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TransCentury Ltd

A Strong Secular Growth Story

Executive Summary

We initiate coverage on TransCentury Ltd "TCL" with a **LONG-TERM BUY** recommendation based on our valuation of the share at Kshs.62.35, implying potential upside of 29.9% from its current market price (Kshs.48) on the Nairobi Stock Exchange (NSE). We forecast Earnings Per Share (EPS) growth of 48.1% and 42.2% FY2011 and FY2012 mainly driven by improved business performance from all business segments and particularly from the power infrastructure and transport segments which we view as forming the core of the company's future operations. Our positive valuation of the company is informed by the following factors:

- ✓ Strategic positioning in key and nationally strategic sectors that are the future drivers of economic growth going forward;
- ✓ Low competitive pressures on account of high barriers to entry;
- ✓ High business growth opportunities presented within the wider East, Central and Southern African region;
- ✓ Increased demand for power and related services in the countries in which the company operates; and
- ✓ TCL's proven track record as a value enhancing owner-manager: East African Cables (E.A Cables) is a case in point in this respect, TCL has grown shareholder funds by 479% since it acquired the business in 2004. We expect the same value creation mantra at Rift Valley Railways (RVR) - underpinned by the strategic partnership with Citadel Capital and America Latina Logistica ("ALL").
- ✓ TCL boasts a stellar track record in terms of value creation for its shareholders. The table below seeks to illustrate the point: TCL has generated an internal rate of return ("IRR") of 18,153% for its initial investors since 2001. This implies a annualised IRR of 1,815% over the last 10 years.

TCL	2001	2010	10 YR:IRR	Growth
Equity	-29,000,000	5,293,454,000	18,153%	1,815%

Table 1: Internal Rate of Return Source: Genghis Capital

We have derived a valuation range of Kshs. 15.4Bn - Kshs.17.4Bn which suggests a share price between Kshs.58.70 and Kshs.66 for TCL.

Valuation Approach	Kshs.Bn
DCF Valuation	15,4
Sum of the Parts	17.4
E.A. Cables	4.8
RVR	5.8
Other Assets	8.3

Table 2: Valuation Summary Source: Genghis Capital

TCL Ltd

Business Units

TCL's business operations have been segmented into five different business divisions namely:

- ✓ Power Infrastructure
- ✓ Transport Infrastructure
- ✓ Specialized engineering
- ✓ Consumer
- ✓ Affiliated investments

The specific holdings and the excerpts of the company's latest available financial performance of these holdings are shown in Table 3 below:

Sector	Holdings & % Control	Profile	Country	Revenues FY 2009 (Kshs) Mn	Revenues FY 2010 (Kshs) Mn	Revenues FY 2011 (Estimate) (Kshs) Mn
Power Infrastructure	E.A Cables (Kenya) 64% E.A Cables (Tanzania) 51%	Manufacture copper cables and aluminium conductors. Provide telecommunication, data and fibre optic cables for export to the East African and export market.	Kenya/ Tanzania	4,485.3	5,504.9 (Excluding Pende Electrical's Kshs.280Mn)	6,605.9
	Tanelec 70%	Manufacture, distribute, repair and service transformers and switch gear.	Tanzania			
	Pende Electrical (Subsidiary of Tanelec)	Provision of turnkey engineering services. Also involved in installation and service of electrical equipment and manufacture, repair and service of distribution and power transformers.	Zambia			
	Kewberg cables and Braids 100%	Speciality Cables Manufacturer	South Africa			
	Cableries Du Congo 100%	Manufacture copper cables	Democratic Republic Of Congo			
Transport Infrastructure	Rift Valley Railways 34%	Kenya-Uganda Railway concession	Kenya/Uganda			
Specialized Engineering	Avery 94.4%	Weigh bridges, generators, bearings, substations.	Kenya	225,835	410,975	563.4
Consumer	Chai Bora 95%	Leading blender, packager, and distributor of tea in Tanzania.	Tanzania	713,992	914,617	1,171.6

Sector	Holdings & % Control	Profile	Country	Revenues FY 2009 (Kshs.) Mn	Revenues FY 2010 (Kshs) Mn	Revenues FY 2011 (Estimate) (Kshs) Mn
Affiliated Holdings	Development Bank of Kenya 10.7%	Financial services	Kenya	135.8 (Profit After Tax)	160 (Profit After Tax)	
	Karen Mall 100%	Property for development		-	-	
	Fund of funds (valued at fair value)	Aureos South Asia Fund 2.94%		598.2	914.2	1,159.4
		Aureos East Africa Fund 1.25%				
		Aureos East Africa Fund 5.48%				
		Business Partners International Kenya SME Fund 10.64%				
		Helios Investors 1%				
		Kili Parallel 1.6%				

