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TCL | Exchange: NSE | Investment (Infrastructure) | Medium Cap | July 2011

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Key statistics	
OTC Closing Price (Ksh)	50
52 Week Range (Ksh)	28.50 - 50.00
Fair Value Price (Ksh)	68.10
5 year Revenue CAGR	25.80%
Trailing EPS	1.29
Latest DPS	0.20
Earnings yield (forward)	3.14%
Forward PE	32
Issued Shares (mn)	267

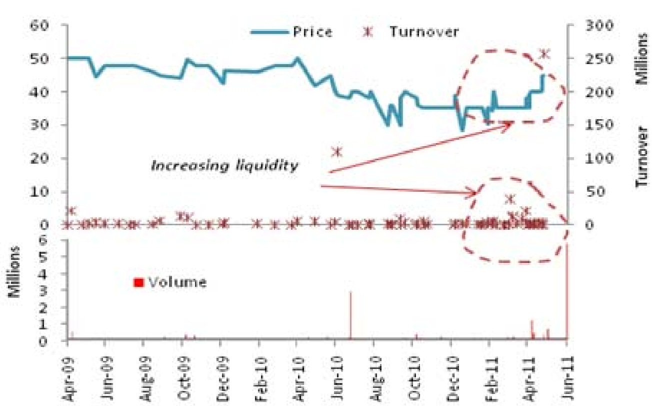
Source: Company Accounts, D& B Research

Listing Price: Kshs 50

Listing Date: 14 July 2011

- **Strong growth in revenues driven by invested countries' concentration on energy generation and transmission.**
- **At 32x, the stock's forward PE is relatively high which we believe corresponds to the high growth potential owing to sector prospective growth**

Fig1: Stock has been fairly active in the Over-The-Counter market with the bulk of trades occurring at Ksh 40-50. The modal weighted average price was at KSH 45



in Millions	2009	2010	2011E	*2012E*
Sales	5,415	6,795	9,371	10,669
Operating Costs	991	880	1,409	1,638
EBITDA	980	1,196	1,496	1,669
EBITDA Margin	18.1%	17.6%	16.0%	15.6%
Profit Before Tax	527	631	839	924
Net Income	92	344	503	555
Return on Equity	2.8%	7.8%	7.7%	7.6%
ROCE*	1.0%	2.9%	4.3%	5.6%
EPS	0.81	1.29	1.88	2.08

**ROCE - Return on Capital Employed*
Source; Company filings and D&B est

TransCentury......infrastructure diversity across Africa

We initiate coverage on TransCentury Limited ahead of its listing by introduction on the Nairobi Stock Exchange (NSE). We see improvements in earnings driven by top-line growth in its power business which leads us to endorse a **BUY** recommendation based on a fair value price of **KES 68.10.**

We expect company's growth in earnings to be driven by the large potential in the power market due to current low population connectivity relative to the size of the economy which is estimated at 25% as at December 2010. **African government's focus on the energy sector expansion and the economic recovery and expansion will likely lead to sustained growth in energy consumption.**

- **Resilience arising from geographical diversification**

The company has a well diversified portfolio with more than 50% of its assets invested outside Kenya. Given the low level of economic factors correlation in the different markets, this diversification will pay off via reduced country specific risks.

With inflation level rising, Kenya shilling weakening to the major foreign currencies and GDP growth remaining volatile in the local markets, we view the company as one of the most resilient to economic shocks among its listing predecessors.

The company's long term strategy is to equalize investments among the power, transport and engineering sectors all of which we expect to have strong growth opportunities.

- **Superior financial performance**

Growth in earnings over the 2011 and 2012 period is underpinned by expected strong growth in turnover fuelled by capacity expansion and improved contribution margins from its subsidiaries. We expect a projected EV/EBITDA of 9.5x for 2011 that we believe provides an attractive valuation over NSE listed peers.

- **Opportune investment in infrastructure sector**

The group's businesses focus on African infrastructure is timely given the continents focus on enhancing energy provision to drive economic growth. In addition to the expanded geographical footprint, the group has completed capacity expansion within its core power sector businesses. Increasing private involvement in engineering services provision will also help grow the company's engineering division.

