



Turnstar Holdings Ltd

Property Sector
Interim Results

Buy

P1.00

USD 0.17

August 8, 2006

The property holding group released its maiden results since the acquisition of P165m worth of properties from BIFM and Barolong Shoe Wholesalers with all line items showing improvements. Group revenues increased to P31.0m (H105: P15.1m) driven by additional rental income from the expanded property portfolio and improved occupancies. Administrative expenses mainly comprised of ground rent for Game City and property management fees paid to Khumo rose to P10.2m (H105: P4.5m). Finance cost of P7.8m (H105: P3.8m) coupled with debenture interest of P10.0m (H105: P6.1m) resulted in pre-tax profits of P3.9m (H105: P943K). Net profits increased to P2.9m (P708K) on an unchanged effective tax rate of 25%.

Total assets employed increased to P413.8m (H105: P224.3m) owing to the P165.0m extension of the property portfolio. With the acquisition, Turnstar boasts the largest domestic property portfolio valued at P378.8m (H105: P213.8m). On the liabilities, long-term interest bearing borrowings rose to P184.0m (H105: P129.5m), reflecting P54.5m of additional unsecured linked debentures. The significant rise in short-term payables to P73.0m (H105: P2.6m) was on account of the delayed registration of Fairgrounds Office Park to Turnstar. An interim dividend of 0.08t and interest of 4.02t was declared and the directors announced an intention to declare a special interim dividend and interest in respect of income from Fairgrounds Office Park.

For FY06 we forecast EPLU (including debenture interest) of 9.5t (FY05: 10.1t) and a total gross distribution of 9.4t (FY05: 10.0t). Our forecasts are dampened by the dilutive effect of the issued linked units. We use a Distribution Discount Model to derive fair value at 164t and a Discounted Cash Flow model to generate fair value at 149t. We target 149t as our fair value. We maintain our BUY recommendation with the future sustainability of the company enhanced as a consequence of the acquisitions, the employment of a focused professional asset management function and the increased investor spread.

Trading & Liquidity

Mkt cap (Pm)	248
Mkt cap (US\$m)	42
DCI Mkt weight	1.4%
Shares in issue (m)	248.0
Free float	61.6%
Annual Liquidity	4.5%
12 month high	130
12 month low	90

Codes

BSE	TURNSTAR
Reuters	TURN.BT
Bloomberg	TURNSTAR BG
ISIN No	BW 0314

Results

Date of last report	20-Jan-06 BUY 125t
Last results	Finals - Dec 05
Expected results	Interims - Apr 06

Analyst

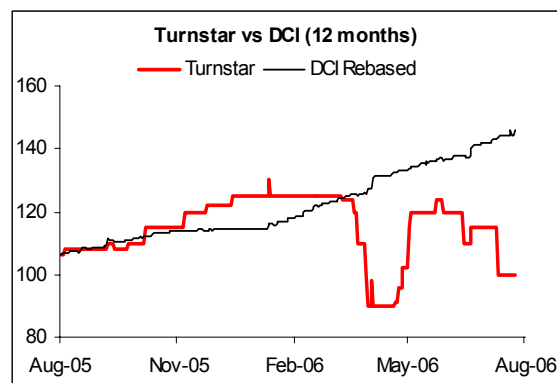
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Key Financials

Year ended October (P)	2004	2005	2006F
Turnover (P'm)	30	30	67
% change	10.6%	2.7%	120.5%
Attributable EPLU (inclu. Deb. Int.) (P)	0.12	0.10	0.10
% change	10.5%	-13.4%	-6.2%
Gross distribution per LU (P)	0.13	0.10	0.09
% change	-0.3%	-20.2%	-5.9%
BVPLU (P)	0.97	0.98	0.93
RoE	19.4%	20.5%	28.8%
RoA	5.7%	6.1%	9.6%
PER (x)	8.5	9.9	10.5
Price/book value (x)	1.0	1.0	1.1
Net Distribution yield	12.8%	10.2%	9.5%