Table 3: Business Divisions

Source: TCL Information Memorandum

TCL'S Positioning

TCL's positioning is largely informed by a focus on the strategic growth areas identified in Kenya's 2030 Vision strategy document developed by McKinsey under the stewardship of Dr. Gachao Kiuna as team leader. It is a masterstroke on TCL's part that Dr. Kiuna now heads TCL as its Chief Executive Officer (CEO).

Vision 2030 identifies the following as key economic pillars and enablers for Kenya's elevation to a "middle-income country providing a high quality life to all its citizens by the year 2030."

1. Infrastructure; and
2. Energy;

We estimate the annual value of these sectors to be in the region of Kshs. 200Bn. TCL is uniquely positioned to be a major player in these areas that were historically the preserve of Government but are now open to Public Private Partnerships as Government looks to private sector capacity (both human and financial) to achieve the targets set out in the Vision 2030 mission statement.

Sizing the market opportunity

We have identified Infrastructure and energy to be priority sectors for TCL going forward. This section attempts to assign a nominal value to the activity in these sectors on an annual basis with a view to informing potential investors on the magnitude of the opportunity available to TCL and its shareholders over the medium term.

The table below sets out a forward looking view of the revenue potential in the power infrastructure sector based on a simple assumption that national access is increased from the current 18% to a level of 30% over the next (5) years. We have used KPLC and Kengen's power revenues as well as Independent Power Producers' (IPPs) as a proxy to illustrate the potential addressable demand in this market segment.

Our analytics indicate that global power sector revenues would increase from Kshs.60.6Bn in 2011 to Kshs.124Bn by 2015. We estimate IPP's 29% share of revenues to increase from Kshs.4.4Bn in 2011 to Kshs.15.3Bn by 2015. We expect TCL to feature prominently in this market segment. The compelling nature of the opportunity resonates when one considers that there are (7) IPPs currently operating in Kenya. This suggests average revenues of Kshs.5Bn per IPP over the next 5 years

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Naturally, national access in the order of 30% is a medium term initiative rather than an "over-night" scenario. The corollary of this scenario is a capital expenditure in excess of US$100Mn per annum in average terms over the next 5 years.

Revenues are US$209Mn and US$443Mn for 2009 and 2010 respectively on this basis.

Power infrastructure

TransCentury Ltd (Kshs.000)	2009	2010	2011	2012	2013	2014	2015
Average Revenue Per User (ARPU)	2.477	2,326	2,150	2,150	2,150	2,150	2,150
National access rate:			15%	20%	23%	26%	29%
Population (Mn)	38,610	39,614	40,644	41,701	42,785	43,897	45,039
Target National Access rate			3,352	3,752	4,152	4,552	4,952
KPLC customers (Mn)	1,262	1,476	1,676	1,876	2,076	2,276	2,476
Additional Customers including Rural	201	214	200	200	200	200	200
Government of Kenya Revenues (A)			43,313,105	59,421,040	68,075,920	77,724,540	88,565,648
Private Sector Revenues (B)			17,324,029	23,766,752	27,228,462	31,087,640	35,423,780
Power sector revenues (C = A+B)			60,637,134	83,187,792	95,304,381	108,812,179	123,989,428
KPLC Revenues: Pure energy			43,247,018	48,407,560	53,568,102	58,728,644	63,889,186
IPP Revenues			4,425,437	8,850,874	10,621,049	12,745,259	15,294,311
Kengen Revenues			12,964,679	25,929,358	31,115,230	37,338,276	44,805,931

Table 4: Business Divisions Source: TCL Information Memorandum

Transport infrastructure

Transport is the second pillar of TCL's envisaged growth over the medium term. The table below sets out a time series analysis of the growth in cargo volumes transported by both road and rail since 1990. As the chart below demonstrates, freight volumes have growth by 8% in compound average terms in the period under review. A cross section analysis further reveals this growth to be heavily skewed to road based transport at the expense of rail.

This factor is largely a tale of conflicting fortunes from a capital expenditure perspective: it is estimated that the Government has spent in excess of US$1Bn on the national road network in the last 10 years. This is significantly more than the US$50Mn spent on the rail network as at December 2010.