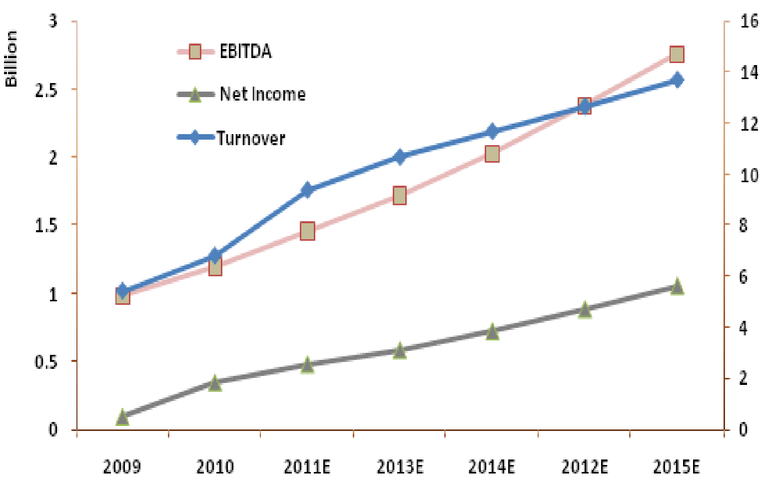
Key Value Drivers

- ✓ **The company's focus being power infrastructure, rise in connectivity (especially in rural areas) will push up demand for cables and power.**
- ✓ **Economic growth in the region.**
- ✓ **Increased government investment in power infrastructural development e.g. creation of Ketraco and the Energy Scale Up Programme targeting 1million new households in the next 5 yrs at cost of Kshs 84 billion.**
- ✓ **Progression of Regional Interconnection projects with neighboring countries including Southern Africa Power Pool and Ethiopia will affect the regional power sector positively.**
- ✓ **The ongoing public private partnership framework to facilitate procurement on new projects that augment capacity including geothermal and wind.**

Investment Attractions

- **Strong market fundamentals**: under-penetration and current inefficiencies in Power and Transport/Cargo and Specialized engineering implies clear headroom for growth.
- **Diversified portfolio of investments**
  Focus on the high potential power; transport and engineering infrastructure with diversification into other non-correlated investments imply resilience in performance. Geographical diversification in 7 countries including; Kenya, Uganda, Zambia Tanzania, Rwanda, DRC and Zambia.
- **Strong management team**
  The management is made up of well exposed and relatively young professionals with both international and local experience.
- **Focus on efficiency**
  The focus on efficiency through cost cutting will likely result in savings that will enable operating margins to rise to 13% by 2012. We expect the group's non cabling business to add stability to revenues (mitigating the volatility of cable revenues) and make a more significant contribution by 2013 once the lines operate at their optimal levels.
- **Impressive financial performance**
  The company has managed to within a short span of time grow the shareholders' wealth by 43 times from Ksh 0.1 billion in 2003 to Ksh 6.9 billion by 2010.

Fig 2; ***we expect EBITDA to grow faster than turnover***

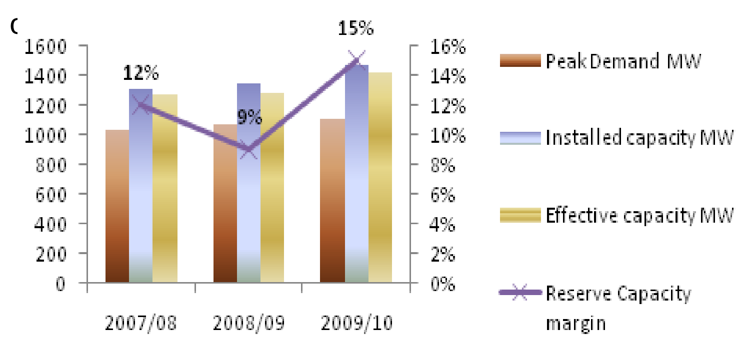


Source: *Company filings, D&B research estimates*

- As the company continues to focus on efficiency, we expect growth in EBIDTA to accelerate faster even as the current fresh investments begin to bear fruits.
- The weakening of the Kenya currency versus world majors (which we expect to close the year in the current KES/USD 89-92 range) will help increase the reported profits from non-Kenyan subsidiaries while increasing the cost of production.
- The rising world metal prices (with the LMEX metals index currently at 4,111.1 USD and likely to rise) may put upward pressure on cost of sales.

Fig 3; *Peak power demand growing while reserve capacity remains volatile within lower than adequate levels.*

Historical regional dependence on hydro power which fluctuates with weather conditions is offering alternative power producers an opportunity to fill the supply gaps.



Source: *KPLC*

The group has operations in: Kenya, Uganda, Tanzania, Rwanda, DRC and South Africa.

TransCentury issued successfully a Eurobond in the Mauritian market at a coupon rate of 6%. This is an indication of the confidence it draws in the African region.

The company is organized into 5 vertical divisions which reflect the company's commitment to investing in Africa:

- *Power infrastructure division*
- *Transport infrastructure division*
- *Specialized engineering division*
- *Consumer division*
- *Affiliated holdings*

TransCentury business overview and company history

The company was founded in 1997 by entrepreneurial Kenyan investors with an objective of maximizing shareholder value. In a few short years they have been able to grow the company's shareholders' wealth by 43 times from Ksh 0.1 billion in 2003 to Ksh 6.9 billion by 2010. This success was initiated by their first investment in East African Cables (a listed firm on the Nairobi Stock Exchange) in February 2004 and since then their investments have risen to ten.

The group has employed a highly trained and experienced team of managers that were first placed on full time engagement in 2006. They have since guided the company's investments into six (6) countries and diversified the investments amongst many promising infrastructure related businesses.

The company's shares began trading over an over-the-counter (OTC) desk in 2009 giving existing shareholders the opportunity to discover the market price of their holdings. The volume of trade through the desk has been vibrant and the OTC closed at KES 50 on 3rd June 2011 in preparation for the listing into NSE.