Income Statement	H1 2005	H1 2006	%change
6 Months to 30 April 2004 (P'000)			
Turnover	15,061	31,009	105.9%
Expenditure	(4,534)	(10,165)	124.2%
Net property income	10,527	20,843	98.0%
Net interest income/(expense)	(3,806)	(7,812)	105.2%
Other operating income	355	807	127.5%
Linked Unit Debenture Interest	(6,132)	(9,967)	62.5%
Pre-tax & debenture interest profit	7,076	13,838	95.6%
Taxation charge to income stat	(236)	(968)	310.4%
Attributable Earnings	708	2,904	310.4%
Distribution per LU (t)	6.00	4.10	-31.7%
Rolling Distribution per LU (t)	12.60	10.70	-15.1%
Earnings per LU (t) (inclu. Deb. Int.)	4.92	7.60	54.4%
Rolling Earnings per LU (t) (inclu. Deb. Int.)	11.07	14.39	30.0%
Weighted average number of linked units	139,000,000	169,367,379	21.8%
Balance Sheet			
Investment portfolio	213,585	378,780	77.3%
Deferred expenditure	998	575	-42.4%
Trade and other receivables	3,116	25,081	n/a
Cash & cash equivalents	5,261	8,442	60.5%
Total Assets	223,182	413,781	85.4%
Unitholders funds	136,034	182,028	33.8%
Deferred Taxation	18,427	19,323	4.9%
Interest Bearing Debt	125,835	183,980	46.2%
Trade and other payables	2,589	73,011	n/a
Total Funds Employed	223,182	413,781	85.4%
Ratios			
NAV (t)	98	107	
Distribution yield	12.6%	10.7%	
Debt/equity	92.5%	101.1%	
Rolling ROE	11.3%	14.0%	
Rolling ROA	7.0%	7.0%	
Operating profits/assets	9.7%	10.1%	

Overview

Turnstar released its maiden interim results since the group concluded the acquisition of P165m worth of properties from BIFM and Barolong Shoe Wholesalers, on 1 November 2005 with all line items showing improvements.

Specifically, the BIFM portfolio included eight properties in the commercial, industrial and residential sectors of Gaborone for P121.8m worth of new linked units while the Barolong deal was for the acquisition of the Nzano retail complex in Francistown for P42.5m worth of linked units. As part of the deal,



Property Sector

Interim Results

Turnstar contracted Khumo Property Managers, a new jointly owned company (BIFM and RMB Properties of South Africa, each hold 50%) to manage the entire property portfolio on a professional basis charging market related fees.

Game City, the largest and busiest modern shopping centre in Botswana remains the company's main asset with approximately 50, 000 square meters of gross area and 41, 000 square meters of lettable area.

Property Name	Sector	Gross Lettable Area m2	Market Value (P'000)*
Fairgrounds, Gaborone	Commercial Offices	9,613	66,140
BIFM Head Office, Gaborone	Commercial Offices	3,396	18,930
PG Timbers, Gaborone West	Industrial	7,144	8,810
Commerce Park, Gaborone	Industrial	2,615	6,360
Citroen dealership, Gaborone West	Motor Showroom & Industrial	1,675	3,960
Tapologo Townhouses, Gaborone	Residential Townhouses	50 units	10,135
Mogoditshane Townhouses, Mogoditshane	Residential Townhouses	15 units	3,900
Innisfree Apartments, Gaborone	Self Catering Apartments	32 units	6,690
Nzano Centre, Francistown	Retail	12,659	43,150
Game City, Gaborone	Retail	40,912	213,750

Source: Company

*Independent valuation completed on 1 August 2005

The domestic property market review for the trading period was a mixed bag of fortunes across the 5 major sectors:

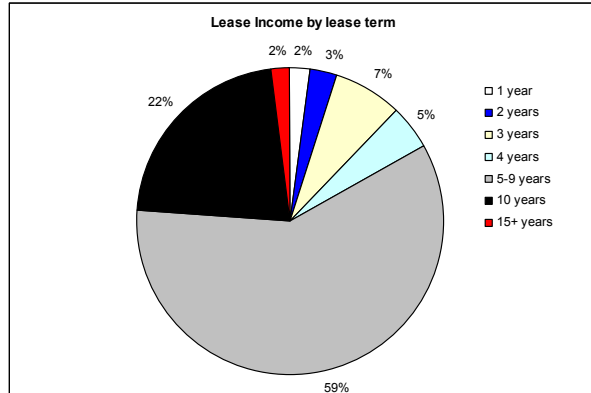
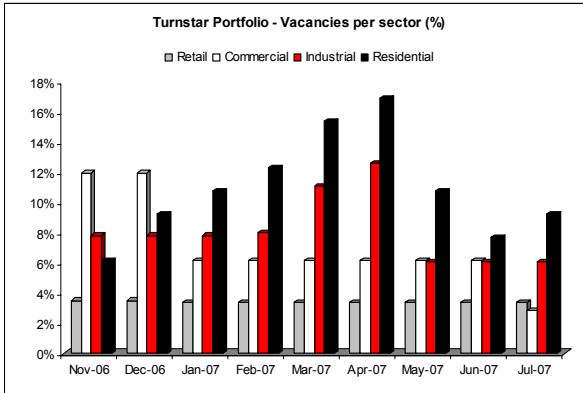
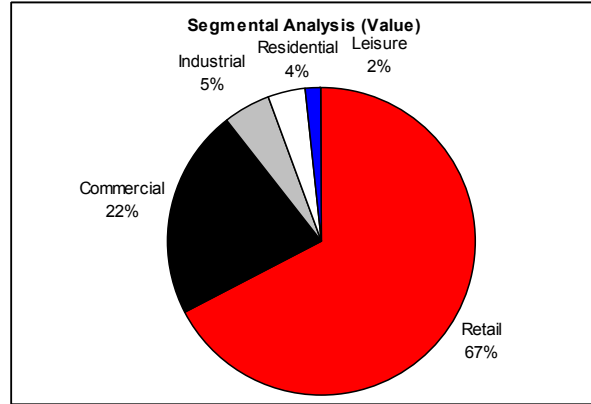
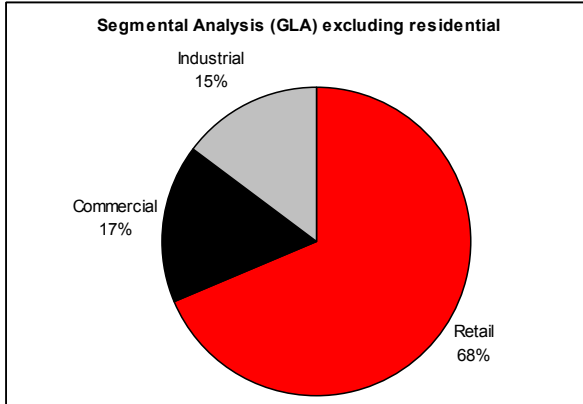
- Retail** - The retail sector posted a reasonable trading cycle with vacancies relatively unchanged on 3.4%. Foot traffic at the two malls was robust, however consumers were spending less with wallet competition from debt-servicing, food inflation and fuel prices hikes. The trading performances of anchor tenants, which are mostly large national retailers (e.g. Game, Checkers, and Pay-less) were relatively fair. However, smaller retailers felt the pinch of eroding consumption expenditure which resulted in downward pressures on short-term escalations.
- Commercial** - The commercial sector performance improved for the period under review with the Fairgrounds Office Park fully let-out coupled with new lease agreements signed for the BIFM Head Office building at the Main Mall in Gaborone.
- Industrial** - The industrial properties posted a remarkable recovery since the acquisition with vacancies down from 12.0% to 2.8% of lettable area for the sector. The turnaround was thanks to the Commerce Park property which is now fully occupied compared to a 40% vacancy rate 6 months ago.
- Residential** - During the period, management re-visited the rental pricing strategy for the residential properties with mixed results for Tapologo Townhouses and Mogoditshane Townhouses. On the one hand, Tapologo rebounded with the 50 unit residential compound almost fully let-out. However, the uphill battle to attract tenants continues for the 15 unit Mogoditshane Townhouses, primarily on the back of location and accessibility issues.



Property Sector

Interim Results

- **Leisure** - Operating performance of Innisfree Apartments was sub par, hampered by over saturation in the local hospitality market and the soft consumer climate.



