



INVESTMENT ADVISORY

"IN SEARCH OF VALUE"

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Set to Germinate....

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<p>Seed-Co Agriculture Based on Interims End to August '05</p> <ul style="list-style-type: none"> ➤ The group's first half performance to August was decidedly lacklustre reflective of a slow start to the local selling season due to continued negotiations on pricing and poor winter cereal sales falling 33% on prior period. ➤ Thus, turnover in historical terms rose by just 27% on the prior year to Z\$66,048 billion, lagging average Y-o-Y inflation for the period of 180%. This was accompanied by a significant drop in margins from 26% in the prior period to 13.3% for HY1 '06. ➤ Interest costs rose 540% to Z\$13,573 billion, much of which was incurred in advance of the company receiving concessionary financing as well as a liability accruing from an amount owed to the group by the Zimbabwean Government which has since been paid. ➤ As is the case for Seed-Co at this time of year, borrowings stood at Z\$328,345 billion, of which \$160 billion was in concessionary financing & the balance off-shore at 6%. Inventories grew 359% to Z\$404,336 billion, reflective of the weaker Zimbabwean dollar, and holding back of sales by the group. ➤ The group has at HY1'05 had yet to sell any significant quantities of summer produce both in the region and locally. Regional sales expected to be 60% of sales. Expect significant growth in earnings for HY2 '06 on the back of the 'floating' exchange rate and organic regional growth. 	<p>Recommendation: Buy Z\$5,700</p> <p>Key Data</p> <table> <tr> <td>Market Cap (Z\$m)</td> <td>906,995</td> </tr> <tr> <td>(U\$m)</td> <td>10,922</td> </tr> <tr> <td>Shares in Issue (000's)</td> <td>159,122</td> </tr> <tr> <td>Year High</td> <td>Z\$5,700</td> </tr> <tr> <td>Year Low</td> <td>Z\$500</td> </tr> <tr> <td>Rolling EPS</td> <td>Z\$289.25</td> </tr> <tr> <td>Ann. P/E</td> <td>19.9x</td> </tr> <tr> <td>Sector P/E</td> <td>20.2x</td> </tr> <tr> <td>Forward P/E</td> <td>2.1x</td> </tr> <tr> <td>NAV per share</td> <td>Z\$1,007.96</td> </tr> <tr> <td>NAV Multiple</td> <td>5.7x</td> </tr> <tr> <td>Operating Cash Flow Per Share</td> <td>(Z\$1,407.72)</td> </tr> <tr> <td>EV/Operating Profit</td> <td>8.62x</td> </tr> <tr> <td>Price/Sales</td> <td>2.58</td> </tr> <tr> <td>Dividend</td> <td>-</td> </tr> <tr> <td>Dividend Yield</td> <td>-</td> </tr> </table> <p>Key Ratios & Efficiencies</p> <table> <tr> <td>Gross Op. Margins</td> <td>13%</td> </tr> <tr> <td>Net Op. Margins</td> <td>-4%</td> </tr> <tr> <td>ROA</td> <td>28%</td> </tr> <tr> <td>ROE</td> <td>5%</td> </tr> <tr> <td>ROCE</td> <td>66%</td> </tr> <tr> <td>Gearing</td> <td>194%</td> </tr> </table> <p>Contact Details</p> <p>Dzika Danha dzika@zol.co.zw Tel No. +263 4 852070/1 Mob. No. +263 23 412 170</p>	Market Cap (Z\$m)	906,995	(U\$m)	10,922	Shares in Issue (000's)	159,122	Year High	Z\$5,700	Year Low	Z\$500	Rolling EPS	Z\$289.25	Ann. P/E	19.9x	Sector P/E	20.2x	Forward P/E	2.1x	NAV per share	Z\$1,007.96	NAV Multiple	5.7x	Operating Cash Flow Per Share	(Z\$1,407.72)	EV/Operating Profit	8.62x	Price/Sales	2.58	Dividend	-	Dividend Yield	-	Gross Op. Margins	13%	Net Op. Margins	-4%	ROA	28%	ROE	5%	ROCE	66%	Gearing	194%
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Nature of Business

Local Operations

**Seed-Co Limited (Holding Co.)
National Seed Company of Zimbabwe Ltd
(100%)**

Storage Capacity; 40,000 tonnes, 40,000 sq.m.

**Dominant Local Market Share-
85%(2004/05)**

Regional Operations

**ZAMBIA-SCZ International Ltd (75%)
MOZAMBIQUE-SEMOG (51%)**

**BOTSWANA-Seed-Co International (SCI)
(100%)**

**KENYA-Agri Seed-Co Ltd (100% SCI)
MALAWI-Seed-Co Ltd (100% SCI)**

**SOUTH AFRICA-Syngenta Seed Co (Pty)
Ltd (48% SCI)**

Storage Capacity; 60,000 tonnes, 60,000 sq.m.

Research & Development

Engage in the development & production in maize, soybeans, wheat, and groundnuts; main product remains the maize hybrid (85% of sales) varieties. Research Stations located in **Zimbabwe, South Africa, Zambia, Mozambique & Kenya.**

SWOT Analysis

Strengths

- Diversified production base which includes Botswana, South Africa, Mozambique, Kenya, Angola, and Zambia.
- Leading local seed producer commanding 85% market share for past season (2004/05).
- Strong Research & Development ethos.
- Increasing co-operation with Syngenta; a Swiss company with a US\$1 billion seed business.
- Currency Hedge.