Fig 4; ***Sector and country diversification***

Trans-Century Ltd

	Power infrastructure	Transport infrastructure	Specialized engineering	Consumer	Affiliated holdings (Real estate; Fin'l Svcs)
					 Development Bank of Kenya Ltd
Subsidiaries:	▪ **E.A.Cables** – manufacture aluminium & copper cable(64%) ▪ **Tanelec** – transformers, switchgear etc (70%) ▪ **Kewberg** - specialty cables manufacturer 100%)	▪ **Rift Valley Railways:-** Kenya Uganda railway concession (34%)	▪ **Avery** – Weigh bridges, generators, bearings, sub-stations (94.4%)	▪ **Chai Bora**- tea blender & packager (95%)	▪ **Development Bank of Kenya**- complimentary banking services (10.7%) ▪ **Karen Mall** (100%) ▪ **Fund of funds**
Products:	▪ Copper electric cables ▪ Aluminium conductors ▪ Transformers ▪ Switch gears ▪ Instrumentation & control cables	▪ Freight traffic ▪ Passenger traffic	▪ Weigh bridge management ▪ Power sub-station management ▪ Industrial supplies – bearings – ink jet printers – weigh scales – generators	▪ Loose tea ▪ Tea bags ▪ Herbal Infusions	▪ Commercial property development

	Power	Transport	Engineering	Consumer	TOTAL[1]
Revenues	5,469.1	4,022.7	411.0	914.6	6,794.7
Op. Earnings	367.5	-	64.8	114.2	974.3

[1] *Excludes RVR, and includes TransCentury Company and Affiliated Holding adjustments.*

Power Infrastructure Division

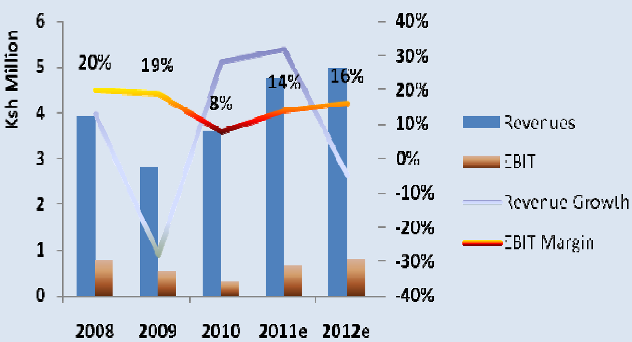
This is one of the three main divisions in the company which currently has a portfolio of companies including; East African Cables, Tanelec, Kewberg and Cableries Du Congo.

Revenue versus margins

The revenue driver for this segment is likely to be the aluminium business, due to demand from utilities which we expect to strengthen going forward as a result of the increasing connectivity.

East African Cables saw its operating margins decline from 19% in 2009 to 8% in 2010 largely due to write-off in its Tanzanian subsidiary and since the restructuring of that unit is complete we expect the EBIT margin to rise to 14% in 2011 before rising up to historical levels of 20% by 2015.

Fig 5: We expect EBIT margins to strengthen resulting from the increasing operational efficiency and capacity growth hence economies of scale.



Source; company filings, D&B est

Taking into account the improvements in operating margins we do not see any pressure on margins from financing costs (which comprised 15% of EBIT) going forward.

East African Cables

EA Cables is a part of the group's power division and is the only publicly listed investment in the group's portfolio. It also makes the biggest contribution to the group's overall turnover estimated at 53% in 2010 (three year average of 55%). EA Cables saw its' 2010 turnover grow by 28% largely due to regional sales to utilities and improved sales to private market clients. However, despite the recovery in turnover the gross profit margin dropped from 41.3% in 2009 to 28.4% due to rising cost of sales (up 56%).

External factors provide both opportunities and challenges

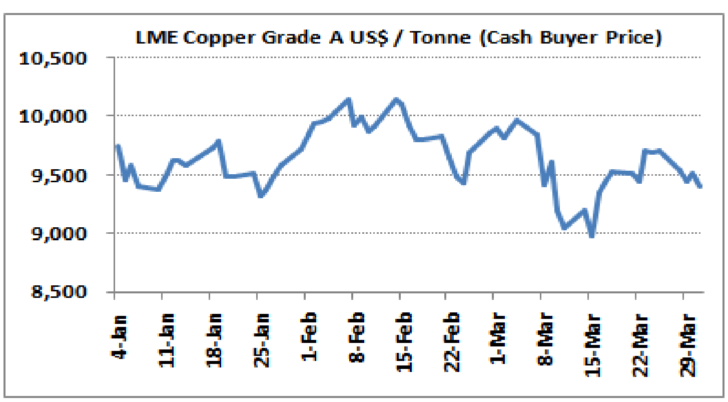
The company has faced a number of external shocks including rising metals prices, intense foreign competition (which includes the fight against counterfeit goods), higher energy costs and more volatile foreign exchange markets. As a result of these factors the company products' prices have risen by 80% (in addition to the capacity increase in 2010) and we expect expect a rapid rise in turnover going into 2011 but only a marginal rise in gross profit margins (remaining at around 31%).