Source: Company

Income Statement

Group revenues increased to P31.0m (H105: P15.1m) driven by additional rental income from the expanded property portfolio and improved occupancies. Other income firmed to P807K (H105: P355K) on the back of bad debt paybacks, interest income, promotion income, and utility recoveries.

Administrative expenses comprised of letting fees, advertising, property maintenance and other administration costs rose to P10.2m (H105: P4.5m). The ground rent charge for Game City of 10% of gross rents received net of operating expenses represents a large portion of expenditure while the bulk of the increase from H105 was due to property management fees of P636K (H105: nil) paid to Khumo.

The rise in costs had a very modest impact on profitability as operating profits doubled to P21.7m (H105: P10.9m). Financing costs increased to P7.8m (H105: P3.8m) in line with interest payments on the P60m loan which commenced on 30 September 2005. Debenture interest of P10.0m (H105: P6.1m) produces pre-tax profits of P3.9m (H105: P943K). Net profits firmed to P2.9m (P708K) on an unchanged effective tax rate of 25%.

Balance Sheet

Total assets employed rose to P413.8m (H105: P224.3m) owing to the P165.0m extension of the property portfolio. With the acquisition, Turnstar now

Group revenues increased to P31.0m (H105: P15.1m)

Administrative expenses rose to P10.2m (H105: P4.5m).

Debenture interest of P10.0m (H105: P6.1m) produced pre-tax profits of P3.9m (H105: P943K)



Property Sector

Interim Results

boasts the largest domestic property portfolio, valued at P378.8m (H105: P213.8m). Deferred expenditure which relates to letting fees paid to real estate agents on the conclusion of lease agreements dropped to P575K (H105: P786K). Letting fees are amortised over the average lease term of 5 years from the month of commencement of the first lease so the decline is a function of fewer new lease signings.

On the liabilities, long-term interest bearing borrowings rose to P184.0m (H105: P129.5m). The increase in funding reflects the additional unsecured linked debentures of P54.5m. The remaining balance of long-term payables includes debenture capital of P69.5m and the secured 8-year P60m loan repayable to First National Bank of Botswana (at prime less 2%). The current portion of capital amounts due within one year rose to P15.0m (H105: nil).

The significant rise in short-term payables to P73.0m (H105: P2.6m) is on account of the delayed registration of Fairgrounds Office Park ("FOP") to Turnstar and the subsequent transfer of the 73, 549, 546 linked units (at 90t per LU) to BIFM because of zoning issues. The problem was recently resolved with FOP and the adjacent land subdivided. The transfer and listing on the linked units is now a formality.

Operating cash flows were considerably up to P54.6m (H105: P2.0m) with cash generated from activities rising to P71.7m (H105: P11.7m). The increase is primarily a function of the aforementioned rise in trade and other payables. Financing cash flows also ballooned to P98.1m (H105: P7.8m) in line with proceeds from the issue of share capital and investment borrowings. However, cash levels at the end of the period were an overdrawn balance of P6.5m, strained by the P165.0m investing activity outflow for the property acquisition.

An interim dividend of 0.08t and interest of 4.02t was declared payable on 22 August 2006. Further, the directors announced an intention to declare a special interim dividend and interest in respect of income of FOP, once FOP is registered in the name of Turnstar with a LDR on 11 August 2006.

Outlook

For FY06 we forecast EPLU (including debenture interest) of 9.5t (FY05: 10.1t) and a total gross distribution of 9.4t (FY05: 10.0t). Our forecasts are dampened by the dilutive effect of the issued linked units for the property acquisitions.

However, we continue to rate the deal a good one for Turnstar as it gives the property stock some substance and diversity. The group went from being a single property stock to a well diversified (both sectorally and geographically) and reasonably geared portfolio stock with the bulk of the properties acquired debt free.

The prospects of the retail sector which contributes over 50% of both the gross lettable area and rental income of the portfolio from Game City and Nzano Centre will be governed by consumer spending power. Going forward, our medium term outlook for consumer spending is cautiously optimistic underpinned by moderating inflationary pressures, the 8% civil service wage increase, progressive tax reforms, and increased government spending. Provisional terms have been agreed with tenants in respect of the vacancies at Game City which should see the retail centre fully let-out shortly.

