

TRANSCENTURY BUSINESS ANALYSIS REPORT



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LIST OF ABBREVIATIONS

CAGR - Compounded Annualised Growth Rate.

DBK - Development Bank of Kenya.

DRC - Democratic Republic of Congo.

EAC - East African Cables

EPS - Earnings per Share.

GDP - Gross Domestic Product.

IMF - International Monetary Fund.

IPP - Independent Power Producers.

HV,MV - High Voltage, Medium Voltage.

KETRACO - Kenya Electricity Transmission Company Ltd.

KPLC - Kenya Power & Lighting Company Ltd.

KRC - Kenya Railway Corporation.

MW - Megawatt - 1000 MW = 1GW, 1,000GW = 1 Terrawatt.

PE - Private Equity.

P/E - Price to earnings ratio.

RVR - Rift Valley Railways.

SME - Small and Medium Enterprise.

SSA - Sub-Saharan Africa.

URC - Uganda Railway Corporation.

ZAR - South African Rand.

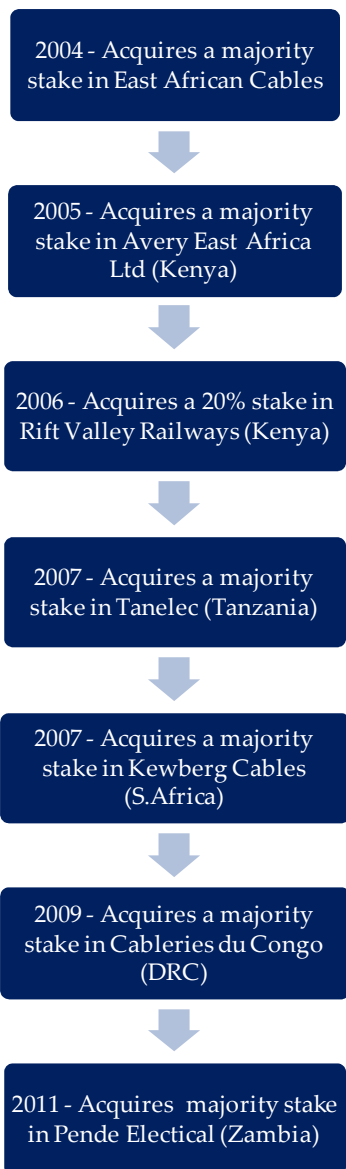
EXECUTIVE SUMMARY

The report covers the business case for Transcentury Limited. Following from the listing of Transcentury's shares on the 14th July 2011, we found it necessary to analyse the business case for Transcentury Limited.

Transcentury Ltd is a local infrastructure group with investments in power infrastructure, transport infrastructure, consumer products, specialized engineering and some affiliated holdings. The group began as a "chama" (small investment group) in 1997 and has grown in leaps and bounds to have revenues of KShs 6.8 billion in FY 2010 and net profits of KShs 468 million. This report pays special emphasis to the company's power infrastructure, transport infrastructure and specialized engineering divisions.

In the report we find that the company will benefit from a strong board and managerial team that will craft and execute strategy respectively. The key revenue drivers will be the power infrastructure and specialized engineering divisions. We are not sanguine about the transport infrastructure division as changing transport dynamics and trade dynamics reduce the importance of the rail system.

Overall we find that the company has been performing well with revenues and profits growing by a CAGR of 33% and 10% respectively since 2006. In addition, during the same period, the company's asset base and net worth have grown by a CAGR of 37% and 34% respectively. The company is currently selling at a trailing P/E of 17.5 which is currently higher than the main market P/E of 8.55. We therefore find that with revenue growth of 10-12% over the next 5-years, then the counter has some value. We recommend Transcentury as a long term buy, but dissuade potential investors from short term speculation due to the current volatility being witnessed in the market.



2. INTRODUCTION

2.1 History of the Company

The origins of Transcentury can be traced back to 1995 when a group of local business men decided to pool their funds together and invest. The group of four begun as a “chama”, a local term for a pooled investment group. According to the Chairman Zephaniah Mbugua, the four gentlemen managed to recruit 25 more people and raise KES 14.3 million, but this was not enough. The 29-man group decided that it was important to grow and set themselves a target of raising KES 50 million.

By 1997, the “chama” registered as a company with 29 individuals as registered members. In 2001, the members had injected KES 29 million and this number has grown to stand at KES 7.2 billion as at June 2011. In its early years, Transcentury focused on taking minority stakes in companies. Nonetheless, these investments didn’t generate adequate returns as the company wasn’t able to influence the overall strategic direction of the investee companies. However, the fact that the company begun with a relatively small capital base of KES 29 million played a key role in the company only being able to invest in minority stakes.

As the company grew, an opportunity arose in February 2004 to acquire a majority stake in East African Cables. The E.A Cables stake was acquired from Sameer Group. This acquisition sparked off the company’s growth and its focus on infrastructure. From the EAC acquisition, the company acquired a cable factory in Tanzania, Kewberg Cables in South Africa, Tanelec in Tanzania and most recently Cableries du Congo in DRC.

The company further invested in the infrastructure realm through the acquisition of a majority stake in Avery, a company focused on providing industrial weighting solutions. Another major transaction was the investment in a 20% stake in the Rift Valley Railway consortium in 2006. This stake was later increased to 34%.

In 2006, the group decided to fully operationalize its business and thus set up an office and hired a management team. This was crucial if the business was to thrive as a fully focused executive management team would ensure that day to day operations are handled and importantly, strategy is executed.

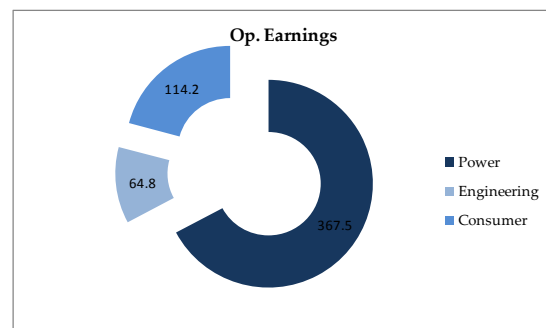
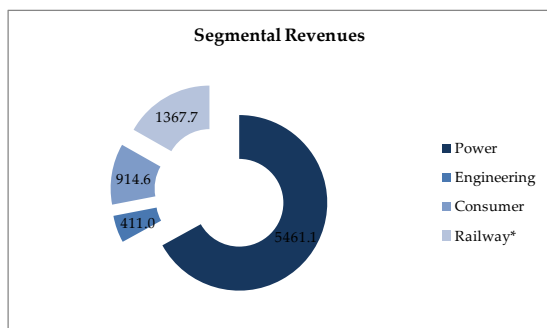
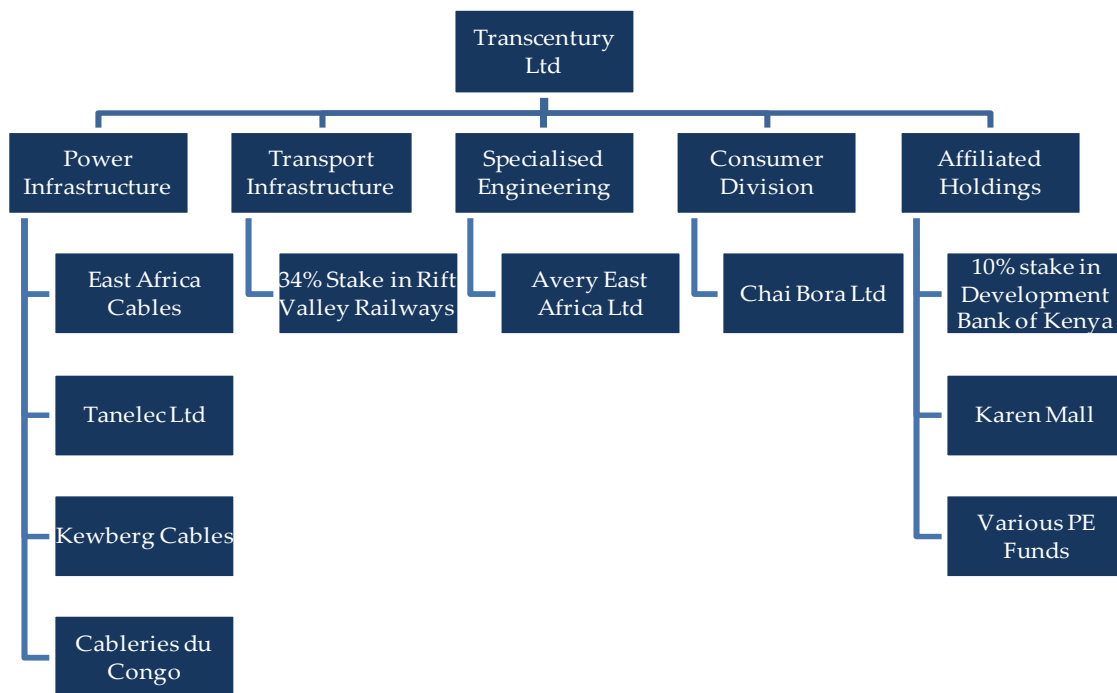
The company also has other holdings in Chai Bora, Development Bank of Kenya, a number of PE funds and some land in Karen earmarked for development.

The schematic on the left shows the acquisition timeline for Transcentury’s investments.

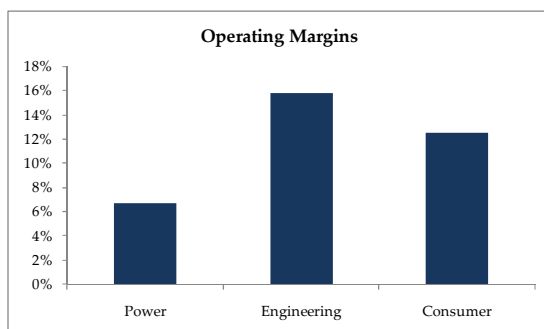
The company is now focused on infrastructure as the board of directors through their constant deliberations reached the conclusion that the next wave of growth in Africa would come through infrastructure as Africa has traditionally been under-served with regards to utilities such as water, electricity and even gas infrastructure. The analysis will thus focus on analyzing their infrastructure business and the key growth and risk factors that will affect the business.