We expect it to take some time before significant changes in the external environment with inflation, metals prices and exchange rate volatility accelerating in the Q1 of 2011. However, if the company can achieve an operating leverage through higher turnover and at the same time keep fixed costs low, operating margins could improve.

Improving gearing with short term skewed debt

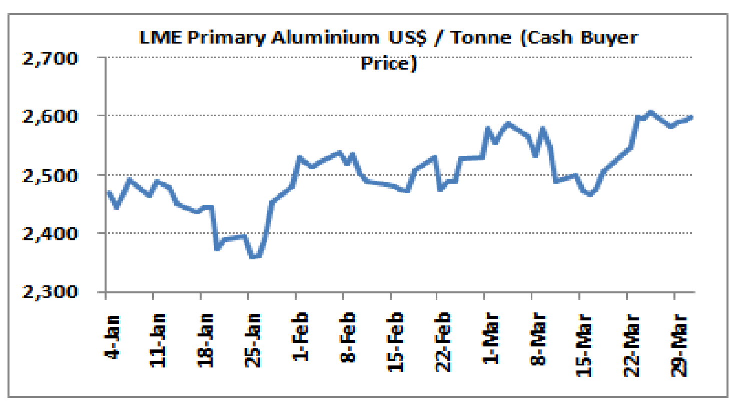
The gearing ratio was subdued in 2009 and 2010 largely due to a revaluation in property, plant and equipment. Debt to capitalization ratio has dropped by half since 2007 from 31.2% to 15.2% implying that the company's permanent capital is being funded less and less by long term debt. Approximately 65%-70% of borrowings are now short term to bridge working capital requirements and cash conversion cycle has improved through stricter policy measures on inventory and receivables. We expect debt levels to remain largely unchanged with no negative impact on company's credit risk profile.

Fig 6: LME copper prices in 2011



Source: London metals exchange

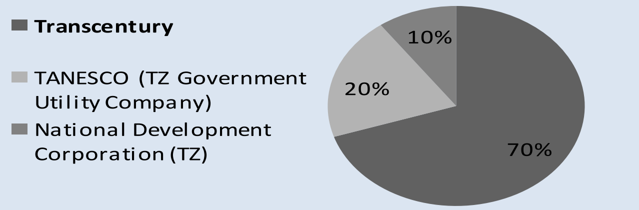
Fig 7: LME aluminium prices in 2011



Source: London metals exchange

The prices of copper and aluminium continued to climb in Q1 of 2011 as primary aluminium at the London Metal Exchange (LME) closed the quarter up 5%.

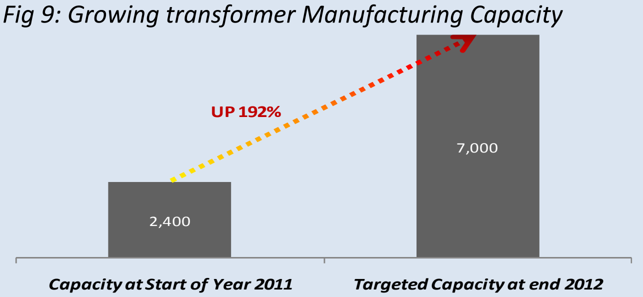
Fig 8: TransCentury owns 70% of Tanelec



Source: TANALEC

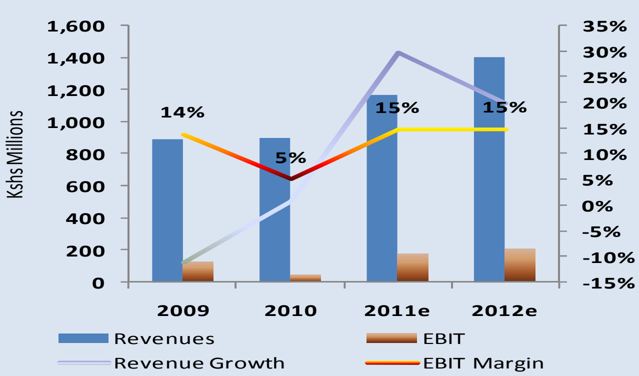
The company is investing $3million in extending its factory which once completed would be able to internally manufacture components currently being imported.

Fig 9: Growing transformer Manufacturing Capacity



Source: *TANALEC*

Figure 10: ***We expect revenue to grow in tandem with economic development.***



Source: TANALEC and D&B Estimates

We expect the growth drivers will largely be influenced by higher regional demand from utilities. For example, Kenya Power & Lighting Company has roughly installed 320 transformers over the last five years (added 381 in the 2010 financial year) and as it attempts to capture more customers, it's likely to provide long term stability to segment revenues.

However, Inconsistent patterns of purchases on a country by country basis which could water down economies of scale.

Tanelec

Tanelec (Arusha based, Tanzania (TZ)) manufactures and distributes transformers (currently 75% of total turnover) used in electricity distribution networks; manufactures low and medium voltage switchgears; repairs, upgrades, retrofits, relocates and installs transformers and switchgears. Around 35 percent of its business is provided for the Tanzanian market, with the remainder in the utilities and private sectors in Uganda, Rwanda, Burundi, Kenya, Malawi, Mozambique and Zambia.