It is consequently not surprising that the rail has declined as a transport medium in Kenya since independence. This is largely attributable to Government ownership and limited (virtually no) capital expenditure (Capex) maintenance. Rail capacity has declined from a high of 4.8 tonnes per annum in 1980 to 1.5m tonnes currently as a result.

The table below sets out a scenarios analysis of rail freight revenues based on a base case view where rail utilisation returns to 1980 levels of 4.8million tonnes and a "blue sky" scenario where rail accounts for 33% of cargo transportation.

2010		
Port Capacity: Tonnes	19,000,000	
Rail charge per tonne: US$	47	
Kshs. Equivalent	4,200	
	Tonnes/annum	Revenues: US$
As is	1,500,000	70,000,000
Base Case	4,478,976	209,018,880
Best Case	6,333,333	295,555,556

Table 5: Rail Transport Statistics Source: KNBS & Genghis Capital

Comparative Capital Expenditure Schedule

This section sets out a comparative analysis of the capital expenditure budgets for RVR relative to the national road network.

RVR is looking to spend US$300Mn to create capacity to return rails share of freight tonnage back to 1980 levels of about 4.8Mn tonnes a year.

The table below sets out our estimates on the capital and maintenance expenditure required to sustain the observed activity on the national road network. We estimate this to be in the order of US$2Bn in aggregate terms over the next 5 years. This is significantly higher than the US$300Mn RVR expects to deploy to reposition the rail way as a cargo transportation medium. There is also significantly less wear and tear on the railway relative to the road.

Transport Mode	Capex budget 5 yrs	Maintenance Capex: US$Mn
Road	1,000	20
Trucks	1,000	100
Rail	292	10

Table 6: RVR Capex Estimates Source: Genghis Capital

Real estate

Real estate is TCL's third pillar for growth. We estimate the aggregate value of Kenya's addressable construction finance industry to be Kshs.120Bn. Electrical and cabling typically accounts for 15% of real estate project costs which implies an annual budget in the order of Kshs.18Bn. E.A Cables revenue of Kshs.7Bn accounts for 38% of total addressable market. We expect this figure to grow closer to 50% on account of the following:

1. Customer flight to quality which will impact negatively on substandard cheap imports from China predominantly; and
2. Minimum 15% local content benchmark set by the Government of Kenya for rural electrification.

2010 Population	38,610,097
Labour Force (40% of population)	15,200,000
Total Recorded Employment	8,816,000
Employment Rate	58%
Formally Employed (Target Market)	1,993,433
Average Annual Earnings (Kshs.)	200,000
Total Earnings (Kshs.)	398,686,646,154
Mortgage Market (30% of total	119,605,993,846
Average Mortgage (Kshs.)	3,000,000
No. of Homes	39,869
Total Formal Mortgage Market (Kshs.)	61,397,000,000
No. of Home Owners	20,466
No. of Home Owners /No. of Homes	51%
Unaddressed demand/annum	58,208,993,846

Table 7: Latent Demand Source: CBK & Economic Survey 2011

Financial Performance Review

Power Infrastructure

The Power Infrastructure Division operates through 4 subsidiaries, namely E.A Cables, Kewberg Cables and Braids, Cableries du Congo and Tanelec, which in aggregate have manufacturing facilities in Nairobi, Dar es-Salaam, Arusha, Kampala, Kinshasa and Johannesburg. The division is involved in the following activities:

1. Manufacturing and distributing copper and aluminium power cables;
2. Manufacturing and distributing specialized copper cables used for instrumentation, control systems, mining and aviation;
3. Distribution of fibre optic and data cables; and
4. Manufacturing and servicing of transformers and switch-gears.

TCL is extending its power infrastructure activities into the following lines of business:

1. Power generation:

Sizing the Cable's Market

The table below sets out an overview of the cable business in TCL's core markets.

Region	Copper: Metric Tonnes per annum	Aluminium: Metric tonnes per annum	Fibre optic
Kenya	7,000	8,000	(2,000)
Tanzania	5,000	3,000	(2,000)
Rest of East	3,000	2,000	(2,000)
Total	15,000	13,000	(6,000)

Table 8: Cable Market Source: E.A Cables

This segment continues to be the main source of revenue for TCL contributing 81% of the company's total revenue FY2010. We further forecast that the segment will contribute 79.1%, 78.8% and 78.4% of the group's total revenue FY 2011, FY2012 and FY2013 respectively.