2.2 Business Overview

Below is a schematic showing the business structure of Transcentury. The group is organized along the key lines of power infrastructure, transport infrastructure, Specialised Engineering, Consumer Division and Affiliated Holdings.



*this amount is calculated as Transcentury's share of RVR revenues



2.3 Board of Directors

The board of directors in our view possesses a rich mix of entrepreneurial acumen, institutional management capacity, intellectual ability and wisdom. Their varied backgrounds as far as manufacturing, architecture, finance and law will inform their business decisions going forward. The importance of a well structured board of directors cannot be downplayed in the infrastructure sector. The board must be able to accurately analyse financial transactions in a debt-heavy industry as well as nurture strong business relationships with both the private and public sector.

Table 1. Transcentury Board of Directors	
Zephania Gitau Mbugua	Chairman
Ngugi Kiuna	Director
Peter Kanyago	Director
Njeru Kirira	Director
Robin Kimotho	Director
Joseph Karago	Director
Carol Musyoka	Director
Dr. Gachao Kiuna	CEO & MD

Source: Transcentury Information Memorandum

In addition to the board, the executive team led by Dr. Kiuna looks promising. We are of the opinion that Dr. Kiuna would be an extremely valuable asset to any company that is currently leveraging on Vision 2030. As the principal consultant for the Vision 2030 project, there are few individuals who understand the promises and challenges of the Vision 2030 project. His strategy and corporate finance knowledge would be vital. Under Dr. Kiuna's stewardship, we feel that the company is primed to take advantage of the developments in Kenya over the next twenty years. Together with Mr. Kemoli, we are of the opinion that an executive team that can analyse financial risk in a debt-heavy industry will be vital.

Table 2. Executive Management Team	
Dr. Gachao Kiuna	Chief Executive Officer & Managing Director
Yida Kemoli	Head of Corporate Finance and Strategy
Wambua Kimeu	Head of Finance
Geoffrey Njue	Group Internal Auditor
Allan Munyua	Division Principal, Power and Engineering
Mumo Muthengi	Division Manager, Consumer and Investor Relations
Nganga Njiinu	Division Manager, Engineering
Kibiru Muthaka	Division Analyst
Janet Wanjiku	Financial and Management Accountant
Josephine Wangiri	Marketing & HR Executive
Evelyne Wanjiku	Finance and Admin Co-ordinator

Source: Transcentury Information Memorandum



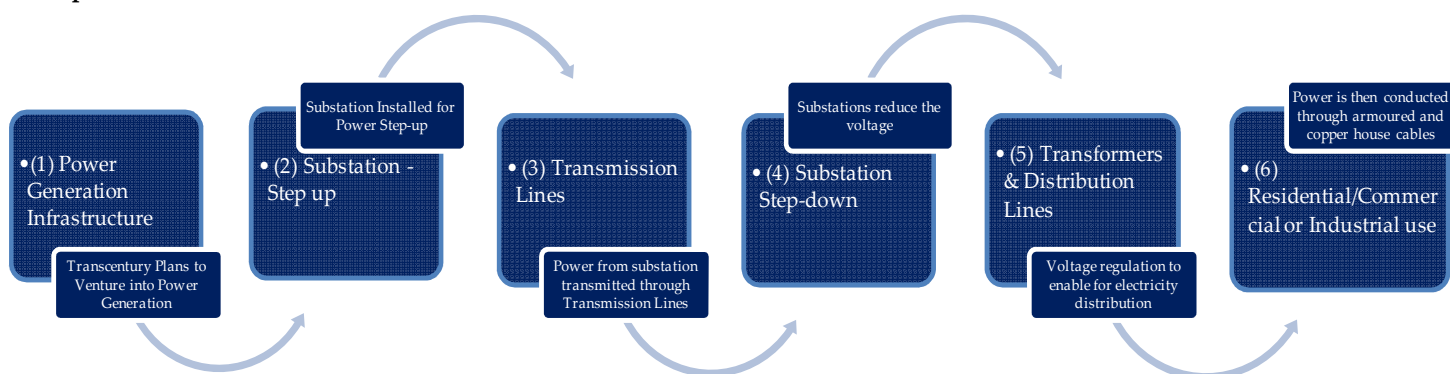
3.0 SEGMENT ANALYSIS - POWER INFRASTRUCTURE.

The power infrastructure division of the group is involved in the manufacture of electrical cable conductors, transformers, switchgear and other allied electrical equipment. The group through its four subsidiaries is geographically diversified with operations in Kenya, Tanzania, South Africa, Zambia and D.R.C.

The group's key products are;

1. Copper House Wires - used for residential electrical wiring and installations.
2. Copper Armoured cables - Used for large scale and industrial electrical installations and wiring.
3. Aluminium Conductors - Used for power transmission over long distances by utilities such as KETRACO. For instance, transmitting power from a power generation plant to a substation requires heavy duty Aluminium conductors. As power is stepped down through the transmission infrastructure, copper cables come into use.
4. Specialty Cables - Often used for instrumentation in mining and other industrial facilities. Such uses are explosives cabling for mining, airport lighting wiring and security cables. These products are well produced by Kewberg Cables which has extensive expertise in specialty cable manufacturing.
5. Interior and Exterior Data Cables - Used for residential, commercial and industrial data connections. The cables are used to roll out broadband networks. The firm partners with LS Cables and Nexans of South Korea who are experts at data cable manufacturing.
6. Transformer Manufacturing - Through Tanelec and its subsidiary Pende Electrical, Transcentury is involved in the manufacture of transformers. These are used for step-up or step-down of voltage through the electrical grid.
7. Switchgear - switchgear is used in the transmission grid mainly for protection purpose through interruptions of short circuits, circuit breaking and overall control and oversight of the electrical current. Transcentury manufactures switchgear through Tanelec.
8. In the future, management expects to be more vertically integrated in the power system through power generation and transmission. The latter is likely to be done through substation installations and repairs.

Simplified Schematic of the Power Grid.



Source: Transcentury Information Memorandum

Transcentury is involved and plans to be involved throughout the vertical structure of the Power Grid.

1. In **Step 1**, the group seeks to be involved by acquiring or starting up a power generation company. Kenya and soon South Africa have the necessary legislation for Independent Power Producers and Transcentury is keen on this step.
2. **Step 2 and 4**, substation set up is done by Avery. Avery constructs and commissions Substations used both for step-up and step-down of voltage.
3. **Step 3** is covered through EAC which is the exclusive distributor of HV and MV cables and conductors for LS Cables and Nexans. HV and MV cables are used depending on the voltage of the particular transmission line.
4. **Step 5** is covered by both EAC and Tanelec. Tanelec manufactures distribution transformers and switchgear. EAC is involved in cabling of distribution lines through HV and MV cables as well as LS conductors. EAC directly manufactures LV cables.
5. In the last stage, EAC manufactures copper wiring for residential, commercial and industrial electricity consumers.

3.1 Power Infrastructure Growth Drivers

Energy demand, is primarily driven by GDP growth and population growth. In essence, the better off a population is and the bigger the population, then the higher is the energy demand. Hence, the growth in the power infrastructure division will be driven by higher GDP per capita's in Sub-Saharan Africa and a growing SSA population.

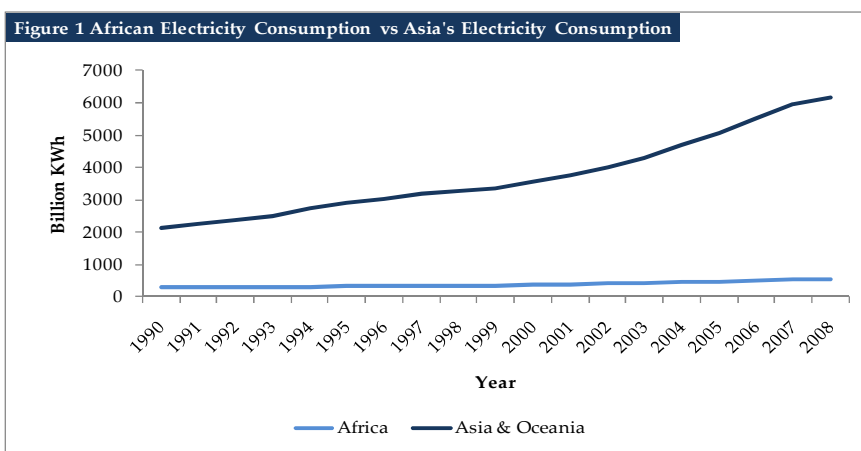
In addition, SSA energy supply, primarily electrical supply is very low. Therefore electrical supply will need to be expanded to not only deal with the marginal requirements of higher GDP per capita's and populations, but to serve the current under-served populations. It is thus critical to analyse three key factors;

1. The current power infrastructure in Africa.
2. Economic and population growth prospects in Africa.
3. Responses by country governments to expand power infrastructure.

3.1.1 Current Power Infrastructure in Africa.

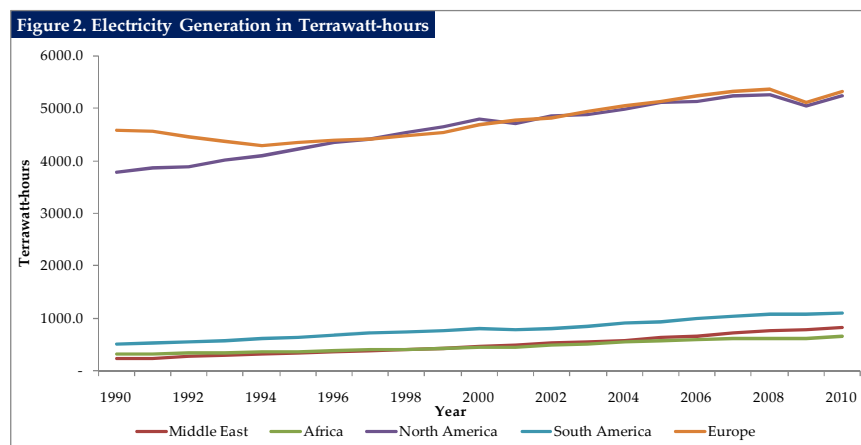
A 2009 study entitled "Africa's Infrastructure - A time for transformation" authored by Vivien Foster and Cecilia Briceno-Garmendia for the World Bank and the Agence Francais de Development found that African countries bear a heavy economic burden arising from their power infrastructure deficits. These deficits require heavy financing that will be focused on power generation. The report finds that the continent needs an additional 7,000MW of power each year but only adds 1,000 MW.