Strong growth in the private sector from industries, sugar/tea factories, mines and other private customers. The company's focus on the sector is timely in capturing a niche in serving the sector currently and in future. Expansions in the company are expected to increase capacity, thereby market share and footprint. Tanelec's capital investments include commissioning a new state-of-the-art transformer drying oven at a cost of $1.5million, which will both reduce drying times and improve energy costs.

In May 2011, Tanelec acquired a controlling stake in Pende Electrical based in Zambia which provides Tanelec with the opportunity to more effectively service large mining clients and utilities in the copper-belt region of Zambia as well as the economically important Katanga province of the DRC.

Future prospects include capitalizing on existing land at its base in Arusha and producing more products in the power sector. Other opportunities in the sector include the higher demand for dry type transformers to deter vandalism in selected areas of Kenya which is expected to increase revenues in this area.

Low connectivity presents growth opportunities

- ✓ Electricity Penetration in Tanzania is very low at less than 15% in 2010 (Source: ESB International), therefore upside prospects for sales as Rural Energy Agency steps up its electrification process.
- ✓ It is able to service the market quickly and more efficiently than competitors who are based abroad as it's the only manufacturer of transformers in East and Central Africa.
- ✓ Expected growth in infrastructure development in most African Countries, and expansion of regional utilities a major opportunity for Tanelec to tap.
- ✓ Increased repairs and maintenance business with local utilities through increased capacity from recent acquisition and expansions.

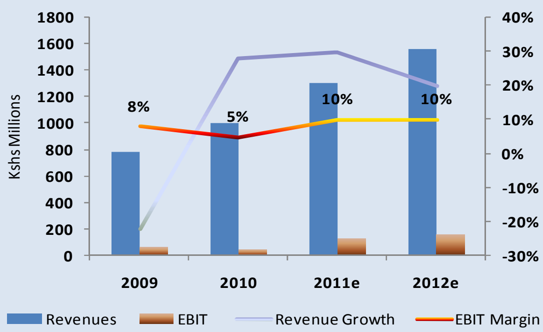
Rising world commodity prices to Limit margins

- ✓ Rising cost trends in commodities market for copper and steel are a challenge. This cost burden and price volatility mitigated somewhat by tendering on forward price agreement contracts.
- ✓ Orders dependant on availability of projects and funding by governments and donors.
- ✓ Low utilization as a result of competition from Asia and South African Markets.

TransCentury owns 100% of the company which is a part of the group's power division and is a specialty cables manufacturer based in South Africa.

Kewberg manufactures cables for various industries, and its key sales volume drivers in the cable industry are the telecommunications sector and the power, security, mining appliances, computer networks and oil and gas sectors. It has an extensive quality specialist distribution network. The Group sells its products to wholesale distributors who market it to the end customers.

Figure 11: Kewberg Revenue and EBIT Growth



Source: D&B Estimates

We expect EBIT margin to average 10% in the next 2 years. In addition to the mining sector, the business segment will be looking to exploit capacity expansion implemented within the group's power business it raises output for export. We see high demand from export market pushing revenues up 30% in 2011; however, the costs of production are expected to keep operating margins constant.

Kewberg (Power Infrastructure Company)

The company has an enhanced offering through its 'one-stop shop' capability to customers and partners and largely focuses on the South African market but it is working on expanding its footprint to the wider South African region, Central and East Africa.

We see high demand from export market pushing revenues up 30% in 2011; however, the costs of production are expected to check operating margins.

The main component used in cable production is Copper, which is sourced from Zambia and South Africa. Another cost driver is Poly Vinyl Chloride (PVC) plastic which is used to coat the cables once they have been machined to the required specifications.

Power exports and growing local demand will likely grow turnover

South Africa aims to be fully electrified by 2014. Currently electrification rates stand at 70% of total population (Source: Transcentury company fillings). Therefore demand for power cables is expected rise to fulfil this plan.

Other than the mining sector the business segment will be looking to exploit capacity expansion implemented within the group's power business and will be looking to raise more output for export.

Competition and costs could suppress margin growth

Competition especially from cheap imports from China and India has potential to pressure pricing; however the electricity supply sector in SA has high barriers to entry, long lead times for development of plants and massive capital outlay requirements to set up a full outfit.

The main cost driver for the business is Copper, Copper prices have been very volatile since the beginning of the year, which affects input costs and it is also susceptible to the prices of PVC.

Specialized engineering division

Avery ltd is the main player in this division with TCL intending to invest more through green and brown field to optimize on opportunities

TCL owns 94% of the company which is a part of the group's specialized engineering division and holds exclusive distribution rights for several highly rated equipment manufacturers.

Avery's main product line is weight equipments range from the retail scales to weighbridges. This is followed by coding equipment, with the exclusive distributorship of Videojet Brand (USA) inkjet coding products. It also supplies power generators. It provides weighbridge and power sub-station management full operations and maintenance contracts for large-scale industrial solutions.

Avery controls the largest market share in the weighing scales and coding industries in Kenya.

It is also an approved electrical engineering contractor for Rural Electrification Authority and Kenya Power & Lighting Co. and has over 300 large industrial clients in Kenya.