We forecast revenues FY2011 and FY2012 to grow by 25% in average terms. This will put into perspective the decline in revenues between 2008 and 2009. We forecast an improved performance for this segment going forward with the segment being the key revenue earner for the group.

With regards to the specific constituents of this segment, E.A. Cables remains the flagship of this segment with actual and forecast revenues of Kshs.3.7Bn FY2010 and Kshs.4.6Bn FY2011 respectively. Profit after tax is expected

to rise 142.6% to Kshs.444million during the period under consideration. We also expect E.A Cables' contribution to TCL's total revenue to decline in the long-term as the other constituents of the power segment increase their contributions to the group's revenues. Our estimates put this at around 44% in 2015. This is largely in line with management's strategy of increasing the participation of the other companies to the Group's bottom line.

Increased costs of raw materials (copper in particular) and fixed costs had an adverse effect on the performance of the segment with Earnings before interest and tax (EBIT) declining by 49.7% in 2010 over 2009. We however estimate that improved efficiencies within the constituents of the segment and particularly E.A Cables which has invested extensively in improving its capacity will result in better cost management and improve the company's earnings going forward.

We forecast an improved performance for this segment with the following as the key drivers:

- ✓ Increased demand for power resulting in increased demand for power cables and related equipment.
- ✓ Additional strategic acquisitions within the wider East and Central Africa region adding to the company's top line.
- ✓ Investment in capacity building and improved operational efficiencies increasing the companies' margins.

East African Cables	2008	2009	H1:2010	2010	2011:HY	2011E	2012E	2013E	2014E	2015E
Turnover	2,812	3,929	1,829	3,658	2,351	4,573	5,716	7,145	8,931	11,163
Cost of Sales	2,035	3,384		3,151	2,034	3,658	4,573	5,716	7,145	8,931
Cost of Sales (%)	72.4%	86.1%		86.1%	86.5%	80.0%	80.0%	80.0%	80.0%	80.0%
Profit from operations	777	545	1,829	507	318	915	1,143	1,429	1,786	2,233
Operating margin (%)	27.6%	13.9%	13.0%	13.9%	13.5%	20.0%	20.0%	20.0%	20.0%	20.0%
Net Finance costs	-107	-19	-21	-21	-68	-	-	-	-	-
Bad debts			-193	-193	-	-	-	-	-	-
Profit Before Tax	670	526	24	293	250	634	1143	1429	1786	2233
Taxation	-207	-230	-80	-160	-77	-190	-343	-429	-536	-670
Taxation (%)	-30.9%	-43.7%		-54.5%	-30.8%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%
PAT	463	296	-56	183	173	444	800	1000	1250	1563

Table 9: E.A Cables Comprehensive Income Statement Source: E.A Cables & Genghis Capital

Specialized Engineering

The specialized engineering division has performed considerably well over the last five years. The segment contributed 6% of the company's total revenue FY2010. We forecast this to grow to 8.5%, 9.1% and 9.8% FY2011, FY2012and FY2013 respectively. We forecast a 37.1% growth in revenue between FY2011.

Our positive performance forecasts for the division are based on the following drivers:

- ✓ Increased investment in the sectors of power generation and transmission not only in Kenya but the regions as a whole.
- ✓ Strong economic growth in the region driving demand for the company's services.
- ✓ Increased need for compliance with product weights, safety standards etc

Specialized Engineering	2009	2010	2011E	2012E	2013E
Revenues (Kshs. Mn)	225.8	411.0	563.4	772.3	1,058.7

Table 10: Specialized Engineering Source: TCL & Genghis Capital

Consumer Division

The consumer division was TCL's star performer FY2010 in terms of revenue growth. Revenue and EBIT for the period rose 28.1% and 249.3%over the previous year. We expect the company to maintain a similar growth rate in revenues FY2011 and FY2012 with revenues of Kshs.1.2Bn and Kshs.1.5Bn respectively. We identify the following as the key drivers of the segment:

- ✓ Increased tea consumption in Tanzania and the wider region expected to translate to increased revenue from the sales of packed tea.
- ✓ Improved distribution network expected to increase product consumption.

Consumer Division	2009	2010	2011	2012	2013
Revenues (Kshs. Mn)	714	914.6	1,171.6	1,500.8	1,922.5

Table 11: Consumer Division Source: TCL & Genghis Capital

Affiliated holdings

This segment comprises of the fast growing sectors; banking, and real estate as well as strategic private equity investments. The banking and real estate sector are amongst the fastest growing and most profitable sectors in the country and investments in these sectors expected to have a positive impact on the financial performance of the constituents of this segment.