1. Only one fifth of Africa's population has access to electricity reflecting a penetration rate of 20%.
2. Outside of South Africa, the average per capita consumption is 124Kwh per annum. This is enough to light a light bulb for six hours. The African per capita consumption is less than 1% of the per capita electrical consumption in developed countries.



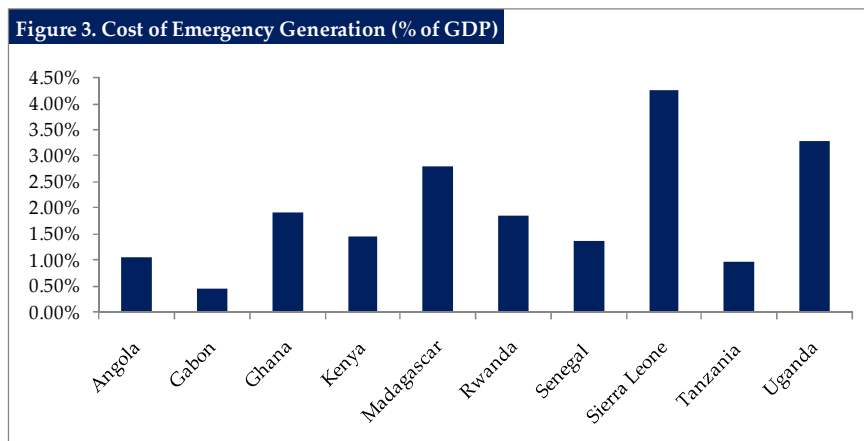
Source: EIA (2011)

From the above, it is clear that Africa's electricity consumption has remained rather stagnant while Asian consumption has grown at an impressive rate. Electricity consumption has grown at a CAGR of 6.46% in Asia vis-à-vis a 3.82% CAGR in Africa.



Source: Foster, Briceno-Garmendia (2009); 1 Terrawatt = 1 million megawatts.

3. Businesses on average lose about 6% of their annual turnover to power outages. Some countries lose as much as 4% of their annual GDP to power losses that lead to emergency generation.



Source: Foster, Briceno-Garmendia (2009)

From a local perspective, the Kenyan electricity infrastructure is less than adequate. This then leads to an electricity penetration of roughly 16%. As per 2010 KPLC data, the country's generation capacity stood at 1,471MW against a maximum peak demand of 1,107MW.

Kenya is relatively under-served with regards to power infrastructure. The 2009 census revealed that only 22.69% of the country's households used electricity for their lighting requirements. The table below shows the percentage of electricity in household lighting.

Table 3. Percentage of Electricity in Household Lighting Fuel

	H/holds using electricity	Total H/holds	Percentage of Electricity in Fuel Mix
Kenya	1,989,740	8,767,954	22.69%
Western	50,109	904,075	5.54%
Nyanza	94,018	1,188,287	7.91%
Rift Valley	365,205	2,137,136	17.09%
North Eastern	17,642	312,661	5.64%
Eastern	146,328	1,284,838	11.39%
Nairobi	712,859	985,016	72.37%
Central	383,076	1,224,742	31.28%
Coast	220,503	731,199	30.16%

Source: 2009 Kenya Population and Housing Census

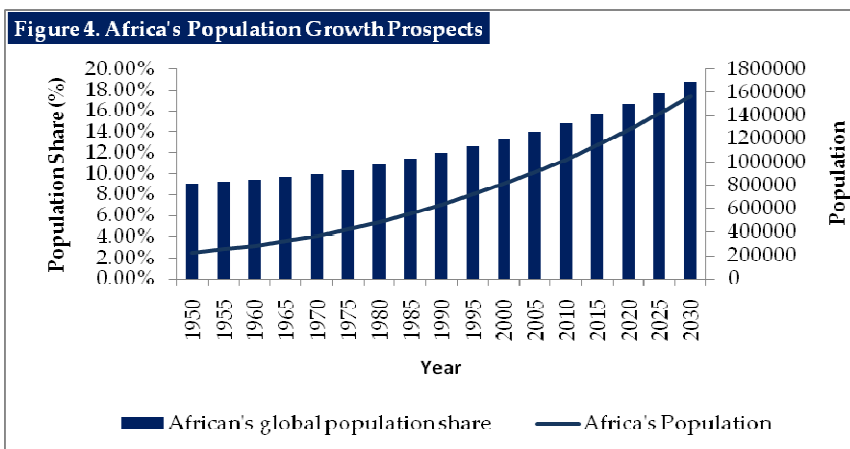
Therefore, from a perspective of under-service, the African and Kenyan Markets in general offer great potential for growth. Within the next 4-5 years, Kenya's generation capacity is likely to increase by about 41 - 64% according to KPLC. This power generation growth in itself will lead to significant demand for transformers, transmission lines, substations and residential and industrial copper wires. The diagram below shows that power distribution is a function of population density, with increased investment in the northern transport corridor centered on Areas such as Isiolo and Garissa, Transcentury is set to benefit through higher demand for power infrastructure as previously sparsely populated areas attracting people and investments.

3.1.2 Economic and Population Growth in Africa

This will be a significant growth factor for energy demand and subsequently power infrastructure demand within the continent. Africa and in particular, Sub-Saharan Africa's GDP per capita levels have historically been lower than other developed and developing nations. This lower GDP per capita levels have been made worse by low growth levels particularly pre 2000 growth levels.

According to a 2009 World Bank Report, between 1950 and 1975, Africa's population grew by 5.2% per annum, at the same time GDP per capita was shrinking by 0.66% per annum. This points to the fact that Africa's economies were underperforming. At the moment, SSA growth rates have been projected by the IMF to be higher than Developed World growth rates over the next ten years. In fact, McKinsey project Africa's GDP to stand at \$2.6 trillion.

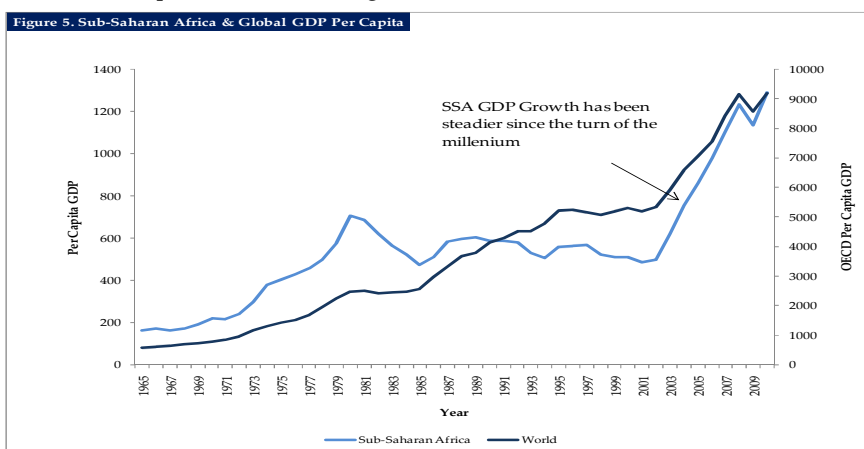
In addition to the low GDP per capita levels, poor health levels have resulted in significantly low populations in Africa. These occurred through lower life expectancies and high infant mortality rates. According to the World Bank, Africa's population in the eighteenth century was approximately 90 million. Eurasia, which had a smaller land mass had almost twice Africa's population. In fact, Africa's population density of around 77 people per square kilometer is the lowest in the world.



Source: World Bank Population Statistics & NIC Securities Estimates

According to the World Bank Population Prospects, Africans accounted for only 9% of the global population in 1950. However, by 2010, this figure had increased to over 14%. If the global population grows at the same rate as it has over the last fifty years, then Africa will account for over 18% of the global population by 2030. The graph above shows that Africa's population growth has followed a steady upward trajectory.

SSA GDP per capita is expected to grow on account of increasing Africa-Africa trade as well as higher South-South trade. We expect that the growing populations as well as the favourable growth demographics in the continent will lead to a sustained period of economic growth.



Source: World Bank Data

The preceding shows that SSA GDP per capita has grown at a steady rate if compared to global GDP per capita. Driving this growth has been resource finds in countries such as Angola, Mozambique and Nigeria as well as increasing trade with nations such as China, India and Brazil. In 2010 and 2011, the region has sustained this decade long growth through higher private and public consumption as well as easier monetary conditions.

Going forward, we expect that resource discoveries, better macro-economic management and increased trade will drive SSA GDP growth. For instance, the IMF predict that SSA GDP will grow by 5.2% in 2011 and a further 5.8% in 2012. This is significantly higher than North American GDP which is expected to grow by 1.8% in 2011 and a further 2.0% in 2012.

Growing populations as well as higher incomes will reinforce each other and determine a steady growth path for African economies. These will only work to increase energy demand and in particular electrical energy demand. BP state that there's an approximately 70% correlation between GDP growth and energy demand.

3.1.3 How governments are responding

African governments are responding to the power deficit by investing further across the spectrum of the power grid. From South Africa to Ethiopia, power sector players are investing further in generation, transmission and distribution infrastructure.

