE 100	5,435.10	5,478.81	0.80%
Dow Jones	12,554.20	12,767.12	1.70%
JSE	33,665.71	33,959.87	0.87%
NIKKEI	8,459.26	8,569.32	1.30%

Table 5: Commodities

	<u>Previous week</u>	<u>Current Week</u>	<u>Change</u>
Gold (US\$/oz)	1,594.70	1,626.70	2.01%
Platinum (US\$/oz)	1,427.00	1,480.00	3.71%
Nickel (US\$/ton)	16,335.00	16,610.00	1.68%
Oil (US\$/barrel)	98.14	97.34	(0.82%)

Table 6: Movers

<u>COUNTER</u>	<u>Previous week -Usc</u>	<u>Current Week - Usc</u>	<u>Change</u>
PIONEER	2.00	5.50	175.00%
PHOENIX	0.60	1.00	66.67%
N.M.B.	0.80	1.25	56.25%
RTG	2.00	2.50	25.00%
ZHL	1.00	1.25	25.00%

Table 7: Shakers

<u>COUNTER</u>	<u>Previous week -Usc</u>	<u>Current Week - USc</u>	<u>Change</u>
NICOZ DIAMOND	2.00	1.00	(50.00%)
CELSYS	0.07	0.05	(28.57%)
TURNALL	6.70	5.80	(13.43%)
PELHAMS	0.85	0.74	(12.94%)
CBZ	13.00	11.39	(12.38%)

Table 8: UNIT TRUSTS

	<u>Previous week</u>	<u>Current Week</u>	<u>Change</u>
JUPITER FUND (Usc/Unit)	4.26	4.17	(2.01%)
VENUS FUND (Usc/Unit)	3.46	3.55	2.47%
CAPRICORN FUND (USc/Unit)	6.58	6.52	(0.99%)
GOLD FUND (Usc/Unit)	116.36	116.75	0.34%

Outlook

The suspension of Interfin places the spotlight on other financial counters. Investors have to be asking themselves how exposed the other banks are to Interfin and also how the situation is reflective of the state of financial institutions in general. Already CBZ was amongst the worst performers of the week with a loss of 12%. If fears of contagion arise we may see other financial counters falling out of favour.

Activity on the market has picked up from earlier in the year where trade was on some days restricted to turnover of below US\$500,000. We expect current trade levels to be maintained but it looks like sentiment is yet to change and share prices will remain depressed. We also expect activity to be concentrated in the heavyweight counters like Econet and Delta which are favourites with foreign investors.



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