The Development Bank of Kenya in which TCL owns 10.7% (acquired for Kshs.78.7million) recorded a 17.5% increase in profit after tax to FY2010 to Kshs.160million compared to the previous year. We expect the bank's growing asset book and to translate to improved earnings going forward.

Our conservative estimates value the company's wholly owned commercial property in Karen at Kshs.120Mn (land only)

The fund of funds are private equity investments focusing on high growth areas around the world. These are held at fair value. The value of the funds of funds portfolio FY2010 rose 52.8% over FY2009. Our conservative estimates of the value of the funds portfolio FY2011 and FY2012 stand at Kshs.1.16Mn and Kshs.1.47Mn respectively. Our estimates are supported by our growth expectations of the regions in which the funds have their holdings.

Transport Infrastructure

Rift Valley Railways

Rift Valley Railways (RVR) was acquired by TCL for a cumulative cost of Kshs.1.25Bn (Kshs.669Mn initial cost and an additional investment of Kshs.581Mn). RVR has been operating well below its capacity and this is reflected by its financial performance over the years. Revenues FY2009 and FY2010 stood at Kshs.6.37Bn and Kshs.6.0Bn respectively. We forecast 24.3% and 30% growth in revenues FY2011 and FY2012 with revenues of Kshs.8.8Bn and Kshs.11.5Bn over the respective financial periods.

In our financial estimates we have taken three scenarios with the underlying factor being freight revenues which the company's management believes will have a significant bearing on the company's profitability.

Currently, only 8% of the total railway's capacity is being utilized. TCL and its investment partners intend to enhance the railway's capacity as it seeks to improve on its efficiencies. Through investment in infrastructural and structural capacity, the company intends to make use of idle capacity and generate higher revenues that will positively impact the company's cash flows.

As Table 22 shows, goods (cargo) transport constitutes over 90% of total rail traffic and its revenue. This essentially means that the company can significantly leverage by enhancing its capacity to increase cargo rail traffic and its revenue.

Like most of TCL's investments, the development of the railway's capacity is highly capital intensive. It is for this reason that the management of the company plans to invest US$300Mn for capital expenditure (CAPEX) over the next 5 years. The table below summarizes the company's CAPEX plans as well as its funding options.

Expenditure	Cost (US$) Mn
Repair of Railway Track	60
Rehabilitating locomotives	105
Rehabilitating wagons	105
Improving IT & other systems	30
Total	300*
Funding	**Sum (US$) Mn**
Debt	164
Equity Bank	
International Finance Corporation (IFC)	
KFW Banking Group	
African Development Bank(AFDB)	
Other Financial institutions	
Equity	**Sum (US$) Mn**
TCL	27.9
Cash generated from operations	54.1
Total Equity Funding	**82**
Total	**300***

Table 12: Expenditure Breakdown Source: TCL

*Indicative - Actual projected expenditure estimated at about Kshs.292Mn

We expect the following to be the key revenue drivers for RVR:

- ✓ Growing regional trade as a result of the East African Community and its provisions that allow for free movement of goods, labour and capital.

- ✓ Positive economic growth in the region with the regional. Both Kenya and Uganda who are direct beneficiaries of the railway are enjoying Gross Domestic Product (GDP) growth rates in excess of 5% and so are the other countries that benefit indirectly from the railway.

- ✓ The Economic, political and social reforms in the countries within which the railway operates and its beneficiaries. The new constitution in Kenya together with the Economic and Social Strategic Plan vision 2030 (Rwanda's Vision 2020) is expected to positively impact economic growth and infrastructural development.

- ✓ The locational and cost advantages enjoyed by the railway. That is the railway has direct access to the port of Mombasa which contributed up to 50% of cargo volumes in the 1980s. In addition to this, approximately 92% of total port cargo today is transported by road which is considerably more costly than rail transport.

- ✓ The effectiveness of the capacity enhancement strategy that is expected to see Kenya Railways increase its share of cargo traffic within Kenya and Uganda.

- ✓ The cost advantage offered by rail transport in comparison with road transport is expected to make the former the preferred mode of cargo transportation. Rail transport costs approximately half that of road transport.

- ✓ The cost management strategies being employed by the company aimed at reducing operations costs. The company seeks to reduce staff costs which it considers above what it takes to run the company profitably.