Opportunities

- The recent devaluation of the exchange rate should see value of overseas production increase significantly.
- To further expand production in East Africa particularly.
- The continued seed shortage in the region should see the group retain healthy margins on its products.
- Seed availability set to be 55,000 tonnes for the group; expect to retail at between U\$1,300 to U\$1,400 a tonne regionally; 60% of sales are set to emanate from the region.

Weaknesses

- The group is considerably geared, although the average cost of borrowings has been reduced with access to concessionary financing & offshore financing.
- As with all agricultural concerns, its fortunes are tied to the weather.
- Highly seasonal earnings cycle; traditionally 80% of earnings in HY2.

Threats

- Political risk associated with the local economy.
- The local government remains the group's single largest purchaser of its products; although to date the group has been paid promptly.
- Wheat seed sales in Zimbabwe for the past winter season were extremely depressed and will only recover, with wholesale recovery of agriculture.

Earnings Forecast

			<i>Production</i>	
			<i>HY2 '06</i>	<i>Tonnes</i>
			<i>Total</i>	55,000
			<i>Local</i>	20,000
			<i>Regional</i>	35,000
	<i>US\$000's</i>	<i>2005</i> <i>Z\$000's</i>	<i>US\$000's</i>	<i>2006</i> <i>Z\$000's</i>
Exchange Rate	\$6,053.64		\$45,500.00	
Turnover	55,794	337,759,000	54,730.77	2,490,250,000
Local	34,165	206,824,000	9,230.77	420,000,000
Regional	21,629	130,935,000	45,500.00	2,070,250,000
	-		-	
Operating Profit	13,960	84,511,000	14,230.00	647,465,000
Interest	(1,879)	(11,376,000)	(615.38)	(28,000,000)
Profit Before Tax	12,081	73,135,000	13,614.62	619,465,000
Taxation	(2,507)	(15,174,000)	(4,220.53)	(192,034,150)
	-		-	
Profit After Tax	9,575	57,961,000	9,394.08	427,430,850
EPS	\$0.07	\$364.94	\$0.06	\$2,691.22
P/E Ratio (+1)			1x	2.12x
Price			U\$0.07	\$5700
Target Price			\$0.30	\$29,603.46
Shares in Issue '000s	145,912	158,824	158,824	158,824
Turnover Growth	154.3%	265.3%	(1.9%)	637.3%
Operating Margin	25.0%	25.0%	26.0%	26.0%
Net Profit Margin	17.2%	17.2%	17.2%	17.2%
Interest Cover	7.4	7.4	23.1	23.1
Pre-Tax Margin	21.7%	21.7%	24.9%	24.9%
Tax Rate	20.7%	20.7%	31.0%	31.0%

N.B. Exchange Rate for Seedco is a forecast average for the selling season.

Movement in EPS relative to Exchange Rate Movement.

<i>Exchange Rate Z\$:1US\$</i>	<i>EPS</i>	<i>Target Price</i>
<i>\$55,000.00</i>	<i>\$3,038.83</i>	<i>\$ 33,427.17</i>
<i>\$60,000.00</i>	<i>\$3,202.62</i>	<i>\$ 35,228.80</i>
<i>\$65,000.00</i>	<i>\$3,366.40</i>	<i>\$ 37,030.44</i>
<i>\$70,000.00</i>	<i>\$3,530.19</i>	<i>\$ 38,832.07</i>
<i>\$75,000.00</i>	<i>\$3,693.97</i>	<i>\$ 40,633.71</i>

Recommendation

Despite the disappointing interims released, weighed down by the local market conditions, Seed-co is set to deliver windfall earnings in HY2. The region is set to contribute 60% of sales, which valued by a fairer exchange rate valuation, which should offset any potential issues on the domestic front. Local performance will depend on the company receiving a market-related price on its products, which may be affected by political considerations due to the upcoming Senate elections. The group continues to enjoy organic growth in the region, which longer term should help mitigate the risks associated with the local economy. However, the Zimbabwean market continues to be a major part of the group, and longer term, any recovery in agriculture will benefit Seed-co. The share is still due a re-rating in cognisance of the freeing up of the exchange rate, thus we recommend investors **BUY** Seed-co.

Technical Analysis

Seed-co Relative to Industrial Index (Daily)



- **The security has broken through medium term support, and is now flagging towards 5 year bullish support.**

Seed-co Relative to Implied Old Mutual Rate (Daily)



- **Trading in a broad range; has just broken below medium term bullish support at U\$0.07.**
- **Key resistance levels lie at U\$0.14 and U\$0.25.**

Key:

Black Line-	Security
Red Line-	30 Day Moving Average
Dotted Red Line-	90 Day Moving Average
Blue Lines-	Trendlines

Explanation of Recommendations

Trading Buy;	implies gains within the short term.
Buy;	expect out-performance in short and medium term.
Accumulate;	expect out-performance in medium to long term.
Reduce;	Bearish short term outlook also implies taking profit.
Sell;	Bearish short and long term outlook on security.

Comments and Recommendations are based on technical analysis may contradict with fundamental recommendations.

Disclaimer

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