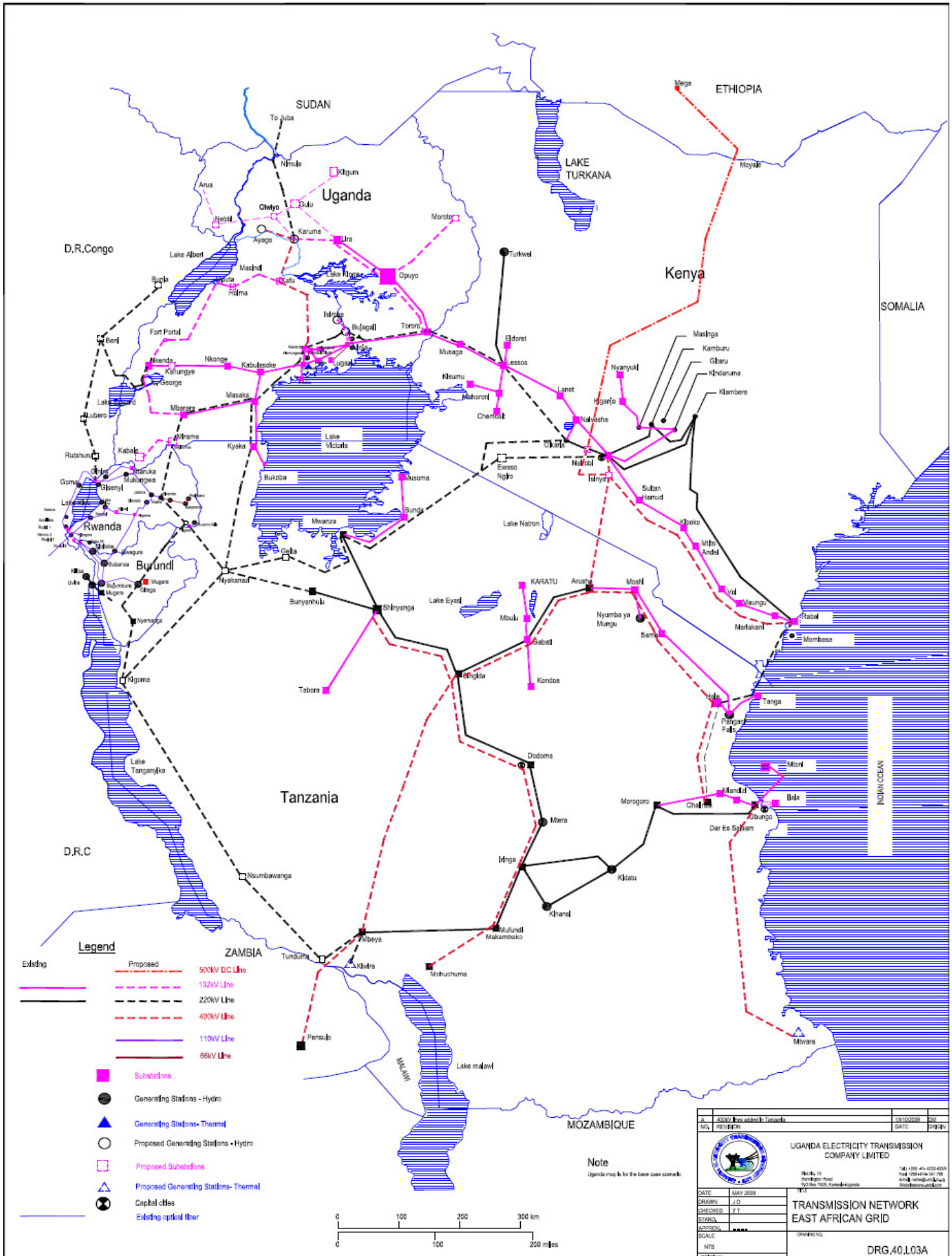
In Kenya, the country seeks to generate over 21,000 MW by 2030 from today's level of just under 1,500 MW. This will result in CAGR of generational capacity of 15% over the next twenty years. It is worth considering that Kenya has been cited globally for having a very progressive energy sector. In fact, the 1997 Electric Power Act that allowed for private sector participation has been lauded by the World Bank. The effect of private sector participation has been to drive down the hidden costs that face the distributor KPLC. According to the 2009 Africa Infrastructure Report, KPLC had hidden costs of about 1.4% of GDP in 2004. This was driven by poor revenue collection of about 81% in 2004, by 2008 revenue collection had increased to 100% with the hidden costs falling to 0.04%.

In addition to the introduction of Independent Power Producers (IPP's), Kenya's power sector has benefited from the re-organization of the power grid. Before, KPLC were charged with the generation, transmission and distribution of energy across the grid. However, since both the Electric Power Act of 1997 and the Energy Act of 2006, the three key processes are handled by KenGen/IPP's, Ketraco and KPLC. The vertical separation has enabled better focus and increased investments. In addition, the Geothermal Development Company, has been charged with the sole mandate of developing and exploiting the country's geothermal capacity which is estimated to stand at 7,000 MW or a third of the Vision 2030 targeted generation.

Over the short term, Kenya plans to take on the following investments centered on electricity;

1. Kengen plans to install a total of 853.5 MW of power between 2011 and 2013.
2. IPP's will back this up by installing another 1,134MW of power between 2011 and 2014.
3. KPLC will augment this by importing 200MW of power from Ethiopia.
4. Between now and next year, KPLC plans to spend approximately \$144.81 million on expanding and repairing their distribution network.
5. Over the next two years Ketraco plans on spending \$482.75 million on 2,296 kilometres of power lines with capacities ranging from 132Kv to 400Kv. In addition to these, Ketraco also plans on constructing 1200km of 500Kv transmission lines with the necessary substations from Kenya to Ethiopia. In total, Ketraco plans on spending over \$1.3 billion on 4,000km of transmission capacity between 2011 and 2015.

Across the continent, major changes are taking place, the image on the facing page is a diagram showing the proposed expansion of the East African electrical grid. There will be substantial investments in transmission line construction, substation set-up and generational capacity.



Source: Uganda Electricity Transmission Company Ltd.

In South Africa, Eskom has embarked on a vast expansion of its transmission and generation capacity. According to their ten year Transmission Development Program (2010 - 2020), Eskom estimates that they'll spend ZAR 166 billion (KES 2.063 trillion) on the expansion of their power grid. This will be based on their need to expand their generation capacity to approximately 62,000 MW by 2020. At the moment, the supply-demand balance in SA is tight with the World Bank predicting that this tight balance will prevail up to 2015.

African governments are also improving their financing methods by relying more on local funds lead by Eskom, Kengen and KPLC which have tapped their respective local markets for funds.

Going forward, Power Infrastructure in Africa is a key growth area. KPLC and Ketraco will between them spend approximately KES 194.68 billion in the next three to four years. From Eskom data, expansion costs and refurbishment costs are the two biggest expense items with regards to grid development accounting for approximately 80% of the costs.

Therefore assuming that 80% of KES 194.68 billion is spent on transformers, capacitors, substations, power lines and transmission pylons then Transcentury is seeking to get a piece of the KES 155.74 billion capex program. If the company manages to only get a 10% share of the capex program, then the power infrastructure division will have revenues of approximately KES 15.74 billion or triple the current revenues.

Note that figures from Tanzania, Uganda, Zambia, DRC, South Africa Rwanda and Burundi have not been included, all of which are countries in which Transcentury has power infrastructure operations.

The company has massive potential from the power infrastructure business.

Transport
Infrastructure

34% Stake in Rift
Valley Railways

4. SEGMENT ANALYSIS - TRANSPORT INFRASTRUCTURE

Transcentury's transport infrastructure segment is conducted through a 34% stake in Rift Valley Railways (RVR), RVR is a railway concessionaire that took control of the Kenya - Uganda Railway in 2006 from the Kenya Railway Corporation (KRC) and the Uganda Railway Corporation (URC).

Since the advent of modern rail transport, rail has been an efficient mode of transport as there is low rolling resistance of the steel wheels on steel rails. This basic physical property led to the rise of rail as a preferred mode of transport in the industrial world. The construction of the Kenya-Uganda railway begun in the late 19th century. The track started in Mombasa and moved into the hinterland through Nairobi, Kisumu and its final destination in Kasese Uganda.

The railway helped to move goods inwards and fostered Kenya-Uganda trade. However, due to a lack of maintenance of the rail infrastructure coupled with growth in truck transport, the railway lost its competitiveness.

To this end, in 2006 the KRC and the URC decided to concession the railway to a private operator(s) i.e. to Rift Valley Railways whose key shareholders were Sheltam Holdings of South Africa, Transcentury Ltd, Centum and Bomi Holdings. Sheltam and Centum later exited to leave Citadel (Egypt), Transcentury and Bomi Holdings as the key shareholders. Their respective shareholding is 51%, 34% and 15%.

The concessionaire is expected to;

1. Improve the efficiency of the railway
2. Standardise infrastructure maintenance and operations.
3. Increase market shares for the railways in freight traffic.
4. Foster regional economic integration and growth.
5. Increase the competitiveness of the northern corridor and the port of Mombasa.

Improving efficiency will be mainly carried out through investments in rolling stock, track maintenance, new locomotives, IT systems and wagon repair and rehabilitation. So far, RVR plans to raise \$300 million to invest in the aforementioned activities. This will be raised by \$164 million of debt, \$82 million in equity and \$54 million of internally generated funds from the shareholders. Just recently, the company raised the \$164 million from international development financiers as well as Equity Bank of Kenya.

Transcentury views this as a great business opportunity as once reliability issues are sorted out, the company will be able to increase its freight tonnage. Currently, RVR is ferrying 1.5 million tonnes; with reliability sorted, Transcentury expects that they can increase capacity to 4.8 million tonnes or even more. Moreover, freight volumes are expected to increase at the port of Mombasa further increasing the business opportunity for RVR. Right now, the rail earns revenues of about \$70 million with a 60% gross margin. If the company triples capacity, then it can triple revenues to approximately \$240 million. If gross margins come in at the (40% - 50%) range, then the company will earn an EBITDA of approximately \$100 million. Assuming a 10x EBITDA/EV valuation, then the company has the potential to be worth \$1.4 billion dollars.. To put this in perspective, it would be only smaller than East African Breweries and Safaricom, if it were to be listed on the Nairobi Stock Exchange. This is the opportunity that Transcentury sees.