RVR Valuation

We have valued RVR on the following basis:

1. Value of the concession; and
2. DCF

Value of the concession

Our concession based valuation approach suggests a value of US$33Mn for TCL's 34% stake in RVR.

Valuation Method	Value
TCL's Equity Value of RVR	6,260,675.43
Value Based on Last Transaction	1,354,050.00

Table 13: TCL Valuation method Source: Genghis Capital

TCL's Valuation

We have relied on the following approaches to arrive at an indicative value range for TCL's portfolio of assets:

- ✓ Discounted Cash Flow Analysis
- ✓ Sum of the Parts Value approach

Below is summary of the indicative values using both approaches:

We didn't use relative valuations or Dividend Discount Model (DDM) techniques for the following reasons:

- ✓ No clear trend of dividends payout in the recent past.
- ✓ TCL's P/E and EV/EDITDA are exaggerated when compared to our comparable companies (KPLC and Kengen) because they fail to capture the dynamic and the ever-evolving nature of business and future potential.

Division	Type of Business	Size of Interest	Favoured Valuation Method
Trans Century Limited ("TCL")	Holding Company	N/A (Holding company)	DCF/I
East African Cables ("EA Cables")	Cables	[64%]	Fwd PE,
Rift Valley Railways ("RVR")	Transport	34%	DCF
Development Bank of Kenya ("DBK")	Banking	10.7%	Multiples
Fund of Funds ("FoF")	Investments	N/A	Adjustment to cost, DCF
Investment Property	Property	100%	Adjustment to cost/Market value
Kewberg Cables ("Kewberg")	Cables	100%	Adjustment to cost,
Tanalec	Power transformers	70%	Adjustment to cost
ZAMEFA	Cables	10%	Adjustment to cost
Pende Electrical	Power transformers	80%	Adjustment to cost
Other assets	Cables	TBA	Adjustment to cost, DCF

Table 14: TCL's Valuation Source: Genghis Capital Ltd

TCL's subsidiaries and investments were valued using a Weighted Average Cost of Capital (WACC) of 16.1% and Free Cash Flow to the Firm (FCFF) projections. The cost of equity was built using CAPM; we adjusted the beta's for our comparable companies (KPLC and Kengen). Growth rates with a range of 4% - 6% were used for our sensitivity analysis with our preferred growth rate being 5%.

RVR was valued using a WACC of 16.4% and its FCFF. A beta of 1 was used from a group of railroad companies listed in exchanges globally. Companies listed outside the exchange were chosen because of a lack of locally listed comparable companies.

- ✓ A DCF approach was adopted for the valuation of the business at the group level. We defaulted to this approach as a result of a lack of information on the various operations within TCL's portfolio of businesses.
- ✓ The valuation of E.A Cables which is listed on the NSE is based on our 12 month target price as we believe the stock is currently trading at an oversold position.
- ✓ Our indicative value of Kshs.16.4Bn suggests a price per share of Kshs.62.35

Company	Value (Kshs.Mn)
Group: DCF Valuation approach	**15,423**
Group: Sum of the Parts approach	**17,367**
E.A Cables	4,781
Rift Valley Railways	5,801
Development Bank of Kenya	272,193
Fund of funds	914,268
Investment property	2,134,127
Kewberg Cables	965,829
Tanalec Ltd	812,236
ZAMEFA	178,026
Other Investments	2.077
Chai Bora	740,386

Table 15: TCL's Valuation Summary   Source: Genghis Capital Ltd

TCL Statement of Comprehensive Income (Kshs.000)	2008	2009	2010	2011E	2012E	2013E
Revenue	6,442,438	5,414,887	6,794,650	8,833,045	11,482,959	14,927,846
Cost of Sales	-4,298,738	-3,444,669	-4,718,393	-6,359,792	-8,267,730	-10,748,049
Gross Profit	**2,143,700**	**1,970,218**	**2,076,257**	2,473,253	3,215,228	4,179,797
Net other income	303,401	126,428	688,460	309,157	401,904	522,475
Distribution expense	-173,344	-312,446	-227,774	-296,106	-384,938	-500,419
, Administration & operating expenses	-925,422	-988,131	-936,104	-1,216,936	-1,582,016	-2,056,621
Profit from operations	1,348,335	796,069	974,271	1,269,368	1,650,178	2,145,231
Premium on acquisition of subsidiary	-	-	-	-	-	-
Results from operating activities						
Finance Income	100,827	130,596	28.00	30.80	33.88	37.27
Finance Cost	-499,688	-400,040	-343,713	-714,352	-602,063	-482,073
Profit Before Income Tax	949,474	526,625	630,585	555,046	1,048,148	1,663,195
Proportion of RVRs Profits	-	-	-	-	-	-
Income Tax Expense	-343,990	-292,128	-162,323	-142,878	-269,810	-428,134
Income Tax Expense: %	-343,990	-292,128	-162,323	-142,878	-269,810	-428,134
Profit After Income Tax	605,484	234,497	468,262	412,168	778,338	1,235,062

