



## **TRUSTCO GROUP HOLDINGS LIMITED**

Incorporated in the Republic of Namibia

(Registration number 2003/058)

NSX Share Code: TUC

JSE Share Code: TTO

OTCQX share code: TSCHY

ISIN Number: NA000AORF067 ("**the Company**" or "**Trustco**")

## **MEDIA RELEASE**

**21 February 2020**

### **DR QUINTON VAN ROOYEN'S RESPONSE TO MEDIA QUESTIONS**

In light of recent media queries received by Trustco regarding inaccurate news stories, the Group Managing Director and CEO of Trustco Group Holdings Ltd, Dr Quinton van Rooyen, has issued the following statements to clarify matters.

#### **On the matter of: Trustco's properties being overvalued**

Our property valuations are clearly disclosed on page 53 of Volume 2 of our Integrated Annual Report, as well as on page 50 of our Audited Financial Statements. As is shown there, Trustco's 2 377 hectares of property (or 23.77 million square meters of sellable land) is valued at NAD 100.28 per square meter on average, with individual values differing based on land servicing and development. A cursory investigation in properties available for sale (on <https://www.myproperty.com.na/>) and other cost indexes ( First Capital Building Cost Index: <http://firstcapitalnam.com/research.php>) would indicate our valuations are well below current market rates for the area, and not currently the most valuable in both Namibia and South Africa.

Trustco does not determine its own land values. Rather, the land is valued by between two and four independent valuation experts, whose assumptions are included on page 50 of our 2019 Audited Financial Statements. The land selling prices used in these valuations are below comparable land parcels. Page 49 of the same report shows that all properties were fair valued lower in 2019 versus 2018, except for Elisenheim.

As land is zoned for development, services (roads, water, electricity) are installed, and top structures are created, the value of the land increases (this should be obvious). This increase is measured by the independent valuers, and the gains or losses are recorded per IFRS

accounting standards in our financial statements. We cannot choose to include or not include these gains or losses. This is common practice in property development: over the last two years, Growthpoint has recorded approximately R3.4 billion in fair value property gains.

#### **On the matter of: Herboth's sale of NAD 1 billion being overvalued**

Since the publication of Trustco's financial statements, the Herboth's Development has received approval of its Need and Desirability for Township establishment, which was reported to the market via SENS on 9 October 2019. It specifically indicated that this will have a material impact on its valuation. The sale price per square meter is NAD 60.24 per square meter, still well below the average valuation of Trustco's other properties. The transaction also requires two independent property valuations to occur, which will determine the final purchase consideration.

#### **On the matter of: Trustco history of transforming 'barren land' into developed properties**

Trustco has been developing properties in Namibia for more than 25 years, and over that time has completed several developments – some in even more 'barren' locations than the Herboth's Development. Just in recent years, the Elisenheim Lifestyle Estate (residential development), Lafrenz Park (industrial estate) and Ondangwa Development (industrial park and residential Ombala development) have been completed, are in progress or close to completion as noted on pages 54 to 61 of Volume 2 of our Integrated Annual Report.

An easy look at Google Earth will show that Phase 1 of the Herboth's Development has already been completed by the previous developer, and in the adjacent property across the main road, the Finkenstein development has also been completed.

When land is rezoned, services are installed and top structures added, it is obvious that the value of the land will increase. For example a piece of land without mining rights will be worth less than a piece of land with mining rights. Similarly, land zoned for development of a township will be worth more than land zoned for agricultural purposes.

#### **On the matter of: The decision to postpone development of certain properties**

Market conditions dictate how and when development of properties should take place, and corporate boards should take cognizance of these facts regularly. Supply and demand are basic economic principles and should be considered in determining when the optimal time to increase, decrease or maintain supply should be. Every economy moves through cycles where prudent managements will increase or decrease supply, whether it is land, shoes or cucumbers.

In accordance with IFRS accounting principles, an asset must be designated to the appropriate category in the financial statements. When there is a change in use of an asset, this allocation must be tested. In the case of Elisenheim, certain parts of this property were held in inventory, which is required to be held at the *lower* of cost or net realizable value. In other words, it is not held at market or fair value. However, when it was decided to slow the sale of stands (inventory) into the market, the asset was required in terms of IFRS to be reclassified to

investment property. However, an asset in investment property *must* be carried at fair value, and not at the lower of cost or net realizable value. This transfer, which was proved to the auditors and the JSE, requires a fair valuation (again, done independently) for this asset.

**On the matter of: Profit does not equal cashflow**

Even a layman knows that profits does not equal cashflow. The investment cycle does not always coincide with the cashflow cycle. For some this might be difficult to understand – especially if the most complex transaction that they've completed was exchanging one second-hand car for another. The cycle of property development requires large upfront investment that repays over time. In 2017, Trustco generated NAD651 million, in 2016 NAD507 million and 2015 NAD448 million in cash flows, in line with the property development and economic cycles of the time. Net cash flows from operating activities include net advances to student funding and therefore represent investments into the business, and not cash outflows.