Going forward, the key issues that will be analysed are;

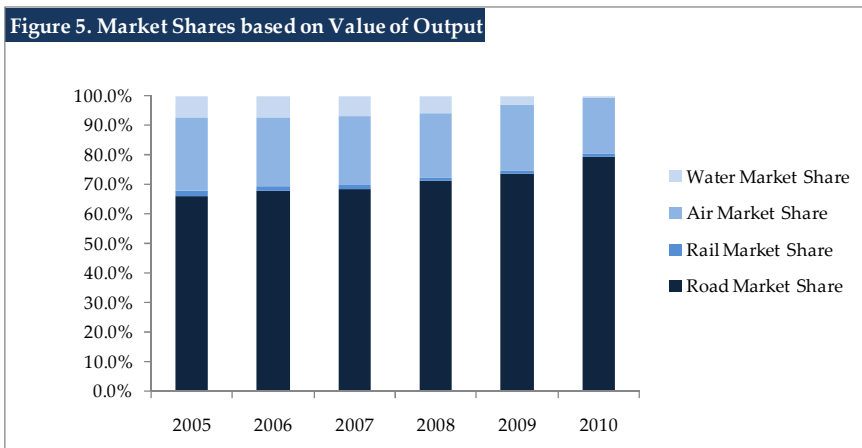
1. Performance of RVR and KRC so far.
2. The performance of rail concessionaires in Africa.
3. Economics of Rail performance

4.1. Performance of RVR thus far

Table 2. Kenyan Railway Traffic, 2005 - 2010							
	Unit	2005	2006	2007	2008	2009	2010
Freight							
Tonnes (000's)	000's	2,000	1,891	2,304	1,628	1,532	1,572
Tonne-km (Million)	Million	1,358	1,313	5,606	1,109	1,060	1,105
Revenue (KES Mn)	KES Mn.	4,010	4,177	4,448	4,266	4,317	4,108
Revenue per tonne-km (Cts.)	Cts	295	318	79	385	407	372
Passenger							
Journeys(000's)	000's	4,796	4,348	4,500	3,226	8,861	6,049
Passenger-km (Million)	Million	489	369	148	105	389	270
Revenue (KES Mn)	KES Mn.	233	160	103	76	251	252
Revenue per passenger-km(Cts.)	Cts	48	43	70	72	65	93

Source: Kenya National Bureau of Statistics

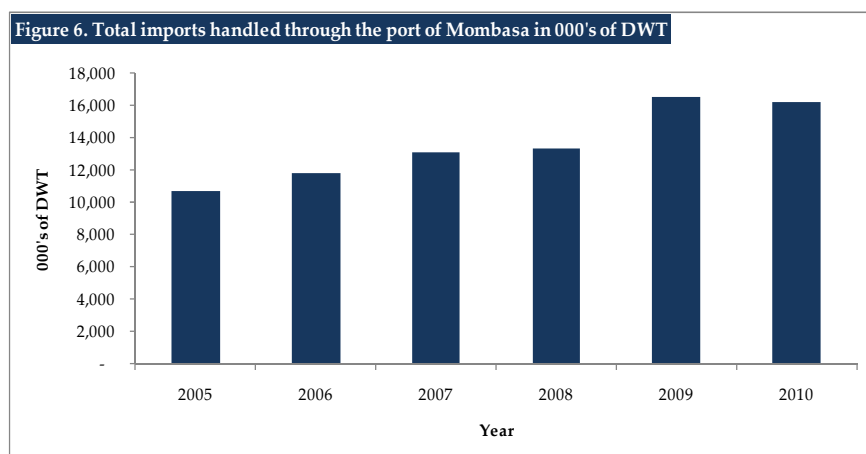
Freight tonnage measured both in total tonnes and net-tonne km's has dropped since 2005. Total revenues on the other hand have only improved marginally. On the passenger side, passenger-km's have dropped and been unsteady. Revenues have not moved albeit dropping significantly in 2008.



Source: Kenya National Bureau of Statistics

The chart above shows that over the years, road transport has increased in importance in the transport sector. Total value output is now divided between road transport and air transport. This signifies the increasing insignificance of the rail system and inland waterways in transporting goods.

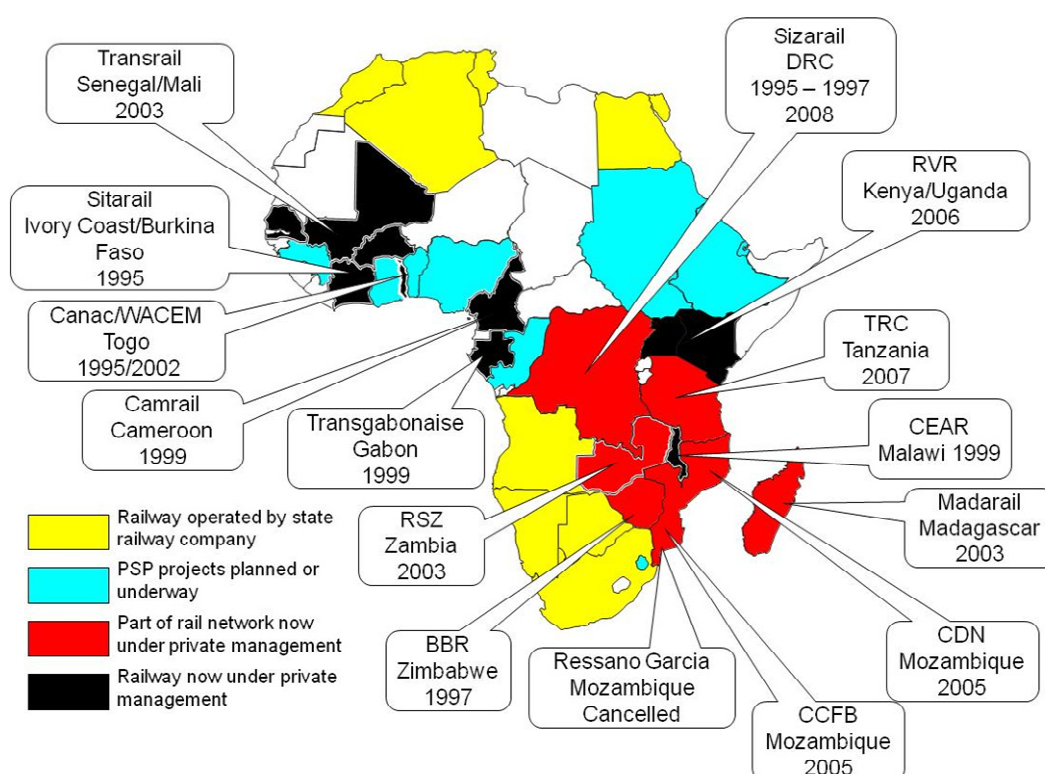
The total imports handled at the port of Mombasa have steadily been growing to over 16,000 DWT.



Source: Kenya National Bureau of Statistics

Therefore, it is clear that the Railway's importance to the economy has been waning. In fact, it is becoming the case that GDP growth is now inversely related to railway revenues.

4.2. Performance of Africa's Concessionaires



Source: Di Borgo for the World Bank (2011)

The schematic above shows the concessioned railways (in black). According to Pierre di Borgio who works for the World Bank's transport infrastructure division, the success of rail concessions has been mixed. He finds that of the concessioned railway's, most have shown an improvement in operational performance but have barely improved with regards to financial performance.

Concession	Countries	Year of concessioning	Network length (km)	Total support in US\$ millions		Current Performance ^{1/}		Investment responsibility		Canceled concessions
				IDA	IFC	Operational	Financial	Infrastructure	Rolling Stock	
Sitarail	Ivory Coast, Burkina Faso	1995	1,245	21	none	A	C	Public	Private	
Camrail	Cameroon	1999	1,104	113	none	B	A	Public	Private	
CEAR	Malawi	2000	797	10	none	D	D	Private	Private	X
RSZ	Zambia	2002	1,273	35	none	C	C	Private	Private	
Madarail	Madagascar	2003	681	65	none	B	C	Public	Private	
Transrail	Senegal, Mali	2003	1,546	45	none	C	D	Private	Private	
CCFB (Beira)	Mozambique	2005	725	110	none	C	D	Private	Private	X
TransGabonais	Gabon	2005	814	0	none	B	C	Public	Private	
Nacala	Mozambique	2005	600	20	none	C	D	Private	Private	
KRC-URC	Kenya-Uganda	2006	2,454	74	32	C	D	Private	Private	
TRC	Tanzania	2007	2,722	35	44	D	D	Private	Private	X
SNCC	DR Congo	2011	3,641	219	none	D	D	Public	Private/Public	
TOTAL				747	76					

Source: Di Borgo for the World Bank (2011)

A score of B for financial performance reflects that the company's net income is less than 5% of turnover with an average debt load. A score of C means that the company has a positive cash flow greater than 5% of turnover but with negative net income with a higher than average debt load. A score of D means that the company has negative cash flows, negative net income and a higher than average debt load. Thereby from a financial perspective the concessionaire's are not sound.

With regards to operational performance, Sitarail (Ivory Coast - Burkina Faso) got a top grade of A meaning that its operational performance such as rolling stock maintenance, track incidents and service quality are top of class. It is worth noting that Sitarail is owned and operated by the Bollere Group which is vertically integrated along the transport infrastructure and mining segment in Ivory Coast. Bollere Group also controls the port infrastructure. Thereby, their investment in Sitarail was done so as to control an important conduit for their port operations.

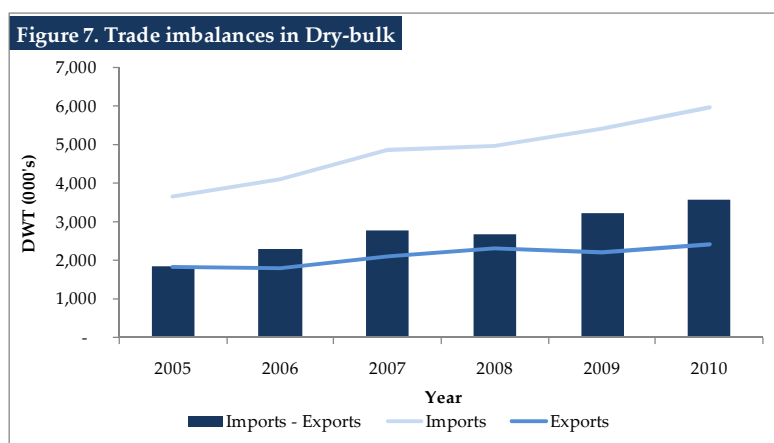
Importantly, the study finds that most concessionaires hardly make enough to cover their investments. Camrail in Cameroon which had revenues of \$124 million had investment needs that were 3x their revenues. Sitarail on the other hand with revenues of \$66 million had investment needs that were 3.7x their revenues. The study finds that even assuming an unusually high cash flow margin of 20% net revenues, Camrail and Sitarail respectively would need 16 and 18 years to repay their investment needs using a zero interest loan. This is further compounded by the very nature of the concession agreement. Given that concessionaires lack title to their assets as they are operators of the assets, they struggle to get financing as they cannot provide security.