Table 16: TCL Comprehensive Income Statement

Source: TCL & Genghis Capital

Appendix 1:

Financial Statements

RVR Statement of Comprehensive Income (US$*).	2009	2010	2011E	2012E	2013E
Sales	72.3	67.6	88.8	109.3	136.0
COGS	30.6	29.5	37.3	46.0	56.7
Gross profit	**41.7**	**38.1**	**41.7**	**38.1**	**50.7**
% sales	57.7%	56.4%	57.6%	57.9%	58.3%
COGS/Sales	42.30%	43.64%	42.39%	42.11%	41.68%
Staff costs	34.9	37.4	35.8	34.3	32.8
Maintenance costs	5.6	5.9	6.2	6.2	6.2
Central overheads	9.4	6.4	7.0	7.7	8.5
EBITDA	**(8.1)**	**(11.5)**	**(5.0)**	**2.7**	**13.2**
% sales	(11.2%)	(16.9%)	(5.7%)	2.4%	9.5%
Depreciation	1.1	2.9	(6.7)	(12.0)	(16.8)
Amortization					
EBIT	**(9.2)**	**(14.4)**	**1.6**	**15.1**	**31.8**
% sales	(12.8%)	(21.2%)	(5.7%)	5.1%	14.5%
Net Interest income / (Expense) - 3rd	(3.1)	(3.0)	(6.7)	(9.5)	(12.0)
Other income/(expense)	(8.9)	(1.4)	-	-	
Profit Before Tax	**(21.3)**	**(18.7)**	**(5.0)**	**2.7**	**13.2**
Provision for Tax	0.0	0.0	0.0	0.0	0.0
Memo: Cash taxes paid					
Net Income	**(21.3)**	**(18.7)**	**(5.0)**	**2.7**	**13.2**

Table 17: RVR Comprehensive Income Statement (US$) Source: TCL & Genghis Capital

*1US$ = Kshs.88.50

Assumption:

1. Revenue projections FY2011-FY2013 are predominantly based on increasing cargo capacity by 25% per year.

RVR Statement of Comprehensive Income (Kshs*)	2009	2010	2011E	2012E	2013E
Sales	6,401,215	5,986,600	7,783,895	9,676,310	12,037,460
COGS	2,707,456	2,612,841	3,299,419	4,074,789	5,017,367
Gross profit	3,693,760	3,373,760	4,484,476	5,601,521	7,020,093
% sales	*57.7%*	*56.4%*	*57.6%*	*57.9%*	*58.3%*
COGS/Sales	42.30%	43.64%	42.39%	42.11%	41.68%
Staff costs	3,087,463	3,307,918	3,167,680	3,033,389	2,904,790
Maintenance costs	491,591	519,567	549,135	549,135	549,135
Central overheads	831,900	566,400	623,040	685,344	753,878
EBITDA	(717,194)	(1,013,805)	(144,620)	1,333,653	2,812,290
% sales	(11.2%)	(16.9%)	1.9%	13.8%	23.4%
Depreciation	100,802	256,650	(590,976)	(839,859)	(1,063,853)
Amortization					
EBIT	(817,996)	(1,270,455)	446,356	493,794	1,748,437
% sales	*(12.8%)*	*(21.2%)*	*(5.7%)*	*5.1%*	*14.5%*
Net Interest income / (Expense) - 3rd party	(271,518)	(262,580)	(590,976)	(839,859)	(1,063,853)
Other income/(expense)	791,930	123,738	-	-	-
Profit Before Tax	(1,881,443)	(1,656,773)	(1,037,332	346,065	684,584
Provision for Tax	0.0	0.0	0.0	0.0	0.0
Memo: Cash taxes paid					
Net Income	(1,881,443	(1,656,773)	(1,037,332	346,065	684,584

Table 18: RVR Comprehensive Income Statement (Kshs.)
Source: TCL & Genghis Capital

*Kshs.88.50 = 1US$

Appendix 2:

	2005	2006	2007	2008	2009	2010	2011E
Type of power				**MW**			
Hydro	677.3	677.3	677.3	719.0	730.0	803.0	883.30
Thermal	351.3	369.8	389.3	418.9	421.5	463.7	510.02
Geothermal	128.0	128.0	128.0	128.0	158.0	173.8	191.18
Cogeneration (Mumias Sugar Co. Ltd)	-	2.0	2.0	2.0	2.0	2.2	2.5
Total	**1,156.6**	**1,177.1**	**1,196.6**	**1,267.9**	**1,311.5**	**1,442.5**	**1587.0**

Table 19: Installed Electricity Capacity Source: Statistical Abstract 2010

Note: Estimates for own production are not included.

** 1 Megamatt = Mn Watts = 1,000 Kilowatts

	2005	2006	2007	2008	2009	2010	2011E
Generated							
Hydro	3,038.9	3,024.8	3,591.5	3,267.0	2,523.0	2,775.3	3,052.8
Thermal	1,506.2	1,818.5	1,735.8	2,145.4	2,996.6	3,296.3	3,625.9
Geothermal	1,001.6	1,045.7	988.9	1,039.0	1,293.0	1,422.3	1,564.5
Cogeneration (Mumias Sugar Co. Ltd)	-	5.6	8.3	4.0	50.0	52.5	57.8
Imported	5,546.7	5,894.6	6,324.5	6,455.4	6,862.6	7,546.4	8,301.0
From Uganda & Tanzania	27.9	10.8	22.5	25.0	39.0	42.9	43.8
Total Generated & Imported	**5,574.6**	**5,905.4**	**6,347.0**	**6,480.4**	**6,901.6**	**7,589.3**	**8,344.8**

Table 20: Electricity Generated by Type & Imports Source: Statistical Abstract 2010

Year	Domestic	Commercial & Industrial	Rural Electrification	Total
2005	994,619	3,252,181	175,774	4,422,574
2006	1,114,792	3,377,377	205,625	4,697,794
2007	1,142,214	3,528,236	216,068	4,886,518
2008	1,272,800	3,751,403	239,140	5,263,343
2009	1,217,700	3,898,000	254,430	5,370,130
2010	1,339,470	4,287,800	279,873	5,907,143
2011E	1,473,417	4,716,580	307,860	6,497,857

Table 21: Electricity Sales by Type of User Source: Statistical Abstract 2010

	Unit	2005	2006	2007	2008	2009	2010E	2011E
Passenger Traffic								
Passenger Carried**	000	4,796	4,348	4,830	3,226	4,491	4,716	4,951
Passenger Receipts	Kshs.Mn	233	160	118	76	126	132	139
Passenger Train Kilometres	Mn	489	369	113	105	145	152	160
Revenue per passenger	Cts	48	43	70	72	86	90	94
Goods Traffic								
Public	000 Tonnes	2,000	1,891	1,732	2,082	1,532	1,609	1,689
Railway	000 Tonnes	39	31	31	45	45	47	50
Total	000 Tonnes	**2,039**	**1,922**	**1,763**	**2,127**	**1,577**	**1,656**	**1,739**
Traffic Tonne Kilometres		1,358	1,313	1,465	1,109	1,234	1,128	1,169
Revenue (freight)	Mn	4,010	4,177	4,448	4,266	4,001	4,201	4,411
Passenger	Mn	233	160	118	76	126	132	139
Revenue per Tonne-Km	Cts	295	318	79	385	377	382	390
Total Earnings		**5,601**	**5,650**	**6,031**	**5,451**	**5,361**	**5,461**	**5,734**

Table 22: Railway Transport Statistics Economic Survey 2010, KNBS Statistical Abstract 2010 & Genghis Capital Estimates

** Includes seasonal tickets and urban commuter services

	2005	2006	2007	2008	2009	2010	2011E
Public Lines							
Main Lines	1083	1,083	1,083	1,083	1,083	1083	1083
Principal Lines	346	346	346	346	453	467	481
Minor & branch lines	309	309	309	309	309	309	309
Total	1738	1738	1738	1738	1845	1858.59	1,873
Private Lines &* Sidings	859	859	859	859	859	859	859
Total	**2597**	**2597**	**2597**	**2597**	**2704**	**2717.59**	**2731.588**

Table 23: Kilometres of Lines Open for Traffic Statistical Abstract 2010 & Genghis Capital Estimates

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