Avery East Africa

We believe that the top-line growth drivers will be anchored on the government outsourcing of weighbridge management that has seen private firms contracted to manage some of the 13 weighbridges in Kenya. In the first phase of reforms the government placed three weighbridges under management of private firms with Avery managing the Athi River weighbridge.

Strong opportunity with numerous upcoming privately managed weigh bridges

The weighbridge management business line will provide long term stability to revenues as has been the case where contracts have been implemented successfully in countries like Egypt and Spain.

We see a high turnover potential as the number of industries requiring weighing solutions increase as the number of manufacturers' rise.

However, government tendering processes for weighbridge management and power generation equipment are not as efficient as in the private sector increasing the time of contract firming up.

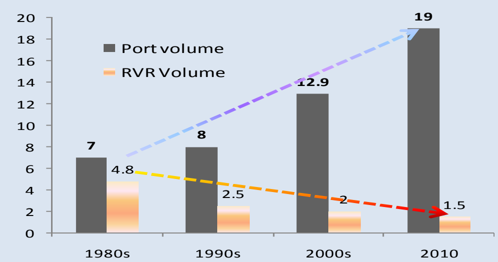
Transport division

The division which we believe has the strongest potential has Rift Valley Railways as the main player.

The business is part of the group's Transport division and its revenues have not been included in the group accounts.

By 2010 the TransCentury had made additional investments in RVR beyond the initial US$9 million raising their stake from 20% to 34% with the remaining 15% owned by Ugandan Bomi Holdings.

Fig 13: *Recorded volumes uplifted through the railway have been declining even as port activity increases*



Current low levels of activity present the company with head room for turnover growth once operations have been restructured.

ALL (America Latina Logistica) turned around a similar narrow gauge railway in Brazil, and are currently operating more than 40m MT per year, nearly 25 times larger than RVR. They have designed the business plan for the RVR turnaround and have headhunted for senior positions within RVR.

The railway is currently operating at 1.5m MT a year, compared to 4.8m MT that the same railway was able to achieve in the 1980's, and at only 10 to 15% of the rated capacity of the railway (10m – 15m MT). We believe this is achievable, given that Mombasa port volumes are currently near 20m MT, and growing 8% annually. Management has indicated that the initial phase of the turnaround will aim to increase volumes from the current levels of 1.5m MT to the 4.8m MT within the next five years.

Rift Valley Railways

The business has the exclusive use of the existing railway lines and rolling stock of Kenya and Uganda, through the concession agreements and is currently undergoing restructuring and rehabilitation exercise being led by America Latina Logistica the leading Emerging Markets railway operator based in Brazil.

The business has strong financial partners including Citadel Capital of Egypt (who has a 51% stake in the consortium), various international development financial institutions and a domestic bank.

RVR is currently generating revenues of $70m a year with gross margins of +55%, but the business also has a large fixed cost base. With the anticipated growth in volumes, the business should be able to cover the fixed costs and break even within the next three years.

Leveraging on the improved cash flow (reinvested into capex) and enhanced capacity (in railway infrastructure) the railway could reach the 1980s volumes of 4.8m MT and we project RVR will have +$200m in revenues and [40% EBITDA margins].

Additional upside will come from growing the business from 4.8m MT level, and closer to the rated capacity of 10m to 15m MT for the railway line.

Estimates put the peak potential (assessable market or volume of traffic on the railway) at 10.0 million metric tonnes per year.

Outlook

The key value driver for this division will be the success of the ongoing restructuring in RVR to create capacity which can meet the existing demand for rail transport.

Given the capital intensive nature of the turnaround, the most important factor is funding. In this regard, management has indicated that the $164m debt package is expected to be complete in the next two to three months. TCL has also raised $35m in the $75m Convertible Bond programme, which is more than sufficient to cover their $28m equity check.

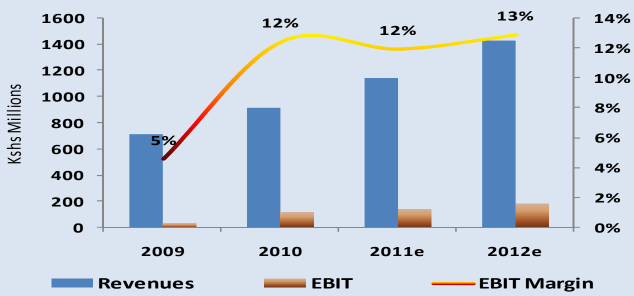
With strong financial partners such as Citadel Capital as shareholders, we are confident that the turnaround programme will be launched soon, and will allow RVR to reach its volume targets.

Consumer division and other holdings

The company has invested in the FMCG sector through Chai bora while maintaining holdings in the real estate sector and fund of funds

Chai Bora was bought by Transcentury (95% shareholding) in 2008 when it was acquired from the TATEPA Group and is part of the group's consumer division that blends, packs and distributes a high quality tea products in Tanzania.

Figure 12: We expect the EBIT margin to average 12% for the next two years.



Source: D&B Estimates

Tanzania's per capita tea consumption continues to grow in line with the region's increasing prosperity.