Clearly, one can conclude that Concessioned railways in Africa have not performed to the expectations. In fact, from a financial perspective, they have performed far below expectations.

4.3. Economics of Rail Investments

Some key issues with regards to rail investment will be highlighted below.

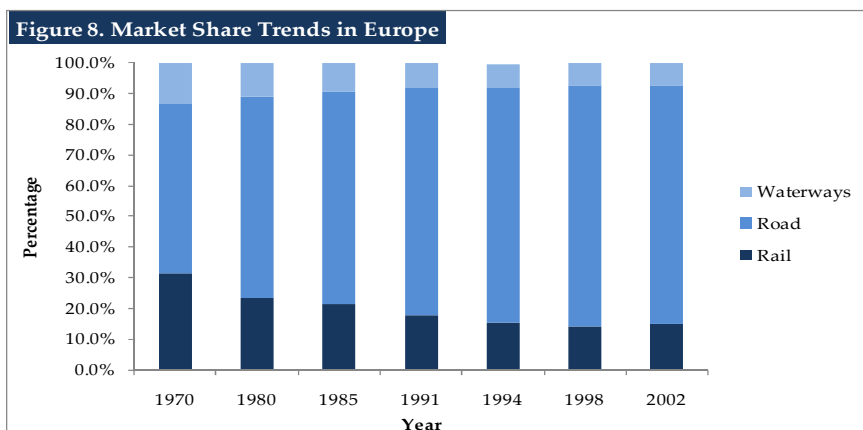
1. Rail investments in Africa are curtailed by the relative homogeneity of the goods transported within Africa. Most nations produce similar goods and minerals and thus trade with countries outside of Africa this makes investment in rail infrastructure by African govts uneconomical.
2. According to the Africa Infrastructure Diagnostic Report (2009) rail transport effectively begins to compete with road transports at speeds in excess of 70kph. Given that the RVR barely makes this speed, it could be argued to be uneconomical. In fact, most businessmen prefer paying extra as trucks are considered faster than rail.
3. Trade imbalances work to hamper rail investments. The following graph shows that Kenya has some significant trade imbalances with regards to dry-bulk trade. The country's dry bulk imports by far exceed the dry bulk exports. From a rail perspective, it means that the load factor will be asymmetrical as load factors will be high from the port and significantly lower as the trains move back towards the port.



Source: Kenya National Bureau of Statistics

4. The key consideration for rail service users is the service quality centered on overall transit times, reliability of rail infrastructure and rolling stock, cargo security, operational discipline, and service frequency. Railways that perform poorly on these scores don't get business.
5. Railways often have an advantage in mine and dry-bulk cargoes as compared to general freight where road transport has an advantage. In addition, the cost factor is more pronounced where the rail is directly connected to the source of the goods such as mine rails. Where goods have to be transported by road to a rail depot, road transport has an advantage.

7. Further to the above, rail transport has an advantage as the distance increases. Over short distances, road transport has an advantage. The alternate is true as distances get longer.
8. For a concessioned railway, the key cost items are; repair and maintenance of rolling stock, concession fees and debt repayments and maintenance and upgrading of the rail tracks.
9. The Africa Infrastructure Report shows that governments are clearly incentivized to expand the road network vis-à-vis the rail network due to cost factors. The report estimates that it costs \$1.5 million per kilometer to construct a rail-line, this cost escalates to as much as \$5 million per kilometer in bad terrain. On the other hand, it costs approximately \$1 million per kilometer to construct a standard 2-lane highway. Therefore governments prefer investing in the road network.
10. The exact nature of road transport with regards to infrastructure provision and service usage offers a distinct advantage to road users vis-à-vis rail users. In RVR's case which is similar to most African railway's, the rail operator is also in charge of infrastructure thereby not only does the operator have to deal with operational issues such as ticketing, service provision and customer service, but also infrastructural issues such as track maintenance. In road transport, apart from road usage tolls and road fuel levies, infrastructure users don't have to pay for infrastructure maintenance and upgrades. In addition, most roads are funded from the central government revenues which are funded by tax-payers who may never even see that road let alone use it. This offers a significant cost advantage to road users. In fact, the European Union favours vertical separation with a clear distinction between the Infrastructure owner (who benefits from a natural monopoly) and the infrastructure users who are subject to competition.
11. Lastly, the issue of declining rail transport market shares is actually a global phenomenon rather than a Kenyan/African phenomenon. Loris di Pietrantonio and Jacques Pelkmans in a 2004 study for the College of Europe show that rail market share has been declining. This is due to increased motorization with bigger and more efficient trucks being produced and also, due to the failure of rail companies to respond to market dynamics. The latter is more pronounced in Kenya's case where the inland depots have not been expanded and more depots have not been built to take advantage of new economically viable territories.



Source: Pietrantonio & Pelkmans (2004)

The graph above shows that road transport has taken on increasing market shares in Europe with the rail transport market shares declining. The figures are calculated from freight net-tonne km's.

4.4 Summary

Given the analysis above, we expect that Transcentury may not benefit financially from their stake in RVR. Even in the case where they indeed triple their throughput to 4.8 million tonnes, the excessive cost structure of the railway including infrastructure investments, debt service costs and concession fees will put a damper on RVR's profitability. In addition a number of other factors such as;

1. Construction of more road links within E.Africa (the 1st abstract shows the proposed East African Community road network) will further boost road market shares vis-à-vis rail market shares.
2. Construction of pipeline infrastructure in Uganda through to Kenya to take advantage of Ugandan oil finds will lower demand for liquid bulk transport through the rail system. In fact, KPC is well into the process of constructing a new pipeline.
3. Increasing inefficiency of the Mombasa Port and a preference of the construction of the Lamu port could lower the railway's strategic importance. Note that Uganda has recently been voicing its concerns about the port of Mombasa and showing a preference for Dar es Salaam ever more so as inflation has hit record highs. It could be that the Lamu port will cater for the northern land-locked nations (Sudan and Ethiopia) as the Dar es Salaam port caters for the Great Lakes landlocked nations (Rwanda, Uganda, DRC and Burundi). This is not at all to suggest that the Mombasa Port is irrelevant.
4. A plan by the East African Community to construct a standard gauge railway from Mombasa to Malaba with a branch line in Kisumu for onward connection to Kampala and the Great Lakes region. The train will have passenger speeds of up to 160kph and freight speeds of 120kph. Moreover, the train will have the capacity to carry double stacked containers. The construction is scheduled to start in September 2012 and so far the process is on schedule. The argument is that even if RVR achieves economic scale, it could be that the new standard gauge rail will be up and running by then.

We thus conclude that RVR's investment will not have a positive impact on Transcentury's bottomline.

Specialised
Engineering

Avery East
Africa Ltd (94%0

5.0 SEGMENT ANALYSIS - SPECIALISED ENGINEERING

The company's specialized engineering segment consists of its 94% ownership of Avery East Africa Ltd. Avery (EA) was acquired from Avery Berkel in 2005 as Transcentury increased its focus on infrastructure. The subsidiary is involved in three key business lines;

1. **Distribution and Service** consisting of sales and servicing of;
 - Weighbridges, industrial weighing scales and retail weighing scales.
 - Ink-jet coding machines and inks, laser marking systems and thermal transfer printing systems.
 - Generators.
 - Bearings and motors.
2. **Operation and maintenance** of third-party weighing solutions. Currently operates and maintains the Athi-River Weigh bridge.
3. **Engineering and construction** services;
 - Transmission lines
 - Sub-stations
 - Renewable energy - wind, mini hydro and solar connections.

The key factors influencing growth in this segment are similar to the factors that will affect the power infrastructure business. They are;

1. Increasing GDP per Capita within East Africa and SSA.
2. Increasing populations that will lead to more demand for engineering services.
3. Increasing inter-connection between East African Community member states through road networks and electricity networks that will lead to more demand for transformers, substations and weighbridges.
4. Increasing industrialization within East African Community and SSA in general. We feel that over the next 10-20 years, SSA will witness some major industrialization as the continent has some key competitive advantages over other regions. Key amongst those advantages are an availability of key raw materials and cheap abundant labour. Given that in the next twenty years, SSA's population will account for over 18% of global population, SSA has a distinct population advantage.

To this end, Kenya and other East African Community Nations are witnessing increasing interest from global companies who want to set up industry in Africa.

Transcentury's Board is well staffed with engineers and financiers who have the requisite skills to drive business growth within the engineering realm. That's why Avery is a perfect portfolio company for Transcentury.

McKinsey in a 2010 report titled "Lions on the Move - The Potential of African Economies" indicate that over the next 10 years, consumer, resource, infrastructure and agricultural industries will have revenues of over \$2.6 trillion dollars. The infrastructure industry will have \$200 billion worth of revenues and will grow by a CAGR of 9%..

The same report indicates that African economies are spending approximately \$72 billion dollars on infrastructure per annum. This therefore means that for an integrated engineering firm such as Avery, there remains significant scope for business growth within the next ten to twenty years.

Management intimated that one of their key focus areas within the infrastructure and engineering segments is talent acquisition and retention. The group wants to acquire world class engineers who can drive business, solve infrastructural problems and deliver projects to their clients. If this is sorted and fixed, Transcentury could be perfectly placed to take advantage of the looming engineering boom that SSA will face.

Consumer
Division

Chai Bora Ltd

6.0 SEGMENT ANALYSIS - CONSUMER DIVISION

In 2008, Transcentury acquired Chai Bora from Tanzania Tea Packers (TATEPA). Chai Bora is a tea blender and packer and produces loose tea products, tea bags and herbal infusions. The company's main focus area is Tanzania. However the company seeks to expand geographically into other areas including exporting packed teas to other continents.