We also expect an occupancy pick up for the former BIFM Head Office in the main mall in Gaborone, which is now almost fully occupied on the back of new developments and refurbishments of surrounding properties.

Turnstar boasts the largest domestic property portfolio, valued at P378.8m (H105: P213.8m)

The increase in funding reflects the additional unsecured linked debentures of P54.5m.

Rise in short-term payables to P73.0m is on account of the delayed registration of Fairgrounds Office Park to Turnstar

Cash levels were an overdrawn balance of P6.5m, strained by the P165.0m investing activity outflow for the property acquisition

An interim dividend of 0.08t and interest of 4.02t was declared

For FY06 we forecast EPLU (including debenture interest) of 9.5t

Deal produced a well diversified and reasonably geared portfolio

Our medium term outlook, for consumer spending is cautiously optimistic

BIFM Head Office building expected to benefit from developments on surrounding properties



Stockbrokers Botswana Ltd.

Property Sector

Interim Results

Within the commercial sector, the bright spark is the strong demand for A grade buildings. Top grade buildings such as the Fairground Office Park with high-end after sale services such as 24 hour security and other niche amenities have avoided the affliction of downward pressures on escalations and longer vacancy durations experienced by B grade and C grade commercial developments across the country. In view of that, we don't expect occupancy concerns for the group's commercial properties despite the proliferation of office parks in urban areas around the country, which we see as causing demand destruction at the lower end of the market.

Strong demand for A grade commercial properties such as Fairgrounds Office Park

The industrial sector continues to struggle with the testing business climate forcing cautious investment in industrial properties. Going forward, macroeconomic indicators point to a significant turnaround for the industrial sector underpinned by government spending and the benefits of diamond contracts.

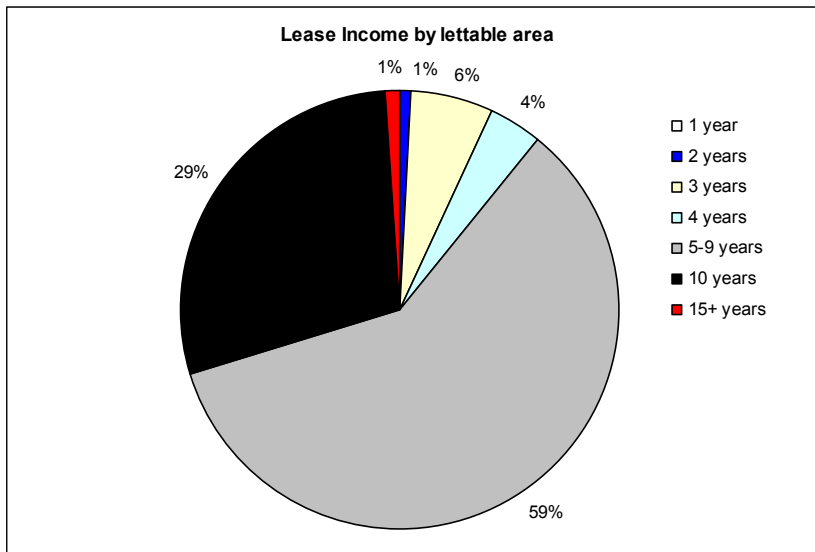
Industrial sector may be turning the corner for upside

We view the employment of a dedicated property asset manager, Khumo as an upside for the group with a more focused effort for optimising portfolio returns and selective acquisitions and disposals. Management strategies for the portfolio include a more aggressive stance on managing arrears, effectively steering away from carrying the baggage of defaulting tenants.

Khumo adds a more focused effort for optimising portfolio returns and selective acquisitions and disposals

Core growth will depend on leasing trends with long-term tenant agreements. Currently, the tenant book is relatively compelling with more than 83% of rental income sourced from leases longer than 5 years which make up 89% of lettable area. Accordingly, we expect the strong lease profile underpinned by medium to long-term agreements with blue chip tenants to provide sustainable annuity income for the top line.