Chai Bora

The business line has made a good contribution to top-line growth over the last two years (comprising 13% of group turnover) and markets a leading tea brand estimated to have a 60% market share in Tanzania.

The company recently received ISO certification, one of the first FMCG businesses to achieve such certification in East Africa and uses a unique hybrid distribution system. This would give access to the most strict quality market in the world.

The revenue drivers will be influenced by a recovering Tanzanian tea industry whose production volumes are expected to rise by 33% by 2011-12. While the growth is volume driven, we see short run international tea prices remaining high but declining gradually in the long term.

Growing demand for tea presents turnover growth opportunities

There is a growing demand for tea in the global and regional markets, and with Chai Bora's successful business repositioning and its strong branding, it is poised to take advantage of this surge by selling more. Also, there is export growth potential in other markets such as US, South Africa and Europe with increasing interest by international buyers, keen to market a domestic African brand in international markets.

Transcentury has made a financial commitment to the following funds:

- Aureos East Africa (where it has committed to provide US$ 500,000 in the fund), Aureos South Asia and Aureos China.
- Business Partners International,
- Helios Investors LP and Helios Investors Kili Parallel.

The fair value of these funds rose from Ksh 598 million as at December 2009 to Ksh 914 million as at December 2010.

Affiliated holdings

The group's affiliated holdings which include Karen mall, funds of funds and the Development bank of Kenya contributed to 44% of 2010 EBIT. The group's real estate holding Karen mall is still under development and the 10.7% stake in the Development Bank of Kenya didn't contribute significantly to profit margins given the bank proposed a Ksh 35 million annual dividend to shareholders in 2010.

In the financial year ended December 2010, the company reported strong performance across key metrics with revenues growing by 25.5% to KES 6.8 Billion, EBIT by 22.4% and net income rose by 99.7%.

Growth arose from; favorable trading conditions as economies in which TCL operates performed strongly, increased focus on investment in infrastructure by both the private and public sector and a diligent focus on growth and cost drivers by management

Power infrastructure division - Strong performance was reported in 2010 with revenues growing by 23% to Ksh 5.5 Bn and EBIT of KSh 367 million, arising from demand for copper cables with volumes increasing by 9%.

This growth was triggered by demand for aluminium conductors with volumes increasing by 140%, demand for new transformers with volume growth of 38%.

The division was however, impacted by a one-off impairment of receivables and inventory, relating to the Tanzanian cable subsidiary, which resulted in a one-off charge to EBIT.

TransCentury Group financials

Power infrastructure division

Total investment in 2010 across the power infrastructure division was Kshs 607 million, focused on; an increase in capacity across the cable and transformer manufacturing plants, a brown-field acquisition of a cable manufacturing plant in Congo and subsequent investments in capacity to upgrade the facility.

Specialized engineering division

The division reported an 82% increase in sales to KSh 411 million and EBIT of KSh 65 million in 2010, driven by: continued industrial growth in the regional economies resulting in increased capital investments, focus on efficiency, resulting in a preference to out-source and geographical expansion of the business, with the division opening operations in Tanzania and Uganda.

Consumer division

The division reported a 28% increase in sales to KSh 915 million an EBIT of KSh 114 million 2010, driven by underlying market fundamentals as there is rising demand for tea, implementation of a new hybrid distribution model which has helped bring tea products closer to the market.

One of the pillars determining the impact cost drivers will have on the business is the management of cash flows within it's highly capital intensive model.

- ✓ ***Net Cash flow generated has strengthened through the years even as profitability has grown; a trend we expect to hold in the medium term.***
- ✓ ***While the growth strategy is largely acquisition based, a lot of working capital is required to revamp infrastructure and financing costs compose 35% of EBIT (interest coverage of 2.8x) and current ratio dips* from 1.8x in 2009 to 1.6x in 2010.**
- ✓ ***In 2010 there were gains seen in the cash conversion cycle and a reduction in the debt to capitalization from 44% to 34%.***
- ✓ ***We project the company will continue to operate bank overdrafts in the 2011 financial year to finance higher working capital occasioned by enhanced capacity expansion.***
- ✓ ***We project that over the next few years the company will adequately cover all expansionary Capex.***

Cashflow Statement					
Kshs mn	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
Net Cashflow Generated	(331)	(229)	973	155	539
End Year Cash Balance	**107**	**219**	**490**	**301**	**(27)**

Capital Structure					
Kshs mn	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
Cash/Bank Balances	139	356	584	279	207
Short Term Debt	397	1,254	997	1,109	1,049
Long Term Debt	790	1,925	2,550	2,765	2,755
Total Debt	**1,187**	**3,179**	**3,547**	**3,874**	**3,804**
Net Debt	1,047	2,823	2,963	3,595	3,597
Shareholders' Equity	**1583.303**	**2900.619**	**3090.209**	**3517.845**	**5293.454**