Some of the key competitive advantages for Chai Bora are;

1. A hybrid distribution system throughout Tanzania that has enabled the company to grow profits by a CAGR of 94% from 2008 to 2010.
2. Board level experience in the tea sector that is important for strategy setting.
3. A fiscal advantage as Tanzanian packaged tea is not subject to domestic value added tax.

Growth will stem from;

1. Increasing disposable incomes in Tanzania and other East African Community nations. The 2010 McKinsey report suggests that by 2020, more than half of Africa's populations will have discretionary spending power. This will result in more demand for herbal infusions, tea bags and loose tea products.
2. Tanzania and the East African Community are aggressively improving their transport infrastructure. This will enable better distribution of consumer goods throughout East Africa.
3. More Intra-Africa and South-South trade based on opening trade barriers and competitive advantages will bode well for East African tea companies. In fact, according to the IMF, South-South trade accounted for over 50% of African trade volumes. HSBC suggest that this trend is likely to continue into the future as China, Brazil and India become the anchors of the global economy.
4. Focused management based on Transcentury's business savvy board of directors and company executives is likely to ensure that Chai Bora is well managed and constantly positions itself to take advantage of new business opportunities.

7.0 SEGMENT ANALYSIS - AFFILIATED HOLDINGS

Transcentury has a number of other holdings in private equity (PE), finance, real estate and manufacturing as highlighted below:

Affiliated
Holdings

10% stake in
Development
Bank of Kenya

Karen Mall

Various PE
Funds

1. **Diversified PE investments.** Management sees these PE investments as a treasury management tool. This could probably be done to ensure that shareholder funds are invested in liquid high yielding assets as the board actively seeks out acquisitions.

The PE firms, Transcentury invests in, are; Aureos South Asia L.L.C (2.94%), Aureos East Africa Fund L.L.C (1.25%), Aureos China Fund L.L.C. (5.48%), Business Partners International Kenya SME Fund, L.P (10.64%), Helios Investors L.P (1%) and Kili Parallel L.P (1%)

The PE funds offer two key advantages, capital utilization and in our view a key benefit of knowledge. The latter stems from the fact that the PE funds have deep knowledge about global companies and SME's which could one day become acquisition targets for Transcentury.

2. **10.7% stake in Development Bank of Kenya (DBK).** DBK is a Tier III bank with net assets of KES 10.65 billion as of December 2010. The bank has an effective market share of 0.5%. The banking sector continues to do well in Kenya in the face of rising credit demand and relatively low banking penetration. Despite these favourable dynamics for the overall banking sector, the sector is still relatively fragmented and this could portend to banking consolidation down the line.
3. **Transcentury owns a prime 6 acre plot in Karen.** The group plans on developing these piece of land into a prime lifestyle mall with commercial office space. The company is positioning itself to take advantage of the property boom. Questions still remain over the plausibility of the property "boom" being sustainable and secondly whether the institutional infrastructure of Transcentury can accommodate an integrated property development.

8.0 FINANCIAL ANALYSIS & INVESTMENT CONSIDERATION

Table 4. Transcentury Financial Statements

Profit and Loss Statement (KES M)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenue	2,156.92	4,202.27	6,442.44	5,414.89	6,794.65
Cost of sales	(1,379.74)	(2,816.10)	(4,298.74)	(3,444.67)	(4,718.39)
Gross Profit	777.18	1,386.18	2,143.70	1,970.22	2,076.26
Net other income	551.90	604.01	303.40	126.43	688.46
Distribution, administration and operating expenses	(359.88)	(651.87)	(938.46)	(991.02)	(1,348.89)
Profit from Operations	969.20	1,338.31	1,508.64	1,105.63	1,415.83
Impairment losses	(7.59)	5.46	(6.29)	(126.08)	(206.08)
Depreciation and amortisation	(25.67)	(153.47)	(154.02)	(183.48)	(235.48)
Results from operating activities	935.93	1,190.31	1,348.34	796.07	974.27
Premium on acquisition of subsidiary	-	386.79	-	-	-
Finance income	19.22	23.32	100.83	130.60	90.02
Finance cost	(87.40)	(183.01)	(499.69)	(400.04)	(433.71)
Net finance cost	(68.18)	(159.69)	(398.86)	(269.44)	(343.69)
Profit before income tax	867.75	1,417.42	949.47	526.63	630.59
Income tax expense	(138.59)	(248.68)	(343.99)	(292.13)	(162.32)
Profit after income tax	729.16	1,168.74	605.48	234.50	468.26
Tax Rate	15.97%	17.54%	36.23%	55.47%	25.74%
Profit after tax is attributable to					
Equity Holders of the company	620.944	981.98	342.43	91.90	343.71
Non-controlling interest	108.216	186.76	263.06	142.59	124.55
Proposed dividends	53.408	13.15	13.10	29.48	14.74
Weighted average number of shares (Mn)	273.95	273.95	273.95	273.95	273.95
Number of Shares post ESOP & Conversion	477.96	477.96	477.96	477.96	477.96
Basic Earnings per share	2.27	3.58	1.25	0.34	1.25
Fully Diluted EPS assuming full conversion*	1.30	2.05	0.72	0.19	0.72
Dividend per share	0.19	0.05	0.05	0.11	0.05

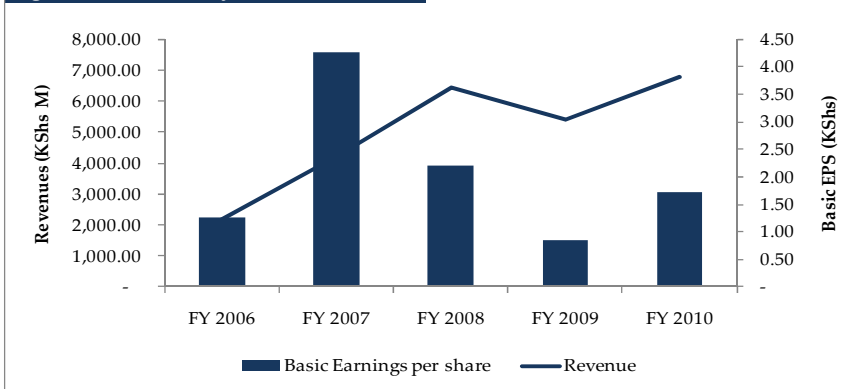
* Note that before 2010 the convertible bond did not exist.

Source: Transcentury Information Memorandum

Key Highlights;

- Revenues have grown by a CAGR of 33% from KES 2.16 billion in 2006 to KES 6.80 billion in 2010. Subsequently, gross profits have grown by a CAGR of 28%. Nonetheless, from a marginal perspective, their costs have grown by a higher margin with distribution costs increasing by a CAGR of 39%.
- Profits from operations have grown by a CAGR of 10% since 2006 from KES 969.20 million to KES 1.12 billion. Nonetheless, the net profits have fluctuated due to substantial variations in finance costs and impairment costs.
- Profit after tax attributable to equity holders has grown by a CAGR of 16% since 2006 with a subsequent 8% CAGR in basic EPS and a 38% CAGR in dividends. Note that EPS has followed the trends in Net Profits with significant volatility.

Figure 9. Trancentury EPS vs Revenues



Source: Trancentury Information Memorandum

Figure 10. Segmental Sales Revenues

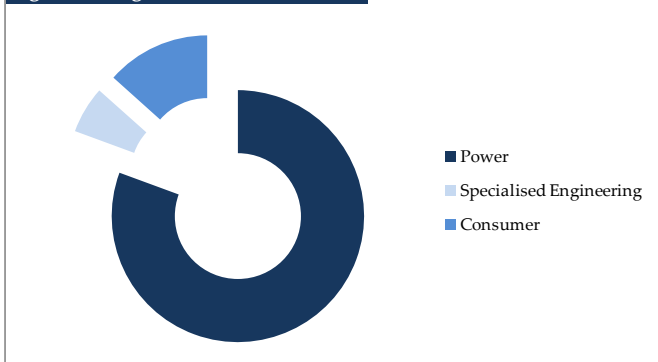


Figure 11. Segmental Operating Profits

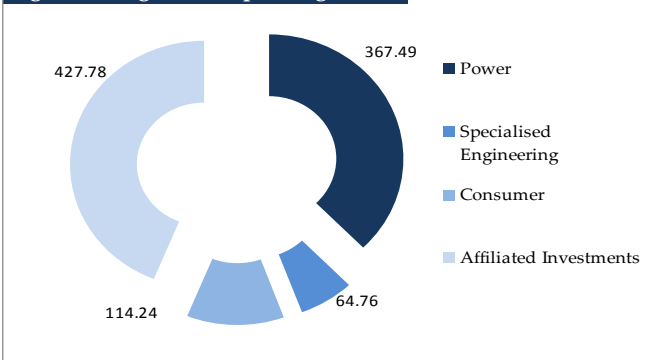


Figure 12. Segmental Operating Margins

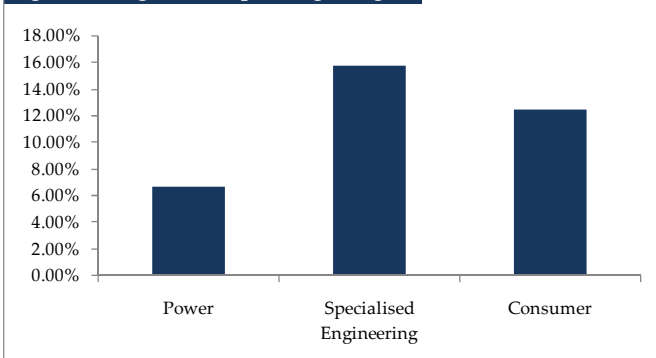


Figure 14. Segmental Return on Assets

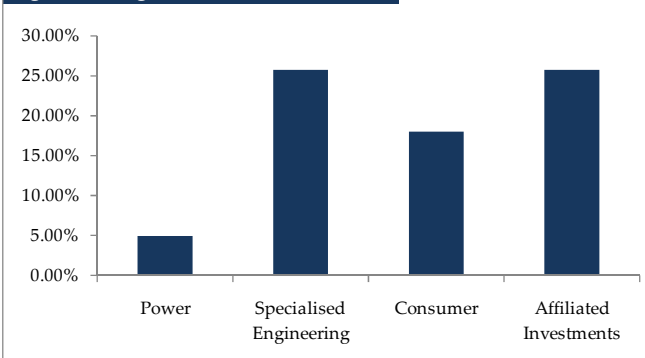
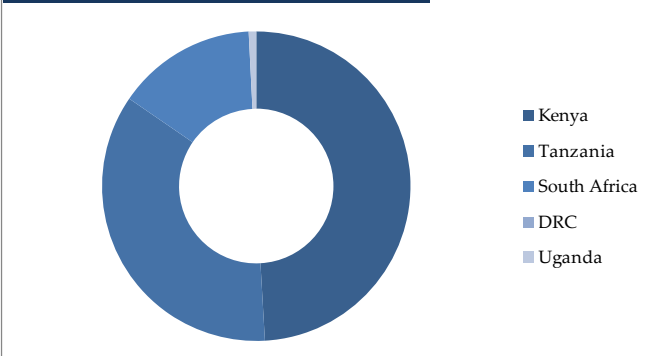


Figure 15. Segmental Sales by Geography



Key Highlights;

- Power segment accounts for bulk of revenues.
- Their affiliated investments accounts for the bulk of their operating profits.
- The specialized engineering department has the best operating margins.
- Specialised engineering also has the highest ROA,
- Kenya accounts for the bulk of the sales revenues.