83% of rental income sourced from leases longer than 5 years



Source: Company

With respect to external growth, the prevailing slowdown of the domestic economy has made property acquisition especially in the retail sector growingly attractive with several domestic retail properties being offered for bargains. Management has also not ruled cross border expansion for future growth. For now, the investment and development pipeline is muted.

Management has not ruled cross border expansion for future growth



Valuation & recommendation

Our valuation is based on the following salient assumptions and in line with management FY06 forecast post acquisition:

- 8% equity risk premium and 18% total discount rate;
- 8% terminal growth rate of cash flows after year 10;
- 8% escalation on average rentals for the forecast period.
- Long-term effective tax-rate of 25%
- No material capex commitments for refurbishment and renovations in the short-term
- Long-term vacancy rate of 5% of total portfolio
- The remaining 73, 549, 546 linked units to be issued will be transferred and subsequently listed on the BSE shortly

We use a Distribution Discount Model (similar to a dividend distribution) to derive fair value at 164t and a Discounted Cash Flow model to generate fair value at 149t. We prefer the more conservative 149t as our fair value.

149t is our target fair value

We maintain our BUY recommendation with the future sustainability of the company enhanced as a consequence of the acquisitions, a more focused professional asset management function and the increased investor spread.

We maintain our BUY recommendation

**Financials**

Year ended October (P'000)	2003	2004	2005	%ch	2006F	%ch
Income Statement						
Turnover	26,703	29,540	30,339	2.7%	66,900	120.5%
Expenditure	(7,313)	(7,745)	(9,093)	17.4%	(21,908)	140.9%
Net property income	19,757	22,492	22,088	-1.8%	46,491	110.5%
Other income	367	697	842	20.8%	1,499	78.0%
Profit from Operation	20,124	23,189	22,930	-1.1%	47,990	109.3%
Net interest income/(expense)	(6,295)	(7,652)	(7,908)	3.3%	(15,687)	98.4%
Pre debenture interest profit	13,462	14,840	14,180	-4.4%	30,805	117.2%
Linked Unit Debenture Interest	(13,112)	(14,454)	(13,811)	-4.4%	(30,003)	117.2%
Pre-tax & debenture interest profit	2,162	2,428	369	-84.8%	802	117.2%
Taxation charge to income stat	(541)	(607)	(92)	-84.8%	(229)	148.9%
Attributable Earnings	1,621	1,821	277	-84.8%	573	106.7%
Debenture interest per LU (t)	12.4	12.4	9.9	-19.5%	9.3	-6.1%
EPS(incl. Deb. Int.) (t)	10.6	11.7	10.1	-13.4%	9.5	-6.2%
Dividend per LU (t)	0.2	0.2	0.1	-56.8%	0.1	8.8%
Distribution per LU (t)	12.6	12.6	10.0	-20.2%	9.4	-5.9%
Linked units (m)	139.0	139.0	139.0	0.0%	321.5	131.3%
Balance Sheet						
Investment portfolio	209,307	213,764	213,967	0.1%	378,945	77.1%
Deferred expenditure	1,632	1,209	786	-35.0%	707	-10.0%
Current Assets	13,533	2,431	9,575	293.8%	8,068	-15.7%
Total Assets	224,472	217,404	224,328	3.2%	387,720	72.8%
Shareholders Equity	64,419	65,963	66,194	0.3%	138,197	108.8%
Debentures	69,500	69,500	69,500	0.0%	160,754	131.3%
Deferred Taxation	17,585	18,192	18,355	0.9%	18,355	0.0%
Interest Bearing Debt	51,577	54,716	60,000	9.7%	60,000	0.0%
Current Liabilities	22,788	9,034	10,279	13.8%	10,414	1.3%
Total Funds Employed	224,472	217,404	224,328	3.2%	387,720	72.8%
Ratios						
NAV (Equity plus Debenture) (t)	96.3	97.5	97.6		93.0	
Distribution yield	12.6%	12.5%	10.0%		9.4%	
Debt/equity	80.1%	82.9%	90.6%		43.4%	
Net property income margin (%)	74.0%	76.1%	72.8%		69.5%	
Earnings margin (%)	6.1%	6.2%	0.9%		0.9%	
Current assets: current liabilities (x)	0.6	0.3	0.9		0.8	

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