Credit Statistics					
Kshs mn	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
Debt / Total Cap	33.3%	39.9%	45.2%	44.0%	34.2%
N. Debt / Total Net Cap	29.1%	35.1%	38.9%	41.4%	32.5%
Gearing Ratio	39.8%	49.3%	48.9%	50.5%	40.5%
Debt / EBITDA	1.2x	0.6x	0.5x	0.5x	0.9x
N. Debt / EBITDA	1.1x	0.5x	0.4x	0.5x	0.8x
Interest Coverage	N/A	N/A	3.8x	2.1x	2.8x

Asset Management Ratios					
Days Inventory Held	89	139	124	154	132
Days Sales Outstanding	52	109	104	118	97
Payables Turnover (Days	39	80	80	93	85
Cash Conversion Cycle	**101**	**168**	**148**	**178**	**144**

Source: Company filings, Dyer & Blair Research

In light of the subsidiaries strong turnover expectation with capacity expansion, we estimate the forward 5 year turnover CAGR at 25.8% with an equivalent cost of sales growth.

Owing to the restructuring being undertaken by the subsidiaries and management focus on efficiency, we expect growth in operating expenses to rise at a more modest CAGR of 9%.

We expect return on equity to rise through the period and EPS to close a five year period at KES 4.24.

Profit Model Ksh Mn	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Sales	**6,442**	**5,415**	**6,795**	**9,371**	**10,669**	**11,681**	**12,650**	**13,825**
Cost of Sales	4,299	3,445	4,718	6,466	7,362	8,060	8,729	9,539
Gross Profit	**2,144**	**1,970**	**2,076**	**2,905**	**3,307**	**3,621**	**3,922**	**4,286**
Operating Costs	641	991	880	1,409	1,638	1,509	1,438	1,411
EBITDA	**1,502**	**980**	**1,196**	**1,496**	**1,669**	**2,112**	**2,484**	**2,875**
Depreciation	154	183	222	280	329	366	405	434
Operating Profit	**1,348**	**796**	**974**	**1,217**	**1,340**	**1,746**	**2,079**	**2,441**
Net Financing Costs	(399)	(269)	(344)	(378)	(416)	(457)	(503)	(554)
Profit Before Tax	**949**	**527**	**631**	**839**	**924**	**1,289**	**1,576**	**1,887**
Income Tax	344	292	162	168	185	258	315	377
Minority Interest	263	143	125	168	185	258	315	377
Net Income	**342**	**92**	**344**	**503**	**555**	**773**	**945**	**1,132**
Dividend Cover	26.1x	7.0x	6.4x	5.0x	5.0x	5.0x	5.0x	5.0x
EBITDA Margin	23.3%	18.1%	17.6%	16.0%	15.6%	18.1%	19.6%	20.8%
Return on Equity	11.4%	2.8%	7.8%	7.7%	7.6%	9.2%	9.5%	9.5%
Return on Capital Employ	4.1%	1.0%	2.9%	4.3%	5.6%	5.8%	6.0%	6.0%
EPS	1.28	0.34	1.29	1.88	2.08	2.90	3.54	4.24

Source: Company filings, Dyer & Blair Research

We have used both relative valuation and cash flow methods to evaluate the investment.

PE valuation has used multiples from peers including centum holdings, power companies, El sewedy of Egypt as well as Indian Diamond holdings.

Our valuation is generated from a weighted average of PE, P/BV, EV/EBIDTA and DCF valuation.

The inputs to the discounted cash flow method which is part of the methods used in valuation uses the metrics as outlined below.

WACC Assumptions		Performance Indicators				
Debt Level	41.8%					
Equity Level	58.2%		**2010**	**08-10**	**11-13E**	**11-15E**
Income tax rate	30.0%	**Growth Rates**		**per annum change**		
5 year Tax Rate	30.0%	Sales	25.5%	20.9%	20.4%	15.8%
Risk Free Rate	9.7%	COGS	37.0%	23.3%	20.1%	15.6%
Risk Premium	6.0%	EBITDA	22.1%	-0.3%	21.1%	19.3%
Equity Beta	1.00	**Multiples & Returns**	**2010**	**2011E**	**2012E**	**2013E**
Geared Beta	1.00	EV/EBITDA	10.8	9.5	8.0	6.7
Cost of Equity	19.7%	Return on Equity	7.8%	7.7%	7.6%	9.2%
WACC	14.7%	Free CF/Sales	-6.8%	7.1%	6.1%	6.3%
Long-Term Growth	2.0%	Free CF/EV	-3.6%	5.2%	5.0%	5.7%

Source: Dyer & Blair Research estimates

In conclusion - We recommend a buy on the stock given the group's businesses focus on African infrastructure at a time when continents focus is on enhancing energy provision to drive economic growth. In addition to the expanded geographical footprint, the group has completed capacity expansion within its core power sector businesses. The key drivers of top-line growth involve a combination of output growth and price hikes within its core cabling business, although cost of production are largely expected to grow in tandem.

We expect company's growth in earnings to be driven by the large potential in the power market due to current low population connectivity relative to the size of the economy which is estimated at 25% as at December 2010. African government's focus on the energy sector expansion and the economic recovery and expansion will likely lead to sustained growth in energy consumption.

The key risks concern the hostile macroeconomic environment that has seen the subsidiaries get exposed to international oil price shocks, rising global metals prices, increased exchange rate volatility.