**On the matter of: The cashflow statement shows a net leak of 150 million**

If leak means spending money on buying and developing assets, investing into systems and investing into personnel, then Trustco's cashflow statement has always shown a leak, and will continue to do so going forward. The group's policy is to invest and reinvest cashflow into assets to ensure future earnings, resulting in greater future returns for all stakeholders. A group with excess cash earnings on the balance sheet usually indicates a group that doesn't know how to reinvest that cash, doesn't have the opportunity to do so, and cannot generate greater returns. The economic cycle in Namibia is adverse, and while others are hoarding cash and afraid to invest in opportunities, Trustco is making investments and positioning the company to generate much greater earnings and cash flows over the next cycle. We don't see how it should be done any other way.

**On the matter of: Including profits from a loan waiver in headline earnings**

We do not choose to include any amount in our headline earnings. They are included as required by IFRS. This was clearly disclosed in the fourth and sixth paragraph of our interim financial results, as well as the notes to the relevant line items. IFRS similarly requires the assessment of the use of assets and how those assets are valued, specifically as it relates to fair value gains of property assets. Headline earnings also include, also not by our choosing, NAD247 million of provisions in terms of the adoption of the IFRS 9 accounting standard.

**On the matter of: Trustco's accounting policies**

Trustco's accounting policies are aligned with IFRS as required, and the policies as well as the financial statements are checked and audited by two different external auditors, two different IFRS consulting firms as well as various sponsors and regulators. By our count, over 56 Chartered Accountants were involved with ensuring the correctness and compliance of our accounting policies and financial statements. Some investors understand the accounting movements as they relate to our business, whereas some clearly do not, and some seem to

believe we should decide what parts of IFRS to apply to our business, which is clearly a ridiculous suggestion.

**On the matter of: Trustco's difficulty in raising capital**

While local funding may have dried up for all companies due to economic conditions in Namibia, Trustco has three stable lines of funding - two major supporting shareholders, as well as a wide array of international funders. The support they provide the group is shown in our financial statements. Our property portfolio is currently completely ungeared. Liquidity statistics of the banking sector are publicly available and affect all companies in Namibia, not just Trustco.

**On the matter of: Legal Shield Holdings valuation in the Constantia Acquisition**

The valuation of the unlisted Legal Shield Holdings was determined by a third party, with a research report available (<https://insights.tellimer.com/article/trustco-group-holdings-namibian-triple-play> and <https://www.otcmarkets.com/stock/TSCHY/research>) after taking into account the minority interest and the acquisition of Trustco's Banking and Finance segment, as announced on SENS on 27 October 2019. A comprehensive internal valuation was also performed and approved by the board. For the record some of the assets in LSH are actually valued negatively on a DCF basis which speaks to the conservativeness of the valuation process.

**On the matter of: Riskowitz Value Fund planning to take over Trustco**

Not that Trustco is aware of, and not that Riskowitz Value Fund has ever indicated.

**On the matter of: Trustco's plans to delist**

This is a discussion that takes place on a regular basis. So far, the benefits of listing outweigh the cons. The group values its many and varied shareholders and will not take action to place them at a disadvantage.

**On the matter of: Trustco's low share price**

The market dictates the share price, not the group, and at current market prices, the group is significantly undervalued.

**On the matter of: The lack of share buybacks since the share is undervalued**

Share buybacks are done when a group reaches a position where it is generating more cash than they can reasonably reinvest in the business. Share buybacks are a capital allocation decision that must be measured against other opportunities in the group. The group believes it can generate more wealth for stakeholders currently by reinvesting cash into the business, rather than by returning cash to shareholders. When a company voluntarily returns its equity capital, it may indicate that it has no viable projects in which to invest. This is categorically not true of Trustco, in all parts of the business.

### **On the matter of: Trustco's negative press**

Trustco does not respond to negative and uninformed press – as such, a small cabal that has an unhealthy crush on anything Trustco get their views in the press. A false narrative of this cabal has seemingly appealed to certain sections of the media. We would prefer to focus on building our business and creating wealth for our shareholders than engage with trolls - the law will take its course (Case number: CAS 525/11/2018. Investigating Officer: JJ Dlamini (Johannesburg Commercial Crime Unit). Riskowitz Value Fund concurs with our assessment on this matter. (<https://www.linkedin.com/pulse/financial-mails-biased-misleading-narrative-poisoning-sean-riskowitz/>)



Dr Quinton van Rooyen  
Group Managing Director and CEO  
Trustco Group Holdings Limited

### **For more information contact:**

Neville Basson  
Head: Public Relations and Corporate Communication  
Trustco Group Holdings Limited  
[NevilleB@tgh.na](mailto:NevilleB@tgh.na)