Balance Sheet (KShs M)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Assets					
Non-Current Assets					
Property, plant and equipment	529.92	1,669.76	1,808.58	2,580.39	3,733.38
Investment Property	-	120.00	132.00	205.00	345.50
Prepaid operating lease rentals	178.36	178.06	174.61	167.42	160.20
Intangible Assets	7.02	111.05	378.49	373.32	371.13
Quoted Investments	517.70	289.47	423.84	321.82	93.63
Unquoted investments	324.04	588.08	800.26	788.11	1,520.96
Other Investments	105.50	441.71	2.20	3.51	-
Investments in Funds	32.47	353.52	531.86	598.22	914.27
Deferred tax assets	3.30	15.45	1.33	1.59	2.72
	1,698.31	3,767.10	4,253.17	5,039.37	7,141.78
Current Assets					
Inventories	669.64	1,480.56	1,431.17	1,472.14	1,944.26
Trade and other receivables	610.37	1,889.53	1,793.49	1,707.90	1,913.83
Tax recoverable	3.37	1.93	21.67	31.47	29.52
Cash and bank balances	139.45	356.27	583.77	278.72	207.08
Short term bank deposits	40.59	14.57	5.82	203.73	-
	1,463.42	3,742.87	3,835.91	3,693.96	4,094.70
Total Assets	3,161.74	7,509.97	8,089.07	8,733.33	11,236.48
Equity and Liabilities					
Capital and Reserves					
Share capital	73.69	98.26	131.01	131.46	133.52
Share premium	63.24	63.24	63.24	106.68	106.68
Revenue reserves	810.39	1,723.87	2,020.45	2,119.39	2,407.64
Translation reserve	(15.02)	(30.60)	6.54	55.33	367.56
Available for sale reserve	216.20	257.35	27.75	(27.58)	447.68
Revaluation reserve	51.58	29.17	29.17	237.64	434.99
Proposed dividends	14.74	29.48	13.10	13.15	53.41
Total equity attributable to equity holders of the company	1,214.83	2,170.77	2,291.26	2,636.07	3,951.48
Non-controlling interest	368.47	729.85	798.95	881.77	1,341.97
Total equity attributable to equity holders of the company	1,583.30	2,900.62	3,090.21	3,517.85	5,293.45
Non-current liabilities					
Deferred tax liability	10.83	268.64	245.42	381.96	590.75
Provision for staff gratuity	10.67	10.65	15.46	21.66	25.53
Long-term loan - non-current portion	790.15	1,925.27	2,550.18	2,764.92	2,755.24
	811.65	2,204.56	2,811.05	3,168.55	3,371.52
Current liabilities					
Bank overdraft	71.78	149.95	97.10	181.35	235.50
Long-term loan - current portion	324.76	1,103.88	899.51	927.54	814.74
Trade and other payables	294.47	933.52	946.45	816.32	1,386.88
Tax payable	50.40	191.11	218.09	84.49	104.06
Unclaimed dividends	1.03	4.07	1.68	1.66	0.04
Aureos Fund - Other members	24.36	22.25	24.98	35.59	31.29
	766.78	2,404.79	2,187.81	2,046.94	2,572.51
Total Liabilities	1,578.43	4,609.35	4,998.87	5,215.49	5,944.02
Total equity and liabilities	3,161.74	7,509.97	8,089.07	8,733.33	11,237.48

Key Highlights

1. The company's asset base has grown by a CAGR of 37% since 2006 with total assets growing from KES 3.16 billion in 2006 to KES 11.24 billion in 2010. This was driven by a 43% CAGR in non-current assets primarily investment funds and a 29% CAGR in current assets primarily inventories and receivables.
2. Liabilities have grown by a CAGR of 39% driven by a 43% CAGR in non-current liabilities primarily their long-term loans and a 35% CAGR in their current liabilities. Current liabilities have grown on account of a 47% CAGR in trade payables and a 26% CAGR in their short term loans.
3. Subsequently the company's net worth has grown by a CAGR of 34% since 2006 to stand at KES 5.29 billion as at December 2010. By half year 2011, this figure had grown to KES 7.17 billion. Revenue reserves have driven this growth in shareholder wealth as they have grown by a CAGR of 31% from KES 810.39 million in 2006 to KES 2.41 billion in 2010.

Margin Analysis	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Gross Margin	36.03%	32.99%	33.27%	36.39%	30.56%
Operating Margin	44.93%	31.85%	23.42%	20.42%	20.84%
Net Margin	33.81%	27.81%	9.40%	4.33%	6.89%
Return on Equity	28.29%	4.23%	14.94%	37.25%	15.71%
Return on Assets	23.06%	15.56%	7.49%	2.69%	4.17%
Current Ratio	1.91	1.56	1.75	1.80	1.59
Debt/Equity Ratio	0.75	1.10	1.15	1.10	0.72

Source: Company Reports

8.1 Valuation Considerations & Peer Comparisons

	Transcentury	KPLC	BOC Kenya	Carbacid	KenGen
Market Price	33.00	18.50	90.50	116.00	10.20
12 Mth EPS	1.71	2.14	4.06	9.05	0.89
12 Mth Dividend	0.19	0.35	9.40	5.00	0.50
Book Value	19.32	23.28	79.86	34.38	30.48
12 Mth P/E	19.30	8.64	22.29	12.82	11.46
12 Mth Earn. Yield	5.2%	11.6%	4.5%	7.8%	8.7%
Div Yield	0.6%	1.9%	10.4%	4.3%	4.9%
Price to Book	1.71	0.79	1.13	3.37	0.33
12 Mth ROE	8.9%	9.2%	5.1%	26.3%	2.9%
Market Cap (KShs M)	9,040	32,091	1,767	3,942	22
Shares Outstanding (000's)	273,950	1,734,637	19,525	33,980	2,198,361
Year End	30-Dec	29-Jun	29-Sep	30-Jan	29-Jun
Corp. Earnings	468	3,712	79	308	1,957

Source: NSE Data & NIC Securities Estimates

Transcentury seems relatively over priced based on both the trailing P/E as well as the price to book only being slightly cheaper than BOC Kenya on the trailing P/E and Carbacid on their price to book ratio. However going forward Transcentury is in key growth areas particularly power infrastructure, we expect that;

1. Over the next ten or so years, the power infrastructure division will have revenue growth of approximately 10-12% per annum.
2. Specialised Engineering will register significant growth of approximately 4-5% per annum based on GDP growth.
3. The transport infrastructure division could register revenue growth but debt, concession and infrastructure maintenance will ensure that the net income remains stagnant or immaterial.
4. The company will maintain a dividend pay-out of 10-15%.
5. The group will re-invest a significant portion of its revenues for expansion in its key businesses to take advantage of growth.

With these factors in mind, then total revenue growth for the group can grow by approximately 10% per annum if not more with the power infrastructure division being the main growth driver.

8.2 Investment Considerations

1. Strong Power Infrastructure and Specialised Engineering will benefit greatly from East African power sector growth and industry growth.
2. Entrepreneurial board of directors with rich managerial and entrepreneurial experience will remain a key competitive advantage going forward. Moreover, the board has strong and deep business connections that lubricate the company's acquisition pipeline.
3. Young, dynamic and brilliant management team lead by Dr. Gachao Kiuna has the ability to execute on board level strategy.
4. CEO Dr. Gachao Kiuna having drafted the Vision 2030 development master plan, has first hand knowledge of Kenya and how a company can benefit from Vision 2030.
5. Strong portfolio companies with good cash flows enable the company to finance organic expansion and acquisitions.

8.3 Key Risk Factors

1. Power infrastructure being a "government-centric" business in SSA requires good business and working relationships with government. A souring of these relationships could be detrimental to the company.
2. RVR investment could drain the company of cash as it is a CAPEX heavy business. Management should ensure that upon a souring of the RVR investment, it should avoid escalating to this commitment.
3. Key risks of senior management leaving in the near term thus affecting the company's operations and investment deals.
4. Power infrastructure division faces stiff competition from cable and transformer imports as well as foreign contractors with diplomatic government ties.
5. Local utilities may perform below targets and therefore lead to an under-investment in power infrastructure in the near future.
6. The company may lack access to the capital and debt markets as locally, infrastructure providers struggle to raise funds often sourcing them from global development agencies and financiers.
7. Given that a significant amount of its revenues and expenses are denominated in foreign currency, there is some scope for currency fluctuations impacting on the revenues. This is ever more so significant in Zambia where the Kwacha historically has been rather volatile.

Appendix 1. Proposed East African Community Road Network

LOCATION MAP OF EAST AFRICA
EAST AFRICAN COMMUNITY ROAD NETWORK PROJECT
(Including Proposed Additional Road Links)

